



**MAGYAR NEMZETI VAGYONKEZELŐ ZRT.
(HUNGARIAN STATE HOLDING COMPANY)**

(incorporated with limited liability in the Republic of Hungary)

€833,300,000

**4.40 per cent. Exchangeable Bonds due 2014
exchangeable into ordinary shares of**



GEDEON RICHTER

**RICHTER GEDEON VEGYÉSZETI GYÁR NYRT.
(GEDEON RICHTER PLC)**

(incorporated with limited liability in the Republic of Hungary)

and benefiting from a statutory guarantee of

THE REPUBLIC OF HUNGARY

ISSUE PRICE: 100 PER CENT.

The €833,300,000 4.40 per cent. Exchangeable Bonds due 2014 (the “**Bonds**”) will be issued by Magyar Nemzeti Vagyonkezelő Zrt. (Hungarian State Holding Company) (the “**Issuer**” or “**MNV**”) on 25 September 2009 (the “**Closing Date**”) at an issue price of 100 per cent. of their principal amount. The Bonds benefit from a statutory guarantee (the “**Statutory Guarantee**”) of the Republic of Hungary (“**Hungary**”, the “**Republic**” or the “**Hungarian State**”). See “Description of the Statutory Guarantee”.

Unless previously exchanged, redeemed or purchased and cancelled, the Bonds will be redeemed by the Issuer at 100 per cent. of their principal amount on 25 September 2014 (the “**Maturity Date**”).

The Bonds will bear interest from 25 September 2009 at the rate of 4.40 per cent. per annum payable annually in arrear on 25 September in each year, commencing on 25 September 2010. Payments on the Bonds shall be made in Euro without withholding for any Hungarian taxes unless required by law. In that event, the Issuer shall pay such additional amounts as will result in the receipt by the Bondholders of such amounts as would have been received by them if no such withholding or deduction had been required, subject to certain customary exceptions. See “Terms and Conditions of the Bonds—Taxation”.

Subject to the Issuer’s right to make a Cash Election (as defined herein), each Bondholder (as defined herein) shall have the right (subject as provided herein) to exchange its Bonds for a *pro rata* share of the Exchange Property (as defined herein and which shall initially comprise ordinary shares in Richter Gedeon Vegyészeti Gyár Nyrt. (Gedeon Richter Plc) (“**Gedeon Richter**” or the “**Company**”) (the “**Gedeon Richter Shares**”)) at any time on or after 28 July 2014 up to noon (at the place where such Bond is deposited for exchange) on 4 August 2014. See “Terms and Conditions of the Bonds—Exchange Right”.

The Gedeon Richter Shares are listed on the Budapest Stock Exchange under the symbol “RICHTER”. On 18 September 2009, the closing price of the Gedeon Richter Shares on the Budapest Stock Exchange was HUF 38,880 per Gedeon Richter Share.

Application has been made to admit the Bonds to the official list of the Luxembourg Stock Exchange (the “**Official List**”) and application has been made to admit the Bonds to trading on the Luxembourg Stock Exchange’s Euro MTF Market (the “**Euro MTF Market**”). The Euro MTF Market is not a regulated market for the purposes of Directive 2004/39/EC of the European Parliament and of the Council on markets in financial instruments. References in this Offering Circular to the Bonds being “listed” (and all related references) shall mean that the Bonds have been admitted to the Official List and admitted to trading on the Euro MTF Market.

An investment in the Bonds, being exchangeable for Gedeon Richter Shares, involves certain risks. In particular, the trading price of the Bonds may be affected by the performance of the underlying Gedeon Richter Shares on the Budapest Stock Exchange. Depending on such performance at the time of exchange, the value of the Exchange Property to be delivered may be lower than the initial investment in the Bonds, or may vary between the time that Exchange Rights (as defined herein) are exercised and the date on which Exchange Property is delivered. **For a discussion of certain risks and other factors that should be considered in connection with an investment in the Bonds, see “Risk Factors”.**

The Bonds, the Statutory Guarantee and the Gedeon Richter Shares deliverable upon exchange of the Bonds have not been, and will not be, registered under the U.S. Securities Act of 1933, as amended (the “**Securities Act**”) and, subject to certain exceptions, may not be offered or sold within the United States.

The Bonds will initially be in the form of a registered global bond (the “**Global Bond**”), without interest coupons, which will be deposited with, and registered in the name of, a common depositary for Euroclear Bank S.A./N.V. (“**Euroclear**”) and Clearstream Banking, *société anonyme* (“**Clearstream, Luxembourg**”) on or about the Closing Date. The Global Bond will be exchangeable for definitive registered Bonds, without interest coupons, in the denomination of Euro 100,000 or integral multiples thereof only in the limited circumstances set out therein. See “Summary of Provisions Relating to the Bonds in Global Form”.

Sole Global Co-Ordinator

Morgan Stanley

Joint Bookrunners

Morgan Stanley

UniCredit Group (HVB)

The Issuer accepts responsibility for the information relating to itself and the Bonds contained in this Offering Circular or incorporated by reference herein and, to the best of the knowledge and belief of the Issuer (having taken all reasonable care to ensure that such is the case), such information is in accordance with the facts and does not omit anything likely to affect the import of such information.

The Hungarian State accepts responsibility for the information relating to itself and the Statutory Guarantee contained in this Offering Circular or incorporated by reference herein and, to the best of the knowledge and belief of the Hungarian State (having taken all reasonable care to ensure that such is the case), such information is in accordance with the facts and does not omit anything likely to affect the import of such information.

Gedeon Richter accepts responsibility for the information relating to Gedeon Richter, Gedeon Richter and its subsidiaries and affiliates, taken as a whole (the “**GR Group**”) and the Gedeon Richter Shares contained in this Offering Circular or incorporated by reference herein, and, to the best of the knowledge and belief of Gedeon Richter (having taken all reasonable care to ensure that such is the case), such information is in accordance with the facts and does not omit anything likely to affect the import of such information.

This Offering Circular does not constitute an offer of, or an invitation by or on behalf of the Issuer, the Hungarian State, Gedeon Richter, BNY Corporate Trustee Services Limited as trustee for the Bondholders (the “**Trustee**”) or the Joint Lead Managers (as defined in “Subscription and Sale”) to subscribe or purchase any of the Bonds, the Gedeon Richter Shares or any other Exchange Property deliverable upon exchange of the Bonds. The distribution of this Offering Circular and the offering of the Bonds in certain jurisdictions may be restricted by law. Persons into whose possession this Offering Circular comes are required by the Issuer, the Hungarian State, Gedeon Richter, the Trustee and the Joint Lead Managers to inform themselves about and to observe any such restrictions.

For a description of certain further restrictions on offers and sales of the Bonds and the distribution of this Offering Circular, see “Subscription and Sale”.

No person is authorised to give any information or to make any representation not contained or incorporated by reference in this Offering Circular in connection with the issue or sale of the Bonds and any information or representation not so contained or incorporated by reference must not be relied upon as having been authorised by or on behalf of the Issuer, the Hungarian State, Gedeon Richter, the Trustee or the Joint Lead Managers. Neither the delivery of this Offering Circular nor any offer, sale or delivery made in connection with the issue of the Bonds shall, under any circumstance, constitute a representation that there has been no change or development likely to involve a change in the condition (financial or otherwise) of the Issuer, the Hungarian State, Gedeon Richter or the GR Group since the date hereof or create any implication that the information contained herein is correct as of any date subsequent to the date hereof or the date as of which that information is stated herein to be given.

No representation or warranty, express or implied, is made by either of the Joint Lead Managers or the Trustee as to the accuracy, completeness or sufficiency of the information set out or incorporated in this Offering Circular, and nothing set out or incorporated in this Offering Circular is, or shall be relied upon as, a promise, representation or warranty by either of the Joint Lead Managers. This Offering Circular (including the information incorporated by reference herein) is not intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by the Issuer, Gedeon Richter, the Hungarian State, the Trustee or the Joint Lead Managers that any recipient of this Offering Circular should purchase the Bonds. Each potential purchaser of Bonds should determine for itself the relevance of the information set out or incorporated by reference in this Offering Circular and its purchase of Bonds should be based upon such investigations as it deems necessary.

To the fullest extent permitted by law, the Joint Lead Managers accept no responsibility whatsoever for the contents of this Offering Circular or for any other statement made or purported to be made by the Joint Lead Managers or on their behalf in connection with the Issuer, the Hungarian State, Gedeon Richter, the GR Group or the issue and offering of the Bonds. Each of the Joint Lead Managers accordingly disclaims all and any liability, whether arising in tort or contract or otherwise (save as referred to above), which it might otherwise have in respect of this Offering Circular or any such statement.

This Offering Circular may be used only for the purposes for which it has been published.

In connection with the issue and distribution of the Bonds, Morgan Stanley & Co. International plc (the “Stabilising Manager”) or any person acting on behalf of the Stabilising Manager may over-allot Bonds or effect transactions with a view to supporting the market price of the Bonds at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager (or any person acting on behalf of the Stabilising Manager) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the final terms of the offer of the Bonds is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the Bonds and 60 days after the date of the allotment of the Bonds. Any stabilisation action or over-allotment must be conducted by the Stabilising Manager (or any person acting on behalf of the Stabilising Manager) in accordance with all applicable laws and rules.

Unless otherwise specified or the context requires, references to “USD”, “U.S. Dollars” and “U.S.\$” are to the lawful currency of the United States of America, its territories and possessions, references to “EUR”, “Euro” and “€” refer to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty establishing the European Community, as amended and references to “HUF” and “Hungarian Forints” are to the lawful currency of Hungary.

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DOCUMENTS INCORPORATED BY REFERENCE

Each document incorporated herein by reference is current only as at the date of such document, and the incorporation by reference of such documents shall not create any implication that there has been no change in the affairs of the Issuer or Gedeon Richter, as the case may be, since the date thereof or that the information contained therein is current as at any time subsequent to its date. Any statement contained in any document incorporated herein by reference shall be deemed to be modified or superseded for the purposes of this Offering Circular to the extent that a statement contained herein modifies or supersedes that statement. Any such statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Offering Circular.

The documents set out below are incorporated herein by reference:

Documents relating to the Issuer

- the audited financial statements in respect of own assets of the Issuer and its predecessor (ÁPV) as at and for the two years ended 31 December 2008.

Documents relating to Gedeon Richter

- the audited consolidated financial statements of Gedeon Richter as at and for the two years ended 31 December 2008.

Documents incorporated by reference into this Offering Circular will, for so long as any Bonds are outstanding, be available free of charge at the specified offices of the paying, transfer and exchange agents appointed under the paying, transfer and exchange agency agreement to be dated 25 September 2009 (the “Agency Agreement”) between the Issuer, the Trustee, The Bank of New York Mellon (acting through its London Branch) as Principal Paying, Transfer and Exchange Agent, The Bank Of New York Mellon (Luxembourg) S.A as Paying, Transfer and Exchange Agent in Luxembourg and the other agents named therein, at the registered office of the Issuer and on the website of the Luxembourg Stock Exchange (www.bourse.lu).

Prospective investors are advised to obtain and read the documents incorporated by reference herein before making their investment decision in relation to the Bonds.

The table below sets out the relevant page references for the audited consolidated statements for the financial years ended 31 December 2008 and 31 December 2007, respectively, as set out in the financial statements of each of the Issuer (including, where relevant, its predecessor) and Gedeon Richter. Information contained in the documents incorporated by reference other than information listed in the table below is for information purposes only and does not form part of this Offering Circular.

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OVERVIEW OF THE OFFERING

The following is a summary of the principal features of the Bonds and the offering of the Bonds. Terms defined under “Terms and Conditions of the Bonds” or elsewhere in this Offering Circular shall have the same respective meanings in this summary. The following summary is qualified in its entirety by the more detailed information appearing elsewhere in this Offering Circular.

Issuer	Magyar Nemzeti Vagyonkezelő Zrt. (Hungarian State Holding Company).
Bonds	€833,300,000 4.40 per cent. Exchangeable Bonds due 2014.
Statutory Guarantee	The Bonds benefit from a statutory guarantee of the Hungarian State pursuant to Section 22(2) of Act CVI of 2007 on State property. See “Description of the Statutory Guarantee”.
Closing Date	25 September 2009 (the “ Closing Date ”).
Issue Price	100 per cent. of the principal amount of the Bonds.
The Offering	The Bonds are being offered by the Joint Lead Managers outside the United States in accordance with Regulation S.
Form and Denomination	The Bonds will be issued in registered form only. The Bonds will be represented by the Global Bond, which will be deposited with, and registered in the name of a nominee for, a common depositary for Euroclear and Clearstream, Luxembourg on or about the Closing Date. The Global Bond will be exchangeable for definitive certificates representing Bonds, in denominations of €100,000 or integral multiples thereof, only in the limited circumstances set out therein and herein. See “Summary of Provisions relating to the Bonds in Global Form”.
Interest	4.40 per cent. per annum, payable annually in arrear on 25 September in each year, commencing on 25 September 2010.
Status	The obligations of the Issuer under the Bonds are direct, unconditional, unsubordinated and unsecured obligations and will at all times rank <i>pari passu</i> among themselves and at least <i>pari passu</i> with all other present and future unsecured and unsubordinated obligations of the Issuer, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application.
Negative Pledge	The Bonds will have the benefit of a negative pledge in relation to the Issuer. See “Terms and Conditions of the Bonds – Negative Pledge”.
Events of Default/Acceleration	<p>For a description of certain events that will permit acceleration of the Bonds, see “Terms and Conditions of the Bonds – Events of Default and Events of Acceleration”.</p> <p>Upon acceleration for any such event, the Bonds will become immediately due and repayable at their principal amount together with accrued interest PROVIDED THAT if the Bonds</p>

	are accelerated in connection with a failure to comply with Exchange Rights, each Bond shall be repayable at an amount equal to the higher of (i) the Value of the <i>pro rata</i> share of the Exchange Property and any other amounts which would have been payable and/or deliverable upon exchange and (ii) the principal amount of the Bond together with accrued interest.
Final Maturity	Unless the Bonds have been exchanged or redeemed or purchased and cancelled, the Bonds will be redeemed by the Issuer at their principal amount on 25 September 2014 (the “ Maturity Date ”).
Redemption at the Option of the Issuer	The Issuer may redeem all, but not some only, of the Bonds at their principal amount together with accrued interest to the Optional Redemption Date if purchases (and corresponding cancellations) and/or redemptions have been effected in respect of 90 per cent. or more in principal amount of the Bonds originally issued.
Redemption at the Option of the Bondholders following a Delisting Event	Following the occurrence of a Delisting Event, the holder of each Bond will have the right to require the Issuer to redeem such Bond on the Delisting Event Put Date, at its principal amount together with accrued and unpaid interest to such date.
Withholding Taxes	Payments of principal and interest in respect of the Bonds shall be made without withholding for any Hungarian taxes unless required by law. In that event, the Issuer shall pay such additional amounts as will result in the receipt by the Bondholders of such amounts as would have been received by them if no such withholding or deduction had been required, subject to certain customary exceptions.
Tax Redemption	None.
Trustee	BNY Corporate Trustee Services Limited.
Principal Paying and Exchange Agent	The Bank of New York Mellon, acting through its London Branch.
Registrar	The Bank of New York Mellon (Luxembourg) S.A.
Exchange	<p>Subject to the right of the Issuer to make a Cash Election (as described below), holders of Bonds will have the right (the “Exchange Right”) to exchange their Bonds for a <i>pro rata</i> share of the Exchange Property at any time on or after 28 July 2014 and up to noon on 4 August 2014.</p> <p>Exchange Rights will also be exercisable for a certain limited period following the acceleration of the Bonds after an Event of Default or Event of Acceleration.</p> <p>A Bondholder exercising Exchange Rights will be required to certify in the relevant Exchange Notice that such exchange is being made in an offshore transaction (as such term is defined in Regulation S under the Securities Act).</p>

Exchange Property

The Exchange Property will at the Closing Date comprise 4,680,671.7969 Gedeon Richter Shares. On exercise of Exchange Rights, Bondholders will, subject to the Conditions (including the right of the Issuer to make a Cash Election), initially be entitled to receive 561.70 Gedeon Richter Shares in respect of each €100,000 principal amount of Bonds delivered for exchange (based on an initial exchange price of €178.03 per Gedeon Richter Share).

Exchange Property delivered or transferred or to be delivered or transferred upon exchange shall rank for and be entitled to all dividends, interest and other income, payments and distributions and rights thereon or in respect thereof declared, paid, made or granted by reference to a record date or other due date for the establishment of entitlement falling on or after the relevant Exchange Date.

The composition of the Exchange Property is subject to adjustment in certain situations. See “Adjustments to the Exchange Property”, “Capital Distributions” and “General Offers”.

Exchange Rights are not exercisable in respect of any specific Gedeon Richter Shares or other property comprising Exchange Property from time to time and no Gedeon Richter Shares or other Exchange Property has been or will be charged or otherwise placed in custody or set aside to secure or satisfy the Issuer’s obligations in respect of the Exchange Rights. The composition of the Exchange Property may also change as a result of the operation of the Conditions. No security interest over the Exchange Property will be granted in favour of the Bondholders either to secure the payment obligations arising under the Bonds or the Trust Deed or to secure the performance of the Exchange Rights.

Cash Election

Upon the exercise of Exchange Rights, the Issuer may elect by giving written notice of its election by not later than the date falling five Budapest Business Days following the Exchange Date to satisfy the relevant Exchange Rights by making payment to the relevant Bondholder of the Cash Alternative Amount as described in “Terms and Conditions of the Bonds – Exchange Right – Cash Alternative”.

Adjustments to the Exchange Property

The Bonds will contain provisions for the adjustment of the Exchange Property in the event of the occurrence of certain dilutive events, including *inter alia*, share sub-divisions, consolidations and redenominations, rights issues, bonus issues, reorganisations and Capital Distributions.

Capital Distributions

The Exchange Property will be adjusted in the case of a Capital Distribution as described in Condition 7(e)(iii).

“**Capital Distribution**” means: (i) any distribution of assets *in*

specie or (ii) any cash Dividend charged or provided for in the accounts of a Relevant Company for any financial period (whenever paid or made and however described) if the Fair Market Value of the proposed Dividend per Relevant Security, together with the Fair Market Value per Relevant Security of any other Dividends on such Relevant Securities charged or provided for in the accounts for such financial period (other than any part thereof previously deemed to be a Capital Distribution) exceeds the Reference Amount, in which case the amount of such Capital Distribution shall be the amount of such excess;

“**Reference Amount**” means:

- (i) in relation to a Gedeon Richter Share, 1.75 per cent. of the arithmetic average of the Volume Weighted Average Price of a Gedeon Richter Share on each Trading Day in the period of 120 consecutive Trading Days ending on the Trading Day immediately preceding the date of first public announcement of the relevant Dividend, provided that if on any such Trading Day the Volume Weighted Average Price shall have been based on a price cum-Dividend or cum-any other entitlement, the Volume Weighted Average Price of a Gedeon Richter Share on such Trading Day shall be deemed to be the amount thereof reduced by an amount equal to the Fair Market Value of any such Dividend or other entitlement per Gedeon Richter Share as at the date of first public announcement of such Dividend; and
- (ii) in relation to any Relevant Security other than a Gedeon Richter Share, 1.75 per cent. of the arithmetic average of the Volume Weighted Average Price of such Relevant Security on each Trading Day in the period of 120 consecutive Trading Days ending on the Trading Day immediately preceding the date of first public announcement of the relevant Dividend, provided that if on any such Trading Day the Volume Weighted Average Price shall have been based on a price cum-Dividend or cum-any other entitlement, the Volume Weighted Average Price of such Relevant Security on such Trading Day shall be deemed to be the amount thereof reduced by an amount equal to the Fair Market Value of any such Dividend or other entitlement per such Relevant Security as at the date of first public announcement

of such Dividend.

General Offers

In the event of an Offer for Gedeon Richter Shares, the Issuer may not accept such Offer. There will be no adjustment to the Exchange Property as a result of any such Offer for Gedeon Richter Shares.

In the event of an Offer or scheme affecting any other Relevant Securities for the time being comprised in the Exchange Property, the Exchange Property will be adjusted as described in “Terms and Conditions of the Bonds – General Offers”.

Lock-up

Each of the Issuer and Gedeon Richter has agreed that, for a period commencing on 9 September 2009 and ending 90 days after the Closing Date and subject to certain exceptions, it will not issue or dispose of Gedeon Richter Shares or certain related securities. See “Subscription and Sale”.

Governing Law

The Bonds, the Trust Deed and the Agency Agreement will be governed by English law. The Statutory Guarantee is governed by Hungarian law.

Listing

Application has been made for the Bonds to be listed on the Official List of the Luxembourg Stock Exchange and traded on the Euro MTF Market. The outstanding issued Gedeon Richter Shares are listed on the Budapest Stock Exchange under the symbol RICHTER.

Clearing

The Bonds have been accepted for clearing by Euroclear and Clearstream, Luxembourg under the following Common Code and International Securities Identification Number (“ISIN”):

Common Code: 045190536

ISIN: XS0451905367

Selling Restrictions

There are restrictions on the offer, sale and delivery of the Bonds, *inter alia*, in the United States, the United Kingdom and the European Economic Area. See “Subscription and Sale”.

RISK FACTORS

The Issuer and the Hungarian State believe that the following factors may affect their ability to fulfil their obligations under the Bonds and the Statutory Guarantee, respectively. Most of these factors are contingencies which may or may not occur and neither the Issuer nor the Hungarian State is in a position to express a view on the likelihood of any such contingency occurring. Risk factors which are specific to the Bonds are also described below.

Considerations relating to the Bonds and the Statutory Guarantee

The Bonds may not be a suitable investment for all investors.

Each prospective investor in the Bonds must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- have sufficient knowledge and experience to make a meaningful evaluation of the Bonds, the merits and risks of investing in the Bonds and the information contained or incorporated by reference in this Offering Circular or any applicable supplement;
- have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Bonds and the impact such investment will have on its overall investment portfolio;
- understand thoroughly the terms of the Bonds and be familiar with the behaviour of financial markets in which they participate; and
- be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

A liquid market for the Bonds may not develop.

There is no established trading market for the Bonds. The liquidity of any market which develops will depend upon the number of holders of the Bonds, the market for similar securities, the interest of securities dealers in making a market in the Bonds and other factors. Although application has been made for the Bonds to be admitted to listing on the Official List of the Luxembourg Stock Exchange and to trading on the Euro MTF Market, there is no assurance that such application will be accepted or that an active trading market will develop. Accordingly, there is no assurance as to the development or liquidity of any trading market for the Bonds.

The market price of the Bonds may be volatile.

The market price of the Bonds could be subject to significant fluctuations in response to, among other factors, interest rates, inflation, variations in the GR Group's performance or the performance of Gedeon Richter. Developments in, and changes in securities analysts' recommendations regarding the pharmaceuticals industry may also influence, or cause volatility in, the market price of the Bonds.

No obligation on the part of Gedeon Richter in respect of the Bonds.

Gedeon Richter has no obligation with respect to the Bonds or amounts to be paid to the Bondholders, including any obligation to take into account, for any reason, the needs of the Issuer or the Bondholders.

No recourse to the Managed Portfolio.

In the event of the occurrence of an Event of Default, the Bondholders would have recourse to the assets of the Issuer held for its own account. The Bondholders would not have recourse to the Managed Portfolio assets held by the Issuer on behalf of the Hungarian State pursuant to the State Property Act (including the Gedeon Richter Shares or any cashflows derived therefrom). The State-owned Managed Portfolio, and the proceeds and expenses arising from the sale and utilisation thereof, are kept separately from the Issuer's own assets in accordance with Section 22(6) of the State Property Act and are accounted for separately and on an unconsolidated basis by the auditors of the Issuer. Any claims asserted against the Issuer may be settled only from the Issuer's own assets. The Managed Portfolio is owned by the Hungarian State, and consequently, assets forming part of the Managed Portfolio may not be used for the settlement of claims against the Issuer.

Risks attached to the exercise of Exchange Rights.

Investors should be aware that the Bonds, being exchangeable for the Exchange Property, bear certain risks. Depending on the performance of the underlying Exchange Property, the value of the Exchange Property may be substantially lower than when the Bonds were initially purchased. In addition, the value of the Exchange Property to be delivered may vary substantially between the date on which Exchange Rights are exercised and the date on which such Exchange Property is delivered. See "Terms and Conditions of the Bonds—Exchange Right".

There is a limited period for, and costs associated with, the exercise of Exchange Rights.

An investor in a Bond will, subject to the right of the Issuer to make a Cash Election, have the right to exchange such Bond for a *pro rata* share of the Exchange Property attributable to such Bond. The Exchange Rights may only be exercised at any time on or after 28 July 2014 up to noon (at the place where such Bond is deposited for exchange) on 4 August 2014. If the Exchange Rights are not exercised by Bondholders during the Exchange Period, the Bonds will be redeemed at their principal amount on the date fixed for redemption of the Bonds.

Although the Issuer has undertaken to pay certain taxes arising on exchange of the Bonds in Hungary, a Bondholder exercising Exchange Rights must pay certain other capital, stamp, issue, registration, documentary, transfer or other duties (including penalties) arising on exchange, as more fully described herein under "Terms and Conditions of the Bonds—Exchange Right".

Bondholders have no shareholder rights before exchange.

An investor in a Bond will not be a holder of the Exchange Property. No Bondholder will have any voting rights, any right to receive dividends or other distributions or any other rights with respect to any underlying Relevant Securities (as defined in the Conditions of the Bonds) until such time, if any, as he exchanges his Bond for such Relevant Securities and (to the extent applicable) becomes registered as the holder thereof. Prior to such exchange, the Issuer is not obliged to take account of the interests of Bondholders and it is therefore possible that, in exercising its rights with respect to any Relevant Securities (including the Gedeon Richter Shares), the Issuer may act in a manner which is contrary to the best interests of the Bondholders.

Bondholders have limited anti-dilution protection.

The Exchange Property into which the Bonds may be exchanged will be adjusted in the event that there is a sub-division, consolidation or redenomination, a rights issue, bonus issue, reorganisation, capital distribution or other adjustment, but only in the situations and only to the extent provided in "Terms and Conditions of the Bonds—Exchange Right". There is no requirement that there should be an adjustment for every corporate or other event that may affect the value of the Exchange Property. In particular, there will be no adjustment to the Exchange Property in the event of a general offer for Gedeon Richter Shares. Events in respect of which no adjustment is made may adversely affect the value of the Exchange Property and, therefore, adversely affect the value of the Bonds.

Bondholders do not have the benefit of any security interest with respect to the Exchange Property and, following any default, do not have recourse against the Exchange Property.

There are no custody arrangements relating to the Exchange Property. Neither the Trust Deed nor the Bonds create any security interest in favour of Bondholders either to secure the payment obligations arising under the Bonds or to secure the performance of the Exchange Rights thereunder. Accordingly, in the event of any insolvency of the Issuer or the Republic, the holders of the Bonds will rank on a *pari passu* basis with all other unsecured creditors of the Issuer and the Republic and will have no direct rights over the Exchange Property.

Further issues or sales of Gedeon Richter Shares.

There can be no certainty as to the effect, if any, that future issues or sales of Gedeon Richter Shares, or the availability of such Gedeon Richter Shares for future issue or sale, would have on the market price of the Gedeon Richter Shares prevailing from time to time and therefore on the price of the Bonds. Sales of substantial numbers of Gedeon Richter Shares in the public market, or a perception in the market that such sales could occur, could adversely affect the prevailing market price of the Gedeon Richter Shares and the Bonds.

Modifications, Waivers and Substitution.

The Conditions contain provisions for calling meetings of Bondholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Bondholders including Bondholders who did not attend and vote at the relevant meeting and Bondholders who voted in a manner contrary to the majority. The Conditions of the Bonds also provide that the Trustee may, without the consent of Bondholders (1) agree to any modification of, or to the waiver or authorisation of any breach or proposed breach of, any of the provisions of the Bonds, the Trust Deed or the Agency Agreement or (2) determine that any Event of Default, Event of Acceleration, Potential Event of Default or Potential Event of Acceleration shall not be treated as such or (3) agree to the substitution of another company as principal debtor under any Bonds in place of the Issuer, in the circumstances described in “Terms and Conditions of the Bonds – Meetings of Bondholders, Modification and Waiver, Entitlement of Trustee, Substitution, Change and Indemnification of Trustee”.

EU Savings Directive.

Under EC Council Directive 2003/48/EC on the taxation of savings income, Member States are required to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to an individual resident in that other Member State. However, for a transitional period, Belgium, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). A number of non-EU countries and territories including Switzerland have agreed to adopt similar measures (a withholding system in the case of Switzerland) with effect from the same date.

On 15 September 2008 the European Commission issued a report to the Council of the European Union on the operation of the Directive, which included the Commission’s advice on the need for changes to the Directive. On 13 November 2008 the European Commission published a more detailed proposal for amendments to the Directive, which included a number of suggested changes. The European Parliament approved an amended version of this proposal on 24 April 2009. If any of those proposed changes are made in relation to the Directive, they may amend or broaden the scope of the requirements described above.

If a payment were to be made or collected through a Member State which has opted for a withholding system and an amount of, or in respect of, tax were to be withheld from that payment, none of the Issuer, the Hungarian State, any Paying, Transfer and Exchange Agent or any other person would be obliged to pay

additional amounts with respect to the Bonds as a result of the imposition of such withholding tax. If a withholding tax is imposed on payment made by a Paying, Transfer and Exchange Agent following implementation of this Directive, the Issuer will be required to maintain a Paying, Transfer and Exchange Agent in a Member State that will not be obliged to withhold or deduct tax pursuant to the Directive.

Exchange rate risks and exchange controls.

The Issuer and the Hungarian State will pay principal and interest on the Bonds and the Statutory Guarantee, respectively, in Euro. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the "**Investor's Currency**") other than the Euro. These include the risk that exchange rates may significantly change (including changes due to devaluation of the Euro or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to Euros would decrease (1) the Investor's Currency-equivalent yield on the Bonds, (2) the Investor's Currency-equivalent value of the principal payable on the Bonds and (3) the Investor's Currency-equivalent market value of the Bonds.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive less interest or principal than expected, or no interest or principal.

Enforcement of the Statutory Guarantee is subject to certain procedural rules.

All monetary obligations of the Issuer, including its payment obligations under the Bonds, are "guaranteed" (*helytállás*) by the Hungarian State by virtue of the Statutory Guarantee. However, investors should note that the Statutory Guarantee differs from an on demand guarantee under English law.

The Hungarian State as guarantor is not bound to perform the Issuer's payment obligation unless the Trustee, acting on behalf of the Bondholders, has already sought to collect the debt from the Issuer as principal debtor in accordance with certain procedural rules. In addition, the performance of non-monetary obligations (such as the delivery of Relevant Securities upon exchange of the Bonds) is not covered by the Statutory Guarantee. There can be no assurance that, in the event that the Issuer does not comply with its obligations under the Bonds, these procedural rules will not result in the process of enforcement of the Statutory Guarantee taking materially longer than the enforcement of an on demand guarantee under English law. See "Description of the Statutory Guarantee".

Change of law.

The Conditions and the Statutory Guarantee are based on English law and Hungarian law, respectively, in effect as at the date of this Offering Circular. No assurance can be given as to the impact of any possible judicial decision or change to English law or Hungarian law and/or administrative practice after the date of this Offering Circular.

Considerations relating to the GR Group and the Gedeon Richter Shares

Considerations relating to the Gedeon Richter Shares

A number of internal and external factors have caused and may continue to cause the market price of Gedeon Richter Shares to be volatile.

The market prices for securities of companies engaged in the development and manufacturing of pharmaceutical products, including the Company, have been volatile. Many factors, including many over which the Company has no control, may have a significant impact on the market price of Gedeon Richter Shares, including:

- the timing of the commencement, completion or termination of collaborative agreements;
- the introduction of new products and services by the GR Group, its collaborative partners or its competitors;
- changes in governmental regulation, including intervention by the Hungarian State in relation to the pricing of pharmaceutical products;
- Gedeon Richter's or its competitors' receipt of regulatory approvals;
- Gedeon Richter's or its competitors' developments relating to patents or other proprietary rights;
- publicity regarding actual or potential medical results for products that Gedeon Richter or its competitors have under development;
- period-to-period changes in financial results;
- the amount and timing of operating costs and capital expenditures relating to the expansion of the GR Group's business operations and facilities;
- fluctuations in economic conditions and currency exchange rates in the markets in which the GR Group operates; and
- any change in strategy of the GR Group.

Risks relating to technological change, R&D and production capabilities

Gedeon Richter depends on the timely and efficient development, manufacture and marketing of new products for its future success.

The future success of the GR Group is largely dependent upon its ability to develop, manufacture and market commercially successful new pharmaceutical products and generic versions of existing pharmaceutical products in a timely and efficient manner. Delays in the development, manufacture and marketing of new products will impact Gedeon Richter's results of operations.

Gedeon Richter faces intense competition and very rapid technological change, and if it fails to compete effectively the GR Group's business will suffer.

The pharmaceutical industry is highly competitive and subject to significant and rapid technological change. Developments by Gedeon Richter's competitors may render Gedeon Richter's products obsolete or non-competitive. Many competing companies and institutions have substantially greater financial and other resources to deploy in developing products, undertaking testing, obtaining regulatory approvals and manufacturing and marketing products than the GR Group.

Many of the GR Group's products are brand equivalent or generic products. Rapid reduction in generic prices is common soon after expiry of patents covering the relevant chemical entities. Gedeon Richter cannot therefore predict accurately the prices that it is likely to obtain for its generic products, nor whether it will be able to compete effectively against other generic producers of a particular product, or recover its investment in manufacturing and obtaining marketing approvals for a new generic product.

The GR Group's principal manufacturing facilities are operating at near capacity. Increased requirements or disruption of those facilities could have a material adverse effect on the GR Group's business, financial condition and results of operations.

Most of Gedeon Richter's products are produced at the GR Group's manufacturing facilities situated in Hungary in Budapest and Dorog, and in other countries such as Romania and Poland, among others. These facilities are operating at near capacity. If demand for Gedeon Richter's products increases significantly, it

may not be able to meet such demand due to production capacity constraints. A significant disruption at those facilities, even on a short-term basis, could impair the GR Group's ability to produce and ship products on a timely basis. This could have a material adverse effect on Gedeon Richter's business, financial condition and results of operations.

Risks relating to Gedeon Richter's products and markets

Market acceptance for the GR Group's product candidates is uncertain. If these products fail to gain acceptance, Gedeon Richter's business will suffer.

Gedeon Richter seeks to continually renew its product portfolio. The GR Group's newly launched products may not gain market acceptance. The degree of market acceptance of any product will depend upon a number of factors, including:

- establishment and demonstration of clinical efficacy and safety;
- cost-effectiveness;
- availability of alternative products and treatment methods;
- reimbursement policies of government and third-party payers; and
- marketing and distribution support for the GR Group's products.

If branded pharmaceutical companies are successful in limiting the use of the GR Group's generic products through their legislative and regulatory efforts, Gedeon Richter's sales of these products may suffer.

Many branded pharmaceutical companies have increasingly used legislative and regulatory means to delay generic competition including, for example, pursuing new patents for existing products. If branded pharmaceutical companies are successful in limiting the use of the GR Group's generic products through these or other means, Gedeon Richter's sales of these products may suffer.

Exposure to emerging markets risks.

The GR Group has production facilities in, among others, Poland and Romania and packaging facilities in Russia and Ukraine and it sells its products in markets which are not as stable and highly developed as those in northern and western Europe or the U.S. Sales in CIS and CEE (excluding Hungary) represented approximately 65 per cent. of the GR Group's 2008 consolidated sales figures. Some of these markets, especially the CIS, are subject to frequent political and macro-economic changes, including currency exchange rate movements, which could materially impact the operations of the Company.

The Russian economy in particular has been subject to abrupt downturns. In particular, in August 1998, in the face of a rapidly deteriorating economic situation, the Russian Government defaulted on certain securities and a temporary moratorium was imposed on hard currency payments. These actions resulted in an immediate and severe devaluation of the rouble and a sharp increase in the rate of inflation. These problems were aggravated by the near collapse of the Russian banking sector. The subsequent impact upon consumer spending and the reduction in spending on pharmaceuticals by hospitals and from State budgets had a material adverse effect on the sales of the Company in the CIS in the years following the 1998 downturn. Similarly, the recent financial crisis impacting Russia in the second half of 2008 caused a material devaluation of the rouble and turbulence in the wholesale market followed by a reduction in pharmaceuticals spending. These factors negatively impacted the GR Group's sales to the CIS region in 2008.

Gedeon Richter may have difficulty attracting and retaining key personnel and, if it fails to do so, the GR Group's business may suffer.

The GR Group is highly dependent on the principal members of Gedeon Richter's management, the loss of whose services could adversely affect the achievement of planned development objectives. In particular, Gedeon Richter is dependent on the services of its existing management team.

Gedeon Richter may need to hire personnel with expertise in research and development, clinical testing, government regulation, manufacturing, marketing and finance. Gedeon Richter may not be able to attract and retain personnel on acceptable terms, given the competition for such personnel among pharmaceutical companies, universities and non-profit research institutions.

Risks relating to Gedeon Richter's sources of revenue

The GR Group's net revenues and profits will be negatively impacted by any increase in the costs of research and development which does not result in new products, or if Gedeon Richter is unable to replace or renew collaborative alliances and licences as existing agreements expire or are terminated.

The GR Group spent approximately HUF 18,402 million (EUR 73.3 million) during 2008 on its research and development efforts. Gedeon Richter may in the future increase the amounts it expends on research and development. These expenditures may have an adverse impact on the GR Group's revenues in the short term. The GR Group cannot be sure that its research and development expenditures will, in the long term, result in the discovery or development of commercially successful products.

As part of Gedeon Richter's ongoing business strategy the companies belonging to the GR Group may enter into further collaborative alliances and licence arrangements, which may involve the receipt of up-front payments, payment of fees upon completion of development milestones and royalties on sales of the products. GR Group's future net revenues and profits will depend, in part, on:

- its ability to continue to enter into such collaborative alliances and licence agreements;
- its ability to replace or renew licence fees and/or royalties as the existing related agreements expire or are terminated; and
- its or its partners' ability to achieve specified milestones or product sales.

The GR Group relies on a small group of products and a small group of customers for most of its revenue. Its revenues may be adversely affected by changes in its partners' activities, consolidation of the GR Group's distribution network and declining sales of its key products.

A significant amount of the GR Group's sales are made to a relatively few pharmaceutical manufacturers, wholesalers, retail drug chains, managed care purchasing organisations, and hospitals. These customers have undergone, and are continuing to undergo, significant consolidation. This consolidation may result in these groups gaining additional purchasing leverage and consequently increasing the product pricing pressures facing the GR Group's business. The result of these developments may have a material adverse effect on the Company's business, financial condition and results of operations.

The GR Group depends, in part, on its partners, particularly its U.S. partner Teva-Barr, to support the GR Group's business. The GR Group currently relies, and in the future may rely on its partners to:

- access skills and information that the GR Group does not possess;
- fund and conduct the GR Group's research and development, and regulatory activities; and
- commercialise and market future products.

The GR Group's partners may not develop products as expected, or may not achieve expected sales levels.

Business combinations or changes in a partner's business strategy may affect that partner's willingness or ability to continue to pursue the GR Group's products and product candidates. If Gedeon Richter does not

realise the contemplated benefits from its partners, the GR Group's business, financial condition and results of operations may be adversely affected.

Sales of a limited number of Gedeon Richter's products often represent a significant portion of the GR Group's sales revenues. In 2008, approximately 63 per cent. of the GR Group's pharmaceutical sales revenues derived from its top 10 products or groups of products. If the volume or pricing of Gedeon Richter's largest selling products declines in the future, the GR Group's business, financial condition and results of operations could be materially adversely affected.

Foreign currency fluctuations, particularly a weakening of the Euro and/or a strengthening of the Hungarian Forint may adversely affect the revenues of the GR Group.

The GR Group's reporting currency is the Hungarian Forint. Approximately 65 per cent. of Gedeon Richter's consolidated revenues are generated in Euros or currencies linked to the Euro (in particular Polish Zloty and Romanian Leu), a further approximately 22 per cent. in U.S. dollars, while approximately 30 per cent. of the GR Group's consolidated costs are Euro or U.S. Dollar denominated. If the Hungarian Forint strengthens against the Euro or against the U.S. Dollar, this may have a material adverse effect on the Company's revenues, despite hedging policies in place (if any).

Gedeon Richter could be required to pay or repay amounts of corporate tax from which it has been exempt if it is unable to meet certain obligations to invest in capital projects or employ staff.

Gedeon Richter expects to continue to benefit from a corporate tax holiday lasting from 1 January 2004 until 31 December 2011. The continuation of this holiday is however dependent on the Company meeting certain conditions, and requires it in particular to meet certain capital expenditure and employment targets. To date, the capital expenditure targets have been met. However, there can be no assurance that Gedeon Richter will be able to maintain the prescribed level of employment.

In addition, between 1999 and 2003 Gedeon Richter benefited from a 60 per cent. reduction in corporate taxation. This reduction was also subject to certain capital expenditure and other targets. While the Company believes that it met the relevant criteria, it has not had a full tax audit since 2001. Accordingly, there can be no assurance that Gedeon Richter will not be required to pay additional tax in respect of financial periods since its last tax audit.

Risks related to the regulatory environment

Gedeon Richter's net revenues and profits may be adversely affected by changes in policy of the Government of Hungary, particularly if the Government of Hungary seeks to fix the prices of pharmaceutical products sold in Hungary or if the rules on contribution to overspending in relation to the reimbursement budget and/or the nature or amount of extraordinary taxes levied on pharmaceutical companies operating in Hungary as established in 2007 are changed.

Approximately 15 per cent. of Gedeon Richter's consolidated pharmaceutical sales revenues is derived from the sale of such products in Hungary.

As a part of a programme of restrictive measures implemented in Hungary from October 2006 and throughout 2007, changes were made to the regulation of the Hungarian healthcare system in general and to the pharmaceutical products market in particular which had significant effects on the Hungarian domestic pharmaceutical industry including the Hungarian operations of Gedeon Richter. The introduction of "solidarity tax" and the increase of taxes levied on employee allowances impacted the national economy. The pharmaceutical industry in particular was affected by regulatory changes that impacted the market both on the demand and on the supply side. On the demand side, the decrease in reimbursement rates, the introduction of a minimum per box fee payable for drugs which had previously been reimbursed at 100 per cent. and the introduction of a medical visit fee (abolished in 2008 as a consequence of a national referendum) resulted in a

significant drop in demand volume. On the supply side, a 12 per cent. flat rate tax was levied on manufacturers for reimbursed products sold, a HUF 5 million per capita medical representative fee was introduced, and manufacturers were made fully financially responsible in the event of an eventual budget overrun. Rules of competition were also changed by allowing products with a 1 per cent. market share to be chosen as reference products (instead of the previous 3 per cent.) and by selecting reference products on a quarterly basis rather than on a yearly basis as before. Strong competition distorted by the changes in the rules on the selection of reference products led to a significant decrease in the results of the Hungarian operations in Gedeon Richter's portfolio. Hungarian sales decreased from almost 30 per cent. in 2006 to 15 per cent. of Gedeon Richter's overall pharmaceutical sales portfolio at 31 December 2008.

In addition, changes to the Hungarian Government or in its policy could have an impact on the business environment in Hungary in general and on Gedeon Richter in particular. Accordingly, there can be no assurance that previously relaxed governmental controls, regulations or practices will not be reimposed or tightened or that other restrictions which have a material adverse effect on the business of the GR Group will not be imposed in the future.

The successful commercialisation of Gedeon Richter's products will depend upon obtaining reimbursement for use of these products from third-party payers and upon pricing controls.

Sales of pharmaceutical products largely depend on the reimbursement of patients' medical expenses by government health care programmes and private health insurers. Governments and third-party payers control health care costs by limiting coverage and the level of reimbursement for new health care products and through pricing controls. In Europe and elsewhere governments have adopted pricing controls to limit spending. Other governments, such as in the U.S., may in the future adopt such practices. Gedeon Richter cannot be sure that governments or third-party payers will reimburse sales of products, or enable Gedeon Richter or Gedeon Richter's partners to sell them at profitable prices.

The GR Group is subject to extensive and costly government regulation. If Gedeon Richter fails to obtain or maintain governmental approvals, it will not be able to commercialise its products and the GR Group's business will suffer.

Gedeon Richter's products and product candidates are subject to rigorous government regulation. Regulatory agencies regulate the development, testing, manufacture, safety, efficacy, record-keeping, labelling, storage, approval, advertising, promotion, sale and distribution of pharmaceutical products. The regulatory review process may include pre-clinical testing and clinical trials of each innovative product candidate and, to some extent, generic product candidates, and is expensive and uncertain. Securing regulatory authorisation to put a product on the market may take several years. Delays in obtaining or failures to obtain regulatory approvals, or failure to comply with ongoing regulatory requirements, may adversely affect Gedeon Richter's business. Failure to comply with regulatory requirements could expose Gedeon Richter to fines, restrictions on product sales and other sanctions.

Manufacturing facilities are subject to licensing and ongoing periodic inspection by European regulatory agencies, the FDA and other governmental agencies. Failure to maintain compliance with the regulatory requirements may result in restrictions on the marketing of a product, revocation of the licence, withdrawal of the product from the market or criminal sanctions.

Gedeon Richter's operations involve hazardous materials and are subject to environmental controls and regulations.

Gedeon Richter is subject to environmental and safety laws and regulations, including those governing the use of hazardous materials. The cost of compliance with health and safety and environmental regulations is substantial. Gedeon Richter's business activities involve the controlled use of hazardous materials. Gedeon Richter cannot eliminate the risk of accidental contamination or injury from these materials. In the event of an

accident or environmental discharge, Gedeon Richter may be held liable for any resulting damages, which may exceed the GR Group's financial resources and may materially adversely affect Gedeon Richter's business, financial condition and results of operations.

Risks related to legal uncertainty

Gedeon Richter depends on its own proprietary rights. If Gedeon Richter cannot adequately protect its own proprietary rights, its business will suffer.

The GR Group's success depends, in part, on its ability to protect and enforce its proprietary rights.

Gedeon Richter files patent applications relating to its proprietary technology. Gedeon Richter's patent applications may not result in patents being granted. Gedeon Richter's patents, if and when granted, may be challenged, invalidated or circumvented. Patent rights may not provide the GR Group with competitive advantages against others.

Gedeon Richter also relies on trade secret protection, particularly in relation to its manufacturing processes. Gedeon Richter's trade secrets may become known to others through unauthorised disclosure, or be independently developed by Gedeon Richter's competitors.

Gedeon Richter uses various trade marks, primarily the corporate name of its parent company, Gedeon Richter, and brand names for its products. The GR Group's trade marks could be challenged by others and Gedeon Richter's trade mark applications may not be granted with the scope of cover applied for or at all.

It may be difficult to enforce the GR Group's proprietary rights. In Russia, for example, the Company has faced competition from producers of low-quality counterfeit products who use Gedeon Richter's trade marks illegally. The sale of counterfeit goods in certain markets may both reduce the level of legitimate sales of the GR Group's products and adversely affect the expectations of quality among purchasers of the GR Group's products. Third parties may claim that Gedeon Richter infringes their proprietary rights and may prevent Gedeon Richter from manufacturing and selling some of its products.

Gedeon Richter's commercial success depends on its ability to operate without infringing the proprietary rights of third parties. Gedeon Richter may have to defend against allegations of infringement, especially in relation to generic products. This could require Gedeon Richter to incur substantial expense and to divert significant effort of its technical and management personnel. Gedeon Richter could lose its right to make or sell certain products or could be required to pay damages or licence fees. Gedeon Richter may not be able to obtain any such licence on commercially favourable terms, if at all. This could have a material adverse effect on the GR Group's business, financial condition and results of operations.

Gedeon Richter is involved in litigation in several markets. If the extent of this involvement increases or Gedeon Richter is unsuccessful its business may suffer.

There has been extensive litigation in the pharmaceutical industry. The defence and prosecution of legal and administrative proceedings in the United States, Europe, Hungary and elsewhere involve complex legal and factual questions. Such proceedings are costly and time-consuming and their outcome is uncertain. Litigation may be necessary to:

- determine the enforceability, scope and validity of the proprietary rights of third parties and defend against claims of infringement;
- protect and enforce Gedeon Richter's own proprietary rights; or
- enforce or clarify the terms of the agreements between Gedeon Richter and its partners.

Gedeon Richter is currently involved in litigation at the Arbitration Court of the International Chamber of Commerce in Vienna, Austria (see "The GR Group — Pending litigation proceedings"). If this does not

proceed as expected, or if Gedeon Richter becomes involved in more extensive litigation or administrative proceedings, it may incur further expense and the efforts of Gedeon Richter's technical and management personnel will be diverted. This could have a material adverse effect on Gedeon Richter's business, financial condition and results of operations.

If Gedeon Richter's licence agreements violate the competition provisions of the Treaty of Rome or any of the corresponding national laws, then some terms of its key agreements may be unenforceable.

Certain licence agreements that Gedeon Richter has entered into, or may enter into, include exclusive licences of proprietary rights and so may be found to be restrictive of competition under Article 81(1) of the Treaty of Rome or any of the corresponding national laws. Article 81(1) prohibits agreements which restrict competition within the European Community and affect trade between member states. Gedeon Richter seeks to determine whether existing exemptions from the application of Article 81(1) apply to any agreement. Aspects of the substantive and procedural laws in Europe have changed, making them more difficult to apply. If an exemption is not applicable, provisions of any agreement which are restrictive of competition may be unenforceable and Gedeon Richter could be ordered to pay fines and damages to third parties.

Gedeon Richter may face product liability claims related to the use or misuse of products manufactured by Gedeon Richter and/or employing Gedeon Richter's technology which may cause the GR Group's business to suffer.

Gedeon Richter's business exposes the GR Group to potential product liability risks. These could arise from injury or death suffered by patients using or misusing its products, and could result from unexpected side effects or side effects having unexpected severity. Product liability claims may be expensive to defend and may result in Gedeon Richter having to pay compensatory and punitive damages and legal fees. Product liability insurance is expensive, difficult to obtain and may not be available in the future on acceptable terms. Any claims against the companies of the GR Group, regardless of their merit, could cause the GR Group's business to suffer. Gedeon Richter currently maintains liability insurance with specified coverage limits. Although Gedeon Richter believes these coverage limits are adequate, Gedeon Richter cannot be certain that the insurance policies will be sufficient to cover all claims that may be made against it.

TERMS AND CONDITIONS OF THE BONDS

The following, other than the paragraphs in italics, are the terms and conditions of the Bonds, substantially as they will appear on the reverse of the Bonds in definitive form (if issued):

The issue of the Euro 833,300,000 4.40 per cent. Exchangeable Bonds due 2014 (the “**Bonds**”) of Magyar Nemzeti Vagyonkezelő Zrt. (Hungarian State Holding Company) was authorised by a resolution of the National Holding Board of the Issuer passed on 2 September 2009 (resolution No. 710/2009(IX.02)). The Bonds are constituted by a trust deed (as modified and/or restated from time to time in accordance with its terms) (the “**Trust Deed**”) dated 25 September 2009 and made between the Issuer and BNY Corporate Trustee Services Limited (the “**Trustee**”, which term shall, where the context so permits, include all other persons or companies acting as trustee or trustees thereof) as trustee for the holders of the Bonds. The Issuer has entered into a paying, transfer and exchange agency agreement (the “**Agency Agreement**”) with the Trustee, The Bank of New York Mellon (Luxembourg) S.A. as registrar, The Bank of New York Mellon as principal paying, transfer and exchange agent, and the other paying, transfer and exchange agents named therein. The registrar, the principal paying, transfer and exchange agent and the other paying, transfer and exchange agents for the time being are referred to below, respectively, as the “**Registrar**”, the “**Principal Paying, Transfer and Exchange Agent**” and the “**Paying, Transfer and Exchange Agents**” (which expression shall include the Principal Paying, Transfer and Exchange Agent). The statements in these terms and conditions of the Bonds (the “**Conditions**”) include summaries of, and are subject to, the detailed provisions of the Trust Deed, which includes the form of the Bonds. Copies of the Trust Deed and the Agency Agreement are available for inspection by Bondholders at the registered office of the Trustee being at the date hereof at One Canada Square, London E14 5AL and at the specified office(s) of the Paying, Transfer and Exchange Agents. The Bondholders (as defined in Condition 1(b)) are entitled to the benefit of the Trust Deed and are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and the Agency Agreement applicable to them.

The Issuer has in the Agency Agreement delegated to the Registrar and the Paying, Transfer and Exchange Agents the performance of certain of its obligations to make payments and give notices under these Conditions. Such delegation shall not, for the avoidance of doubt, operate to vary or discharge the responsibility of the Issuer towards the Bondholders under these Conditions.

1 Form, Denomination and Title

(a) *Form and Denomination*

The Bonds are in registered form in the principal amount of Euro 100,000 each and integral multiples thereof (“**Authorised Denominations**”) and are represented by registered certificates (“**Certificates**”).

(b) *Title*

Title to the Bonds will pass by transfer and registration as described in Conditions 3 and 4. In these Conditions, in relation to a Bond, “**Bondholder**” and “**holder**” means the persons in whose name a Bond is registered in the Register (as defined in Condition 3). The holder of any Bond will (except as otherwise required by law) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any interest in it or any writing on, or theft or loss of it) and no person will be liable for so treating the holder.

2 Status of the Bonds and Guarantee

(a) *Status of the Bonds*

The Bonds constitute direct, unconditional, unsubordinated and unsecured obligations of the Issuer which will at all times rank *pari passu* among themselves and at least *pari passu* with all other present and future unsecured and unsubordinated obligations of the Issuer, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application.

(b) Statutory Guarantee of the Bonds

The Bonds benefit from a statutory guarantee of the Republic of Hungary (the “**Hungarian State**”) pursuant to Section 22(2) of Act CVI of 2007 on State property (the “**State Property Act**”) (the “**Statutory Guarantee**”). The Statutory Guarantee constitutes indirect, general and unsecured obligations of the Hungarian State, ranking *pari passu* with all other present and future unsecured obligations of the Hungarian State, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application.

3 Registration

The Issuer will cause a register (the “**Register**”) to be kept outside the United Kingdom at the specified office of the Registrar in which will be entered the names and addresses of the holders of the Bonds and the particulars of the Bonds held by them and of all transfers, redemptions and exchanges of Bonds.

4 Transfer of Bonds

(a) Transfer

Bonds may, subject to the terms of the Agency Agreement and to Conditions 4(b) and 4(c), be transferred in whole or in part in an Authorised Denomination by lodging the Certificate in respect of the relevant Bond (with the form of application for transfer in respect thereof duly executed and duly stamped where applicable) at the specified office of the Registrar or any Paying, Transfer and Exchange Agent.

No transfer of a Bond will be valid unless and until entered on the Register. A Bond may be registered only in the name of, and transferred only to, a named person (or persons, not exceeding four in number).

The Registrar will, within seven Business Days (in the city of the Registrar’s specified office) of any duly made application for the transfer of a Bond, deliver a new Certificate in respect of the Bond to the transferee (and, in the case of a transfer of part only of a Bond, deliver a Certificate in respect of the Bond for the untransferred balance to the transferor), at the specified office of the Registrar, or if so specified in the relevant application for transfer (at the risk and, if mailed at the request of the transferee or, as the case may be, the transferor otherwise than by ordinary mail, at the expense of the transferee or, as the case may be, the transferor), mail the Certificate in respect of the Bond by uninsured mail to such address as the transferee or, as the case may be, the transferor may request.

In the event that Exchange Rights (as defined below) are exercised in respect of some only of the Bonds represented by a Certificate, the Registrar will deliver a new Certificate in respect of the unexercised balance of the Bond in accordance with Condition 7(b)(i).

(b) Formalities Free of Charge

Such transfer will be effected without charge subject to (i) the person making such application for transfer paying or procuring the payment of any taxes, duties and other governmental charges in connection therewith and (ii) the Registrar being satisfied with the documents of title and/or identity of the person making the application.

(c) Closed Periods

Neither the Issuer nor the Registrar will be required to register the transfer of any Bond (or part thereof) (i) during the period of seven Business Days (in the city of the Registrar's specified office) immediately prior to the Maturity Date, (ii) in respect of which an Exchange Notice (as defined below) has been delivered in accordance with Condition 7(b)(i), or (iii) during the period of seven Business Days (in the city of the Registrar's specified office) ending on (and including) any Record Date (as defined below) in respect of any payment of interest on the Bonds.

(d) Regulations

All transfers of Bonds and entries on the register of Bondholders will be made subject to the detailed regulations concerning transfer of Bonds set forth in the Agency Agreement. The regulations may be changed by the Issuer with the prior written approval of the Trustee and the Registrar. A copy of the current regulations will be mailed (free of charge) by the Registrar to any Bondholder upon request.

5 Negative Pledge

So long as any of the Bonds remains outstanding (as defined in the Trust Deed), the Issuer will not create or permit to subsist any Security Interest upon the whole or any part of its present or future undertaking, assets or revenues to secure any Relevant Debt or guarantee of Relevant Debt without (a) at the same time or prior thereto securing the Bonds equally and rateably therewith to the satisfaction of the Trustee or (b) providing such other security for the Bonds as the Trustee may in its absolute discretion consider to be not materially less beneficial to the interests of the holders of the Bonds or as may be approved by an Extraordinary Resolution (as defined in the Trust Deed) of Bondholders.

6 Interest

(a) Interest Rate

The Bonds bear interest from the Closing Date at the rate of 4.40 per cent. per annum of the principal amount thereof payable annually in arrear on 25 September in each year (each an "**Interest Payment Date**"), the first Interest Payment Date being 25 September 2010. The period beginning on (and including) the Closing Date and ending on (but excluding) the first Interest Payment Date and each successive period beginning on (and including) an Interest Payment Date and ending on (but excluding) the next succeeding Interest Payment Date is called an "**Interest Period**".

If interest is required to be calculated for a period of less than a full Interest Period, it shall be calculated on the basis of the number of days in the relevant period from and including the date from which interest begins to accrue to but excluding the date on which it falls due, divided by the number of days in the Interest Period in which the relevant period falls (including the first such day but excluding the last).

(b) Accrual of Interest

Each Bond will cease to bear interest (i) where the Exchange Right shall have been exercised in respect thereof, from, and including, the Interest Payment Date immediately preceding the relevant Exchange Date or, if none, the Closing Date or (ii) where such Bond is redeemed (whether on the Maturity Date or in accordance with Condition 10(b) or 10(c)), from, and including, the due date for redemption unless, upon due surrender of the relative Certificate, payment of the full amount due is improperly withheld or refused, in which event such Bond shall continue to bear interest (both before and after judgment) as provided in these Conditions.

7 Exchange Right

(a) *Exchange Period, Exchange Rights and Cash Election*

- (i) Subject to the right of the Issuer to make a Cash Election, each Bondholder shall have the right to have all or any of its Bonds redeemed in an Authorised Denomination of such Bonds at their principal amount at any time during the Exchange Period referred to below. Forthwith upon such redemption the Bondholder shall, subject to the right of the Issuer to make a Cash Election, have the right and obligation to have that amount applied on its behalf in acquiring a *pro rata* share of the Exchange Property. Such redemption of a Bond or part thereof and acquisition of a *pro rata* share of the Exchange Property is referred to herein as an “**exchange**” and the right of a Bondholder to require an exchange is herein referred to as the “**Exchange Right**”. Upon exchange the Issuer shall, subject to the right of the Issuer to make a Cash Election, deliver or procure the delivery of the relevant *pro rata* share of the Exchange Property as provided in this Condition.

Subject to and upon compliance with these Conditions, the Exchange Right attaching to any Bond may be exercised by the holder thereof at any time on or after 28 July 2014 up to noon (at the place where the Certificate in respect of such Bond is deposited for exchange) on 4 August 2014, subject as provided in Condition 7(a)(ii) below.

- (ii) If the Trustee shall give notice to the Issuer declaring the Bonds to be immediately due and repayable pursuant to Condition 13, notice of such fact shall forthwith be given by the Issuer to the Bondholders in accordance with Condition 17 and each Bondholder shall (whether or not the Exchange Right attaching to its Bond is then otherwise exercisable) be entitled at any time after the date on which the Bonds become so due and repayable (the “**Due Date**”) until the date being the last day of the period of two weeks after the Due Date (but not thereafter) to elect (by delivering in accordance with the provisions of this Condition 7 a duly signed and completed Exchange Notice, together with the relevant Certificate, to the specified office of any Paying, Transfer and Exchange Agent) in lieu of having his Bond repaid, to exercise the Exchange Right in respect of such Bond as at the Due Date (and references to the Exchange Date shall be construed accordingly), save that no such election may be made in respect of a Bond the Certificate in respect of which has been presented for payment on or after the Due Date (provided that payment in full of all amounts then due on the relevant Bond is made upon such presentation). Subject as provided in this Condition 7, Exchange Rights shall lapse in the event that the Trustee shall give notice to the Issuer that the Bonds are immediately due and repayable.

The period during which Bondholders shall be entitled to exercise Exchange Rights pursuant to these Conditions is referred to as the “**Exchange Period**”. The Issuer shall, unless the Bonds are declared due and repayable prior to such date pursuant to Condition 13, give notice to the Bondholders in accordance with Condition 17 not later than three Budapest Business Days prior to the start of the Exchange Period confirming the date upon which the Exchange Period will begin.

- (iii) Other than where a Cash Election is made by the Issuer, upon a due exercise of Exchange Rights the relevant Bondholder shall be entitled to receive a *pro rata* share of the Exchange Property calculated as at the relevant Exchange Date.
- (iv) No fraction of a Relevant Security or any other property comprised in the Exchange Property which is not divisible shall be delivered on exercise of the Exchange Rights and the Issuer shall

not be under any obligation to make any payment to Bondholders in respect of any such fraction and any such fraction will be rounded down to the nearest whole multiple of a Relevant Security or unit of any such other property.

If more than one Bond is to be exchanged by a Bondholder pursuant to any one Exchange Notice, the Exchange Property to be delivered and any sum payable to that Bondholder shall be calculated on the basis of the aggregate principal amount of such Bonds.

(b) Procedure for Exchange

- (i) To exercise the Exchange Right in respect of any Bond, the holder thereof must complete, execute and deposit at his own expense during normal business hours at the specified office of any Paying, Transfer and Exchange Agent, a notice of exchange (an “**Exchange Notice**”) in the form (for the time being current) obtainable from the specified office of each Paying, Transfer and Exchange Agent, together with the Certificate in respect of such Bond and any amount to be paid by the Bondholder pursuant to this Condition 7(b)(i). An Exchange Notice once delivered shall be irrevocable.

A Bondholder exercising Exchange Rights will be required to certify (a “**non-U.S. Certification**”) in the relevant Exchange Notice that such exchange is being made as an offshore transaction (as such term is defined in Regulation S (“**Regulation S**”) under the United States Securities Act of 1933, as amended). Failure to make such a non-U.S. Certification shall render the relevant Exchange Notice null and void.

Exchange Rights may only be exercised in respect of an Authorised Denomination. Where an Exchange Right is exercised in respect of some only of the Bonds represented by a Certificate, such Bonds and the related Certificate shall be cancelled and a new Certificate representing the balance of such Bonds in respect of which an Exchange Right is not exercised shall be issued in lieu thereof without charge but upon payment by the holder of any taxes, duties and other governmental charges payable in connection therewith and the Registrar being satisfied with the documents of title and/or identity of the holder, the Registrar will within seven Business Days (in the city of the Registrar’s specified office) following the relevant Exchange Date deliver such new Certificate to the Bondholder at the specified office of the Registrar or (at the risk and, if mailed at the request of the Bondholder otherwise than by ordinary mail, at the expense of the Bondholder) mail the new Certificate by uninsured mail to such address as the Bondholder may request in the Exchange Notice.

The exchange date in respect of a Bond (the “**Exchange Date**”) in respect of which the Exchange Right shall have been exercised by a Bondholder will be the Budapest Business Day immediately following the last day of the Exchange Period or, if later, immediately following the date on which any payment or indemnity required to be made or given under these Conditions in connection with the exercise of such Exchange Right has been so made or given.

The Issuer will pay any stamp, registration, documentary, transfer or other similar taxes or duties (including penalties) arising on the transfer or delivery of any Exchange Property to or to the order of a Bondholder pursuant to the exercise of Exchange Rights (“**Stamp Taxes**”) which are payable or imposed in Hungary and the jurisdiction in which the relevant Exchange Property is situated (and for this purpose any securities in registered form comprising Exchange Property shall be deemed to be situated in the jurisdiction in which the register (or in the case of more than one register, the principal register or the register on which such securities are recorded or maintained) is located). A Bondholder exercising Exchange Rights must pay any

other taxes and capital, stamp, issue, registration, documentary, transfer or other duties (including penalties) arising on exchange and/or on the transfer, delivery or other disposition of Exchange Property arising on exercise of Exchange Rights or provide an indemnity in respect thereof, such indemnity being in such form as the Issuer may reasonably require. If the Issuer shall fail to pay any Stamp Taxes for which it is responsible as provided above, the relevant holder shall be entitled to tender and pay the same and the Issuer, as a separate and independent stipulation, covenants to reimburse each such Bondholder in respect of the payment of such Stamp Taxes and any penalties payable in respect thereof. Each Bondholder must pay all, if any, taxes arising by reference to any disposal or deemed disposal of a Bond in connection with the exercise of Exchange Rights.

- (ii) Other than where a Cash Election is made by the Issuer, the Issuer shall as soon as practicable, and in any event not later than the Settlement Date:
- (1) in respect of Gedeon Richter Shares comprising the relevant *pro rata* share of the Exchange Property, procure the transfer of such Gedeon Richter Shares through KELER (or its successor) to the person and for credit to the account designated for the purpose in the relevant Exchange Notice;
 - (2) procure that Relevant Securities (other than Gedeon Richter Shares) comprising the relevant *pro rata* share of the Exchange Property to be delivered on exercise of Exchange Rights are transferred into such name as the Bondholder shall direct pursuant to the Exchange Notice and shall procure that forms of transfer and certificates (if certificates for the Relevant Securities are then generally being issued) together with all other documents of title and evidence of ownership and all other documents necessary to transfer or evidence the transfer of such Relevant Securities will be despatched by mail, and free of charge (but uninsured and at the risk of the person entitled thereto) to such address, subject to applicable securities laws, as the Bondholder may request (as specified in the relevant Exchange Notice); and
 - (3) procure that such documents of title and evidence of ownership of any other Exchange Property to be delivered on exercise of Exchange Rights shall be despatched and that payment of any part of the Exchange Property comprising cash to be delivered on exercise of Exchange Rights (converted if necessary into Euro at the Screen Rate on the relevant Exchange Date) shall be made, in each case in accordance with directions given by the relevant Bondholder in the Exchange Notice.

Notwithstanding the above, in the event that the Issuer delivers a certificate to the Trustee signed by two Authorised Officers to the effect that KELER (or, where the Exchange Property is comprised of Relevant Securities other than Gedeon Richter Shares and certificates for such Relevant Securities are not then generally being issued, the clearing system through which the transfer of such Relevant Securities is required to be effected) has been closed for a continuous period of two or more days (excluding Saturdays and Sundays and save by reason of holidays, statutory or otherwise) in the period between the Exchange Date and the Settlement Date, then the Issuer will notify the relevant Bondholder in accordance with Condition 17 or at the address of the Bondholder specified in the relevant Exchange Notice (as the Issuer may determine) and the date for such transfer or delivery shall be the later of the period above and the earliest practicable date on which the relevant Exchange Property may be transferred or delivered by or through KELER or, as the case may be, the relevant clearing system.

Also notwithstanding the above, if the Exchange Property has changed in whole or in part as a result of acceptance of an Offer for Relevant Securities other than Gedeon Richter Shares or as a result of the compulsory acquisition of any Relevant Securities, in each case as provided in Condition 8, then the Issuer will notify the relevant Bondholder in accordance with Condition 17 or at the address of the Bondholder specified in the relevant Exchange Notice (as the Issuer may determine) and the time for such delivery shall be the longer of such period set out above and the day falling 10 Budapest Business Days after the date on which the consideration is received by the Issuer under the terms of the Offer or, as the case may be, the day falling 10 Budapest Business Days following the date on which the consideration pursuant to such compulsory acquisition is received by the Issuer.

If, at any time when the transfer or delivery of any Exchange Property (other than cash) is required, such transfer or delivery would, as certified to the Trustee by two Authorised Officers of the Issuer, be unlawful under the laws of any applicable jurisdiction or contrary to any official declaration, order, directive or regulation in any applicable jurisdiction, the Issuer will notify the relevant Bondholder in accordance with Condition 17 or at the address of the Bondholder specified in the relevant Exchange Notice (as the Issuer may determine) and the Issuer will make a cash payment equal to the aggregate of the Realisation Proceeds of the relevant Exchange Property. The Issuer will pay any such amount to the relevant Bondholder not later than 10 Budapest Business Days after the relevant Settlement Date.

If:

- (a) the Exchange Date in respect of any Bond shall be on or after the date of any public announcement affecting the composition of any part of the Exchange Property (other than Gedeon Richter Shares or other securities in registered form (“**Registered Securities**”) in circumstances where the relevant entitlement is determined by reference to a record date in respect thereof), but before the date on which such change is effective; or
- (b) the Exchange Date in respect of any Bond shall be after the record date or other due date for the establishment of the relevant entitlement in respect of any Rights Issue or any Sub-division, Consolidation or Redenomination or Relevant Event in respect of any Registered Securities comprising Exchange Property but before the date on which adjustment of the Exchange Property becomes effective; or
- (c) the Exchange Date in respect of any Bond shall be on or before the record date or other due date for the establishment of the relevant entitlement in respect of any Rights Issue or any Sub-division, Consolidation or Redenomination or Relevant Event in respect of any Registered Securities comprising Exchange Property in circumstances where the Registration Date in respect of such Registered Securities is after such record date or other due date for the establishment of the relevant entitlement and the relevant Bondholder would not otherwise receive the relevant entitlement but the Issuer has received or is entitled to receive such entitlement,

then the relevant Bondholder, other than where a Cash Election shall have been made by the Issuer in which case the provisions of Condition 7(c)(ii) shall apply, shall be entitled to receive, in respect of the exercise of the relevant Exchange Rights, such *pro rata*

amount or, as the case may be, further *pro rata* amount of the Exchange Property (“**Additional Exchange Property**”) as would have been receivable had the relevant Exchange Date occurred immediately after the date on which such change in the composition of the Exchange Property became effective or, as the case may be, had the relevant Registration Date in respect of such Registered Securities been immediately before such record date.

- (iii) Unless a Cash Election is made by the Issuer, the relevant Bondholder (or the person designated in the relevant Exchange Notice) will be the owner of the *pro rata* share of the Exchange Property to be delivered upon exchange with effect from the Exchange Date and, in respect of any Additional Exchange Property, will be entitled to all rights, distributions or payments in respect of such Additional Exchange Property from the Exchange Date for the Exchange Property previously delivered pursuant to such exchange.

Subject as provided herein, Exchange Property delivered on exercise of Exchange Rights shall not include any dividends or other income thereon or other distributions or rights in respect thereof, declared, paid or made by reference to a record date or other due date for the establishment of the relevant entitlement falling prior to the relevant Exchange Date.

Exchange Property delivered or transferred or to be delivered or transferred upon exchange shall rank for and be entitled to all dividends, interest and other income, payments and distributions and rights thereon or in respect thereof declared, paid, made or granted by reference to a record date or other due date for the establishment of entitlement falling on or after the relevant Exchange Date.

If the record date or other due date for the establishment of the relevant entitlement for the payment of any dividend, interest or other income, payment or distribution or rights on or in respect of such Exchange Property falls on or after the Exchange Date but before the relevant Settlement Date (or any other date from which the relevant Bondholder is treated as the owner of, or entitled to all rights and entitlement to, such Exchange Property) with the effect that the relevant Bondholder is not entitled to such dividend, interest or other income, payment or distribution of rights, the Issuer will (unless it is able to confer on or deliver to the relevant Bondholder an entitlement to receive such dividend, interest or other income, or distribution or rights):

- (a) (in the case of dividends, interest or other income or distributions or rights to be paid in cash) pay, or procure the payment to, the exchanging Bondholder in lieu of such dividend, interest or other income or distribution or rights, an amount equal thereto, converted if necessary into Euro at the Screen Rate on the date of receipt thereof by the Issuer (the “**Equivalent Amount**”). The Issuer will pay the Equivalent Amount, or procure that it is paid, to the relevant Bondholder by not later than 10 Budapest Business Days after payment is made of the dividend, interest or other income, payment or distribution or rights; and
- (b) (in the case of dividends, or other income or distributions or rights satisfied or made otherwise than in cash) deliver, or procure the delivery of, the same to the relevant Bondholder not later than 10 Budapest Business Days after the receipt by the Issuer of such dividend or other income or distribution or rights. If, at any time when the delivery of any such dividend or other income or distribution or rights is required, delivery would, as certified to the Trustee by two Authorised Officers of the Issuer, be unlawful under the laws of any applicable jurisdiction or contrary to any official declaration,

order, directive or regulation in any applicable jurisdiction, the Issuer will make a cash payment equal to the aggregate Realisation Proceeds of such dividend or other income or distribution or rights. The Issuer will pay any such amount to the relevant Bondholders not later than 10 Budapest Business Days after the receipt by the Issuer of such dividend or other income or distribution or rights.

- (iv) Upon exercise of Exchange Rights, a Bondholder shall, in the relevant Exchange Notice, specify a Euro account with a bank in a city in which banks have access to the TARGET System to which any cash amount payable on or in respect of the exercise of Exchange Rights by that Bondholder shall be credited and the Issuer shall pay such sum to the relevant Bondholder in accordance with any such directions.

(c) Cash Alternative

- (i) Upon the delivery of an Exchange Notice by a Bondholder, the Issuer shall, by giving written notice of its election (a “**Cash Election Notice**”) by not later than the date falling five Budapest Business Days following the Exchange Date, or, in the case of an exchange following the Bonds being declared due and repayable prior to such date pursuant to Condition 13, the date falling five Budapest Business Days following the Exchange Date (the “**Cash Election Exercise Date**”), to the address (or, if a fax number is provided, that number) specified for that purpose in the relevant Exchange Notice, with a copy to the Trustee and Principal Paying, Transfer and Exchange Agent, be entitled to satisfy the Exchange Rights (a “**Cash Election**”) in respect of the relevant Bonds by making a payment to the relevant Bondholder of the Cash Alternative Amount (together with any amounts which may be payable by the Issuer in respect of, or following, such exercise). Thereupon the Issuer shall make payment of such amount to the relevant Bondholder not later than the relevant Cash Payment Date by transfer to a Euro account maintained with, a bank in a city in which banks have access to the TARGET System in accordance with instructions given by the relevant Bondholder in the relevant Exchange Notice.

“**Cash Alternative Amount**” means a sum in cash in Euro equal to the average of the Value on each Trading Day (or, if the Exchange Property includes Relevant Securities not listed or traded on the Relevant Exchange, each Budapest Business Day) in the Cash Averaging Period of the relevant *pro rata* share of the Exchange Property which, had a Cash Election not been made, would otherwise fall to be delivered to such Bondholder upon exercise of Exchange Rights in respect of the relevant Bonds.

“**Cash Averaging Period**” means the period of 20 Trading Days (or, in the event that the Exchange Property includes Relevant Securities not listed or traded on the Relevant Exchange, 20 Budapest Business Days) commencing on the second Trading Day (or in the case aforesaid, second Budapest Business Day) after the Cash Election Exercise Date.

“**Cash Payment Date**” means the Maturity Date or, in the case of an exchange following the Bonds being declared due and repayable prior to the Maturity Date pursuant to Condition 13, the date falling five Budapest Business Days after the last day of the Cash Averaging Period.

- (ii) If a Bondholder shall be entitled to receive, in respect of the exercise of Exchange Rights, any Additional Exchange Property pursuant to Condition 7(b)(ii) in circumstances where a Cash Election is made in respect of the relevant exercise of Exchange Rights, the Issuer shall, in lieu of delivering such Additional Exchange Property, pay to the relevant Bondholder an amount (the “**Further Amount**”) equal to the Value of such Additional Exchange Property as at the date on which the relevant change in the composition of the Exchange Property is or would be

effective (the “**Change Date**”), and such Further Amount shall be paid by transfer to a Euro account maintained with a bank in a city in which banks have access to the TARGET System by not later than the latest of (a) the Change Date and (b) the Cash Payment Date in accordance with instructions given by the relevant Bondholder in the relevant Exchange Notice.

(d) The Exchange Property

The “Exchange Property” shall initially comprise 4,680,671.7969 Gedeon Richter Shares of par value HUF 1,000 each and shall include all Relevant Securities and other property arising out of or derived or resulting therefrom and such other property, in each case as may be deemed or required to comprise all or part of the Exchange Property pursuant to these Conditions, but excluding any such property as may or may be deemed to have ceased to form part of the Exchange Property.

On the exercise of Exchange Rights, Bondholders will initially be entitled to receive 561.70 Gedeon Richter Shares for each Euro 100,000 principal amount of Bonds (based on an initial exchange price of Euro 178.03 per Gedeon Richter Share) subject to adjustment pursuant to these Conditions.

All Exchange Property transferred or delivered upon exercise of Exchange Rights shall be transferred or delivered with full title guarantee and free from any and all security interests or other adverse interests.

Except in the circumstances provided in these Conditions, dividends and other income and other benefits and rights derived from the Exchange Property shall not comprise part of the Exchange Property.

(e) Adjustments to the Exchange Property

(i) Sub-division, Consolidation or Redenomination

If any Relevant Securities comprising the Exchange Property shall be sub-divided or consolidated, reclassified or redenominated or in any other manner have their par value changed (“**Sub-division, Consolidation or Redenomination**”) then the securities resulting from such Sub-division, Consolidation or Redenomination so far as attributable to the Exchange Property, shall be included in the Exchange Property.

(ii) Rights Issues

If further Relevant Securities or other securities, or options, warrants or rights to subscribe or purchase further Relevant Securities (or any of them) or other securities, shall be offered by way of rights to holders of Relevant Securities (or any of them) (a “**Rights Issue**”), then the Issuer shall notify the Trustee in writing and, by not later than the latest day for accepting or taking up any such rights (or by such other time as the Trustee may approve in writing), either:

- (A) on an arm’s length basis in good faith, procure the sale by an independent broker or investment bank selected by the Issuer (following consultation with Gedeon Richter) and approved by the Trustee in writing of sufficient rights to enable the whole of the balance of such rights to be taken up and procure the application of the proceeds of sale, after the deduction of the costs and expenses of such sale, in the taking up of such rights (with any excess proceeds of sale being added to and forming part of the Exchange Property); or
- (B) add to the Exchange Property such number of Gedeon Richter Shares or other securities or options, warrants or rights as would have been subscribed or purchased if sufficient rights had been sold on an arm’s length basis in good faith to enable (after the deduction

of the costs and expenses of such sale) the whole of the balance of such rights to be taken up together with an amount equal to what would have been any such excess proceeds of sale as aforesaid,

and, in the absence of any such election, paragraph (B) shall apply and provided that, if such rights may not be sold, the Issuer shall use any part of the Exchange Property comprising cash to take up such rights and/or, on an arm's length basis, sell sufficient Relevant Securities (other than Gedeon Richter Shares) to enable (after the deduction of the costs and expenses of such sale) the whole of the balance of such rights to be taken up, with, in any such case, any excess proceeds of sale being added to and forming part of the Exchange Property or, if the Exchange Property does not contain sufficient cash or if the proceeds of sale are insufficient to allow the whole of the balance of such rights to be taken up, the Issuer shall itself take up such rights.

Any Relevant Securities or other securities or options, warrants or rights taken up pursuant to this paragraph and any excess proceeds of sale as aforesaid shall be added to and form part of the Exchange Property.

Pending application of the provisions of this paragraph, such rights shall form part of the Exchange Property.

(iii) *Bonus Issues, Capital Distributions and Reorganisation*

If any of the following events occurs (each a “**Relevant Event**”):

- (A) Relevant Securities or other securities are issued credited as fully paid to holders of Relevant Securities comprised in the Exchange Property by way of capitalisation of profits or reserves or otherwise by virtue of being holders of Relevant Securities (otherwise than in lieu of the whole or any part of a cash dividend which such holders would or could otherwise have received);
- (B) any Capital Distribution is made in respect of any Relevant Securities comprised in the Exchange Property;
- (C) a Relevant Company purchases or redeems any Relevant Securities comprising Exchange Property; or
- (D) pursuant to any scheme of arrangement, reorganisation, amalgamation, reconstruction, merger, demerger or any like or similar event of any company or companies (whether or not involving liquidation or dissolution), any further Relevant Securities or other securities, property or assets (including cash) are issued, distributed or otherwise made available to holders of Relevant Securities or other securities comprised in the Exchange Property,

then the further Relevant Securities, securities or other property or assets (including cash) received in relation to the Relevant Event, so far as attributable to the Exchange Property or, as the case may be, the Capital Distribution in respect of the Relevant Securities comprising the Exchange Property, shall be included as part of the Exchange Property (and, if applicable, applied in accordance with Condition 7(h)).

(f) *Notice of Change in Exchange Property*

The Issuer shall give notice to the Trustee, to the Bondholders in accordance with Condition 17, to the Principal Paying, Transfer and Exchange Agent and to the Luxembourg Stock Exchange (so long as the Bonds are listed on the Luxembourg Stock Exchange) of any change in composition of the

Exchange Property as soon as reasonably practicable following such change, and shall give such details as the Trustee may require of the Exchange Property to which the holder of Euro 100,000 principal amount of Bonds would be entitled upon exercise of the Exchange Right in respect of such principal amount following such change.

(g) Release from the Exchange Property

Upon actual delivery of Exchange Property to the relevant Bondholder or payment of the Cash Alternative Amount or upon redemption of the Bonds (whether on the Maturity Date or in accordance with Condition 10(b) or 10(c)) or upon any purchase and cancellation of the Bonds, the *pro rata* share of the Exchange Property or the relevant part thereof attributable to each relevant Bond shall cease to be part of the Exchange Property and the Exchange Property shall be reduced accordingly.

(h) Purchase of Relevant Securities etc.

If any cash amount or securities or other property is received under or pursuant to these Conditions in respect of Exchange Property which is to be added to and form part of the Exchange Property (other than (i) any Gedeon Richter Shares or Relevant Securities of a class already comprised in the Exchange Property, (ii) as included in the Offer Consideration received under Condition 8 or added to and forming part of the Exchange Property pursuant to Condition 8 and (iii) any amount to be sold pursuant to Condition 7(e)(ii)) before the Exchange Rights lapse, such cash amount shall be applied, and such securities or other property shall be sold by the Issuer and the proceeds of such sale (net of any costs and expenses incurred in connection with such sale) shall be applied, by the Issuer as soon as reasonably practicable and to the extent possible in purchasing additional Gedeon Richter Shares (not then comprised in the Exchange Property) or, where the Exchange Property comprises Relevant Securities other than Gedeon Richter Shares, additional units of such Relevant Securities. Any such additional Gedeon Richter Shares or other securities purchased shall thereafter form part of the Exchange Property.

(i) Voting Rights etc.

Bondholders and the Trustee shall have no voting rights in respect of the Gedeon Richter Shares or any other part of the Exchange Property prior to their or its delivery or transfer to the relevant Bondholder (or as it may direct).

In the case of Gedeon Richter Shares, exchanging Bondholders will not be able to exercise rights as shareholders until they are registered in the register of shareholders of Gedeon Richter, subject to the applicable provisions of the Statutes of Gedeon Richter.

Where a cash Dividend is announced by a Relevant Company in respect of Relevant Securities which may, at the election of a holder or holders of such Relevant Securities, be satisfied by the issue or delivery of Relevant Securities or other property or assets, the Issuer shall be entitled to make such election as it may determine in its sole discretion.

In exercising any voting rights attaching to the Gedeon Richter Shares and other Relevant Securities that it may have or making any such election to which it may be entitled, the Issuer is not obliged to take into account the interests of the Bondholders and it is therefore possible that the Issuer may act in a manner which is contrary to the best interests of the Bondholders.

(j) Maintenance of Exchange Property

Exchange Rights are not exercisable in respect of any specific Gedeon Richter Shares or other property comprising Exchange Property from time to time and no Gedeon Richter Shares or other

Exchange Property has been or will be charged or otherwise placed in custody or set aside to secure or satisfy the Issuer's obligations in respect of the Exchange Rights. The composition of the Exchange Property may also change as a result of the operation of the Conditions.

The Issuer has undertaken to Bondholders that, other than following an exercise of Exchange Rights, it will not transfer or dispose of such number of Gedeon Richter Shares as were held by it on the Closing Date prior to 25 September 2014.

If and to the extent that the Issuer does not at any time own Exchange Property sufficient to satisfy the Exchange Rights in respect of all outstanding Bonds, references in these Conditions to Relevant Securities, securities, property or assets (including cash) and/or consideration (an “**Entitlement**”) received or entitled to be received by the Issuer in respect of the Exchange Property or any part thereof (howsoever expressed) shall operate as if the Issuer had received or was entitled to receive the relevant Entitlement and, where appropriate, the Exchange Property shall be increased and added to as if at all relevant times the Issuer owned the Exchange Property (or the relevant part thereof) and had received or was entitled to receive the relevant Entitlement on the date it would have received or have been entitled to receive such Entitlement had it at all relevant times been the owner of the Exchange Property (or the relevant part thereof), and references in the Trust Deed and these Conditions to the Exchange Property and to the Exchange Property being added to or increased (howsoever expressed) shall be construed accordingly, and, in particular:

- (i) in the case of a Rights Issue, the Exchange Property shall be increased by the Relevant Securities or other securities or options, warrants or rights and any excess proceeds of sale which would have been added to the Exchange Property had the Issuer owned the Relevant Securities or other securities comprising the Exchange Property at all relevant times and complied with its obligations under Condition 7(e)(ii) in relation thereto;
- (ii) for the purposes of proviso (a) to the definition of “Dividend” and Condition 7(i), if and to the extent that the Issuer does not own the Relevant Securities at the relevant time, then the Issuer shall be entitled to specify by notice to the Trustee signed by two Authorised Officers (by not later than the last day on which a holder of the Relevant Securities would be required to make the relevant election referred to in that definition) that it is to be treated as if it had made such election as it shall specify in such notice, failing which the Dividend shall be treated as a Dividend of (i) the Fair Market Value of the cash Dividend so announced or, (ii) if the Fair Market Value on the date of announcement of such Dividend of such Relevant Securities or other property or assets is greater than the Fair Market Value of the cash Dividend so announced, the Fair Market Value on the date of announcement of such Dividend of such Relevant Securities or other property or assets;
- (iii) if and to the extent that the Issuer does not own the relevant Exchange Property at the relevant time, then the Realisation Proceeds in respect thereof will nevertheless be calculated as if the Issuer owned the same at the relevant time and had sold the same as provided in these Conditions;
- (iv) where any of the provisions of the Trust Deed or these Conditions require the Issuer to sell any property comprising Exchange Property or deriving therefrom or received in respect thereof, then such provisions shall operate as if the Issuer had sold the same as provided in these Conditions, and an amount equal to that which would have been the net proceeds of such sale and required to be applied as provided in these Conditions (whether in the purchase of other assets or securities to comprise or be added to the Exchange Property, in payment to Bondholders or otherwise) shall be or, as the case may be, be treated as being so applied by the

Issuer, with any amount representing what would have been the balance of proceeds of any such sale being treated as being applied as so provided;

- (v) any reference in the Trust Deed or these Conditions to the time or date of receipt by the Issuer of any property or assets shall be construed as a reference to the time at, or date on, which the Issuer would otherwise have received or would have first been entitled to receive the same had it been owner of the Exchange Property at all relevant times;
- (vi) any provisions of the Trust Deed or these Conditions in respect of the obligation of the Issuer to deliver or distribute all or any part of the Exchange Property or other property or assets (including cash) shall operate as if at all relevant times the Issuer owned the relevant Exchange Property, and the Issuer shall be required to deliver or distribute the same as if at all relevant times it owned such Exchange Property; and
- (vii) for the purposes of Condition 8, the Issuer shall, other than in the case of the Gedeon Richter Shares, be entitled by notice to the Trustee signed by two Authorised Officers to elect to be treated as accepting (including as to any alternative consideration) or (unless the Relevant Securities are subject to compulsory acquisition) rejecting such Offer as if it owned the Relevant Securities the subject of such Offer,

provided that Condition 7(e)(iii)(C) shall be disregarded unless and to the extent the Relevant Company purchases or redeems Relevant Securities such that thereafter the total outstanding Relevant Securities are less than the number required to be comprised in the Exchange Property, in which case to the extent of such shortfall, the Issuer shall be treated as if it owned such Relevant Securities and the provisions of Condition 7(e)(iii)(C) shall apply accordingly in respect of the number of Relevant Securities representing such shortfall.

(k) Other Adjustments to the Exchange Property

If the Issuer (with the prior written approval of the Trustee) determines that an adjustment should be made to the Exchange Property as a result of one or more events or circumstances not referred to in Condition 7(e)(i), 7(e)(ii) or 7(e)(iii) even if the relevant event is or circumstances are specifically excluded from the operation of Condition 7(e)(i), 7(e)(ii) or 7(e)(iii), the Issuer shall, at its own expense and acting reasonably, request an independent investment bank of international repute (selected by the Issuer and approved in writing by the Trustee), acting as an expert, to determine as soon as practicable what adjustment (if any) to the Exchange Property is fair and reasonable to take account thereof and the date on which such adjustment should take effect and upon such determination the Issuer and the Trustee shall procure that such adjustment (if any) shall be made and shall take effect in accordance with such determination, provided that an adjustment shall only be made pursuant to this Condition 7(k) if such investment bank is so requested to make such determination in writing not more than 21 days after the occurrence of the relevant event or circumstance.

8 General Offers

In the event of an Offer for Gedeon Richter Shares, the Issuer may not accept such Offer. There will be no adjustment to the Exchange Property as a result of any such Offer for Gedeon Richter Shares.

In the event of an Offer of Relevant Securities in a Relevant Company other than Gedeon Richter, the Issuer shall have absolute discretion to accept or reject such Offer (and as to any alternative consideration). If the Issuer accepts such Offer (or if the Relevant Securities are subject to compulsory acquisition), then, with effect from the Final Date, the Exchange Property will be deemed to consist, in whole or in part, of the

consideration (the “**Offer Consideration**”) received for the Relevant Securities acquired under the Offer or pursuant to such compulsory acquisition.

The Issuer shall give notice to the Trustee and the Bondholders in accordance with Condition 17 forthwith upon becoming aware of the existence of any Offer.

If a tender or other offer is made by or on behalf of a Relevant Company (or any person associated with such Relevant Company) to purchase or otherwise acquire, redeem or exchange such Relevant Securities, the Issuer shall not tender or be entitled to be treated as having tendered any such Relevant Securities which are comprised in the Exchange Property or be treated as having accepted any such offer in respect thereof or vote in respect of any such Relevant Securities in relation to any such tender or other offer, nor shall the Issuer exercise or be treated as having exercised any option which it may have in connection therewith or otherwise to require the redemption or repayment of such Relevant Securities.

9 Undertakings

The Issuer undertakes to use all reasonable endeavours to maintain the listing of the Bonds on the Euro MTF Market of the Luxembourg Stock Exchange. If the Issuer is unable to maintain such listing, the Issuer undertakes to use all reasonable endeavours to obtain and maintain a listing for the Bonds on such other stock exchange as the Issuer may from time to time determine and as may be approved by the Trustee in writing, and the Issuer will forthwith give notice to the Bondholders in accordance with Condition 17 of the listing or delisting of the Bonds by any of such stock exchanges.

The Issuer undertakes to obtain and/or maintain all applicable consents and approvals which are required for the performance of its obligations under the Bonds and the Trust Deed.

If a payment calculated by reference to the Realisation Proceeds is to be made pursuant to these Conditions, the Issuer shall procure that the relevant sale is made as soon as reasonably practicable and in any event in such time to enable the relevant payment to be made by the time specified in these Conditions.

The Issuer undertakes not to dispose of or otherwise transfer Gedeon Richter Shares comprised in the Exchange Property prior to 25 September 2014 other than following an exercise of Exchange Rights by a Bondholder.

The Issuer undertakes not to vote at any meeting of holders of the Gedeon Richter Shares in favour of any resolution which would have the effect of modifying the rights attaching to the Gedeon Richter Shares in relation to voting (including in relation to any limit placed upon the voting rights to be exercised by a holder of Gedeon Richter Shares).

10 Redemption and Purchase

(a) Final Redemption

Unless previously exchanged, redeemed, or purchased and cancelled, the Bonds will be redeemed at their principal amount on the Maturity Date.

(b) Redemption at the Option of the Issuer

On giving not less than 30 days' nor more than 60 days' notice (the “**Optional Redemption Notice**”) to the Trustee and to the Bondholders in accordance with Condition 17, the Issuer may redeem all but not some only of the Bonds at their principal amount together with accrued interest to the Optional Redemption Date on the date (the “**Optional Redemption Date**”) specified in the Optional Redemption Notice if, at any time before the relevant Optional Redemption Notice is given, purchases

(and corresponding cancellations) and/or redemptions have been effected in respect of 90 per cent. or more in principal amount of the Bonds originally issued.

Any Optional Redemption Notice shall be irrevocable. Any such notice shall specify (i) the Optional Redemption Date and (ii) the aggregate principal amount of the Bonds outstanding.

(c) *Redemption at the Option of the Bondholders following a Delisting Event*

Following the occurrence of a Delisting Event, the holder of each Bond will have the right to require the Issuer to redeem such Bond on the Delisting Event Put Date at its principal amount, together with accrued and unpaid interest to such date. To exercise such right, the holder of the relevant Bond must deliver the Certificate in respect of such Bond to the specified office of any Paying, Transfer and Exchange Agent, together with a duly completed and signed notice of exercise in the form for the time being current obtainable from the specified office of any Paying, Transfer and Exchange Agent (a “**Delisting Event Put Exercise Notice**”), at any time during the Delisting Event Period. The “**Delisting Event Put Date**” shall be the fourteenth calendar day after the expiry of the Delisting Event Period.

A Delisting Event Put Exercise Notice, once delivered, shall be irrevocable and the Issuer shall redeem all Bonds the subject of Delisting Event Put Exercise Notices delivered as aforesaid on the Delisting Event Put Date.

The Issuer shall give notice or procure that notice is given to the Trustee and the Bondholders in accordance with Condition 17 (a “**Delisting Event Notice**”) within 14 calendar days of the first day on which it becomes aware of the occurrence of a Delisting Event. The Delisting Event Notice shall contain a statement informing Bondholders of their respective entitlement to exercise their respective rights to require redemption of their Bonds pursuant to this Condition 10(c). The Delisting Event Notice shall also specify:

- (i) the last day of the Delisting Event Period;
- (ii) the Delisting Event Put Date; and
- (iii) such other information relating to the Delisting Event as the Trustee may reasonably require.

(d) *Purchase*

The Issuer and/or the Hungarian State may at any time purchase Bonds in the open market or otherwise at any price.

(e) *Cancellation*

Bonds purchased by the Issuer or the Hungarian State may be held, re-issued, sold or cancelled. All Bonds redeemed or exchanged will be cancelled and may not be re-issued or resold.

11 Payments

(a) *Payment*

Payment of principal in respect of the Bonds and payment of any interest due on the Bonds will be made to the persons shown in the Register at the close of business on the Record Date and, other than in the case of a payment of interest on an Interest Payment Date, subject to the surrender of the Certificates in respect of the Bonds at the specified office of the Registrar or any of the Paying, Transfer and Exchange Agents.

Payment of all other amounts will be made as provided in these Conditions.

(b) *Method of Payments*

Each payment referred to in Condition 11(a) will be made in Euro by transfer to a Euro account maintained by the holder of the relevant Bond with a bank in a city in which banks have access to the TARGET System.

Each payment to be made by transfer pursuant to this Condition 11(b) will be made by transfer to the account noted on the Register on the relevant Record Date or, as the case may be, specified in the relevant Exchange Notice or Delisting Event Put Exercise Notice.

(c) *Agents*

The names of the initial Paying, Transfer and Exchange Agents and their initial specified offices are set out below. The Issuer reserves the right under the Agency Agreement at any time with the prior written approval of the Trustee to remove any Paying, Transfer and Exchange Agent, and to appoint other or further Paying, Transfer and Exchange Agents, provided that it will at all times maintain Paying, Transfer and Exchange Agents having specified offices in (i) London and (ii) a European Union member state (if any) that will not be obliged to deduct tax pursuant to European Council Directive 2003/48/EC or any other European Union Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive. Notice of any such removal or appointment and of any change in the specified office of any Paying, Transfer and Exchange Agent will be given as soon as practicable to Bondholders in accordance with Condition 17.

(d) *Payments subject to fiscal laws*

All payments in respect of the Bonds are subject in all cases to any applicable fiscal or other laws and regulations. No commissions or expenses shall be charged to the Bondholders in respect of such payments.

(e) *Fractions*

When making payments to Bondholders, if the relevant payment is not of an amount which is a whole multiple of the smallest unit of the relevant currency in which such payment is to be made, such payment will be rounded down to the nearest unit.

(f) *Delay in payment*

Bondholders will not be entitled to any interest or other payment, including in respect of or relating to the exercise of Exchange Rights, for any delay after the due date in receiving the amount due (i) as a result of the due date not being a Business Day, (ii) if the Bondholder is late in surrendering the Certificate in respect of the relevant Bond (if required to do so) or (iii) if a transfer made in accordance with this Condition 11 arrives after the date for payment.

12 Taxation

All payments of principal, interest and all other amounts in respect of the Bonds by or on behalf of the Issuer (including in respect of or relating to its exercise of Exchange Rights) shall be made free and clear of, and without withholding or deduction for, any taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or within the Hungarian State or any political subdivision thereof or any authority therein or thereof having power to tax or of any other jurisdiction, unless such withholding or deduction is required by law. If any such withholding or deduction is so required, the

Issuer shall pay such additional amounts as will result in the receipt by the Bondholders of such amounts as would have been received by them if no such withholding or deduction had been required, except that no such additional amounts shall be payable in respect of any Bond:

- (a) to a holder who is liable to such taxes, duties, assessments or governmental charges in respect of such Bond by reason of its having some connection with the Hungarian State other than the mere holding of such Bond; or
- (b) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to the European Council Directive 2003/48/EC on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive; or
- (c) by or on behalf of a holder who would have been able to avoid such withholding or deduction by presenting the relevant Bond to another Paying, Transfer and Exchange Agent in a member state of the EU; or
- (d) where presentation and surrender of a Certificate in respect of such Bond is required pursuant to these Conditions, if the Certificate in respect of such Bond is surrendered more than 30 days after the Relevant Date except to the extent that the relevant holder would have been entitled to such additional amounts on surrendering such Certificate on the last day of such period of 30 days.

Any reference in these Conditions to principal or interest shall be deemed to include any additional amounts in respect of principal or interest (as the case may be) which may be payable under this Condition 12.

13 Events of Default and Events of Acceleration

If any of the following events (each event specified in paragraph (a) below being an “**Event of Default**” and each event specified in paragraph (b) below being an “**Event of Acceleration**”) occurs and is continuing, the Trustee (subject in the case of the occurrence of any of the events described in Condition 13(a)(ii) to the Trustee having certified that such event is in its opinion materially prejudicial to the interests of Bondholders) at its discretion may and, if so required in writing by holders of at least 25 per cent. in principal amount of the then outstanding Bonds or if so directed by an Extraordinary Resolution, shall (subject in each case to it being indemnified and/or secured and/or pre-funded to its satisfaction) give written notice to the Issuer declaring the Bonds to be immediately due and repayable, whereupon, unless the Issuer or, as the case may be, the Hungarian State shall have cured or otherwise rectified the relevant event, they shall become immediately due and repayable at their principal amount together with accrued interest (subject as provided below) without further action or formality:

(a) Events of Default

- (i) *Non-payment/Exchange Rights*: the Issuer fails to pay any amount in respect of the Bonds or fails to perform or comply with its payment and/or delivery obligations under the Bonds and the Trust Deed in relation to an exercise of Exchange Rights within 15 days of the due date for payment thereof and/or, as the case may be, such delivery or the Hungarian State fails to pay any amount due under the Statutory Guarantee within 15 days of the due date for the related payment and/or delivery obligation under the Bonds; or
- (ii) *Breach of other obligations*: the Issuer defaults in the performance or observance of any of its other obligations under or in respect of the Bonds or the Trust Deed or the Hungarian State defaults in the performance or observance of any of its other obligations under or in respect of the Statutory Guarantee and such default (i) is, in the opinion of the Trustee, incapable of remedy or (ii) remains unremedied for 30 days or such longer period as the Trustee may in its

absolute discretion agree after the Trustee has given written notice thereof to the Issuer and the Hungarian State; or

- (iii) *Insolvency etc.*: (i) the Issuer becomes insolvent or is unable to pay its debts as they fall due and/or proceedings are initiated against the Issuer under any applicable liquidation, insolvency, bankruptcy, composition, reorganisation, moratorium, or other similar laws, (ii) a receiver, trustee, administrator, custodian, conservator, liquidator or other similar official is appointed in relation to the Issuer or in relation to the whole or any part of the undertaking or assets of the Issuer, excluding any assets in the Managed Portfolio, (iii) the Issuer takes any action for a readjustment or deferment of any of its obligations or makes a general assignment or an arrangement or composition with or for the benefit of its creditors or declares a moratorium in respect of any of its indebtedness except for in relation to any of the assets in the Managed Portfolio or (iv) the Issuer ceases or threatens to cease to carry on all or substantially all of its business (otherwise than for the purposes of or pursuant to an amalgamation, reorganisation or restructuring whilst solvent or on terms approved by an Extraordinary Resolution of Bondholders) except for in relation to any of the assets in the Managed Portfolio; or
- (iv) *Winding-up etc.*: an order is made or an effective resolution is passed for the winding-up, liquidation or dissolution of the Issuer (otherwise than (i) for the purposes of or pursuant to an amalgamation, reorganisation or restructuring whilst solvent or (ii) following or for the purpose of a substitution of the Issuer pursuant to Condition 15(e) or (iii) on terms approved by an Extraordinary Resolution of Bondholders); or
- (v) *Analogous event*: any event occurs which under the laws of Hungary has an analogous effect to any of the events referred to in paragraphs (iii) or (iv) above.

(b) Events of Acceleration

- (i) *Failure to take action etc.*: any action, condition or thing at any time required to be taken, fulfilled or done in order: (A) to enable the Hungarian State lawfully to exercise its rights and perform and comply with its obligations under and in respect of the Statutory Guarantee, (B) to ensure that those obligations are legal, valid, binding and enforceable and (C) subject to their official translation into the Hungarian language, to make the Bonds, the Trust Deed or any document in relation to the Statutory Guarantee admissible in evidence in the courts of the Hungarian State is not taken, fulfilled or done within 30 days of receipt by the Issuer, or as the case may be, the Hungarian State of written notice thereof; or
- (ii) *Unlawfulness*: it is or will become unlawful for the Issuer to perform or comply with any of its obligations under or in respect of the Bonds or the Trust Deed or for the Hungarian State to perform or comply with its obligations under the Statutory Guarantee and such unlawfulness is not remedied within 30 days of receipt by the Issuer, or as the case may be, the Hungarian State of written notice thereof; or
- (iii) *Guarantee not in force*: the Statutory Guarantee is not (or is claimed by the Hungarian State not to be) in full force and effect.

If the Bonds shall be declared due and repayable pursuant to this Condition 13 as a result of or in connection with a failure by the Issuer to comply with its payment and/or delivery obligations upon and in respect of an exercise of Exchange Rights or the Hungarian State to comply with its payment obligations under the Statutory Guarantee in respect of an exercise of Exchange Rights, each Bond shall be repayable at an amount (the “**Relevant Amount**”) equal to the higher of (i) the Value of the *pro rata* share of the Exchange Property and any other amounts which would have been payable and/or deliverable on exchange had the date of such

declaration been the Exchange Date and (ii) the principal amount of the Bond together with accrued interest. References in these Conditions and the Trust Deed to the principal amount of the Bonds shall, unless the context otherwise requires, include the Relevant Amount.

14 Prescription

Claims in respect of the principal amount or interest on the Bonds will become void unless made within 10 years (in the case of principal) and five years (in the case of interest) from the Relevant Date in respect thereof.

15 Meetings of Bondholders, Modification and Waiver, Entitlement of Trustee, Substitution, Change and Indemnification of Trustee

(a) Meetings of Bondholders

The Trust Deed contains provisions for convening meetings of the Bondholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of any provisions of these Conditions or any relevant provisions of the Trust Deed. Such a meeting may be convened by the Issuer, the Trustee or at the request of Bondholders holding not less than one-tenth in principal amount of the Bonds for the time being outstanding. The quorum at any such meeting for passing an Extraordinary Resolution is one or more persons holding or representing not less than 50 per cent. in principal amount of the Bonds for the time being outstanding, or at any adjourned meeting one or more persons being or representing Bondholders whatever the principal amount of the Bonds so held or represented, except that at any meeting the business of which includes the modification of Reserved Matters, the quorum shall be one or more persons holding or representing not less than 75 per cent. in principal amount of the Bonds for the time being outstanding, or at any adjourned such meeting one or more persons holding or representing not less than 25 per cent. in principal amount of the Bonds for the time being outstanding. An Extraordinary Resolution passed at any meeting of the Bondholders shall be binding on all the Bondholders, whether or not they are present at the meeting. If a resolution is brought in writing, such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Bondholders.

(b) Modification and Waiver

The Trust Deed provides that the Trustee may agree, without the consent of the Bondholders, to any modification of, or to any waiver or authorisation of any breach or proposed breach of, any of these Conditions or any of the provisions of the Trust Deed, or may determine that any condition, event or act which, but for such determination, would constitute an Event of Default or Event of Acceleration or Potential Event of Default or Potential Event of Acceleration (each as defined in the Trust Deed), shall not be treated as such which in any such case, in the opinion of the Trustee, is not materially prejudicial to the interests of the Bondholders or to any modification of any of these Conditions of the Bonds or any of the provisions of the Trust Deed or the Agency Agreement which is (in the opinion of the Trustee) of a formal, minor or technical nature or which is made to correct a manifest or (to the satisfaction of the Trustee) proven error or to comply with mandatory provisions of law. Any such modification, waiver, authorisation or determination shall be binding on the Bondholders and, unless the Trustee agrees otherwise, shall be notified to the Bondholders as soon as practicable thereafter in accordance with Condition 17.

In connection with the exercise by it of any of its trusts, powers, authorities or discretions (including, but without limitation, any modification, determination, waiver, authorisation or substitution), the Trustee shall have regard to the interests of the Bondholders as a class but shall not have regard to any

interests arising from circumstances particular to individual Bondholders (whatever their number) and, in particular, but without limitation, shall not have regard to the consequences of such exercise for individual Bondholders (whatever their number) resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory or any political sub-division thereof and the Trustee shall not be entitled to require, nor shall any Bondholder be entitled to claim, from the Issuer, the Trustee or any other person any indemnification or payment in respect of any tax consequence of any such exercise upon individual Bondholders.

The Trust Deed contains general provisions for the retirement and removal of the Trustee.

(c) *Indemnification*

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility, including provisions relieving it from taking proceedings to enforce repayment or taking steps to enforce the Exchange Rights unless indemnified and/or secured and/or pre-funded to its satisfaction. The Trustee has no responsibility for delivery of Exchange Property to Bondholders nor for the validity or value of the Exchange Property nor for any insufficiency of the Exchange Property resulting from the Trustee or the Issuer being liable for tax in respect of the Exchange Property.

(d) *Entitlement of Trustee*

The Trust Deed absolves the Trustee from responsibility for loss, diminution in value or theft of all or part of the Exchange Property. The Trustee is entitled to enter into business transactions with the Issuer and/or Gedeon Richter and/or any other entity whose securities are from time to time comprised in the Exchange Property or any entity related to any of them without accounting for any profit as more particularly described in the Trust Deed.

Any certificate or report of two Authorised Officers or any other expert or other person called for by or provided to the Trustee (whether or not addressed to the Trustee) in accordance with or for the purposes of the Trust Deed may be relied upon by the Trustee as sufficient evidence of the facts therein (and shall, in the absence of manifest error, be conclusive and binding on all parties) notwithstanding that such certificate or report or any other document entered into by the Trustee in connection therewith contains a monetary or other limit on the liability of such Authorised Officers, such other expert or such other person in respect thereof.

(e) *Substitution*

The Trust Deed contains provisions permitting the Trustee to agree, subject to such amendment of the Trust Deed and such other conditions as the Trustee may require, but without the consent of the Bondholders, to the substitution of the Hungarian State or any other entity in place of the Issuer, or of any previous substitute entity, as principal debtor under the Trust Deed and the Bonds subject to the Bonds continuing to be exchangeable for the Exchange Property and, unless the substitute is the Hungarian State, to all payments under the Bonds being irrevocably guaranteed by the Hungarian State. Any such substitution shall be notified to Bondholders in accordance with Condition 17.

16 Replacement of Bonds

If any Certificate is mutilated, defaced, destroyed, stolen or lost, it may be replaced at the specified office of any Paying, Transfer and Exchange Agent upon payment by the claimant of such costs as may be incurred in connection therewith and on such terms as to evidence and indemnity as the Issuer may reasonably require. Mutilated or defaced Certificates must be surrendered before replacements will be issued.

17 Notices

All notices regarding the Bonds shall be mailed to Bondholders at their respective addresses in the Register and will be deemed to have been given on the fourth weekday after the date of mailing. So long as Bonds are listed on the Luxembourg Stock Exchange and traded on the Euro MTF Market of the Luxembourg Stock Exchange and the rules of that exchange so require, notices shall also be published either on the website of the Luxembourg Stock Exchange (www.bourse.lu) or in a daily newspaper of general circulation in Luxembourg (which is expected to be the *Luxemburger Wort*). Any such notice will be deemed to have been given on the date of the first publication. If publication as provided above is not practicable, notice will be given in such other manner, and will be deemed to have been given on such date, as the Trustee may approve.

18 Enforcement

- (a) The Trustee may at any time, at its discretion and without notice, take such action, step or proceedings against the Issuer and/or the Hungarian State (or any of them) as it may think fit to enforce the provisions of the Trust Deed, the Bonds and/or the Statutory Guarantee, but it shall not be bound to take any proceedings or any other action or step in relation to the Trust Deed, the Bonds and/or the Statutory Guarantee unless (i) it shall have been so directed by an Extraordinary Resolution of the Bondholders or so requested in writing by the holders of at least one-quarter in principal amount of the Bonds then outstanding, and (ii) it shall have been indemnified and/or secured and/or prefunded to its satisfaction.
- (b) No Bondholder shall be entitled to proceed directly against the Issuer or the Hungarian State unless the Trustee, having become bound so to proceed, fails so to do within a reasonable period and such failure shall be continuing.
- (c) No person shall have any right to enforce any term or condition of the Conditions or the Trust Deed under the Contracts (Rights of Third Parties) Act 1999.

19 Governing Law

- (a) *Governing law:* The Bonds and the Trust Deed and any non-contractual obligations arising out of or in connection with them are governed by, and shall be construed in accordance with, English law. The Statutory Guarantee is governed by Hungarian law.
- (b) *Waiver of immunity:* To the extent that the Issuer may in any jurisdiction claim for itself or its assets or revenues immunity from suit, execution, attachment (whether in aid of execution, before judgment or otherwise) or other legal process and to the extent that in any such jurisdiction there may be attributed to itself or its assets or revenues such immunity (whether or not claimed), the Issuer agrees not to claim and irrevocably waives such immunity to the fullest extent permitted by the laws of such jurisdiction, provided that this waiver does not apply to the Managed Portfolio other than the Gedeon Richter Shares.

20 Jurisdiction

- (a) *Jurisdiction:* The Issuer agrees for the benefit of the Trustee and the Bondholders that the courts of England shall have jurisdiction to hear and determine any suit, action or proceedings (“**Proceedings**”), and to settle any dispute or difference arising out of or in connection with the Bonds, or any non-contractual obligations arising out of or in connection with them, including any question as to the existence, validity or termination of the Bonds (a “**Dispute**”), and, for such purposes, irrevocably submits to the jurisdiction of such courts.

- (b) *Appropriate forum:* The Issuer irrevocably waives any objection which it might now or hereafter have to the courts of England being nominated as the forum to hear and determine any Proceedings and to settle any Disputes, and agrees not to claim that any such court is not a convenient or appropriate forum.
- (c) *Process agent:* The Issuer agrees that the process by which any Proceedings in England are begun may be served on it by being delivered to Norose Notices Limited at 3 More London Riverside, London SE1 2AQ, United Kingdom. If such person is not or ceases to be effectively appointed to accept service of process on the Issuer's behalf, the Issuer shall, on the written demand of the Trustee addressed to the Issuer and delivered to the Issuer, appoint a further person in England to accept service of process on its behalf and, failing such appointment within 15 days, the Trustee shall be entitled to appoint such a person by written notice addressed to the Issuer. Nothing in this paragraph shall affect the right to serve process in any other manner permitted by law.
- (d) *Non-exclusivity:* The submission to the jurisdiction of the courts of England shall not (and shall not be construed so as to) limit the right of the Trustee or (where permitted by Condition 18(b)) any Bondholder to take Proceedings in any other court of competent jurisdiction, nor shall the taking of Proceedings in any one or more jurisdictions preclude the taking of Proceedings in any other jurisdiction (whether concurrently or not) if, and to the extent, permitted by law.
- (e) *Consent to enforcement etc:* Subject to Condition 19(b), the Issuer consents generally in respect of any Proceedings to the giving of any relief or the issue of any process in connection with such Proceedings including (without limitation) the making, enforcement or execution against any property whatsoever (irrespective of its use or intended use) of any order or judgment which may be made or given in such Proceedings.

21 Arbitration

- (a) *Disputes may be settled by arbitration:* Without prejudice to the provisions of Condition 20 above, the Trustee or, where permitted by Condition 18(b), any Bondholder may, at its discretion, refer any Dispute to be settled by arbitration in accordance with the UNCITRAL Arbitration Rules as at present in force (the “**UNCITRAL Rules**”), which are deemed to be incorporated by reference into this Condition 21 (and copies of which may be obtained free of charge from the specified office of the Principal Paying, Transfer and Exchange Agent).
- (b) *Appointment of the arbitral tribunal:* The arbitral tribunal shall be composed of three (3) arbitrators, one of whom shall be the presiding arbitrator. The arbitrators shall be appointed as follows:
 - (i) in the case of any Dispute to which there are two parties only, each party shall appoint an arbitrator. In the case of any Dispute to which there are more than two parties, including the Issuer and the Trustee, each of the Issuer and the Trustee shall appoint an arbitrator. In the case of any Dispute to which there are more than two parties, one of which is the Issuer and to which the Trustee is not a party, the Issuer shall appoint an arbitrator and the London Court of International Arbitration (the “**LCIA**”) shall appoint an arbitrator. In the case of any Dispute to which there are more than two parties, one of which is the Trustee and to which the Issuer is not a party, the Trustee shall appoint an arbitrator and the LCIA shall appoint an arbitrator. In each such case, if one party fails to appoint an arbitrator within 30 days of receiving notice of the appointment of an arbitrator by the other party then that arbitrator shall be appointed by the LCIA;

- (ii) the third arbitrator, who shall act as chairman of the tribunal, shall be chosen by the two arbitrators appointed by or on behalf of the parties. If he is not chosen and appointed within 30 days of the date of appointment of the later of the two party-appointed arbitrators to be appointed, he shall be appointed by the LCIA; and
- (iii) each arbitrator shall be and remain independent and impartial of each party.

In the case of any other Dispute, being a Dispute to which there are more than two parties and to which neither the Issuer nor the Trustee are a party, the appointing authority shall be the LCIA. The LCIA shall appoint all three (3) members of the arbitral tribunal and shall nominate which of them shall act as the presiding arbitrator. In all matters relating to the appointment of arbitrators, the parties agree that the LCIA shall be free to appoint whomsoever the LCIA considers appropriate in the LCIA's sole discretion, save that the LCIA shall take account of the views of the parties and shall give effect to any agreement of the parties in relation to the appointment of the arbitrators unless the LCIA determines in the LCIA's absolute discretion that it is not appropriate to do so.

- (c) *Initiation of arbitration proceedings:* If the Trustee or (where permitted by Condition 18(b)) a Bondholder wishes to initiate an arbitration it shall simultaneously:
 - (i) give a notice of arbitration to the Issuer in accordance with Article 3 of the UNCITRAL Rules; and
 - (ii) give notice to the LCIA, nominating its choice of its arbitrator in writing, and give a copy of the request to all other relevant parties.
- (d) *Place and language of the arbitration proceedings:* The place and seat of the arbitration shall be London, England and the language of the arbitral proceedings shall be English.
- (e) *The award:* All and any awards of the arbitral tribunal shall be made in writing in accordance with the UNCITRAL Rules and shall be final and binding on the relevant parties. All and any awards shall be made by majority decision. If there be no majority, the award shall be made by the chairman of the tribunal alone. The final award shall be made within six (6) months from the appointment of the third arbitrator, but insofar as this is impractical it shall be made as soon as possible thereafter.
- (f) *Notice of arbitration:* In relation to any arbitration proceedings, the provisions of Condition 17 shall apply in respect of this Condition 21 in addition to the notification provisions of the UNCITRAL Rules.
- (g) *Expedition of arbitration:* The arbitral tribunal shall conduct the arbitration in accordance with the UNCITRAL Rules and at all times in such a manner as to ensure a speedy resolution of the dispute.

22 Definitions

For the purpose of these Conditions, the following words and phrases shall have the following meanings:

“**Additional Exchange Property**” has the meaning set out in Condition 7(b)(ii);

“**Authorised Officers**” has the meaning given in the Trust Deed;

“**Bondholder**” has the meaning set out in Condition 1(b);

“**Business Day**” means, in relation to any place, a day (other than a Saturday or a Sunday) on which commercial banks and foreign exchange markets settle payments generally in such place;

“**Capital Distribution**” means: (i) any distribution of assets *in specie* or (ii) any cash Dividend charged or provided for in the accounts of a Relevant Company for any financial period (whenever paid or made and however described) if the Fair Market Value of the proposed Dividend per Relevant Security, together with the Fair Market Value per Relevant Security of any other Dividends on such Relevant Securities charged or provided for in the accounts for such financial period (other than any part thereof previously deemed to be a Capital Distribution) exceeds the Reference Amount, in which case the amount of such Capital Distribution shall be the amount of such excess;

“**Cash Alternative Amount**” has the meaning set out in Condition 7(c);

“**Cash Averaging Period**” has the meaning set out in Condition 7(c);

“**Cash Election**” has the meaning set out in Condition 7(c);

“**Cash Election Exercise Date**” has the meaning set out in Condition 7(c);

“**Cash Election Notice**” has the meaning set out in Condition 7(c);

“**Cash Payment Date**” has the meaning set out in Condition 7(c);

“**Certificate**” has the meaning set out in Condition 1(a);

“**Closing Date**” means 25 September 2009;

A “**Delisting Event**” shall occur, if, for any reason, the Gedeon Richter Shares cease to be listed and admitted to trading on a Relevant Exchange;

“**Delisting Event Period**” means the period commencing on the occurrence of the Delisting Event and ending 30 calendar days following the Delisting Event or, if later, 30 calendar days following the date on which a Delisting Event Notice as required by Condition 10(c) is given;

“**Delisting Event Put Date**” has the meaning provided in Condition 10(c);

“**Delisting Event Put Exercise Notice**” has the meaning provided in Condition 10(c);

“**Dividend**” means any dividend or distribution, whether of cash, assets or other property, and whenever paid or made and however described and shall include any distribution or repayment of capital, whether upon a reduction in the par value or nominal value of any Relevant Securities or otherwise, and howsoever described, (and a distribution of assets includes, without limitation, an issue of shares or other securities credited as fully or partly paid up) provided that:

- (a) where a cash Dividend is announced which is to be, or may at the election of a holder or holders of Relevant Securities be, satisfied by the issue or delivery of Relevant Securities or other property or assets, then the Dividend in question shall be treated as a Dividend of (i) the Fair Market Value on the date of announcement of such Dividend of the cash Dividend so announced (if and to the extent that the cash Dividend is received in respect of the Relevant Securities comprised in the Exchange Property); and/or (ii) the Fair Market Value on the date of announcement of such Dividend of such Relevant Securities or other property or assets to be issued or delivered in satisfaction of such Dividend (if and to the extent that such Relevant Securities or other property or assets are received in respect of the Relevant Securities comprised in the Exchange Property), the Issuer being entitled to make such election as it may see fit in respect of any such Dividend;
- (b) any issue of Relevant Securities falling within Condition 7(e)(i) or 7(e)(iii)(A) shall be disregarded;

(c) any offer of Relevant Securities or other securities or options, warrants or rights to subscribe or purchase further Relevant Securities (or any of them) or other securities falling within Condition 7(e)(ii) shall be disregarded; and

(d) a repurchase or redemption of Relevant Securities shall be disregarded;

“**Due Date**” has the meaning given to it in Condition 7(a)(ii);

“**Entitlement**” has the meaning set out in Condition 7(j);

“**Equivalent Amount**” has the meaning set out in Condition 7(b)(iii)(a);

“**Exchange Date**” has the meaning set out in Condition 7(b)(i);

“**Exchange Notice**” has the meaning set out in Condition 7(b)(i);

“**Exchange Period**” has the meaning set out in Condition 7(a)(ii);

“**Exchange Property**” has the meaning set out in Condition 7(d);

“**Exchange Right**” has the meaning set out in Condition 7(a)(i);

“**Extraordinary Resolution**” has the meaning given in the Trust Deed;

“**Fair Market Value**” means, with respect to any property on any date, the fair market value of that property as determined by an independent investment bank of international repute, acting as an expert, selected by the Issuer (following, in the case of Gedeon Richter Shares only, consultation with Gedeon Richter) and approved by the Trustee in writing; provided that (i) the fair market value of a cash Dividend paid or to be paid per Relevant Security shall be the amount of such cash Dividend per Relevant Security; (ii) where shares, options, warrants or other securities or rights are publicly traded in a market of adequate liquidity (as determined by such investment bank) the fair market value of such shares, options, warrants or other securities or rights shall equal the arithmetic mean of the daily volume weighted average price of such shares, options, warrants or other securities or rights during the period of 10 Trading Days on the relevant market commencing on the first such Trading Day such shares, options, warrants or other rights are publicly traded, or such shorter period as such shares, options, warrants or other securities or rights are publicly traded; and (iii) in each case converted into the currency in which the Relevant Securities are traded on the Relevant Exchange (in the case of Gedeon Richter Shares) or the principal stock exchange or securities market on which such Relevant Securities (if other than Gedeon Richter Shares) are then listed or quoted or dealt in (if expressed in a currency other than such currency) at the Screen Rate on such date (or, in the case of (ii), at the average of the Screen Rate on each Trading Day in the relevant period);

“**Final Date**” means, in relation to any Offer, the date such Offer becomes or is declared unconditional in all respects;

“**financial period**” means any annual financial period of the Relevant Company in respect of which audited financial statements are prepared, provided that if the Relevant Company shall change the date to which its financial statements are prepared, such modification shall be made in the operation of the definition of “**Capital Distribution**” as shall be determined to be reasonable and appropriate by an international investment bank of international repute selected by the Issuer and approved by the Trustee in writing;

“**Gedeon Richter**” means Gedeon Richter Plc;

“**Gedeon Richter Shares**” means registered ordinary shares of HUF 1,000 par value each in the capital of Gedeon Richter and all other (if any) shares or stock resulting from any sub-division, consolidation or

reclassification of those shares which, as between themselves, have no preference in respect of dividends or amounts payable in the event of any voluntary or involuntary liquidation or winding up of Gedeon Richter;

“**HUF**” means Hungarian Forints, the legal currency of Hungary;

“**Interest Payment Date**” has the meaning set out in Condition 6(a);

“**Interest Period**” has the meaning set out in Condition 6(a);

“**Issuer**” means Magyar Nemzeti Vagyonkezelő Zrt. (Hungarian State Holding Company) or, as the case may be, any entity substituted for the Issuer or any previous substitute pursuant to Condition 15(e);

“**KELER**” means the Central Clearing House and Depository Ltd., the Central Depository in Hungary;

“**Managed Portfolio**” means the assets which are defined in Section 22(6) of the State Property Act and managed and held by the Issuer (but owned by the Hungarian State) pursuant to the State Property Act;

“**Maturity Date**” means 25 September 2014;

“**Offer**” means an offer to the holders of any Relevant Securities comprising Exchange Property, whether expressed as a legal offer, an invitation to treat or in any other way, in circumstances where such offer is available to all holders of the applicable Relevant Securities or all or substantially all such holders other than any holder who is, or is connected with, or is deemed to be acting in concert with, the person making such offer or to whom, by reason of the laws of any territory or requirements of any recognised regulatory body or any stock exchange in any territory, it is determined not to make such an offer;

“**Offer Consideration**” has the meaning set out in Condition 8;

“**Person**” means any individual, company, corporation, firm, partnership, joint venture, association, organisation, state or agency of a state or other entity, whether or not having separate legal personality;

“**pro rata share**” means, for each Bond at any time, a fraction of the Exchange Property the numerator of which shall be the principal amount of such Bond and the denominator of which shall be the aggregate principal amount of all the Bonds (including the Bond to which the *pro rata* share relates) which are outstanding at such time (excluding for this purpose the principal amount of any Bonds in respect of which Exchange Rights have been exercised by a Bondholder but the Exchange Property has not yet been delivered and excluding from the Exchange Property such undelivered Exchange Property);

“**Realisation Proceeds**” means the proceeds of sale (after the deduction of costs and expenses of such sale) of the relevant Exchange Property (in the case of Condition 7(b)(ii)) or the relevant dividends or other income or distributions or rights (in the case of Condition 7(b)(iii)(b)) carried out by an independent broker or investment bank selected by the Issuer and approved by the Trustee in writing, on an arm’s length basis (converted if necessary into Euro at the Screen Rate on the date of receipt of such proceeds);

“**Record Date**” means the seventh Business Day (in the city of the Registrar’s specified office) before the due date for the relevant payment;

“**Reference Amount**” means:

- (i) in relation to a Gedeon Richter Share, 1.75 per cent. of the arithmetic average of the Volume Weighted Average Price of a Gedeon Richter Share on each Trading Day in the period of 120 consecutive Trading Days ending on the Trading Day immediately preceding the date of first public announcement of the relevant Dividend, provided that if on any such Trading Day the Volume Weighted Average Price shall have been based on a price cum-Dividend or cum-any other entitlement, the Volume Weighted Average Price of a Gedeon Richter Share on such Trading Day shall be deemed to be the

amount thereof reduced by an amount equal to the Fair Market Value of any such Dividend or other entitlement per Gedeon Richter Share as at the date of first public announcement of such Dividend; and

- (ii) in relation to any Relevant Security other than a Gedeon Richter Share, 1.75 per cent. of the arithmetic average of the Volume Weighted Average Price of such Relevant Security on each Trading Day in the period of 120 consecutive Trading Days ending on the Trading Day immediately preceding the date of first public announcement of the relevant Dividend, provided that if on any such Trading Day the Volume Weighted Average Price shall have been based on a price cum-Dividend or cum-any other entitlement, the Volume Weighted Average Price of such Relevant Security on such Trading Day shall be deemed to be the amount thereof reduced by an amount equal to the Fair Market Value of any such Dividend or other entitlement per such Relevant Security as at the date of first public announcement of such Dividend;

“Registered Securities” has the meaning set out in Condition 7(b)(ii)(3)(a);

“Registration Date” in respect of any Registered Securities means the date on which the relevant Bondholder is registered as the holder of such Registered Securities;

“Regulation S” has the meaning set out in Condition 7(b)(i);

“Relevant Company” means Gedeon Richter, and any corporation or company derived from or resulting or surviving from the merger, consolidation, amalgamation, reconstruction or acquisition of Gedeon Richter with, into or by such other corporation or company, and any other entity, all or part of the share capital of which is, or all or some of the securities of which are, at the relevant time included in the Exchange Property;

“Relevant Date” means whichever is the earlier of:

- (a) the day on which all sums due in respect of the Bonds up to that day are received by or on behalf of the relevant Bondholder; and
- (b) the day seven days after that on which notice is duly given to Bondholders that, upon surrender of the relative Certificate, such payment will be made, provided that payment is in fact made upon such surrender;

“Relevant Debt” means any present or future indebtedness in the form of, or represented by, bonds, notes, debentures, loan stock or other securities which are for the time being, or are capable of being, quoted, listed or ordinarily dealt in on any stock exchange, over-the-counter or other securities market;

“Relevant Event” has the meaning set out in Condition 7(e)(iii);

“Relevant Exchange” means the Budapest Stock Exchange or, if the Gedeon Richter Shares are no longer admitted to trading on the Budapest Stock Exchange, the principal stock exchange or securities market on which the Gedeon Richter Shares are traded or dealt in;

“Relevant Securities” means any securities of any Relevant Company which at the relevant time are included in the Exchange Property;

“Reserved Matters” has the meaning given in the Trust Deed;

“Rights Issue” has the meaning set out in Condition 7(e)(ii);

“Screen Rate” means, in respect of the conversion of one currency into another currency on any day, the rate of exchange between such currencies appearing on the relevant Reuters page as at 12 noon (London time) on that day, or, if that page is not available or that rate of exchange does not appear on that page at that time on

that day, the rate of exchange between such currencies appearing on such other screen or information service, or determined in such other manner, as the Issuer shall determine, with the approval of the Trustee in writing;

“**securities**” means shares or other securities (including without limitation any options, warrants, convertible bonds, evidence of indebtedness or rights to subscribe or purchase shares or other securities);

“**Security Interest**” means any lien, pledge, hypothecation, mortgage, security interest, charge or any other encumbrance, agreement or arrangement which has a similar legal and economic effect including, without limitation, anything analogous to any of the foregoing under the laws of any jurisdiction;

“**Settlement Date**” means in the case of the exercise of Exchange Rights (other than where a Cash Election is made) the Maturity Date or, in the case of an exchange following the Bonds being declared due and repayable pursuant to Condition 13, the date falling 20 Budapest Business Days after the relevant Exchange Date;

“**Stamp Taxes**” has the meaning set out in Condition 7(b)(i);

“**Sub-division, Consolidation or Redenomination**” has the meaning set out in Condition 7(e)(i);

“**TARGET System**” means the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET2) System or any successor thereto;

“**Trading Day**” means (i) in respect of Gedeon Richter Shares, a day (other than a Saturday or Sunday) on which the Relevant Exchange is open for business and (ii) in respect of any other Relevant Securities or any other securities or options, warrants or other rights, a day (other than a Saturday or Sunday) on which the stock exchange or other securities market on which such Relevant Securities or any other securities or options, warrants or other rights are principally traded is open for business;

“**Value**” of the Exchange Property on any day means the aggregate of:

- (i) the value of publicly traded securities included in the Exchange Property, which shall be deemed to be the Volume Weighted Average Price of such securities on such day (in the case of the Gedeon Richter Shares, as obtained or derived from the Relevant Exchange and, in the case of any other publicly traded securities, by reference to such stock exchange or other securities market on which such securities are principally traded), provided that if such day is not a day on which the Relevant Exchange or, as the case may be, such other stock exchange or other securities market is open for business or, if there is no such Volume Weighted Average Price, then the value of such publicly traded securities shall be the Volume Weighted Average Price on the immediately preceding such day, converted (if necessary) into Euro at the Screen Rate on such day; and
- (ii) the value of all other assets and of publicly traded securities for which a value cannot be determined pursuant to (i) above included in the Exchange Property, which shall be deemed to be the value on such day (converted (if necessary) into Euro as aforesaid) as certified by an independent investment bank (in the case of securities) or independent appraiser (in the case of other assets (other than cash)) of international repute (acting as an expert) selected by the Issuer and approved by the Trustee in writing; and
- (iii) the value of cash shall be deemed to be the amount thereof (converted (if necessary) into Euro as aforesaid),

provided that (A) if on any day any such publicly traded securities are quoted on the Relevant Exchange or, as the case may be, such stock exchange or other securities market as aforesaid *cum* any dividend or other entitlement, or any assets or publicly traded securities the value of which is to be determined pursuant to (ii) above have the benefit of, or are entitled to, or carry the right to, any dividend or other entitlement, in any such case which a Bondholder would not be entitled to pursuant to these Conditions on exercising Exchange

Rights on the last day permitted pursuant to these Conditions, then the value of any such assets or publicly traded securities on such day shall be reduced by an amount equal to the gross amount of any such dividend or other cash entitlement or, as the case may be, the value (as determined by an independent investment bank as aforesaid) of any entitlement or dividend where that is other than cash and (B) if on any day any such publicly traded securities are quoted on the Relevant Exchange or, as the case may be, such stock exchange or other securities market as aforesaid ex- any dividend or other entitlement, or any assets or publicly traded securities the value of which is to be determined pursuant to (ii) above do not have the benefit of, or are not entitled to, or do not carry the right to, any dividend or other entitlement, in any such case which a Bondholder would be entitled to pursuant to these Conditions on exercising Exchange Rights on the last day permitted pursuant to these Conditions, then the value of any such assets or publicly traded securities on such day shall be increased by an amount equal to the gross amount of any such dividend or other cash entitlement or, as the case may be, the value (as determined by an independent investment bank as aforesaid) of any entitlement or dividend where that is other than cash less the amount (if any) in respect of any such dividend, entitlement or, as the case may be, value to which the Bondholder is otherwise entitled pursuant to any other provision of these Conditions;

“Volume Weighted Average Price” means, in respect of any Trading Day, (i) in the case of Gedeon Richter Shares, the volume weighted average price of the Gedeon Richter Shares as obtained or derived from the Relevant Exchange (or, if no such volume weighted average price can be so obtained or derived from the Relevant Exchange, as published on the relevant Bloomberg page) on that Trading Day or if no transaction in respect of the Gedeon Richter Shares takes place on that Trading Day, the average of the closing bid and offer prices on that day in respect of the Gedeon Richter Shares as derived from the Relevant Exchange, and (ii) in the case of any other Relevant Security, the volume weighted average price as obtained or derived from such stock exchange or other securities market on which such Relevant Security is principally traded on that Trading Day or if no transaction in respect of the Relevant Security takes place on that Trading Day, the average of the closing bid and offer prices on that day in respect of the Relevant Security as derived from such stock exchange or other securities market.

SUMMARY OF PROVISIONS RELATING TO THE BONDS IN GLOBAL FORM

The Bonds will upon issue be represented by a Global Bond in registered form, deposited with, and registered in the name of, a common depositary for Euroclear and Clearstream, Luxembourg. Interests in the Global Bond will be exchangeable for definitive Bonds in registered form only in the limited circumstances described below.

The Global Bond will contain provisions which apply to the Bonds while they are in global form, some of which modify the effect of the Conditions set out in this document. The following is a summary of certain of these provisions. Capitalised terms used in this section and not otherwise defined have the meanings given to them in the Conditions.

1 Exchange

The Global Bond will be exchangeable (free of charge to the holder and the Bondholders) in whole, but not in part, for the definitive certificates representing the Bonds described below if, but only if the Global Bond is held on behalf of Clearstream, Luxembourg and/or Euroclear and either such clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so and no alternative clearing system satisfactory to the Trustee is available.

On or after the Bond Exchange Date (as defined below), the Issuer will deliver, or procure the delivery of, an equal aggregate principal amount of duly executed and authenticated certificates in registered form, printed in accordance with any applicable legal and stock exchange requirements and in or substantially in the form set out in the Trust Deed. On exchange of the Global Bond, the Issuer will, if the holder of the Global Bond so requests, procure that it is cancelled and returned to the holder together with any relevant certificates.

“**Bond Exchange Date**” means a day falling not less than 40 days after that on which the notice requiring exchange is given by the holder of the Global Bond to the Trustee, the Bondholders and the Principal Paying, Transfer and Exchange Agent and on which banks are open for business in the city in which the specified office of the Principal Paying, Transfer and Exchange Agent is located.

2 Exchange Rights

Exchange Rights in respect of Bonds represented by the Global Bond are exercisable by presentation of the Global Bond to or to the order of the Principal Paying, Transfer and Exchange Agent for notation of exercise of the Exchange Rights together with one or more duly completed exchange notices, each including a non-U.S. certification, (which notices may be in electronic form and given in accordance with the rules and procedures of the relevant clearing system) (and an appropriate entry will be made in the register maintained in respect of the Bonds). Delivery of the exchange notice will constitute confirmation by the beneficial owner of the Bonds to be exchanged that the information and the representations in the exchange notice are true and accurate on the date of delivery.

3 Redemption, Purchase and Cancellation

Cancellation of any Bond represented by the Global Bond which is to be cancelled following its redemption or purchase or exchange will be effected by (i) reduction in the principal amount of the Global Bond and (ii) an appropriate entry in the register maintained in respect of the Bonds by or on behalf of the Principal Paying, Transfer and Exchange Agent.

4 Notices

So long as all the Bonds are represented by the Global Bond, and such Global Bond is held on behalf of Clearstream, Luxembourg and/or Euroclear, notices to Bondholders may be given by delivery of the relevant notice to Clearstream, Luxembourg and/or Euroclear for communication by them to entitled accountholders in substitution for notification as required by the Conditions; except that so long as the Bonds are listed on the Euro MTF Market of the Luxembourg Stock Exchange and the rules of the Luxembourg Stock Exchange so require, notices shall also be published in a leading national daily newspaper having general circulation in Luxembourg (which is expected to be the *Luxemburger Wort*) and/or on the website of the Luxembourg Stock Exchange (www.bourse.lu). Any such notice shall be deemed to have been given on the day the same has been delivered to the relevant clearing systems.

5 Prescription

Claims against the Issuer in respect of the principal amount of or interest on the Bonds while the Bonds are represented by the Global Bond will become void unless it is presented for payment within a period of 10 years (in the case of principal) and five years (in the case of interest) from the appropriate Relevant Date.

6 Trustee's Powers

In considering the interests of Bondholders in circumstances where the Global Bond is held on behalf of Euroclear and/or Clearstream, Luxembourg, the Trustee may, to the extent it considers it appropriate to do so in the circumstances, have regard to such information as may have been made available to it by or on behalf of the relevant clearing system or its operator as to the identity of its accountholders (either individually or by way of category) with entitlements in respect of the Bonds represented by the Global Bond and may consider such interests as if such accountholders were the holders of the Bonds represented by the Global Bond.

7 Clearing Systems

Any reference herein to Clearstream, Luxembourg and/or Euroclear shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system approved by the Issuer, the Principal Paying, Transfer and Exchange Agent and the Trustee.

8 Meetings

The holder of the Global Bond will be treated as having one vote in respect of each Euro 100,000 in principal amount of Bonds for which such Global Bond may be exchanged at any meeting of Bondholders.

DESCRIPTION OF THE STATUTORY GUARANTEE

General

According to Section 22(2) of Act CVI of 2007 on State property (the “**State Property Act**”), all monetary obligations of the Issuer are “guaranteed” (*helytállás*) by the Hungarian State (the “**Statutory Guarantee**”) if neither the annual proceeds nor the Issuer’s annual budgetary prescriptions (expense limits) would cover such obligations.

These are payment obligations arising out of (i) liability for damages, (ii) compensation, (iii) indemnification and (iv) any contractual obligations relating to the utilisation of the assets entrusted to the Issuer. For the avoidance of doubt, the performance of non-monetary obligations is not guaranteed by the Statutory Guarantee.

Legal nature of the Statutory Guarantee

Although the wording of the State Property Act is not free from doubt in the context of other State guarantees provided by law, the better view is that the above mentioned Section, in particular the word “*helytállás*”, should be interpreted as providing an “indirect or simple guarantee” as regulated by Section 274(1) of Act IV of 1959 on the Civil Code for the above mentioned obligations of the Issuer.

An indirect or simple guarantee is a secondary liability of the guarantor which only arises where the obligation can not be enforced against the primary obligor. A simple or indirect “guarantee” gives unlimited recourse to the guarantor. However, an indirect or simple “guarantee” is different from a direct or first demand guarantee from a procedural point of view.

It should be noted that the Statutory Guarantee differs from an on demand guarantee under English law. The Hungarian State as guarantor is not bound to perform the Issuer’s payment obligations unless the Trustee, acting on behalf of the Bondholders, has already sought to collect the debt from the Issuer as principal debtor in accordance with the procedural rules set out below. The performance of non-monetary obligations is also not guaranteed by the Statutory Guarantee. In the event of a failure by the Issuer to comply with its delivery obligations upon an exercise of Exchange Rights, the Trustee will be required to call an Event of Default under the Bonds, thus crystallising a monetary claim against the Issuer, and then seek to collect the resultant debt from the Issuer in accordance with the procedural rules set out below, before seeking to enforce the Statutory Guarantee.

Procedural rules

In accordance with Government Regulation 110/2006. (V. 5.) on guarantees undertaken by the State (the “**Regulation**”) in order to claim under the Statutory Guarantee the Trustee should take all steps against the Issuer provided by the Trust Deed to enforce the fulfilment of the Issuer’s payment obligation. If these steps should fail to be effective, the Trustee, acting on behalf of the Bondholders, shall require the issuance of a payment order (*fizetési meghagyás*) to the Issuer from the competent court prior to the guarantee claim *vis-à-vis* the Hungarian State. Pursuant to Section 8/A of the Regulation, the Trustee may enforce the Statutory Guarantee following such payment order becoming legally final or, in case of a claim against the payment order by the principal debtor, i.e. the Issuer, the related court decision becoming legally final.

If the Trustee, acting on behalf of the Bondholders, both fails to comply with the above procedural formalities and does not act in the manner which would generally be expected of it (*felróhatóan*), the Hungarian State as guarantor shall not be liable for any losses arising from this failure.

USE OF PROCEEDS

The net proceeds from the issue of the Bonds, which are expected to amount to approximately Euro 830.74 million after deduction of commissions and expenses, will be used in part to refinance the exchangeable bonds issued by the Issuer's predecessor (Ápv Zrt.) in 2004, with the surplus paid into the State budget for general financing purposes of the State budget in accordance with the objectives of the Hungarian Government.

THE ISSUER

The Issuer is a company limited by shares registered under the laws of Hungary (court registration number: Cg. 01-10-045784; registered address: 1133 Budapest, Pozsonyi út 56). The Issuer's issued share capital is HUF 50,000,000, consisting of one registered and non-negotiable share owned by the Hungarian State. The Issuer was established on 20 November 2007 pursuant to Act CVI of 2007 on State Property (the "**State Property Act**"). Pursuant to the State Property Act the Issuer is the successor to the operations of the Hungarian Privatisation and State Holding Company (ÁPV Zrt. ("**ÁPV**")) that ceased to exist as of 31 December 2007 and two other former State asset manager entities, the Treasury Asset Directorate (KVI) and the Organisation for the Management of National Land Reserves (NFA). The Issuer manages assets – companies and stakes in companies, financial investments, real estate and agricultural land – previously managed by the aforementioned three entities as part of the Managed Portfolio. The Issuer has been established for an indefinite period and may only be dissolved by an Act adopted by the Hungarian Parliament. The Issuer may not change its legal status, demerge into separate legal entities or merge with another company.

The shareholders' rights, save for (i) dissolution of the Issuer, which falls under the powers of the Hungarian Parliament, (ii) amendment to the Statutes of the Issuer, which falls under the powers of the Government and (iii) the right to appoint members of the management and supervisory bodies (namely the National Holding Board and Supervisory Board), are exercised by the minister responsible for supervising State property, who currently is the Minister of Finance. The organisational framework and rules as well as duties of the Issuer are governed primarily by the State Property Act, the yearly State budget acts of the Republic of Hungary, the resolutions of the Government and the Ministry of Finance, the Statutes as well as the organisational and operational by-laws of the Issuer. The operation of the Issuer is subject to Act IV of 2006 on Business Associations to the extent that the State Property Act does not otherwise govern the specific matter.

Organisation of the Issuer

The organisation of the Issuer is governed by the State Property Act. The Issuer is controlled by the National Holding Board (the "**Board**") which acts under the authority of the board of directors. The Board was established for the purpose of exercising ownership rights in respect of State property pursuant to the State Property Act and exercising rights related to the operation of the Issuer as provided by the State Property Act. The Board consists of seven members who are appointed by the President of the Republic based on nominations of the Prime Minister for a term of six years. The current members of the Board are:

Name	Position
Dr. János Nagy	Chairman
Imre Baranyi	Member
László Detrekői	Member
Tamás Erdei	Member
Miklós Kamarás	Member
Dr. József Roóz	Member
Miklós Tátrai	Member

The operation of the Issuer and the Board is supervised by the Supervisory Board ("**SB**"), consisting of a maximum of eleven members. The SB currently has 11 members. The chairman of the SB is appointed by the

Prime Minister based on a nomination of the Chairman of the State Audit Office. Other members of the SB are also appointed by the Prime Minister. The Chairman and other members of the SB are appointed for a term of five years and their appointment may be revoked at any time. Each political party represented in the Hungarian Parliament may nominate one member of the SB, and representatives of the employers and employees of the National Council for the Reconciliation of Interests may also nominate one member of the SB. Further members are delegated by the Government, who are appointed by the Prime Minister based on nominations by the minister responsible for the supervision of State property. The current members of the SB are as follows:

Name	Position
Dr. Attila Borbély	Chairman
Dr. András Bognár	Member
Rezső Gál	Member
Dr. Tibor Halasi	Member
Dr. István Harcsár	Member
István Kertész	Member
Dr. József Mészáros	Member
Dr. Péter Mihályi	Member
Zoltán Ságghy	Member
Dr. Zoltán Szőke Zs.	Member
Éva Egedi dr. Jánosné Kovács	Member

The operation of the Issuer is managed by the chief executive officer who shares his duties with deputy chief executive officers. The chief executive officer and, based on his nominations, his deputies are appointed and may have their appointment revoked by the Minister of Finance. Employers' rights in respect of the chief executive officer are otherwise exercised by the Board. The chief executive officer as statutory representative is entitled to represent the interests of the Issuer against third parties. The current chief executive officer is Miklós Kamarás. Day-to-day operations are carried out by professional directorates and offices organised according to the Issuer's main operations and managed by the deputy chief executive officers or directly by the chief executive officer (including areas managed by the deputy chief executive officer responsible for the agricultural portfolio, real estate portfolio and corporate portfolio as well as areas managed by the chief director responsible for human resources policies and co-ordination).

The annual report prepared for the year ended 31 December 2008, the first operating year of MNV, was audited by Ernst & Young Audit Limited Liability Company (1132 Budapest, Váci út 20.). The financial statements for the years ended 31 December 2007 of the predecessor of the Issuer (ÁPV), were also audited by Ernst & Young Audit Limited Liability Company. The financial statements of both MNV and ÁPV are prepared in accordance with Hungarian Act C of 2000 on Accounting.

The operations of the Issuer are audited by the State Audit Office on a yearly basis. (See "Assets managed by the Issuer".)

Duties and activities of the Issuer

Pursuant to Section 2 of the State Property Act, the purpose of exercising ownership rights and asset management is to preserve State-owned property and to ensure effective management and operation of State-owned property with a view to preserving and increasing the value of national assets or selling certain assets. Pursuant to Section 17 of the State Property Act, the Issuer prepares and executes decisions of the Board related to State property, maintains the register of State-owned property, utilises State-owned property entrusted to the Board, supervises the operations of persons performing management of State-owned property on a contractual basis, represents the Hungarian State in civil legal relationships related to State-owned property and monitors the fulfilment of purchaser's duties undertaken in sale-purchase agreements.

Assets managed by the Issuer

The assets managed by the Issuer comprise: (i) the Managed Portfolio; and (ii) the Issuer's own assets.

The Managed Portfolio falling under the Board's control comprises State-owned assets defined in Section 1(2) of the State Property Act which, according to their purpose, are either treasury assets or business assets. Treasury assets comprise assets that are non-negotiable or subject to limits on negotiability pursuant to relevant legislation and which are in the exclusive ownership of the Hungarian State, including shares permanently held by the Hungarian State in certain companies as listed in the schedule of the State Property Act. Business assets may comprise only negotiable State-owned assets. The Managed Portfolio consists of companies under State ownership, shares, purchased, assumed or transferred assets, agricultural land and other real estate, financial assets, receivables and other obligations. The State Budget includes the revenue and expenditures of the Managed Portfolio as a separate section every year, which should be approved by the Parliament. The asset management plan of the Managed Portfolio, which is prepared based on the data of the State Budget and is substantially very similar to a business plan, includes the revenue and expenditures in detail. Certain extraordinary expenditures related to prior periods, like payment for litigation, may be exceeded. This plan will be sent to the Minister of Finance for approval. State assets (real estate, agricultural land and investments in enterprises) which are managed by the Issuer not as owner but as asset manager on behalf of the Hungarian State, are included in the financial statements of the Managed Portfolio. The format and the content of the financial statements of the Managed Portfolio are subject to special legal provisions. Consequently, the financial statements of the Managed Portfolio differ from the consolidated financial statements of a typical holding company as the Issuer may not act as a full legal and beneficial owner of the assets in the Managed Portfolio. The financial statements of the Managed Portfolio must also be audited by an independent auditor and approved by the competent bodies, but there is no requirement for submission of the audited financial statements to the Court of Registration.

The State-owned Managed Portfolio, and the proceeds and expenses arising from the sale and utilisation thereof, are kept separately from the Issuer's own assets in accordance with Section 22(6) of the State Property Act. Any claims asserted against the Issuer may be settled only from the Issuer's own assets. The Managed Portfolio is owned by the Hungarian State and, consequently, assets forming part of the Managed Portfolio may not be used for the settlement of claims against the Issuer. However, pursuant to Article 22(2) of the State Property Act, if the annual revenues or the expense account of the Issuer are insufficient to cover its liability for damages, compensation or indemnification, or for the fulfilment of any contractual obligations relating to the utilisation of the Managed Portfolio, the State shall guarantee the fulfilment of all such liabilities and obligations.

The Issuer's own assets mainly comprise tangible assets necessary for the operation of the Issuer. In the course of preparing the State Budget the amount that may be used for the operating expenses of the Issuer is also determined, which represents the income of the own assets' financial statements. The approved amount of the operating expenses is transferred in equal monthly arrears to the Issuer, and an ordinary business plan is required to be prepared for its allocation. When a significant amount of an extraordinary payment for special

purposes is needed, the Hungarian State provides it on the basis of an individual permit. The Issuer is not allowed to pursue financial or treasury activities, keep bank accounts at commercial banks (other than a bank account for employee loans), grant or use commercial loans or trade in securities. According to the nature of its operations, liquidity problems or bankruptcy may occur only if the Hungarian State faces equivalent problems. Consequently, the monitoring and analysis of financial ratios used for commercial entities, e.g. indebtedness and leverage, is not necessary in respect of the Issuer.

Financial statements in respect of the own assets include the profit of the operation and assets, equity and liabilities of the Issuer. These financial statements are audited by the same independent auditor as the financial statements of the Managed Portfolio and in addition must be submitted to the competent Court of Registration.

CAPITALISATION OF THE ISSUER

The following table sets out the capitalisation and indebtedness of the Issuer as at 31 December 2008. As described in the notes to the table, the table is not adjusted to reflect the issue of the Bonds. The following data should be read in conjunction with the own assets financial statements of the Issuer (which, for the avoidance of doubt, exclude the Managed Portfolio) incorporated by reference in this Offering Circular:

	31 December 2008 <i>(HUF thousands)</i>
Authorised, Issued and Paid-up Share Capital ⁽¹⁾	50,000
Share premium	2,561,689
Retained earnings.....	-2,621
Provisions.....	52,359
Long Term Liabilities ⁽²⁾	0
Short Term Liabilities:	
Advances received.....	60,000
Accounts Payable	112,563
Short term liabilities to Associated enterprises	0
Other short term liabilities.....	3,424,269
Total short term liabilities.....	3,596,832
Total liabilities	<u>3,596,832</u>

Notes:

- (1) Consists of one registered and non-negotiable share owned by the Hungarian State.
- (2) Not adjusted for the issue of the Bonds. The Bonds constitute direct, unconditional, unsubordinated and unsecured obligations of the Issuer. In the event of the occurrence of an Event of Default, the Bondholders would have recourse to the assets of the Issuer held for its own account. The Bondholders would not have recourse to the assets held by the Issuer on behalf of the Hungarian State pursuant to the State Property Act (including the Gedeon Richter Shares or any cashflows derived therefrom). As a matter of accounting, the State Property Act provides for the Issuer to maintain two sets of accounts: its "own accounts" and the "Managed Portfolio" accounts; the two accounts are not consolidated. The own accounts record the operating results of the Issuer as a company and include its operating expenses (such as labour costs, utility bills and rental charges) and operating assets (such as office equipment, receivables and liquid cash). The Managed Portfolio accounts record transactions of the Issuer related to State assets held by the Issuer on behalf of the Hungarian State pursuant to the State Property Act and include the Issuer's beneficial ownership of business assets and treasury assets, revenues and expenses and assets and liabilities received or incurred in relation to portfolio management and liabilities due to the Hungarian State. In terms of cashflow, revenue generated from the exercising of ownership rights that is substantially from portfolio management (and therefore recorded in the Managed Portfolio accounts) may be used to preserve, increase and utilise the value of the Managed Portfolio.

The Gedeon Richter Shares constitute part of the Managed Portfolio and dividends paid on such Gedeon Richter Shares represent part of the income of the Managed Portfolio. Consequently, the Gedeon Richter Shares appear as assets in the Managed Portfolio accounts and dividends on the Gedeon Richter Shares are recorded as income in the Managed Portfolio accounts and may be used to fund interest payments under the Bonds. Provided the Issuer does not exercise the right of Cash Election, on exchange of the Bonds, the Gedeon Richter Shares will be delivered to the Bondholders without passing through the own accounts. As a result, the State Property Act provides that the issue of the Bonds and the resulting liability appear as a liability on the Managed Portfolio balance sheet rather than on the own account balance sheet, even though in the case of an Event of Default, the legal liability in respect of the Bonds is enforceable against the own account balance sheet assets only.

Accordingly, the issue of the Bonds does not result in an adjustment to the capitalisation or indebtedness of the Issuer on an own account basis, because the issue of the Bonds is treated for accounting purposes within the Managed Portfolio accounts as a transaction related to the Managed Portfolio (and the same treatment applies to the €639,000,000 1.00 per cent. Exchangeable Bonds issued by the Issuer's predecessor (Ápv Zrt.) in 2004, which are due to mature on 28 September 2009). However, given that the recourse of the Bondholders is solely to the own asset balance sheet assets of the Issuer, the capitalisation and indebtedness table above is derived from financial statements of the Issuer as at and for the period ended 31 December 2008 prepared on an own account basis and is not adjusted for the issue of the Bonds.

There has been no material change in the capitalisation of the Issuer since 31 December 2008.

SUMMARY FINANCIAL INFORMATION RELATING TO THE ISSUER

The following summary financial information relating to the Issuer (both in its current legal form, namely MNV, and in the form of its predecessor, namely ÁPV) as at and for the years ended 31 December 2007 (being financial statements of own assets of the Issuer in its then legal form, namely ÁPV) and 31 December 2008 (being financial statements of own assets of the Issuer in its current legal form, namely MNV) has been extracted or derived from, and is qualified by reference to and should be read in conjunction with, the own asset financial statements of the Issuer (in the form described above). The data below relates only to the own assets of the Issuer (in the form described above). Although the MNV was legally formed and registered in November 2007, with financial statements prepared for the period from its date of incorporation to 31 December 2007, ÁPV figures are used for purposes of comparison in the tables below as the MNV only began its operations with effect from 1 January 2008. As such, the financial statements of MNV for the period from its date of incorporation to 31 December 2007 relate exclusively to items pertaining to its foundation such as issued capital and certain costs.

In accordance with the State Property Act, the majority of the own assets of ÁPV had been transferred to MNV as at 1 January 2008 and the MNV began its activity using many of the resources (headquarters, equipment etc.) of ÁPV. Therefore the amount and composition of fixed assets of MNV did not change significantly to those of ÁPV. The simultaneous increase in current assets and total assets was primarily due to the change of cash position as a result of the efficient operation of the MNV. The change in equity structure was in accordance with the detailed requirements of the accounting decree issued for the accounting and reporting system of the MNV.

In 2007, net domestic sales include the monthly transfers received from the central operating budget of the ÁPV. In 2008, due to a change in accounting policies, such transfers are included in other income in MNV's income statement. The total amount of monthly transfers are HUF 5.4 billion and HUF 10.2 billion for the full financial years ended 31 December 2007 and 31 December 2008, respectively. The significant increase in such transfers is in line with the increase in size of operations due to joining two other asset manager entities, MNV and ÁPV, as described above. The increase in most types of expenses is also explained by the change in structure of the relevant company. However, the increase in expenses has not extended to a change in income, which reflects the efficiency of restructuring of the state asset management system based on the experiences of the first year.

See page 59 *et seq.* for a description of the Issuer, both in its current legal form and in the form of its predecessor, ÁPV.

BALANCE SHEET

		ÁPV	MNV
No.	Description of Items	2007	2008
(HUF thousands)			
01.	A. FIXED ASSETS AND FINANCIAL INVESTMENTS (rows 02.+09.+16.)	2,894,820	2,882,139
02.	I. INTANGIBLE ASSETS (rows 03.-08.)	43,107	107,694
03.	Capitalised costs of foundation and restructuring		
04.	Rights of property value	43,107	107,694
05.	Intellectual products		

		ÁPV	MNV
No.	Description of Items	2007	2008
(HUF thousands)			
06.	Goodwill		
07.	Advance payment on intangible assets		
08.	Value adjustment of intangible assets		
09.	II. TANGIBLE ASSETS (rows 10.-15.)	2,562,189	2,752,153
10.	Land and buildings and related rights representing money	2,338,281	2,352,516
11.	Technical equipment, machinery and vehicles		
12.	Other equipment, fittings and vehicles	213,379	368,042
13.	Construction-in-progress, renovation	10,029	31,595
14.	Prepayments on construction-in-progress	500	
15.	Value adjustment of tangible assets		
16.	III. FINANCIAL INVESTMENTS (rows 17.-22.)	289,524	22,292
17.	Long-term investments in associated enterprises	167,550	
18.	Long-term loans to associated enterprises		
19.	Other long-term investments		
20.	Other long-term loans	121,974	22,292
21.	Securities representing a long-term creditor relationship		
22.	Value adjustment of financial investments		
23.	B. CURRENT ASSETS (rows 24.+31.+37.+42.)	454,816	3,531,819
24.	I. INVENTORIES (rows 25.-30.)	206	0
25.	Raw materials		0
26.	Work in progress and semi-finished goods		0
27.	Animals for breeding and fattening and other livestock		0
28.	Finished products		0
29.	Purchased goods	206	0
30.	Advances given on inventories	0	0
31.	II. RECEIVABLES (rows 32.-36.)	376,957	655,308
32.	Accounts receivable	67,798	45,962
33.	Accounts receivables from associated enterprises	930	
34.	Accounts receivables from other associated enterprises		
35.	Bills receivable		
36.	Other receivables	308,229	609,346
37.	III. SECURITIES (rows.38.-41.)	0	0
38.	Shares and participations in associated enterprises		
39.	Other shares and participations		

		ÁPV	MNV
No.	Description of Items	2007	2008
(HUF thousands)			
40.	Own shares, quotas		
41.	Securities representing a creditor relationship for trading purposes		
42.	IV. LIQUID ASSETS (rows 43.-44.)	77,653	2,876,511
43.	Cash and cheques	0	1,168
44.	Bank deposits	77,653	2,875,343
45.	C. PREPAYMENTS (rows 46.-48.)	0	11,701
46.	Accrued income		4,058
47.	Deferred expenses		7,643
48.	Other deferred expenses		
49.	TOTAL ASSETS (rows 01.+23.+45.)	3,349,636	6,425,659
50.	D. EQUITY (rows 51.+53.+54.+55.+56.+57.+58.)	3,140,917	2,609,068
51.	I. Issued capital	9,698,000	50,000
52.	From row 51.: a) repurchased own shares at face value		
53.	II. Issued unpaid capital (-)		
54.	III. Share premium	346,715	2,561,689
55.	IV. Retained earnings	1,712,630	-2,621
56.	V. Tied-up reserve		
57.	VI. Revaluation reserve		
58.	VII. Balance sheet net profit (loss)	-8,616,428	0
59.	E. PROVISIONS (rows 60.-62.)	0	52,359
60.	Provision for expected obligations	0	52,359
61.	Provisions for expected expenses		
62.	Other provisions		
63.	F. LIABILITIES (rows 64.+68.+77.)	208,719	3,596,832
64.	I. SUBORDINATED LIABILITIES (rows 65.-67.)	0	0
65.	Subordinated liabilities to associated enterprises		
66.	Subordinated liabilities to other related enterprises		
67.	Subordinated liabilities to other enterprises		
68.	II. LONG-TERM LIABILITIES (rows 69.-76.)	0	0
69.	Long-term loans		
70.	Convertible bonds		
71.	Debts on the issue of bonds		
72.	Investment and development loans		

No.	Description of Items	ÁPV	MNV
		2007	2008
		<i>(HUF thousands)</i>	
73.	Other long-term bank loans		
74.	Long-term liabilities to associated enterprises		
75.	Long-term liabilities to other associated enterprises		
76.	Other long-term liabilities		
77.	III. SHORT-TERM LIABILITIES (rows 78.-86.)	208,719	3,596,832
78.	Short-term debt		
79.	of which: convertible bonds		
80.	Short-term bank loans		
81.	Advances received	165,000	60,000
82.	Accounts payable	7	112,563
83.	Bills payable		
84.	Short-term liabilities to associated enterprises	0	
85.	Short-term liabilities to other associated enterprises		
86.	Other short-terms liabilities	43,712	3,424,269
87.	D. ACCRUED EXPENSES (rows 88.-90.)	0	167,400
88.	Deferred income	0	
89.	Accrued expenses	0	167,400
90.	Other deferred income		
91.	TOTAL EQUITY AND LIABILITIES (rows 50.+59.+63.+87.)	3,349,636	6,425,659

PROFIT AND LOSS STATEMENT

No.	Description of Items	2007	2008
		<i>(HUF thousands)</i>	
01.	Net domestic sales	5,882,826	391,412
02.	Net export sales		
I.	Net sales income (01.+02.)	5,882,826	391,412
03.	Portfolio changes in own production inventories		
04.	Capitalised value of own performance assets		
II.	Value of own performance capitalised (+/-03.+04.)		
III.	Other income	263,297	10,174,385
	of which: loss of value		
05.	Cost of raw materials	145,640	292,852
06.	Material type services consumed	1,637,098	2,256,557
07.	Value of other services	21,479	39,340
08.	Cost of goods sold	0	
09.	Value of services sold (mediated)	9,686	8,671
IV.	Material type costs (05.+06.+07.+08.+09.)	1,813,903	2,597,420
10.	Wages and salaries	1,983,071	3,101,001
11.	Other staff emoluments	658,691	653,002
12.	Salary related fees	793,746	1,136,967
V.	Staff costs (10.+11.+12.)	3,435,508	4,890,970
VI.	Depreciation	266,968	248,809
VII.	Other expenses	38,400	667,679
	of which: loss of value	0	121,254
A.	INCOME FROM OPERATIONS (I.+/-II.+III.-IV.-V.-VI.-VII.)	591,344	2,160,919
13.	Received dividends, participations	8,500	
	of which: received from associated enterprises	8,500	
14.	Exchange gain of loss of value of investments		
	of which: received from associated enterprises		
15.	Interests, exchange gain of financial investments		
	of which: received from associated enterprises		
16.	Interest received and interest type income	187	24
	of which: received from associated enterprises		
17.	Other income from financial transactions	0	1
VIII.	Income from financial transactions (13.+14._15.+16.+17.)	8,687	25

PROFIT AND LOSS STATEMENT

No.	Description of Items	2007	2008
		<i>(HUF thousands)</i>	
18.	Exchange loss of financial investments of which: given to associated enterprises		
19.	Payable interest and interest-type costs of which: given to associated enterprises		
20.	Loss of value of investments, securities, bank deposits		
21.	Other costs of financial transactions	1	18
IX.	Expenses on financial transactions (18.+19.+/-20.+21.)	1	18
B.	PROFIT ON FINANCIAL TRANSACTIONS (VIII.+IX.)	8,686	7
C.	PROFIT ON ORDINARY ACTIVITIES (A.+B.)	600,030	2,160,926
X.	Extraordinary income	5,609	134,227
XI.	Extraordinary expense	9,222,067	500
D.	EXTRAORDINARY PROFIT (X.-XI.)	-9,216,458	133,727
E.	PRE=TAX PROFIT (C.+D.)	-8,616,428	2,294,653
XII.	Tax liability		
F.	AFTER TAX PROFIT (E.-XII.)	-8,616,428	2,294,653
22.	Requisition of retained earnings for dividends, participations		
23.	Dividends, participations paid (approved)		2,294,653
G.	NET PROFIT PER BALANCE SHEET (F.+18.-19.)	-8,616,428	0

DESCRIPTION OF THE REPUBLIC OF HUNGARY

Overview

General

The Republic of Hungary (the “**Republic**” or “**Hungary**”) lies in Central Europe and covers an area of approximately 93,000 square kilometres. Hungary is bordered by seven countries: Slovakia and the Ukraine to the north, Romania to the east, Serbia and Croatia to the south and Slovenia and Austria to the west. The Danube River crosses Hungary, connecting the country with ports on the Black Sea. Hungary has historically been a nexus of social and cultural life and a trade link between Eastern and Western Europe. Hungary’s capital is Budapest.

Population

The population of Hungary was approximately 10.0 million as at 1 January 2009. Approximately 66 per cent. of the people live in urban areas and approximately 1.7 million live in Budapest, which is the political, administrative, cultural and commercial centre of Hungary. While over 97 per cent. of the population is Magyar, there are, among others, minorities of Croat, German, Roma, Romanian, Serb and Slovak ethnicity.

Political System

Transformation and New Constitution

Immediately after World War II, Hungary was governed by a “grand coalition” of Hungarian political parties. By 1948, however, all non-communist parties had been abolished with the support of the Soviet Union. The Hungarian Socialist Workers Party dominated all facets of government until 1990.

During the late 1980s, the political system in Hungary changed dramatically. On 23 October 1989, Hungary was proclaimed a republic, and to signify the country’s change in status to a free democratic state, Hungary’s name was changed from the “Hungarian People’s Republic” to the “Republic of Hungary”. Also in 1989, the constitution was substantially amended to its current form. Under this new constitution, Hungary instituted a multi-party democratic government, making it one of the first formerly communist countries in Central and Eastern Europe to undertake democratic reforms. Non-communist political parties were established in 1989 and in 1990 the first multi-party elections in the country since 1947 took place.

President

The President of the Republic is the head of State, elected by Parliament for a term of five years. The President may, but need not, be elected from the members of Parliament (but cannot be both President and member of Parliament at the same time). The President may only be re-elected once. The current President is Mr. László Sólyom, who was elected in June 2005. The next presidential election is expected to be held in 2010. The President’s authority is limited. Most of the actions taken by the President require the countersignature of the Prime Minister or the appropriate minister. The powers of the President include:

- representing the nation as head of State;
- concluding international treaties and agreements on behalf of the Republic. Agreements that are legislative in character require the prior consent of Parliament;
- safeguarding the democratic operation of the political process;
- acting as commander-in-chief of the armed forces;
- setting the date for Parliamentary and local elections;

- initiating certain measures in Parliament;
- initiating referenda;
- appointing and removing, among others, the President and Vice-Presidents of the National Bank of Hungary (the “NBH”); and
- granting pardons.

Government

The government of Hungary consists of the Prime Minister and other ministers forming the Cabinet (currently 15 ministers). The Prime Minister and the government’s programme are approved by a simple majority vote of Parliament. The Hungarian Socialist Party members of the Cabinet handed in a constructive no-confidence provision to replace the cabinet led by Mr. Ferenc Gyurcsány by a cabinet led by Mr. Gordon Bajnai on 7 April 2009. The constructive no-confidence provision was approved by a simple majority of the Parliament. The new Prime Minister was sworn in on 14 April 2009. On 16 April 2009 the current minority government led by Mr. Gordon Bajnai was sworn in. The ministers are proposed by the Prime Minister and appointed and removed by the President. The government is charged with the executive function of the Republic and proposing legislation to Parliament.

Parliament

The single chamber Hungarian Parliament is the country’s supreme legislative body. The Parliament elects the President, the Prime Minister, the members of the Constitutional Court, the President and Vice-Presidents of the State Audit Office, the President of the Supreme Court and the Attorney General.

Parliament is elected by popular vote for four year terms. Elections are held using a combination of individual constituency voting (the candidate receiving the most votes in a particular district being elected from that district) and proportional voting (parties receiving at least five per cent. of the popular vote proportionally dividing a set number of seats). Parliamentary elections were held most recently in April 2006.

Judiciary

The Hungarian judiciary consists of the Supreme Court, the county courts, the Metropolitan Court of Budapest and the local and labour courts. Legislation may provide for special courts to be convened for certain types of cases. Three Courts of Appeal located in Budapest, Pécs and Szeged were established with regional jurisdiction from 1 July 2003 and began operating at that time. Two further Courts of Appeal were established in July 2004 and began operation on 1 January 2005. The Supreme Court sets guidelines for the judicial process of every court. Resolutions concerning uniformity are binding on all courts. Judges are independent and are subordinate only to the law. Local courts have original jurisdiction. The Courts of Appeal, the county courts and the Metropolitan Court of Budapest have both appellate and original jurisdiction. The President of the Republic nominates and Parliament elects the President of the Supreme Court. The President of the Supreme Court nominates and the President of the Republic appoints the Vice-Presidents of the Supreme Court. The President of the Republic also appoints and removes professional (non-arbitration) judges. The President of the Republic may only remove professional judges by following the causes and procedures prescribed by law.

The Constitutional Court is separate from the regular Hungarian judiciary. It decides on the constitutionality of legislation and other actions as set forth in the Hungarian Constitution. The Constitutional Court may annul any law or legal measure that it determines is unconstitutional. Any person may initiate proceedings at the Constitutional Court to address issues within its jurisdiction. Parliament elects the eleven members of the Constitutional Court. Justices of the Constitutional Court serve for nine year terms.

Legislation facilitating and regulating the market economy is relatively new. Consequently, Hungarian courts are less experienced than their Western counterparts in areas such as securities, banking and commercial law. Parties often refer these matters to the arbitration court attached to the Hungarian Chamber of Commerce and Industry or the Permanent Court of Arbitration of Financial and Capital Markets.

Parliamentary Commissioners

In 1995, pursuant to the Data Protection and Freedom of Information Act of 1992 and the Act on the Parliamentary Commissioner of 1993, Parliament elected three commissioners (also known as Ombudsmen): the Parliamentary Commissioner for Civil Rights, the Parliamentary Commissioner for Data Protection and Freedom of Information, and the Parliamentary Commissioner for National and Ethnic Minority Rights. Their principal role is to help people defend their rights vis-à-vis public administration. The Commissioners are elected for a period of six years and are exclusively responsible to Parliament.

Anybody who alleges that a proceeding, decision or action (including any omission to act) of, or taken by, any administrative or governmental authority and certain other entities caused the violation of his rights, or that such violation is imminent, may apply to these Parliamentary Commissioners to help protect his rights. The integration of tasks and functions of the Data Protection Commissioner constitutes a unique solution. In addition to monitoring and supervising data protection and freedom of information in general and exercising the competence of an ombudsman in the relevant area, this Parliamentary Commissioner's tasks also include the maintenance of the Data Protection Register and providing opinions on related legislative proposals and categories of official secrets. Pursuant to the Act on State and Official Secrets of 1995, the Parliamentary Commissioner for Data Protection is also entitled to change the classification of State and official secrets.

In 2007 the Act on the Parliamentary Commissioner of 1993 was amended and the position of Parliamentary Commissioner for Future Generations was created. Sándor Fülöp was elected Parliamentary Commissioner for Future Generations by the Parliament as of 26 May 2008 and will be responsible for controlling the implementation of the regulation ensuring the sustainability and improvement of the environment and nature.

Local Government

Hungary is divided into administrative units, which include the capital (Budapest), counties, cities, towns and villages. Local governments are autonomous, democratically manage local affairs and set the rates of certain limited local taxes. The Hungarian Constitution grants all local authorities the same fundamental rights; however, the duties and responsibilities of local governments may differ according to national and local legislation. Local governments consist of representative bodies, whose members are elected for four year terms. Decisions of local authorities may only be revised if they conflict with the Constitution or national legislation.

Overview of Political Situation

Following the first multi-party elections of the post-communist era held in 1990, the Hungarian Democratic Forum ("**HDF**") obtained the largest number of parliamentary seats and formed a coalition government with the Independent Smallholders' Party and the Hungarian Christian Democratic Party. At the 1994 election, a coalition of the Hungarian Socialist Party ("**HSP**") and the Alliance of Free Democrats ("**AFD**") came to power. It was replaced by a coalition led by the Fidesz-Hungarian Civic Party ("**Fidesz**") (currently Fidesz-Hungarian Civic Union) following the election in 1998. At the 2002 election no single party won a majority of Parliamentary seats and a coalition of the HSP and AFD came to power again. The HSP and AFD were able to form a coalition government with 198 of the 386 parliamentary seats.

The last parliamentary election was held in April 2006.

The following table shows the political affiliations of the members of the Parliament after the election in April 2006:

Party	Parliament	
	Number of Seats	% of Seats
AFD ⁽¹⁾	18	4.66%
Fidesz ⁽²⁾	164	42.49%
HDF	11	2.85%
HSP ⁽¹⁾	186	48.19%
HSP/AFD Joint Candidate ⁽¹⁾	6	1.55%
Independent Representatives.....	1	0.26%
Total	386	100.00%

Notes:

(1) Member of the previous ruling coalition.

(2) In co-operation with Christian Democratic People's Party ("CDPP").

No single party won a majority of Parliamentary seats in the April 2006 elections. After the 2006 election, the HSP and AFD were able to form a coalition government again with 210 of the 386 parliamentary seats. At the end of April 2008 the AFD left the coalition and the HSP formed a minority government as at the beginning of May 2008. In April 2009 the former minority government was replaced by a constructive no-confidence provision, and the current minority government was elected. The next parliamentary election will be held in 2010.

Local government elections

The following table shows the results of the latest local government elections, which were held in October 2006:

Party % Vote	Country		
	Budapest	Government	Municipalities
HSP-AFD.....	47.46	34.87	11.19
Fidesz ⁽¹⁾	47.42	54.14	17.72
Other	5.12	10.99	71.09
Total	100.00	100.00	100.00

Note:

(1) In co-operation with the CDPP.

The next local government elections are scheduled to take place in 2010.

European Parliament Elections

The last elections to the European Parliament were held on 7 June 2009.

This table shows the political affiliations of the members of the European Parliament after the election:

	Seats in European Parliament
FIDESZ-CDPP	14
HDF	1
HSP	4
Jobbik ⁽¹⁾	3

Note:

(1) Jobbik Magyarországért Mozgalom (“**Jobbik**”).

Source: European Parliament

International Relations

Hungary has undertaken a very active foreign policy designed to further its integration into the world community and to foster regional peace and economic development. Hungary maintains diplomatic relations with approximately 165 countries and is a member of a number of international organisations, including:

- European Union (“**EU**”)
- European Investment Bank (“**EIB**”)
- United Nations Organisation
- World Trade Organisation (“**WTO**”)
- International Bank for Reconstruction and Development (“**IBRD**”, “**World Bank**”)
- International Monetary Fund (“**IMF**”)
- International Finance Corporation
- Conference on Security and Co-operation in Europe
- Council of Europe
- Central European Free Trade Agreement (“**CEFTA**”)
- International Development Agency
- North Atlantic Treaty Organisation (“**NATO**”)
- European Bank for Reconstruction and Development (“**EBRD**”)
- United Nations Industrial Development Organisation (“**UNIDO**”)
- Global Environment Protection Fund
- Organisation for Economic Co-operation and Development (“**OECD**”)
- Food and Agriculture Organisation (“**FAO**”)
- World Health Organisation (“**WHO**”)
- United Nations Educational Scientific and Cultural Organisation (“**UNESCO**”)

European Union

Hungary joined the EU on 1 May 2004. After the parliamentary elections of the European Union in June 2009 the Hungarian representatives of the European Parliament assumed the following positions: Pál Schmitt

(FIDESZ-CDPP) became a vice-president of the European Parliament, Tamás Deutsch (FIDESZ-CDPP) became the vice-chairman of the Committee on Budgetary Control, Kinga Gál (FIDESZ-CDPP) became the vice-chairwoman of the Committee on Civil Liberties, Justice and Home Affairs, Kinga Göncz (HSP) became the vice-chairwoman of the Committee on Civil Liberties, Justice and Home Affairs, Zita Gurmai (HSP) became the vice-chairwoman of the Committee on Constitutional Affairs, Ágnes Hankiss (FIDESZ-CDPP) became the vice-chairwoman of the Committee on Petitions, and Livia Járóka (FIDESZ-CDPP) became the vice-chairwoman of the Committee on Women's Rights and Gender Equality.

Hungary is entitled to delegate one member of the European Commission; Mr. László Kovács (a former member of the Hungarian Socialist Party) is the Commissioner for Taxation and Customs Union.

The implementation of the Schengen System was a crucial issue of the accession negotiations. The main element of the system is the removal of checks at common (member — member) borders and their replacement with external (member — non-member) border checks in order to enhance the free movement of people. Hungary became fully integrated into the system by 2007, and the European Union eliminated checks at common borders after December 2007. In the case of air transport the implementation took place in spring 2008.

The European Constitution was ratified by the Hungarian Parliament on 20 December 2004, while the Treaty of Lisbon (amending the Treaty on European Union and the Treaty establishing the European Communities, signed at Lisbon on 13 December 2007) was ratified on 17 December 2007.

Alongside the development of key areas of the economy, the Republic has implemented and intends to continue implementing development programmes and structural reforms to speed up the convergence process to the EU. The key programme was the National Development Plan, which was approved on 19 December 2002 and which oversaw the allocation of EU funds from 2004 to 2006. The National Development Plan consisted of five operative programmes:

- human resources development;
- economic competitiveness;
- agricultural and rural development;
- environment and infrastructure; and
- regional development.

The government published the second National Development Plan, the “New Development Plan”, which oversees the allocation of EU funds from 2007 to 2013. On 7 September 2007 the European Commission adopted the New Development Plan, which includes seven regional and eight sector programmes. Overall, Hungary will receive benefits worth EUR 25 billion under the New Development Plan.

Following its accession to the EU, Hungary plans to become a member of EMU as soon as possible.

By entering the EU, Hungary became a member of the European Investment Bank as well.

OECD

Hungary officially became a member of the OECD in May 1996. Inclusion in the OECD was considered to be a decisive step towards integration with the developed nations and to obtaining full EU membership.

NATO

Hungary became a full member of NATO in March 1999.

CEFTA

CEFTA was designed to increase trade among Central European countries after the demise of COMECON and to integrate the region with the economies of Western Europe. Hungary, Poland, the Czech Republic, Slovakia and Slovenia were the initial signatories of CEFTA, which came into effect on 1 March 1993. Romania became a member in July 1997, Bulgaria in July 1998 and Croatia in March 2003. In accordance with CEFTA, most of the trade barriers between member states on industrial products were removed on 1 January 2001. Effective from 1 January 2007, all Balkan states became members of the organisation and bilateral trade agreements between the new members are now settled within the new framework. Hungary's trade with non-EU member CEFTA-countries is now regulated by the EU.

European Free Trade Association ("EFTA")

Hungary further increased its access to Western European markets by signing a free trade agreement, effective from 1 October 1993, with EFTA, which stipulated that full and reciprocal free trade had to be achieved within 10 years. The final result is still pending and the agreement lowers restrictive trade barriers on industrial products more quickly in the EFTA member countries than in Hungary.

In addition, each of EFTA's seven members has signed bilateral agricultural trade agreements with Hungary. The bilateral trade agreements with Austria, Finland and Sweden, which were EFTA member countries until 31 December 1994, expired at the date of their joining the EU. Hungary's trade with those countries is now regulated by the EU.

Agreement on European Economic Area

Currently trade arrangements are governed by the Agreement on European Economic Area rather than the EFTA. This agreement operates between three current EFTA member states, the European Communities and the 27 EU member states.

Bilateral Trade Agreements

In addition to the multilateral trade agreements discussed above, Hungary has also entered into bilateral trade agreements with several countries, including Turkey and Israel.

Central European Initiative

Hungary is also a member of the Central European Initiative, the other members of which are Austria, Italy, Slovenia, Croatia, Slovakia, Poland and the Czech Republic. This initiative mainly addresses issues of regional infrastructure development.

IMF Special Data Dissemination Standards

Hungary is a subscriber to the IMF Special Data Dissemination Standards. Data on Hungary can be accessed on the internet through the website: <http://dsbb.imf.org/country/hun>, although information on such website does not form part of the Offering Circular and may not be relied upon in connection with any decision to invest in the Bonds.

The Economy

Background

The Hungarian economy has undergone a radical transformation since the fall of communism in 1989. As with other post-communist countries in the region, the economy in Hungary during the 1990s can be characterised by economic dislocation at the beginning of the decade with gradual improvement as reforms were implemented.

The highlights of these economic reforms and trends include:

- an ambitious privatisation programme — the vast majority of Hungary’s large State-owned enterprises have already been privatised;
- a shift in exports from COMECON countries to those of Western Europe and other industrialised countries; now three-quarters of Hungarian exports are to EU markets, and Hungary’s market share in the EU has more than doubled since the mid-1990s;
- gross and net external debts have declined sharply since the mid-1990s, and the structure of external debt has changed as the central government share of the gross debt (according to GFS methodology¹), dropped from 72 per cent. in 1996 to 51 per cent. in 2001, but has increased reaching 68 per cent. in 2008;
- the GDP growth rates were generally higher than EU average: the rate adjusted for calendar day effect was 4.3 per cent. in 2001, 4.4 per cent. in 2002, 4.2 per cent. in 2003, 4.4 per cent. in 2004, 4.1 per cent. in 2005, 4.1 per cent. in 2006. In 2007 the growth rate was 1.2 per cent., in 2008 the growth rate was 0.4 per cent. The growth rates of 2007 and 2008 both were lower than the EU average;
- inflation, caused initially by price deregulation, declined from 28.3 per cent. in 1995 to 5.7 per cent. in 2003, increased to 7.6 per cent. in May 2004, due to tax increases and higher oil prices. In December 2005 the consumer prices were 3.3 per cent. higher than in December 2004; until April 2006 the inflation rate diminished to 2.3 per cent., partly as a result of the reduction of the VAT rate; until March 2007 the inflation rate increased to 9.0 per cent. mainly as a result of the increase of regulated energy prices and food prices, but has decelerated thereafter reaching 2.9 per cent. in March 2009, in July 2009 it increased to 5.1 per cent. (due to a VAT rate hike);
- generally there were declining or stagnant real wages until 1997 as inflation outpaced nominal wage increases; real wage increases were moderate between 1998 and 2000 as the economy expanded and inflation decreased; additional expenditure on public sector workers after the 2002 election increased real wage inflation to 13.1 per cent. in 2002, but there was a decrease in real wage dynamism in 2003. Real wages dropped in 2004 compared to 2003 by 1 per cent. while in 2005 real wages grew by 6.3 per cent. compared to 2004. In 2006, real wages grew by 3.5 per cent. compared to 2005, in 2007 real wages dropped by 4.8 per cent. compared to 2006, in 2008 real wages increased by 0.7 per cent. compared to 2007;
- unemployment has generally declined from its peak of 12.5 per cent. in the first quarter of 1993 to 5.5 per cent. in the last quarter of 2003, but the unemployment rate has grown since then. In the three month period from May to July 2009, the unemployment rate reached 9.7 per cent.; and
- high levels of foreign direct investment with the level of cumulative foreign direct investment in 2008 reaching Euro 82.2 billion, which amounted to approximately 77.7 per cent. of GDP for 2008.

¹ Unless otherwise indicated, all data in this document is presented for comparison purposes in accordance with the methodology of the International Monetary Fund (as set forth in the Manual on Governance Finance Statistics, IMF 1986) (“GFS”). In order to comply with its EU-accession obligations, the Republic has started to produce certain data on the basis of the European System of Accounts 95 (“ESA 95”). ESA 95 methodology monitors revenues and expenditures on an accrual basis, whereas GFS methodology monitors revenues and expenditures on a cash basis. Under ESA 95, certain issued state guarantees are reclassified as government debt and therefore increase the deficit, and the definition of the general government sector is extended to include certain quasi-governmental institutions.

Gross Domestic Product²

The following table presents the components of nominal GDP and related figures by expenditures at current market prices, as well as real GDP growth rates, for the years indicated:

	GDP												
	1996 ⁽¹⁾	1997 ⁽¹⁾	1998 ⁽¹⁾	1999 ⁽¹⁾	2000	2001	2002	2003	2004	2005	2006	2007	2008
	<i>(HUF billion except as indicated)</i>												
Consumption.....	5,104	6,184	7,322	8,431	9,888	11,355	13,129	14,904	15,931	17,083	18,171	19,000	19,984
Fixed investment.....	1,476	1,899	2,385	2,725	3,103	3,491	3,944	4,164	4,649	5,040	5,131	5,359	5,358
Goods and services capital formation and foreign trade balance	314	458	381	238	521	392	75	(152)	115	(130)	473	1,120	1,279
GDP	6,894	8,541	10,087	11,393	13,512	15,238	17,148	18,915	20,696	21,993	23,775	25,479	26,621
Annual real GDP growth rate (%) ⁽²⁾	1.3	4.6	4.9	4.2	n/a	4.1	4.4	4.3	4.7	3.9	4.0	1.2	0.6

Notes:

(1) Non-revised data

(2) Data not adjusted for calendar-day effect

Source: Hungarian Central Statistical Office

The following table presents the production of Hungary's GDP by industry sector:

	The production of GDP, 1996-2008 ⁽²⁾ Corresponding period of previous year = 100												
	1996 ⁽¹⁾	1997 ⁽¹⁾	1998 ⁽¹⁾	1999 ⁽¹⁾	2000	2001	2002	2003	2004	2005	2006	2007	2008
GDP, total (at purchaser's price)	101.3	104.6	104.9	104.2	105.2	104.1	104.4	104.3	104.7	103.9	104.0	101.2	100.6
Agriculture, forestry, fishing	104.2	99.8	98.6	100.9	92.6	116.2	90.1	99.8	153.4	96.1	93.5	79.0	150.6
Mining and quarrying, manufacturing and electricity	103.0	111.3	107.7	107.1	106.4	100.8	101.8	105.9	103.7	103.5	105.6	106.6	99.9
Of which													
Manufacturing.....	104.1	114.5	110.7	108.3	107.5	102.5	103.8	107.2	104.0	105.2	106.3	107.7	99.0
Construction.....	92.9	108.4	105.9	104.3	119.2	106.2	113.0	96.4	103.3	103.3	100.8	93.3	94.8
Services, total	102.4	102.4	103.9	103.2	104.0	104.0	105.3	104.2	102.4	104.6	104.5	100.9	98.6
Of which													
trade, repair, hotels and restaurants	99.7	107.0	105.6	100.6	100.0	106.7	106.0	105.5	103.0	104.7	108.2	103.8	97.4
transport, storage and communications	103.2	109.7	103.4	105.5	102.1	103.1	102.8	103.0	106.2	103.0	105.9	105.1	100.3
financial intermediation and real estate activities.....	106.2	96.7	103.8	103.9	108.3	104.2	108.2	104.9	102.7	107.1	106.3	101.1	97.7

² In Autumn 2005 the Hungarian Central Statistical Office ("CSO") implemented a methodological change in the measurement of GDP, and revised the GDP data for the years 2000-2004. The tables in this section set forth the components of nominal GDP and related figures by expenditures at current market prices, as well as real GDP growth rates, for the years 1996-2007. In autumn 2006, CSO modified the calculation methodology of the gross domestic product. From 2005, according to the applicable EU regulations certain activities formerly not included in GDP because they were classified as illegal activities (for example drug production and prostitution) have to be calculated and have to be included in gross domestic product. Therefore, the CSO revised upwards the GDP data for the years 2000, 2001, 2002, 2003, 2004, 2005 and 2006 due to this methodological change.

The production of GDP, 1996-2008⁽²⁾
Corresponding period of previous year = 100

	1996 ⁽¹⁾	1997 ⁽¹⁾	1998 ⁽¹⁾	1999 ⁽¹⁾	2000	2001	2002	2003	2004	2005	2006	2007	2008
public administration, education, health and social work	102.0	103.7	104.0	102.6	103.3	102.0	103.2	104.3	100.5	102.6	100.3	96.1	100.5
other community, social and personal service activities.....	92.6	97.1	97.4	106.4	102.9	105.5	103.1	99.1	100.6	103.3	101.4	103.4	96.0

Notes:

(1) Non-Revised data

(2) Data not adjusted for calendar-day effect

Source: Hungarian Central Statistical Office

Between 2000 and 2006, the rate of real GDP growth in Hungary was higher than the average growth recorded in the EU as a whole, however in 2007 and 2008 there was a significant drop in the growth rate. The economic growth in Hungary since 2000 has mainly been attributable to an increase in exports and, in particular for 2002 and 2003, an increase in domestic consumption. The increase in domestic consumption was mainly a result of budget expenditures and government measures (such as the increase of the minimum wage, increased mortgage subsidies and public sector wage increases). In 2004, 2005 and 2006, the growth in domestic consumption decreased, although the decrease has been offset by an increase in exports and, in 2004 and 2005, an increase in investment in Hungary generally, resulting in an increase in GDP of 4.7 per cent., 3.9 per cent. and 4.0 per cent. for 2004, 2005 and 2006, respectively. In 2006, the dynamics of consumption were low (year-on-year growth rate reached 2.3 per cent.), and the level of gross fixed investment dropped by 3.7 per cent. for 2006 compared to 2005, while export growth rates remained high (year-on-year growth rate reached 18.6 per cent. during 2006). In 2007 growth rate reached only 1.2 per cent. This low growth rate was mainly due to a 1.9 per cent. decrease in consumption. Gross fixed capital formation increased by only 1.8 per cent. while exports grew by 16.4 per cent. compared to 2006. In 2008 growth rate diminished to 0.6 per cent. This low growth rate was mainly due to a 2.6 per cent. decrease in gross fixed capital formation, and a 0.2 drop in consumption. Exports grew by 4.8 per cent. compared to 2007.

The following table presents the final use of GDP:

The final use of GDP⁽²⁾
Corresponding period of previous year = 100

	1996 ⁽¹⁾	1997 ⁽¹⁾	1998 ⁽¹⁾	1999 ⁽¹⁾	2000 ⁽¹⁾	2001	2002	2003	2004	2005	2006	2007	2008
Household final consumption expenditure	96.2	101.8	104.5	105.6	105.4	106.4	110.7	108.3	102.5	103.4	101.9	100.5	99.5
Social transfer in kind....	100	101	105.3	101.5	102.8								
Social transfer in kind from government						104.7	105.8	106.0	103.1	104.0	102.8	90.0	103.1
Social transfer in kind from non-profit institutions						102.9	108.6	107.4	109.4	104.8	94.0	101.7	97.2
Actual final consumption of households	97	101.7	104.6	104.8	105	106.1	109.8	107.9	102.7	103.5	101.9	98.6	100.1
Actual final consumption of government	95.8	105.7	99.7	101.8	101.2	100.9	105.5	104.1	99.9	99.9	104.9	95.5	98.1
Actual consumption,	96.8	102.2	103.9	104.4	104.4	105.4	109.2	107.4	102.4	103.1	102.3	98.1	99.8

The final use of GDP ⁽²⁾													
Corresponding period of previous year = 100													
	1996 ⁽¹⁾	1997 ⁽¹⁾	1998 ⁽¹⁾	1999 ⁽¹⁾	2000 ⁽¹⁾	2001	2002	2003	2004	2005	2006	2007	2008
total													
Gross fixed capital formation.....	106.7	109.2	113.3	105.9	107.7	104.7	110.4	102.2	107.9	105.8	96.3	101.8	97.4
GDP, total	101.3	104.6	104.9	104.2	105.2	104.1	104.4	104.3	104.7	103.9	104.0	101.2	100.6

The final use of GDP													
At current prices in HUF billion													
	1996 ⁽¹⁾	1997 ⁽¹⁾	1998 ⁽¹⁾	1999 ⁽¹⁾	2000	2001	2002	2003	2004	2005	2006	2007	2008
Household final consumption expenditure	3,510	4,219	5,009	5,829	6,862	7,901	9,079	10,232	10,966	11,764	12,384	13,226	13,894
Social transfer in kind.....	891	1,064	1,289	1,446									
Social transfer in kind from government					1,454	1,669	2,002	2,404	2,569	2,786	2,993	2,915	3,157
Social transfer in kind from non-profit institutions					192	217	249	283	329	361	364	389	409
Actual final consumption of households	4,400	5,283	6,297	7,274	8,508	9,788	11,329	12,290	13,863	14,911	15,741	16,530	17,460
Actual final consumption of government	706	901	1,025	1,157	1,380	1,568	1,799	1,984	2,068	2,172	2,430	2,470	2,524
Actual consumption, total	5,104	6,184	7,322	8,431	9,888	11,355	13,129	14,904	15,931	17,083	18,171	19,000	19,984
Gross fixed capital formation.....	1,476	1,899	2,385	2,725	3,103	3,491	3,944	4,164	4,649	5,040	5,131	5,359	5,358
GDP, total	6,894	8,541	10,087	11,393	13,512	15,238	17,148	18,915	20,696	21,993	23,775	25,479	26,621

Notes:

(1) Non-Revised data.

(2) Data not adjusted for calendar-day effect.

Source: Hungarian Central Statistical Office.

			Gross domestic product, 1996-2008 volume indices (%)	
			Not adjusted, raw data (the corresponding period of previous year=100.0)	Adjusted for calendar effects (the corresponding period of previous year=100.0)
Time period				
1996 ¹	Q1		100.6	n/a
	Q2		100.7	n/a
	Q3		100.9	n/a
	Q4		103.0	n/a

		Gross domestic product, 1996-2008 volume indices (%)	
Time period		Not adjusted, raw data (the corresponding period of previous year=100.0)	Adjusted for calendar effects (the corresponding period of previous year=100.0)
	Year	101.3	n/a
1997 ¹	Q1	102.3	n/a
	Q2	104.8	n/a
	Q3	105.7	n/a
	Q4	105.3	n/a
	Year	104.6	n/a
1998 ¹	Q1	104.4	n/a
	Q2	104.9	n/a
	Q3	105.4	n/a
	Q4	104.7	n/a
	Year	104.9	n/a
1999 ¹	Q1	103.2	n/a
	Q2	103.3	n/a
	Q3	104.2	n/a
	Q4	105.9	n/a
	Year	104.2	n/a
2000 ¹	Q1	106.6	n/a
	Q2	105.7	n/a
	Q3	104.6	n/a
	Q4	104.2	n/a
	Year	105.2	n/a
2001	Q1	104.4	105.3
	Q2	104.5	104.5
	Q3	104.1	104.2
	Q4	103.6	103.5
	Year	104.1	104.3
2002	Q1	104.2	104.4
	Q2	104.3	104.3
	Q3	104.6	104.5
	Q4	104.4	104.4
	Year	104.4	104.4
2003	Q1	103.4	103.2

		Gross domestic product, 1996-2008 volume indices (%)	
		Not adjusted, raw data (the corresponding period of previous year=100.0)	Adjusted for calendar effects (the corresponding period of previous year=100.0)
Time period			
2004	Q2	104.3	104.3
	Q3	104.5	104.5
	Q4	104.8	104.6
	Year	104.3	104.2
	Q1	104.5	103.8
	Q2	105.0	104.8
	Q3	104.8	104.8
	Q4	104.5	104.2
	Year	104.7	104.4
	Q1	102.7	103.5
2005	Q2	104.3	104.1
	Q3	104.0	103.8
	Q4	104.4	104.6
	Year	103.9	104.1
	Q1	104.6	104.4
2006	Q2	103.5	103.8
	Q3	104.0	104.1
	Q4	103.8	104.1
	Year	104.0	104.1
	Q1	102.6	102.7
2007	Q2	101.0	101.0
	Q3	100.8	100.9
	Q4	100.7	100.6
	Year	101.2	101.2
	Q1	101.8	101.1
2008	Q2	102.1	102.0
	Q3	101.3	101.2
	Q4	97.5	97.3
	Year	100.6	100.4
	Q1	93.3	93.9
2009	Q2	92.5	92.6

Note:

(1) Non-Revised data.

Source: Hungarian Central Statistical Office.

Energy

In 2008 38.5 per cent. of Hungary's total energy demand was supplied by domestic energy sources. 12.1 per cent. of total energy consumption was produced by coal (the majority of which is domestically produced) and 67.2 per cent. of energy consumption consisted of hydrocarbon, which was imported primarily from Russia.

Hungary has consistently worked to diversify its sources of energy and to build up reserves to dampen the potential negative effects of energy supply disruptions. Hungary currently maintains at least a 12-week supply of oil in compliance with OECD requirements.

By the end of 1998, all of Hungary's natural gas distribution companies, six electricity distribution companies and all but two power generation companies had been privatised. The Ministry of Economy and Transport aims to form a competitive electricity market and full liberalisation of the sector by 2007, in accordance with EU Directives. According to EU directives, the Republic was obliged to fully liberalise its energy market by 1 July 2007. The government has already liberalised the energy market, but the government plans to revise the current legislation to further enhance competition.

Prices, Wages and Employment

Prices

Deregulation in 1990 led to a high rate of inflation in Hungary. This rate has remained relatively high compared to rates in Western Europe due to the general phasing out of price supports and the high public sector deficit, but has decreased sharply mainly as a consequence of the new monetary regime introduced in May 2001 (see "The Economy — Recent Developments").

The following table illustrates the annual index changes (Dec/Dec) in consumer prices since 1995:

Annual change, %

	Food	Alcoholic beverages, tobacco	Clothing, footwear	Consumer durable goods	Electricity, gas and other fuels	Other goods incl. motor fuels and lubricants	Services	Total
1995	123.1	115.8	123.5	128.7	163.6	130.7	128.9	128.3
1996	115.5	124.2	124.1	112.5	124.7	120.3	122.2	119.8
1997	120	117.7	115.8	108	133.7	112.8	119.1	118.4
1998	106	113.6	113	107.9	109.4	109.2	114.8	110.3
1999	105.7	110.6	107.9	104	108.2	121.4	113.7	111.2
2000	112.4	111.3	105.6	101.3	112.7	109.1	110.6	110.1
2001	109.5	110.3	104.8	99.3	107.5	102.1	108.4	106.8
2002	103.6	111.8	103.3	98.8	103	105.7	105.5	104.8
2003	104.8	109.8	104.3	98.8	111.5	103.1	106.7	105.7
2004	104.4	110.7	100.9	99.14	111.2	103.1	107	105.5
2005	103.4	100.2	100.4	96	105.1	105	105.5	103.3
2006	107.7	104.3	99.3	96	106.4	102.7	104.1	103.9
2007	112.0	105.3	100.3	98.4	112.5	107.7	106.8	107.4
2008	104.3	105.7	100.0	99.4	118.1	96.6	103.9	103.5
2009 June ⁽¹⁾	105.9	106.4	100.5	101.6	108.0	98.9	103.6	103.7
2009 July ⁽²⁾	104.9	108.8	101.1	104.7	107.7	101.3	106.0	105.1

Note:

(1) June/June data.

(2) July/July data.

Source: Hungarian Central Statistical Office

Although the rate of inflation has declined sharply since 1995, the process of disinflation was interrupted in 2000, but continued to decline from mid 2001 after the changes in monetary policy. This reduction in inflation was mainly caused by the significant appreciation of the Hungarian Forint during 2001 and 2002 and supplemented by factors such as favourable food prices and delays in increases in regulated prices. In May 2003, the Consumer Price Index (the “CPI”), at 3.6 per cent., was at its lowest level for 22 years, but disinflation came to a halt due to the depreciation of the Hungarian Forint, the increases in regulated prices, higher oil prices and changes in relation to VAT. With these temporary effects being gradually eliminated, the inflation rate fell to 3.2 per cent. in February 2005. During the summer of 2005 the CPI has increased temporarily mainly due to the higher energy prices. In the first months of 2006 the inflation rate decreased significantly reaching 2.3 per cent. in April 2006, but then the inflation rate increased due to higher energy and food prices as well as depreciating HUF rate and increase in VAT rate. In the first half of 2007, the inflation rate increased significantly, reaching its peak at 9.0 per cent. in March 2007, mainly as a result of base effect and a significant increase in regulated prices. The inflation rate has declined significantly thereafter reaching 2.9 per cent. in March 2009. It stood at 5.0 per cent. in August 2009, reflecting also the impact of the VAT rate hike introduced with effect of July 1.

By the end of 2008, approximately 80 per cent. of all prices in Hungary were unregulated. The following prices remain regulated:

- Electricity (for households only)
- Gas
- Purchased Heat
- Various pharmaceutical products
- State lottery
- Meals at schools, kindergartens and nurseries
- Local and long distance passenger transport
- State owned housing rent
- Various household utilities (including water and sewage charges and refuse collection service)
- Certain postal services

In December 2003, regulated prices increased by 9.4 per cent. compared to December 2002, and the 12-month index reached 15.7 per cent. in February 2004. This was due to the fact that many previously scheduled increases in regulated prices were postponed until 2003, thus creating inflationary pressure in 2003 and 2004. In 2004 and 2005 the regulated 12-month price index diminished reaching 8.7 per cent. in December 2004, 7.6 per cent. in December 2005 and 0.4 per cent. in July 2006. This was due to postponed increases in regulated prices before the elections. After the elections regulated prices increased again; in December 2006 the regulated 12-month price index reached 9.3 per cent., in July 2007 the 12-month index reached 24.7 per cent., afterwards the 12-month regulated price index decelerated to 7.0 per cent. in June 2008. The 12-month index increased to 10.6 per cent. in December 2008, although it decelerated to 7.7 per cent. in May 2009.

In line with EU directives, the Republic intends to remove regulated pricing schemes from the increasingly market-based energy, postal and communication sectors. Deregulation of the energy sector began in July 2004. The entire energy sector has been deregulated including the household segment, however the retail electricity prices are capped by regulation. In February 2006, Parliament approved a bill on the temporary regulation of prices paid by Magyar Villamos Művek Zrt. (“MVM”, a State-owned energy distributor in Hungary) for energy produced by power plants. The proposed deadline for deregulation in the postal service is 2012.

Wages and Employment

The following table illustrates recent wage trends:

	Annual Average													2009 Jan- July
	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	
Nominal wage index	117.4%	124.1%	118.4%	112.7%	111.4%	116.2%	119.5%	114.3%	105.7%	110.1%	107.5%	102.8%	106.8%	101.4%
Real wage index	95.0%	104.9%	103.6%	102.4%	101.5%	106.4%	113.5%	109.2%	99.0%	106.3%	103.5%	95.2%	100.7%	97.9%

Source: Hungarian Central Statistical Office

Real wages grew significantly in 2002 and also in 2003, though at a lower rate. The minimum monthly salary level increased from HUF 25,000 to HUF 50,000 in the two years to 2002. Salaries in public education and the health care sectors were raised by 50 per cent. in September 2002. The real wage index fell to 99.0 per cent. in 2004 compared to 2003. During 2005 and the first half of 2006, real wages grew significantly. The higher real wage index is partly attributable to lower tax burden and the change in public employees' premium system. (The payment of the “13th month salary” was delayed from December 2004 to January 2005, by which it became “0th month salary”). In the second half of 2006 real wages decreased as increasing inflation was higher than the dynamics of net wages partly as a result of higher tax burden of labour incomes. In 2007

real wages dropped significantly as a result of higher inflation, higher tax burden on wages, and the wage restriction in the public sector. In 2008 real wages increased by 0.7 per cent. mainly as a result of high inflation and strict income policy in the public sector.

As with GDP growth, changes in nominal and real wages have not been consistent across Hungary. Relatively stronger overall economic growth in western Hungary, and a labour force that is generally reluctant to move from one part of the country to another, have led to a substantial decrease in unemployment in western Hungary and disproportionately higher wage increases. Hungary's incentive policies are in part designed to increase employment levels in the eastern parts of the country. The following table illustrates the unemployment rate for each of the years indicated:

	Annual Average													2009
	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	May - July
Unemployment rate ⁽¹⁾	9.9%	8.7%	7.8%	7.0%	6.4%	5.7%	5.9%	5.9%	6.1%	7.2%	7.5%	7.4%	7.8%	9.7%

Note:

(1) Based on international sampling methodology

Source: Hungarian Central Statistical Office

The yearly average unemployment rate in 2004 was 6.1 per cent., which is considerably lower than the EU average, but in 2005 reached 7.2 per cent. mainly due to the increase in the activity rate. In 2006 the unemployment rate — mainly as a result of an increase in the activity rate — increased to 7.5 per cent. In 2007 the unemployment rate decreased slightly to 7.4 per cent., but the unemployment rate increased to 7.8 per cent. in 2008 partly as a result of lay-offs in the government sector. In the three months ended in July 2009 the unemployment rate reached 9.7 per cent. primarily as a result of lay-offs mainly in the private sector. Labour unions have yet to gain any significant influence in Hungary and to date have not caused any substantial work stoppages. Labour unions are generally stronger in the public sectors of the economy.

Privatisation

Status of Privatisation Efforts

Since 1990, the Republic of Hungary has privatised nearly 1,300 enterprises of the 1,860 enterprises previously owned by the State by both direct sales and public offerings.

Most of the larger companies involved in the privatisation programme have already been partially privatised with only 139 companies being left with some degree of State ownership at year end 2004. Permanent government control is anticipated for 36 companies.

In 2005, the sale of a 75 per cent. plus one share of Antenna Hungária (radio and television broadcasting company), and the sale of the government's 75 per cent. minus one share stake in Budapest Airport Rt. (the operator of Ferihegy Airport) and the right to operate it for 75 years were completed.

In 2006, the sale of the remaining stake of MOL owned by the Republic (12 per cent. of all the outstanding MOL shares) was completed. As of the end of 2006, the Republic owned one ordinary share and one share with priority voting rights of MOL.

The following table sets forth the privatisation revenues for the years indicated:

foreign currency	Local currency	loan	compensati on vouchers	total
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	<i>(in HUF billion)</i>				
1990.....	0.53	0.14	0.00	0.00	0.67
1991.....	24.61	5.74	1.01	0.00	31.36
1992.....	40.98	24.92	9.07	2.26	77.23
1993.....	110.67	22.96	21.72	14.56	169.91
1994.....	10.95	35.41	46.11	64.20	156.67
1995.....	411.50	35.40	3.99	30.15	481.04
1996.....	92.73	40.61	2.47	40.70	176.51
1997.....	208.64	118.22	0.31	23.20	350.37
1998.....	39.02	67.33	0.99	4.50	111.84
1999.....	69.53	62.11	0.00	0.87	132.51
2000.....	1.22	55.68	0.00	1.31	58.21
2001.....	6.13	44.96	0.00	0.64	51.73
2002.....	0.00	20.71	0.00	0.25	20.96
2003.....	3.08	148.97	0.00	8.23	160.28
2004.....	172.65	225.76	0.00	0.22	398.63
2005.....	59.67	95.15	0.00	0.04	154.86
2006.....	0.00	324.25	0.00	1.10	325.35

Source: ÁPV

In 2007, the privatisation of Malev Hungarian Airlines, and the sale of 50 per cent. plus one share of FHB was completed.

The Hungarian Privatisation and State Holding Company (the “ÁPV Zrt” or “ÁPV”) managed the privatisation process until 31 December 2007. On 1 January 2008 the Republic consolidated its asset management and privatisation activities into one entity, Magyar Nemzeti Vagyongazdálkodó Zrt. combining ÁPV, the Nemzeti Földalap (National Land Fund) and KVI (Treasury Property Directorate).

Methods of Privatisation Used

Hungary is unique in Central Europe in that a large majority of its privatisations utilise public tenders, with sales on a cash basis. Such outright sales, often to strategic long-term investors, have been successful in bringing new management and know-how to many Hungarian enterprises.

Until 2003, compensation vouchers were also used as a tool of privatisation. In recent years the importance of compensation vouchers has decreased significantly. Compensation vouchers were rights distributed to individual Hungarian citizens pursuant to the Compensation Act which was designed to provide compensation for losses suffered, including the loss of property and personal freedom. These compensation vouchers entitled the holders to bid for shares in certain privatised entities. In 2003, in order to end the compensation voucher system, the government decided to offer the shares of FORRÁS Trust and Investment Company (a State owned asset management company) in exchange for the compensation vouchers. In June and July 2003, the offering was completed and the shares of FORRÁS Trust and Investment Company were listed on the Budapest Stock Exchange.

Recent Developments

Monetary and exchange rate policy

On 25 February 2008, in agreement with the Government the Monetary Council decided to abandon the flexible peg of the Hungarian Forint to the Euro within a fluctuation band and adopt a floating exchange rate regime, with effect from 26 February 2008. According to the Monetary Council the floating exchange rate regime provides the central bank with better conditions to achieve its inflation target and, through this, to meet the nominal convergence criteria and finally to enter into European Exchange Rate Mechanism II (“**ERM II**”).

On 10 October 2008, the NBH announced the introduction of two-way O/N FX swap tenders. The NBH conducts its two-way FX swap tenders — providing Euro and Hungarian Forint liquidity — under a competitive bidding scheme. On both sides, FX swaps are offered as an overnight facility. Auctions for the two sides are conducted simultaneously. Bids would be evaluated in a way that the bid amounts accepted at the two auctions are equal.

Moreover, the NBH and the European Central Bank (“**ECB**”) jointly announced an agreement to support the NBH’s instrument of Euro liquidity provision. The NBH and the ECB have established an agreement on repurchase transactions, which will provide the NBH with a facility to borrow up to EUR 5 billion in order to provide additional support to the NBH’s operations.

Besides these, the NBH introduced an overnight FX swap facility providing Euro liquidity from 16 October 2008 until countermanded. Within the framework of the new standing facility, counterparties of the NBH may swap Hungarian Forint amounts for Euro amounts on business days, at a pre-specified price.

On 16 October 2008, the Monetary Council of NBH decided to introduce two new lending facilities. The first instrument is a weekly tender for two-week, fixed-rate secured loans for an unlimited amount. The second instrument is a regular tender for six-month, variable-rate secured loans, for a pre-specified amount.

NBH also announced an agreement between the NBH and the primary dealers of government securities. According to the agreement, which expired at the end of 2008, the primary dealers undertook to provide continuous bid and offer prices on the Budapest Stock Exchange for all publicly issued Hungarian Forint-denominated government securities with residual maturities of more than 90 days, and increase their holdings of Hungarian government securities. On the other hand NBH bought government securities from primary dealers via auctions.

On 22 October 2008, the Monetary Council decided to narrow the interest rate corridor formed by the overnight deposit and collateralised lending facilities around the rate on the central bank base rate to +/- 50 basis points.

On 4 November 2008 the NBH alongside the Ministry of Finance sent a letter of intention to the IMF requesting the IMF to support government’s and the NBH’S programme to firmly anchor macroeconomic policies and reduce financial stress through a Stand-By Agreement for a period of 17 months in the amount of SDR 10.5 billion (EUR 12.5 billion).

On 24 November 2008 the Monetary Council decided to reduce the reserve ratio from 5 per cent. to 2 per cent. in order to support domestic credit institutions’ Hungarian Forint liquidity. Credit institutions are required to hold minimum reserves calculated on the basis of the new reserve ratio beginning with the December 2008 maintenance period on. The new reserve ratio applied by the NBH is equal to the reserve ratio applied by the European Central Bank.

The NBH cut the central bank base rate in three steps: in January, July and August 2009 (by 50, 100 and 50 basis points accordingly). The central bank base rate stood at 8 per cent. as at the end of August 2009. During

the first three months of 2009 the Hungarian Forint weakened further trading above the HUF 310/€ level, although it appreciated back to approximately 272.02 as at 31 August.

On 28 January 2009, the NBH announced that from 2 February 2009 until withdrawal the NBH would introduce Swiss franc (“CHF”) liquidity-providing one-week, fixed price EUR/CHF FX swap tenders. Under the tender scheme certain credit institutions would be allowed to transact EUR/CHF FX swaps with the NBH at a fixed price on the first trading day of the week. In the starting leg of the transaction, the counterparty of the NBH would sell Euros to the NBH in exchange for Swiss francs. The NBH would announce the fixed price expressed in swap points in advance. The NBH would accept bids up until the amount of EUR 5.0 billion.

The Swiss National Bank (“SNB”) and NBH also announced an establishment of a temporary EUR/CHF swap agreement. The facility would allow the NBH to provide Swiss franc funding to banks in its jurisdiction in the form of foreign exchange swaps. Starting on 2 February 2009, the NBH would join the weekly EUR/CHF foreign exchange swap operations conducted under the umbrella of the SNB. Under the agreement the SNB would provide the NBH with Swiss francs against Euro. The EUR/CHF swap operations would be conducted with a term of seven days at a fixed price. The measure would be in place at least until the end of April 2009.

Moreover, the NBH announced to broaden the range of counterparties eligible to participate in the six-months, variable-rate collateralised loan tenders.

On 5 February 2009, the NBH announced the introduction of a six-month EUR/HUF swap tenders providing Euro liquidity on 2 March 2009 up until the amount of EUR 5.0 billion.

Moreover, the NBH announced to extend the range of eligible collateral in lending to banks to include certain Euro or Swiss francs denominated local authority bonds from 20 February 2009 onwards.

On 2 March 2009 the NBH announced from 9 March 2009 until withdrawal the NBH would introduce a Euro-liquidity providing three-month, variable-rate EUR/HUF FX swap tenders to any amount remaining unallocated of the EUR 5.0 billion assigned to the purpose of the six-month EUR/HUF FX swap tenders.

On 8 March the NBH announced, the NBH intends to encourage banks to increase their recourse to its Hungarian Forint and foreign currency liquidity-providing instruments introduced recently, would soon be converting EU funds in the market and stands ready to use the full range of monetary policy instruments at its disposal.

On 12 March 2009, the NBH announced, that in line with the Monetary Council’s decision on 8 March 2009, the NBH would start converting the net current and capital transfers from the European Union on the foreign exchange market. On the basis of the forecast of the Ministry of Finance, the NBH expected the amount of net transfers from the EU to be converted to amount to approximately EUR 1.4 billion in 2009. NBH would convert this amount on the interbank foreign exchange market in a discretionary manner over the course of the year as regular OTC transactions.

On 27 April the NBH announced that it would continue the one-week EUR/CHF foreign exchange swap operations at least until the end of July 2009 to support further improvements in the short-term Swiss franc funding markets. The interest rates used to calculate the fixed swap points will be aligned closer with market interest rates.

Fiscal policy

On 8 January 2008, the Ministry of Finance published the preliminary general government deficit (excluding local governments) for the year 2007 according to GFS methodology. The deficit reached HUF 1,291.4 billion equalling 5.0 per cent. of the projected GDP for the year 2007.

On 17 January 2008, the Ministry of Finance published the preliminary general government deficit (including local governments) for the year 2007 according to ESA methodology. According to the first estimate of the Ministry of Finance the deficit reached 5.7 per cent. of the projected GDP for the year 2007.

On 9 March 2008, a referendum was held on daily hospital and doctor visit fees and higher education tuition fees. The majority of votes demanded the abolition of these measures.

On 14 March 2008, the Standard & Poor's rating agency changed the long term foreign currency and local currency debt outlook from "Stable" to "Negative", the rating remained "BBB+".

On 1 April 2008, the Central Statistical Office published the preliminary general government deficit (including local governments) for the year 2007 according to ESA methodology. The deficit reached HUF 1,395.1 billion equalling 5.5 per cent. of GDP for the year 2007.

On 5 May 2008, Mr. Ferenc Gyurcsány formed a new minority government after the former minor coalition partner AFD decided to leave the previous coalition government.

On October 29, 2008, the International Monetary Fund, the European Union and the World Bank agreed with the Republic to grant a financial assistance package of up to \$25.1 billion. The IMF will provide a 17-month standby facility of \$15.7 billion (EUR 12.5 billion), while the European Union is ready to lend Hungary \$8.1 billion (EUR 6.5 billion), and there is a possibility to draw down 1.3 billion (EUR 1 billion) from the World Bank to assist the Republic in addressing the consequences of the global financial crisis.

A HUF 600 billion banking sector package was set up by the Parliament. The banking sector package contains provisions for added capital and funds a guarantee fund for interbank lending. Funding will be divided as follows: Total funding of HUF 600 billion will be divided evenly between the Capital Base Enhancement Fund and the Refinancing Guarantee Fund. The Package is available to private Hungarian banks of systemic importance. The Capital Base Enhancement Fund has been sized to bring the eligible banks' capital adequacy ratio (CAR) up to 14 per cent. The Guarantee Fund is meant to bring comfort to the providers of wholesale funding and secure the refinancing of the eligible banks. Its endowment of HUF 300 billion will be invested in Euro denominated government bonds of Euro area countries and managed by the NBH. Open for new transactions until end-2009, it will guarantee the rollover of loans and wholesale debt securities with an initial maturity of more than 3 months and up to 5 years, against a fee and with appropriate safeguards.

Out of the financial assistance package provided by the IMF SDR 0.1 billion was used for the bank rescue package, SDR 1.8 billion was used in the form of loans to banks and SDR 2.2 billion was used for sovereign debt service, while out of the financial assistance package provided by the EU the already drawn EUR 5.5 billion was used for sovereign debt service. Furthermore, the NBH also drew SDR 1.3 billion until the end of June 2009.

In November 2008, the Parliament approved the act on fiscal responsibility. The act sets out new fiscal rules regarding the central subsystem of the government; establishes the Fiscal Council, and introduces guarantee elements, prevailing in the planning of the budget, which ensure that compared to the accepted medium term expenditure ceilings additional expenditure claims could only be planned in the event that their balance deteriorating effect can be offset by the decrease of other expenditure elements or increase in revenues. The act also determines expenditure caps and balance limitations too; both for the coming years and in the long run.

On 8 January 2009, the Ministry of Finance published the preliminary general government deficit (excluding local governments) for the year 2008 according to GFS methodology. The deficit reached HUF 907.1 billion equalling 3.3 per cent. of the projected GDP for the year 2008.

In February 2009, certain reform measures were undertaken. The key structural moves include increasing retirement age, changing pension indexation rules, upper limit of 13th month pension benefit established at HUF 80,000., elimination of the 13th month pension benefit for new entrants, tightening disability retirement rules, cutting interest subsidy to housing loans and social policy restrictions, cutting compensation to gas and distance heating costs (consumer prices), changing family allowance, child-care pay (as abbreviated in Hungarian: GYED) and child-care aid (as abbreviated in Hungarian: GYES), changing local government subsidies.

Expenditure-cutting measures taken in February 2009 are mostly of a structural nature. Thus, their full effect will not appear in the year 2009. In 2010 or for 2011, this effect will be much larger.

The result of expenditure-cutting measures taken in February 2009 is HUF 212 billion while the decisions will save HUF 551 billion and HUF 612 billion in 2010 and 2011, respectively in the public sector. The measures will entail significantly better sustainability of the pension system, changes to financing of the local governments, fundamental changes will come to social transfers (to social aids and to family subsidies).

In February 2009 the Government planned to introduce a net total revenue neutral tax reform.

Description	Changes in taxation on cash basis	
	2009	2010
	(HUF billion)	
Payroll taxes	(40)	(258)
Contribution charges on wages payable by employer	(81)	(281)
Employer contribution cut by 5 percentage points from 1 July 2009 up to the double figure of minimum wage; from 2010 cut by 5 percentage points for all (by 3 per cent. on health insurance contribution and 2 per cent. on labour market fund)	(81)	(302)
Contribution on rehabilitation to be tripled from 2010 (net effect on general government level)	—	21
Measures on employers but involving employee income to be cut	—	215
Certain tax-free benefits to become taxable (PIT and social security contribution from 2010)	—	215
Payroll charges on employees	(40)	(192)
Elimination of special tax for individuals, from 1 July 2009	(10)	(29)
Personal Income Tax ("PIT") schedule, tax credit		
Lower tax bracket to increase to HUF 2.2 million, tax rates to increase to 19 per cent. and 38 per cent., from 1 July 2009. Tax credit up to HUF 11,970 or 19 per cent. of wage income with a ceiling of HUF 1.5 million, and 7 per cent. with a ceiling of HUF 3,552,000	(35)	—
Lower tax bracket to increase to HUF 3.0 million from 1 January 2010	—	(196)
Elimination of PIT benefits in taxation except for the family benefit from 2010 (from 2011, further HUF 43 billion)	—	3
Universal benefits (family allowance, regular social benefit, etc.) from 1	5	30

Description	Changes in taxation on cash basis	
	2009	2010
	(HUF billion)	
September 2009		
Capital taxes	(2)	(43)
Special tax on enterprises to be eliminated from 2010	—	(208)
Corporate taxable income to be widened with investment-related preferences remaining from 2010	—	73
Corporate tax rate to be increased to 19 per cent. from 2010.....	—	97
Separately taxable income will be rated down to 19 per cent. from 1 January 2010	—	0
Entrepreneur contribution to be cut by 1.5 percentage points from 1 July 2009	(2)	(5)
Consumption-related taxes	123	288
Value Added Tax (“VAT”) increase by 5 percentage points from 1 July 2009 ⁽¹⁾	107	248
Excise tax increase from 1 July 2009.....	16	40
Property-type taxes	—	—
Elimination local taxes on real properties from 2013	—	—
Real property tax from 2011	—	—
Households	83	311
Enterprises	(83)	(324)
Macroeconomic effect from basic scenario	8	42
Effect in total	8	29

Note:

- (1) Beyond the increase of the rate, excise tax increase contains the effect of VAT increase as well. Government revenue from VAT and excise tax increases in 2009 and 2010 show higher uncertainty due to macroeconomic risks from economic recession.

Source: Ministry of Finance

On 1 April 2009, the CSO published the preliminary general government deficit (including local governments) for the year 2008 according to ESA methodology. The deficit reached HUF 895.2 billion equalling 3.4 per cent. of the preliminary GDP for the year 2008.

Simultaneously, the NBH published the preliminary general government debt figure (including local governments) as at the end of the year 2008 according to ESA methodology. The debt reached HUF 19,318.4 billion equalling 73.0 per cent. of the preliminary GDP for the year 2008.

Future economic plan

On 29 October 2008, the IMF, the ECOFIN Council and the European Commission released a joint statement. According to the joint statement the European Union, the International Monetary Fund and the World Bank announced to provide a large loan facility to Hungary to implement its economic stabilisation programme and to withstand the adverse effects which have emerged due to the global financial turmoil.

On the same day the Ministry of Finance issued a statement. According to the statement growing tensions came up in Hungary's financial markets as a result of global financial market developments. The global slowdown would significantly narrow Hungary's export opportunities. Due to the lack of investor confidence from the financial turbulence, financing has been much more expensive, curbing the banks' lending capacity and deteriorating the growth potential of the Hungarian economy. Conditions of international financing worsened both for the national economy and the public sector. In light of this, as a response to the situation the Government of Hungary and the National Bank of Hungary developed a comprehensive strategy to strengthen the Hungarian economy by reducing financing needs of the public sector and alleviating the market pressures.

The Government decided to accelerate further the fiscal consolidation in 2008 and 2009 after having improved the government deficit position by more than 5 per cent. of GDP in the past two years.

In 2008, the level of primary public expenditure was reduced below the level appropriated in the budget by mostly leaving the special reserves untouched. Thus, general government deficit fell to 3.4 per cent. of GDP instead of 4.3 per cent. as originally planned. With the adjustment resulting from the compulsory private pension scheme as provided for by the EU, the deficit relative to GDP would be 2.9 per cent.

The Government first put forward a budget bill that reckoned on a deficit of 3.2 per cent. of GDP. As a result of several measures taken, this deficit should fall to 2.6 per cent. by cancelling tax cut plans together with some public expenditure cuts.

First phase of the measures in question involved:

- Slashing the ministries' spending.

Second phase of the measures in question involved:

- Leaving nominal wages in the public sector on hold in 2009;
- Eliminating the special bonus (the so-called 13th month salary of public employees);
- Limiting pension benefits for the 13th month at HUF 80,000 (annual bonus);
- For those retired early, there will be no paying out of any 13th month pension benefit.

Further measures include:

- Giving priority to investments projects with EU co-financing within public expenditures;
- Giving priority to EU projects that are designed to support small and medium enterprises; and
- Adoption by the Parliament of a bill to provide for fiscal responsibility that would establish fiscal rules including primary deficit and expenditure ceiling and a Legislative Budget Office to be erected providing for independent supervision of experts.

Measures in relation to the financial sector and the protection of depositors:

- The Government lifted the level of guarantee concerning the deposits from HUF 6 million to HUF 13 million (in line with EU arrangements);

- The Government sought to make an agreement with the commercial banks to alleviate the risks of foreign currency loans for households;
- To preserve the continuity of the banking functions the Government would step up its efforts to strengthen the HFSA's and MNB's capacity to assess and address solvency and liquidity concerns in banks in a timely manner; and
- The regulation and the supervision of the financial sector should be further strengthened.

As a response, the International Monetary Fund, the European Union and the World Bank agreed with the Republic to grant a financial assistance package of up to U.S.\$25.1 billion. The IMF provided a 17-month standby facility of U.S.\$15.7 billion (EUR 12.5 billion), while the European Union assigned to Hungary a U.S.\$8.1 billion (EUR 6.5 billion) loan facility, and there would be a possibility to draw down U.S.\$1.3 billion (EUR 1 billion) from the World Bank to assist the Republic in addressing the consequences of the global financial crisis.

Balance of Payments and Foreign Trade

Balance of Payments⁽¹⁾

The following table sets out the balance of payments of Hungary for the past 10 years:

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
	<i>Euro million</i>											
1. Goods, net.....	(1,165)	(1,685)	(2,044)	(3,180)	(2,496)	(2,203)	(2,898)	(2,863)	(2,210)	(2,051)	318	592
1.1 Exports.....	17,083	21,057	24,059	31,278	34,697	36,821	37,907	44,507	49,672	58,373	68,379	72,314
1.2 Imports.....	18,249	22,742	26,102	34,457	37,193	39,024	40,804	47,369	51,882	60,424	68,060	72,228
2. Services total, credit	5,146	4,811	4,910	6,429	7,865	7,820	8,123	8,672	10,351	10,625	12,445	13,680
Debit	3,583	3,736	4,094	5,195	6,203	7,233	8,075	8,188	9,219	9,379	11,394	12,769
Net	1,562	1,075	816	1,234	1,661	587	48	484	1,132	1,246	1,051	910
3. Income, credit	1,363	1,114	843	1,262	1,452	1,316	1,214	2,625	2,835	3,824	4,369	5,604
Debit	3,752	3,745	3,555	4,054	4,644	5,154	4,892	6,942	7,855	9,400	11,846	14,190
Net	(2,389)	(2,631)	(2,713)	(2,792)	(3,192)	(3,838)	(3,678)	(4,317)	(5,020)	(5,577)	(7,477)	(8,586)
4. Current transfers, net	179	215	408	385	450	525	595	(382)	(557)	(412)	(494)	(1,313)
4.1 General government net	40	47	100	137	163	241	260	484	779	870	991	475
4.2 Other sectors net	369	405	569	593	709	897	876	870	1,324	1,661	1,979	619
I. Current account	(1,812)	(3,026)	(3,531)	(4,352)	(3,577)	(4,929)	(5,933)	(7,078)	(6,655)	(6,794)	(6,602)	(8,903)
II. Capital account	104	170	31	300	358	202	(32)	260	713	573	1,139	1,121
III. Financial account ⁽²⁾	1,868	3,890	6,096	5,401	3,133	2,605	6,297	9,530	11,488	9,301	7,192	17,339
7. Direct investment, net....	3,278	2,743	2,872	2,334	3,992	2,889	424	2,741	4,417	2,898	1,700	3,201
8. Portfolio investment, net	(948)	1,662	1,896	(444)	1,593	1,820	2,703	5,436	3,502	5,087	(1,627)	(2,423)
9. Financial derivatives.....	7	124	(45)	64	130	156	230	334	(113)	135	838	(692)
10. Other investment, net	(469)	(639)	1,374	3,447	(2,582)	(2,260)	2,941	1,019	3,683	1,181	6,280	17,253
IV. Net errors and omissions	(286)	(274)	(355)	(190)	26	156	200	(1,184)	(1,637)	(2,112)	(1,595)	(1,881)
V. Overall balance (I+II+III+IV)	(127)	760	2,241	1,158	(60)	(1,965)	532	1,528	3,908	968	134	7,676
VI. International reserves	127	(760)	(2,241)	(1,158)	60	1,965	(532)	(1,528)	(3,908)	(968)	(134)	(7,676)

Notes:

- (1) In 2003 there was a methodological change in the calculation of the balance of payment statistics related to reinvested earnings in order to bring the methodology in line with international standards. Reinvested earnings increase the current account deficit, but this increase is automatically financed, since reinvested earnings are also reported in the capital account. Thus, the current account deficit appears to increase although in reality this is just a phenomenon of the change in the calculation methodology utilised. The data used in the tables and in the text is based on this new methodology.

- (2) Excluding international reserves.

Source: National Bank of Hungary

In 2008, the current account deficit increased to EUR 8,903 million largely due to increasing income outflow and an increasing net outflow of current transfers. The net direct investment amounted to EUR 3,201 million.

In June 2008 there was a methodological change in the calculation of the balance of payment statistics related to compensation of employees in order to bring the methodology in line with international standards. As for the incomes of employees, the procedure of monitoring transactions is replaced by estimates made on the basis of CSO administrative resources for the purposes of balance of payments statistics. This covers the gross earnings of employees in its entirety. In this context, taxes and contributions paid and received in connection with wages are also shown under current transfers.

Foreign Trade

The following tables present the distribution of Hungary's trade in goods for the periods indicated:

External trade

Year	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
<i>(HUF billion)</i>												
Exports.....	3,566.8	4,934.5	5,938.5	7,942.8	8,748.2	8,874.0	9,643.7	11,232.4	12,425.5	15,591.1	17,344.5	18,301.7
Imports.....	3,961.2	5,511.5	6,645.6	9,064.0	9,665.1	9,704.1	10,695.4	12,218.9	13,145.5	16,224.7	17,374.5	18,325.5

Source: Hungarian Central Statistical Office and National Bank of Hungary

Exports

External trade by country groups

Year	OECD countries	EU15 countries	Central and Eastern European countries	CEFTA countries	Developing countries	Total
<i>(HUF billion)</i>						
1997.....	2,910.7	2,539.0	684.3	258.9	119.8	3,566.8
1998.....	4,156.6	3,600.2	782.8	437.6	188.8	4,934.5
1999.....	5,199.2	4,526.5	736.5	465.1	223.5	5,938.5
2000.....	6,942.8	5,965.2	1,026.8	647.7	284.9	7,942.8
2001.....	7,536.2	6,497.9	1,228.6	790.4	314.5	8,748.2
2002.....	7,649.9	6,667.5	1,235.5	795.8	359.1	8,874.0
2003.....	8,152.8	7,100.3	1,512.6	972.6	388.9	9,643.7
2004.....	9,285.1	7,952.5	1,329.5 ⁽¹⁾	949.7 ⁽²⁾	975.3 ⁽³⁾	11,232.4
2005.....	10,184.8	8,135.7	1,726.5 ⁽¹⁾	1,361.0 ⁽²⁾	1,202.3 ⁽³⁾	12,425.5
2006.....		9,545.5		2,780.3 ⁽⁴⁾		15,591.1
2007.....		10,370.7		3,347.4 ⁽⁴⁾		17,344.5
2008.....		10,474.2		3,825.8 ⁽⁴⁾		18,301.7

Notes:

- (1) Non-EU-member European countries.
- (2) Countries joined the EU in 2004.
- (3) Non European countries.
- (4) Countries joined the EU in 2004 and 2007.

Source: Hungarian Central Statistical Office and National Bank of Hungary

External trade by commodity groups

Year	Food beverages tobacco	Crude Materials	Fuels electric energy	Manufactured goods	Machinery and transport equipment	Total
<i>(HUF billion)</i>						
1997.....	462.7	135.8	94.1	1,262.8	1,611.4	3,566.8
1998.....	520.1	144.9	93.1	1,612.2	2,564.3	4,934.5
1999.....	474.1	146.9	96.3	1,819.9	3,401.4	5,938.5
2000.....	550.5	187.7	140.4	2,299.3	4,765.0	7,942.8
2001.....	656.2	173.7	169.4	2,712.8	5,036.0	8,748.2
2002.....	601.3	177.5	145.2	2,740.1	5,209.8	8,874.0
2003.....	630.3	198.8	157.1	2,762.0	5,895.5	9,643.7
2004.....	671.8	244.6	213.0	3,088.7	7,014.3	11,232.4
2005.....	718.0	246.4	339.2	3,429.3	7,692.7	12,425.5
2006.....	857.8	296.3	387.3	4,296.2	9,753.5	15,591.1
2007.....	1,085.8	330.3	503.9	4,595.3	10,829.1	17,344.5
2008.....	1,225.8	430.4	696.7	4,867.7	11,081.1	18,301.7

Source: Hungarian Central Statistical Office and National Bank of Hungary

Imports

External trade by country groups

Year	OECD countries	EU15 countries	Central and Eastern European countries	CEFTA countries	Developing countries	Total
<i>(HUF billion)</i>						
1997.....	3,079.9	2,486.5	735.0	257.7	346.2	3,961.2
1998.....	4,411.0	3,533.7	831.7	379.0	563.4	5,511.5
1999.....	5,328.5	4,279.7	953.4	480.8	735.0	6,645.6
2000.....	6,872.5	5,292.8	1,546.0	683.6	1,178.8	9,064.0
2001.....	7,249.7	5,585.7	1,606.6	765.2	1,351.6	9,665.1
2002.....	7,108.1	5,458.8	1,611.6	820.2	1,607.1	9,704.1
2003.....	7,773.3	5,883.1	1,865.9	975.3	1,822.5	10,695.4
2004.....	9,446.3	7,635.4	1,406.4 ⁽¹⁾	1,126.6 ⁽²⁾	2,050.5 ⁽³⁾	12,218.9
2005.....	9,989.0	7,637.9	1,659.5 ⁽¹⁾	1,323.6 ⁽²⁾	2,524.6 ⁽³⁾	13,145.5
2006.....		9,225.3		2,189.3 ⁽⁴⁾		16,224.7
2007.....		9,685.9		2,431.9 ⁽⁴⁾		17,374.5

		Imports				
External trade by country groups						
			Central and Eastern European countries	CEFTA countries	Developing countries	
Year	OECD countries	EU15 countries				Total
(HUF billion)						
2008.....		9,772.4		2,685.6 ⁽⁴⁾		18,325.5

Notes:

- (1) Non-EU-member European countries.
- (2) Countries joining the EU in 2004.
- (3) Non European countries.
- (4) Countries joining the EU in 2004 and 2007.

Source: Hungarian Central Statistical Office and National Bank of Hungary

External trade by commodity groups

	Food beverages tobacco	Crude Materials	Fuels electric energy	Manufactured goods	Machinery and transport equipment	Total
Year						
			(HUF billion)			
1997	167.1	129.6	378.7	1,621.7	1,664.0	3,961.2
1998	205.3	163.2	361.3	2,215.0	2,566.7	5,511.5
1999	200.8	149.0	406.8	2,554.5	3,334.4	6,645.6
2000	248.3	198.6	760.0	3,190.3	4,666.9	9,064.0
2001	281.4	195.1	792.2	3,413.7	4,982.6	9,665.1
2002	292.4	194.2	725.7	3,445.9	5,045.8	9,704.1
2003	327.1	211.3	825.0	3,811.1	5,520.9	10,695.4
2004	448.7	226.7	886.1	4,194.0	6,463.5	12,218.9
2005	536.9	234.7	1,339.3	4,320.4	6,714.3	13,145.5
2006	643.0	274.1	1,788.8	5,235.5	8,283.4	16,224.7
2007	725.4	293.8	1,663.0	5,576.9	9,115.4	17,374.5
2008	849.8	356.4	2,355.5	5,788.8	8,975.0	18,325.5

Source: Hungarian Central Statistical Office and National Bank of Hungary

In recent years, Hungary's foreign trade in goods with industrialised countries (in particular EU countries) has increased. EU27 countries accounted for 78.1 per cent. of exports and 68.0 per cent. of imports in the year 2008.

Hungary has entered into trade and co-operation agreements with the EU, EFTA and with certain Central European countries designed to lower or eliminate trade barriers. During 1996, Hungary became a full member of the OECD. Hungary became a member state of the EU on 1 May 2004. See "Description of The Republic of Hungary — Overview — International Relations — European Union".

Foreign Direct Investment

The information below sets out foreign direct investment⁽¹⁾ in Hungary for the periods indicated:

	Year ended 31 December													
	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Foreign direct investment in Hungary (ECU/Euro billion)	3.65	2.63	3.28	2.74	2.87	2.33	3.99	2.89	0.42	2.74	4.42	2.90	1.70	3.20

Note:

(1) The FDI data is calculated based on the new methodology concerning reinvested earnings described above.

Source: National Bank of Hungary

The level of cumulative FDI reached Euro 82.2 billion in December 2008, which equates to approximately three-quarters of GDP for 2008. In 2003, due to the expansion abroad of major Hungarian companies such as OTP and MOL, the FDI outflow was significantly higher compared to previous years, which explains about 60 per cent. of the net FDI decrease. The remainder can be attributed to the unfavourable global investment environment, which has led to moderate investment in Hungary. In 2004, 2005 and 2006 due to the favourable global and regional investment environment, the net FDI inflow was significantly higher than in 2003. In 2007 the FDI inflow dropped significantly compared to the FDI inflow of the previous years caused by unfavorable global investment environment and one-off effects including the share buy-back transactions of MOL. In 2008 the volume of FDI reached the high volumes experienced in the years prior to 2007.

Foreign Exchange Reserves

The following table presents the level of Hungary's gold and foreign exchange reserves at the dates indicated:

	Year ended 31 December												
	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
	(ECU/Euro million)												
International net gold reserves ⁽¹⁾	30	26	25	29	30	32	33	33	32	43	48	56	61
Foreign exchange ⁽²⁾	7,819	7,614	7,977	10,845	12,038	12,163	9,887	10,108	11,671	15,678	16,349	16,329	23,979
Total	7,849	7,640	8,002	10,874	12,068	12,195	9,920	10,142	11,703	15,721	16,397	16,385	24,040

Notes:

(1) Gold valued at London fixings on the relevant date.

(2) Consists of foreign currencies, including the counterparts of swapped gold, converted at exchange rates at the dates shown.

Source: National Bank of Hungary

Monetary and Financial System

National Bank of Hungary

The National Bank of Hungary (the “NBH”) is the central bank of Hungary. Its primary responsibility is to use monetary instruments to achieve and maintain price stability and, without prejudice to this objective, to support the economic policy of the government. These instruments include:

- establishing reserve ratios for commercial banks;
- setting the rates for the NBH's open market operations, which include sales and purchases of government securities from commercial banks and engaging in other similar transactions to regulate liquidity within the economy; and

- determining exchange rate policy in agreement with the government.

In accordance with latest regulation of the National Bank of Hungary (the Act No. LVIII of 2001 on the National Bank of Hungary, the “**National Bank of Hungary Act**”) the number of Monetary Council members amounts to a minimum of five and maximum of seven members. According to the new regulation the Governor, the Deputy Governors of the National Bank of Hungary and four other members can become a member of the Monetary Council. However the other members of Monetary Council nominated earlier shall remain in their office until the end of their respective mandates. Therefore, currently the Monetary Council consists of nine members.

Monetary policy objectives and main methods to achieve them

In accordance with its primary goal as set forth by law, the NBH is expected to gradually take steps to achieve and maintain price stability. At its meeting held on 12 June 2001, the Central Bank Council of the NBH decided to conduct its monetary policy within the framework of inflation targeting supplemented by an exchange rate regime which uses a wide fluctuation band. Subsequently the fluctuation band has been abandoned. Since February 2008, the Hungarian Forint has been floating freely. The monetary policy uses its available instruments to keep the rate of inflation within the target band.

The main monetary policy instrument of the central bank used to be its two-week deposit facility. The NBH periodically accepted unlimited two-week deposits at the policy rate. Since 9 January 2007, the NBH issues bonds with a maturity of two weeks instead of accepting two-weeks deposits in order to enhance liquidity management of banks and the development of the Hungarian financial sector. The NBH, furthermore, reduces the volatility of overnight interest rates by maintaining an interest rate band around the policy rate. The width of the band has been +/-0.5 per cent. since October 2008. Reform of the required reserve system has continued since 2001. The required reserve ratio has declined from 17 per cent. in 1995 to 5 per cent. in September 2002, the cut in the effective reserve ratio was intended to contribute to the narrowing of the spread between deposit and lending rates. In November 2008 the required reserve ratio was cut to 2 per cent. in order to support domestic credit institutions' Hungarian Forint liquidity; as a result, the reserve ratio applied by the NBH is equal to the reserve ratio applied by the European Central Bank. The required reserve ratio is currently 2 per cent.

Owing primarily to the former depreciation of the Hungarian Forint, the increase in VAT, higher oil prices and the high fiscal deficit, the NBH abandoned the inflation target for 2004 (3.5 per cent. +/-1 per cent.). The NBH therefore started to focus its inflation rate targeting primarily on 2005, for which the target rate was 4 per cent. (+/-1 per cent.). This target was met after reaching 3.3 per cent. inflation rate in December 2005. The inflation target rate for 2006 was 3.5 per cent. +/-1 per cent. The 2006 and 2007 inflation targets were not achieved mainly as a result of the announced new fiscal policy. The government and the central bank set an inflation target of 3 per cent. +/-1 per cent. for 2007 and the following years. In the future the central bank will permanently monitor the inflation for the coming five to nine quarters and continuously adjust the monetary policy appropriately. Inflation reached 3.5 per cent. in December 2008 and 5.0 per cent. in August 2009.

Composition of the Money Supply

The NBH does not use money supply targets as an instrument of monetary policy. The money supply flexibility adjusts to the money demand, which is indirectly influenced by the monetary policy. Increases in monetary aggregates are slowing due to the decrease in the rate of inflation.

As at the end of December

1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008

(HUF billion)

As at the end of December											
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
	(HUF billion)										
M1	1,991	2,362	2,654	3,113	3,648	4,028	4,169	5,189	5,833	6,348	6,160
Quasi-money ⁽¹⁾	2,387	2,706	3,027	3,521	3,895	4,548	5,258	5,464	6,080	6,573	8,090
M2 ⁽²⁾	4,378	5,068	5,681	6,634	7,543	8,575	9,427	10,653	11,913	12,922	14,251
Securities of financial institutions	212,135	124,514	448,933	543,563	303,706	213,658	380,641	596,849	872	1,259	1,184
M3	4,590	5,192	6,130	7,178	7,847	8,789	9,808	11,250	12,785	14,181	15,435

Note:

(1) Quasi-money = fixed term Hungarian Forint deposits + all foreign currency deposits.

(2) M2 = M1 + quasi-money.

Source: National Bank of Hungary

National Bank of Hungary Interest Rates

The following table sets forth indicative interest rates of the NBH as at the dates shown:

(% , end of period) December													
	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Main official interest rate	22.25 ⁽¹⁾	19.75 ⁽¹⁾	16.75 ⁽¹⁾	14.25 ⁽²⁾	11.75 ⁽²⁾	9.75 ⁽²⁾	8.50 ⁽²⁾	12.50 ⁽²⁾	9.5 ⁽²⁾	6.00 ⁽²⁾	8.00 ⁽²⁾	7.50 ⁽²⁾	10.00 ⁽²⁾
Real rate	2.0	1.1	5.8	2.7	1.5	2.8	3.5	6.4	3.8	2.6	1.4	0.1	6.3

Note:

(1) 1 month.

(2) 2 weeks.

(3) End of August

(4) Calculated according to the latest available (August 2009) CPI data.

Source: National Bank of Hungary

At the beginning of 2003, the NBH reduced its benchmark two week interest rate twice by 100 basis points each. Later on in 2003, the central bank base rate was increased three times by 600 basis points in total. In 2004, the central bank base rate was decreased by 300 basis points, while in the first nine months of 2005, the NBH reduced the central bank base rate by a further 350 basis points. From 20 September 2005 until 20 June 2006, the central bank base rate stood at 6.00 per cent. In 2006, the NBH raised the central bank base rate by 200 basis points. At the beginning of the year 2007, the base rate stood at 8.00 per cent. As inflation prospects improved in the summer of 2007, the NBH started to reduce the central bank base rate. On 26 June 2007 the NBH reduced the central bank base rate by 25 basis points and on 25 September 2007 by an additional 25 basis points. On 1 April 2008 the central bank raised the base rate by 50 basis points. On 29 April 2008 the central bank raised the base rate by 25 basis points and on 27 May 2008 the central bank raised the base rate by an additional 25 basis points. On 22 October 2008 the central bank increased the central bank base rate by 300 basis points. In November 2008 the central bank reduced the central bank base rate by 50 basis points and in December 2008 the central bank base rate was reduced twice by 50 basis points each time. In January 2009 the central bank cut the central bank base rate by an additional 50 basis points, in July by 100 basis points and in August 2009 by a further 50 basis points. On 31 August, 2009 the base rate stood at 8.00 per cent.

Exchange Rate Policy and Operations

According to Act LVIII of 2001, the National Bank of Hungary and the government jointly determine the framework of the exchange rate regime. As a result of a joint decision of the National Bank of Hungary and the Government in February 2008, the Hungarian Forint is floating freely.

In May 2001, the NBH widened the exchange rate band within which the Hungarian Forint could trade to 15 per cent. either side of HUF 276/€. In June 2001, it adopted an inflation targeting framework, consistent with its primary objective of achieving and maintaining price stability. These changes allowed the NBH greater flexibility to resume a disinflationary policy.

During 2001 and 2002, the NBH kept its base interest rate high in order to reduce inflation to the target level. This led to a gradual appreciation in the Hungarian Forint against the Euro during the year from HUF 245/€ at the start of the year to HUF 236/€ by 31 December 2002.

In early 2003, strong portfolio inflows pushed the Hungarian Forint to the upper band limit of HUF 235/€. To defend the Hungarian Forint, the NBH intervened in the foreign exchange market by selling Hungarian Forints and cut interest rates by 100 basis points on both 15 and 16 January 2003. The second rate cut was accompanied by the widening of the overnight interest rate corridor to 3 per cent. in order to stem the flow of short-term speculative money into Hungary. Until June 2003, the Hungarian Forint fluctuated around HUF 245/€.

In June 2003, the government and the NBH decided to shift the central parity by 2.26 per cent. to HUF 282.39/€. This unexpected measure and the growing uncertainty about Hungarian monetary conditions caused depreciation in the Hungarian Forint of roughly 10 per cent. to HUF 265/€, prompting the NBH to raise interest rates in defence of the Hungarian Forint by a total of 300 basis points, to a level 100 basis points higher than in the beginning of the year. This increase stabilised the Hungarian Forint below the HUF 260/€ level until the end of November 2003, when it again weakened sharply. In order to support the Hungarian Forint and defend its medium term inflation target, the NBH increased the base rate by another 300 basis points, up to 12.5 per cent. at the end of November 2003.

In 2004 and 2005, the Hungarian Forint strengthened significantly and traded around the HUF 250/€ level as a result of a high central bank base rate and the gradual improvement in fiscal prospects. In view of these favourable signs the NBH cut interest rates cautiously from March 2004 until 2006.

In the first half of 2006 partly as a result of higher political risks and uncertainties concerning the fiscal policy the Hungarian Forint depreciated to HUF 280/€. Between June 2006 and October 2006, the NBH raised the base rate gradually, due to higher inflation risks and higher interest rates globally. As a result of higher domestic interest rates and the implementation of fiscal deficit contracting measures as well as relatively high domestic interest rates the Hungarian Forint appreciated to around HUF 250/€ by the end of 2006.

In the first half of 2007 the Hungarian Forint fluctuated around the level HUF 250/€. In the middle of the year 2007 the Hungarian Forint depreciated reaching HUF 260/€ mainly as a result of the subprime crisis. By the end of the year 2007 the Hungarian Forint traded around the level HUF 255/€. The Hungarian Forint depreciated further in the first two months of the year 2008, reaching HUF 265/€. The weakening of the Hungarian Forint was mainly the result of the low global liquidity and worsened global investor sentiment.

After abandoning the fluctuation band in February 2008 the Hungarian Forint has appreciated reaching the level HUF 230/€ by the middle of July 2008.

In Autumn 2008 however the Hungarian Forint weakened sharply as a result of the negative impact of the global financial crisis. On 22 October 2008 the Hungarian Forint weakened above the HUF 275/€ level. In response the National Bank of Hungary increased the central bank base rate by 300 basis points. The rate hike prevented the Hungarian Forint from further depreciation, the Hungarian Forint stabilised up until the end of

the year 2008 below the HUF 275/€ level. As at 31 December 2008 the Hungarian Forint stood at the HUF 265/€ level.

In Spring 2009 the Hungarian Forint weakened further as a result of the ongoing negative impact of the global financial crisis and global economic slowdown. On 3 March 2009 the Hungarian Forint weakened above the HUF 315/€ level. In the second quarter of 2009 the Hungarian Forint strengthened as a result of relatively high central bank base rate, decreasing expected Hungarian fiscal and current account deficit and improving global economic growth expectation. On 26 August 2009 the Hungarian Forint strengthened to the HUF 266.95/€ level closing at HUF 272.02 on 31 August 2009.

Foreign Exchange and Convertibility of the Hungarian Forint

Since 1996, Hungarian foreign exchange regulations have been consistent with the convertibility standards of Article VIII of the IMF and with the regulations of the OECD.

Since January 1998, Hungarian residents have been able to purchase shares and debt instruments with a maturity of at least one year issued by all OECD based issuers, and non-residents have been able to issue such instruments denominated in foreign currency in the Hungarian securities market. Since January 1998, Hungarian companies and individuals have also been able to receive foreign exchange denominated loans with a maturity of more than one year (with certain reporting obligations) and have been able to take out foreign exchange denominated loans with a maturity of less than one year with approval from the NBH.

In accordance with the continuous liberalisation of restrictions on capital movements in recent years, effective from mid-June 2001, pursuant to Government Decree 88/2001 (VI.15.) (replaced by Act XCIII of 2001), the Hungarian Forint is fully convertible, not only in terms of current transactions, but also in terms of capital transactions. The main remaining restrictions relating to foreign investment have been removed: non-residents have unrestricted access to Hungarian short-term securities, HUF-denominated accounts and the on-shore derivatives market, and residents have unrestricted access to off-shore financial services and short-term foreign securities. Minor restrictions remain which have the objective of preventing money laundering. The full convertibility of the Hungarian Forint meets all EU requirements.

The Hungarian Banking System

Since 1 April 2000, the supervisory agencies for commercial banks, investment activities, pension funds and insurance activities have been brought together under one umbrella agency — the Hungarian Financial Supervisory Authority (in Hungarian: Pénzügyi Szervezetek Állami Felügyelete). There are still, however, separate legislative regimes for banking, insurance, pension funds and investment services. Currently, the laws for insurance, banking and pension funds are stable and almost totally EU compliant.

Since 1991, Hungary's banking system has been subject to a regulatory and supervisory framework based on the principles and guidelines of the Bank for International Settlements. Act CXII of 1996 on Credit Institutions and Financial Enterprises (the “**Credit Institutions Act**”), in effect since 1 January 1997, endeavours to facilitate harmonisation of the Hungarian banking system with the European Union uniform banking standards.

Supervision of the Hungarian Banking System

Supervision of banking activities in Hungary has strengthened as the banking system has developed. Bank supervisory responsibilities have largely been transferred to the Hungarian Financial Supervisory Authority, with the National Bank of Hungary retaining a more limited supervisory role.

Role of the NBH

While the NBH has no legal obligation to support Hungary's credit institutions, the NBH may serve as a lender of last resort to the credit institutions if such credit institutions encounter temporary liquidity

difficulties. Any loans made by the NBH to Hungary's credit institutions in its capacity as lender of last resort constitute general unsecured obligations of such commercial banks.

Role of the Hungarian Financial Supervisory Authority

The Hungarian Financial Supervisory Authority must licence a credit institution before it may be established, commence operations, establish a representative office or a subsidiary abroad, elect its management, acquire shares of a non-resident entity representing a qualifying holding (10 per cent.) or terminate its operations. Since Hungary became an EU member state on 1 May 2004, this will not apply to credit institutions having their seat in an EU member state.

The Hungarian Financial Supervisory Authority is responsible for verifying compliance by the credit institutions with the Credit Institutions Act and applicable banking regulations. The Hungarian Financial Supervisory Authority is entitled to impose various sanctions on credit institutions, including issuing warnings of non-compliance, withdrawing licences, instituting liquidation proceedings and imposing fines on credit institutions and the managers thereof.

The Hungarian Financial Supervisory Authority does not have the power to issue regulatory decrees. Act CXX of 2001 on the Capital Markets (the "**Capital Markets Act**") and the Credit Institutions Act set forth matters upon which the government or Minister of Finance may issue regulatory decrees.

The Credit Institutions Act requires Hungarian credit institutions to maintain a solvency ratio of 8 per cent. Pursuant to its authority under the Credit Institutions Act, the Minister of Finance has issued a decree on the calculation of the solvency ratio. The decree adopts Bank of International Settlements ("**BIS**") standards prescribing how the ratio of a bank's regulatory capital and such bank's risk weighted assets (on and off balance sheet items) must be calculated. In addition, the Minister of Finance has issued decrees requiring credit institutions to create provisions based both on the quality of their assets (which include loans, investments and off balance sheet items) and on certain foreign country risks present in their assets.

Portfolio risk provisions are calculated by categorising the assets of a credit institution into the following categories: standard, watch, substandard, doubtful and bad. Assets are placed in the categories based on the performance of the asset and the financial condition of the debtor. Provisions are made based on the asset category: 0 per cent. for standard assets, 0 per cent. to less than or equal to 10 per cent. for watch assets, greater than 10 per cent. to less than or equal to 30 per cent. for substandard assets, greater than 30 per cent. to less than or equal to 70 per cent. for doubtful assets and greater than 70 per cent. to 100 per cent. for bad assets.

The value of any collateral, including real estate, held against an asset may be used to offset the need to make provisions. The decree requiring provisions does not provide guidelines on the extent to which collateral may be used for this purpose. Individual banks are required to create their own guidelines, which are to be approved annually by their auditors.

Country risk provisions are determined using a table, which sets forth the amount of provisions required based on the nationalities of the debtors in a credit institution's portfolio. The country risk decree also requires credit institutions to set absolute limits on the proportion of the relevant credit institution's total assets which may come from a particular country.

In 2001, Hungary harmonised its guidelines on capital adequacy requirements for investment institutions and commercial banks with EU Directive 93/6/EC. While in 2008 the adaptation of EU Directive 2006/48/EC and EU Directive 2006/49/EC (Basel II) took place.

Structure of the Hungarian Banking System

The Credit Institutions Act provides for three types of credit institutions:

- banks;
- specialised credit institutions; and
- cooperative credit institutions.

Only credit institutions are entitled to receive deposits from the public and provide money transmission services. In addition, banks are entitled to provide the full range of financial services listed in the Credit Institutions Act, including making loans, issuing guarantees, trading foreign currencies, issuing bank cards and providing depository services. Banks may also engage in, for their own account or for the accounts of customers, the trading of government and corporate securities, trading in derivatives and may provide investment services. Specialised credit institutions are limited with respect to the scope of services they may provide and with respect to the types of clients to which they may provide such services. Specialised credit institutions include the two housing savings associations and three private mortgage banks. There are two special State-owned institutions: the MFB and the Hungarian Eximbank. (The State owns directly a minority stake (25 per cent. plus one share) and the rest indirectly through the MFB.) According to data compiled by the Hungarian Financial Supervisory Authority the total assets of the credit institutions (including specialised credit institutions) were HUF 32,063.0 billion in December 2008.

Banking survey (% change, year on year)

Banking survey (% change, year on year)										
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Domestic credit	2.2	14.7	4.8	15.7	21.0	14.1	16.3	18.5	12.8	18.5
Credits to enterprises...	n/a	n/a	9.5	5.8	19.8	13.3	14.2	13.7	12.1	10.9
Credits to households ..	n/a	n/a	47.5	65.8	60.6	27.2	26.4	25.5	24.3	30.5
Broad money (M3)	13.1	18.0	17.1	9.3	12.0	11.6	14.7	13.6	10.9	8.8

Note:

Disaggregated data are not available for 1999 and 2000 due to a methodological change implemented in 2001.

Source: National Bank of Hungary

Cooperative institutions may only provide limited types of financial services, primarily the taking of deposits and the making of small loans. Hungarian cooperative institutions had, as of 31 December 2008, an aggregate of HUF 1,577.1 billion in total assets according to data compiled by the Hungarian Financial Supervisory Authority.

In addition to the credit institutions discussed above, several other financial entities play an important role in strengthening the Hungarian banking and financial sectors. These entities include:

- the National Deposit Insurance Fund, which credit institutions are required to join, insures the deposits up to HUF 13 million per depository, but does not cover the deposits of the government or certain other entities;
- the Credit Guarantee Corporation, which guarantees loans to small and medium size businesses;
- the National Savings Cooperatives Institutions Protection Fund, which is a voluntary consortium of about 200 Hungarian cooperative credit institutions designed to further such institutions' mutual interests; and
- the Hungarian Export Credit Insurance Corporation, which provides insurance for export credits and exchange rate risks, and the Hungarian Eximbank.

Ownership Structure of the Banking Sector

After the dynamic growth of foreign share ownership in the sector in previous years, the proportion of registered capital held by foreign investors stabilised in 2002. In 2005, approximately 80 per cent. of the total equity capital of the Hungarian banking sector (excluding the MFB and the Hungarian Eximbank which are owned by the State) was held by non-residents of Hungary.

The only banks in which the Republic now holds controlling interests are the MFB and the Hungarian Eximbank. The Republic retained a golden share in OTP Bank, which granted the holder certain special shareholder rights. For example, there could be no shareholder quorum without the presence of the golden shareholder and decisions regarding changes in the registered capital of the bank, the merger, dissolution, transformation or liquidation of the bank, the transfer or encumbrance of rights necessary for the operation of the bank and the appointment or removal of directors and supervisory directors of the bank who represent the holder of the golden share, could only be made with the consent of the holder of the golden share. In compliance with the EU directive on the liberty of the capital markets, this form of the State's special ownership rights has been abolished and the golden share has been transformed into common shares.

In May 2009 the Republic acquired a specific priority share in FHB Jelzálogbank Nyrt. issued in accordance with the Act CIV of 2008 on the strengthening of the stability of the financial intermediaries. For example, dividend-payments and decisions which can be accepted with three-quarters majority of the general meeting, can only be made with the consent of the holder of this share.

Capital Markets

In the course of the transition to a market economy, Hungary attached great importance to the development of a sound capital market in order to promote economic development and to finance Hungarian enterprises. The Capital Markets Act regulates the offering and trade of securities (including government securities) and the institutional framework of the Hungarian capital market (including stock exchanges, investment funds and clearing houses). State control and supervision of the capital markets was delegated to the Hungarian Financial Supervisory Authority. In line with international changes, Hungary has moved towards a universal financial system when regulating the relationship between investment and banking services. With effect from 1 January 1999, banks with proper authorisation may carry on investment and financial service activities within the same organisational frameworks, thereby offering universal banking services. Regulation of the capital markets in Hungary is substantially compliant with EU regulations and guidelines.

Stock Exchange

The Budapest Stock Exchange Limited, which opened in 1990, is a self-governing and self-regulating organisation, which elects its own bodies and officials, adopts its own regulations, defines its operating rules and fixes the fees charged for its services.

The following table sets forth selected indicators relating to the Budapest Stock Exchange at the end of and for the years indicated:

Budapest Stock Exchange

	As at and for the period ending				
	2004	2005 ⁽¹⁾	2006 ⁽²⁾	2007 ⁽¹⁾	2008 ⁽¹⁾
Total Spot turnover values (in USD millions) .	14,545	25,614	32,734	26,005	15,688
Equities.....	12,880	24,128	30,880	25,290	14,334
Government Bonds.....	525	401	617	163	913
Corporate Bonds.....	509	613	681	284	96
Bonds of International Institutions.....	-	-	-	-	-

	As at and for the period ending				
	2004	2005 ⁽¹⁾	2006 ⁽²⁾	2007 ⁽¹⁾	2008 ⁽¹⁾
Mortgage Bonds	430	376	369	170	108
T-Bills	193	86	158	42	139
Investment Funds.....	4	7	23	55	40
Compensation Notes.....	4	1	6	0	0
Certificates	0	0	0	0	59
Total number of transactions	790,916	1,119,909	1,483,551	1,654,992	1,950,035
Equities.....	775,144	1,104,246	1,464,913	1,629,373	1,893,117
Government Bonds.....	638	281	391	233	1,106
Corporate Bonds.....	8,486	11,129	11,501	14,942	9,363
Bonds of International Institutions.....	-	-	-	-	-
Mortgage Bonds	1,929	2,034	2,680	2,089	2,509
T-Bills	185	96	103	52	113
Investment Funds.....	1,165	1,253	2,186	7,177	8,433
Compensation Notes.....	3,369	870	1,777	1,126	1,097
Certificates	0	0	0	0	34,297
Average number of daily transactions	3,164	4,427	5,887	6,755	7,959
Average daily turnover (in USD millions)	58	101	130	106	64
Average value per transaction (in USD thousands)	18	23	22	16	8
Number of trading days	250	253	252	245	251
Total Futures Turnover (in USD millions).....	10,894	23,695	30,659	19,367	11,037
Budapest Stock Exchange Index “BUX”.....	2,167	5,218	7,253	3,060	1,993
Currencies.....	3,932	10,643	14,416	9,499	5,575
Shares	4,791	7,831	8,977	6,804	3,469
Interest Rates	4	3	12	3	0
Number of transactions.....	176,073	283,301	426,896	435,519	469,633
Total Options Turnover (in USD millions).....	64	257	1,330	379	267
Equity options.....	4	6	5	0	0
Index options	0	0	13	1	0
Currency options	60	251	1,312	378	267
Number of trades (thousand)	49	270	1,079	1,109	936
Average exchange rate HUF/USD ⁽³⁾	202.63	199.66	210.51	183.83	171.80

Note:

- (1) USD values calculated based on EUR values of the Budapest Stock Exchange and the yearly average EUR/HUF and USD/HUF foreign exchange rates calculated by the NBH.
- (2) USD values calculated based on HUF values of the Budapest Stock Exchange and the yearly average USD/HUF foreign exchange rates calculated by the NBH.
- (3) Exchange rate used by the Budapest Stock Exchange for calculating USD values expressed in this table.

Source: Budapest Stock Exchange

PUBLIC FINANCE

The public finance sector in Hungary consists of the central government budget, social security funds (pension and health funds), extra-budgetary funds and local government budgets, which together are referred to as the general government budget.⁽³⁾

Budget Information

The following tables set forth information concerning government revenues and expenditures:

	General Government Balance-Consolidated					
	2004	2005	2006	2007	2008 Planned	2008
	(HUF billion)					
GFS method						
Revenues	8,208	9,518.3	10,484.4	11,636.9	12,339.8	12,572.7
Privatisation receipts.....	10.9	16.1	17.3	24.0	n/a	24.7
Revenues (excluding privatisation receipts).....	8,197.1	9,502.2	10,467.1	11,612.9	12,339.8	12,548
Expenditures.....	9,525	10,570	12,666.1	12,974.3	13,561.6	13,466.4
Balance (excluding privatisation receipts).....	(1,327.9)	(1,067.6)	(2,199.0)	(1,361.4)	(1,221.8)	(918.4)
Balance in % of GDP.....	(6.5)	(4.9)	(9.2)	(5.4)	(4.5)	(3.4)
General government balance-consolidated						
ESA method (excluding private pension funds)						
Revenues	8,795.9	9,300.5	10,145.0	11,394.5	12,031.4	12,296
Expenditures.....	10,134	11,020	12,333.5	12,642.5	13,132.2	13,201.3
Balance.....	(1,337.8)	(1,719.2)	(2,188.5)	(1,248.0)	(1,100.7)	(905.3)
Balance in % of GDP.....	(6.5)	(7.8)	(9.2)	(4.9)	(4.0)	(3.4)

Source:

Hungarian Central Statistics Office and Ministry of Finance

In 2005, Prime Minister Mr. Ferenc Gyurcsány announced a five year plan for tax reform. From the year 2006, the highest (25 per cent.) VAT rate has been cut by 5 percentage points, the highest (38 per cent.) Personal Income Tax (“PIT”) rate by 2 percentage points and the government introduced various measures to reduce the taxation of corporations. In the case of fuel the VAT rate reduction from 25 per cent. to 20 per cent. was implemented from 1 October 2005. The plan also included some tax raising measures. In 2006, the government introduced the “Luxury Tax”, a tax imposed on expensive (worth above HUF 100 million) residential buildings.

³ The source of data on Hungarian public finance is the Ministry of Finance. In this Offering Circular preliminary data compiled by the Ministry of Finance is presented in the light of data available in January 2009.

In 2006, after the inauguration of the new government, a new framework entitled “New Equilibrium” was announced, which included a wide range of fiscal adjustment measures (“**fiscal austerity package**”) affecting both the expenditures and revenues of the budget for the period 2006 to 2008. In the meantime, the government has already approved a number of measures concerning the re-organisation of public administration, including a cut in the number of ministries and the number of staff performing administrative tasks. The government has also been developing proposals for thorough reform of the public sector, including health, education and local governments.

The estimated impact of the announced measures was roughly HUF 350 billion (1.5 per cent. of GDP) in 2006, which was implemented during the last four months of the year, thus the annualised impact is approximately three times this figure.

The main specific measures listed in the framework referred to above and the timing of their implementation are summarised in the following table:

Description of measures	Date of Implemen- tation
11 ministries instead of the current 14.50% reduction in the executive staff of ministries and 20% reduction in civil servants, new governmental districts	2006 onwards
Restructuring of institutions of the central government:	
regional reshuffling of 192 county institutions (Police, Transport Supervisory Authority, State Tax Authority (APEH), etc.), mergers of 119 institutions, abolishment of 32 institutions	2006 onwards
More effective local government system: setting up of regional municipalities instead of the current county-based system	2006 onwards
Obligatory partnership of towns forming a joint service provision in specific public services (e.g. education)	2006 onwards
Joint administrative services for towns with less than 1000 inhabitants	2006 onwards
5% cut in the operational costs of local governments	2006 onwards
Reduction in headcount and compensation of members of local governments	2006 onwards
Immediate measures: freezing of appropriations for central budgetary institutions and chapter-managed appropriations, including the excessive drug expenditures	June 2006
Cut in gas price subsidies	Aug 2006
VAT: 15% rate increases to 20%	Sep 1 2006
Excises on tobacco: 5.7% increase from September 1, 2006; 2.7% increase from April 1, 2007; 2.7% increase from September 1, 2007 Excises on alcoholic products: 7% increase	Sep 1 2006
Introduction of tax on interest income and capital gain (20%)	Sep 1 2006
Increase in tax on benefits in kind (44%-54%)	Sep 1 2006
Introduction of a solidarity tax on personal incomes exceeding HUF 6 million (4%), a solidarity tax on pre-tax profits (4%) and special tax on financial sector	Sep 1 2006

Description of measures	Date of Implementation
Increase in the minimum contributions paid by self-employed (base will be twice of the minimum wage)	Sep 2006
Pensioners performing entrepreneurial activity will pay health contribution (15% in 2006 and 16% from 2007)	Sep 2006
Increase in the health contribution paid by employees, 2% from September 1, 2006, additional 1% from January 1, 2007; 0.5% increase in contributions to the Employment Fund; employed pensioners also subject to health contribution payments on benefits in kind.	Sep 1 2006
Increase in simplified entrepreneurial tax-rate (abbrev. In Hungarian: EVA) (15%-25%)	Oct 1 2006
Withdrawal of the envisaged reduction of contributions paid by employers and maintaining the lump-sum health contribution (EHO) paid by employers	Nov 2006
New regulation on tax base and rates for tax on vehicles, increase in fees on the sale/purchase of vehicles.....	2007
Properties owned abroad for tax avoidance purposes can be transferred home by paying a single duty of 10%	2007
More effective actions against tax evasions: merger of Police and Hungarian Customs and Finance Guard.....	2007
Nominal freeze of public sector wages for two years	2007-2008
Introduction of a tax on unjustifiable high cash balance of companies (20%).....	Jan 1 2007
Introduction of a minimum compulsory corporate income tax (10% up to HUF 5 billion, 16% above)	Jan 1 2007
Reduction in tax allowances	Jan 1 2007
Inclusion of pensions in the tax base (pensions will not be taxed, but additional income earned by pensioners will be taxed at a higher effective tax rate).....	Jan 1 2007
Introduction of a value-based property (real-estate) tax.....	2008

Certain measures of the above mentioned package have been referred to the Constitutional Court, which may annul them if a measure is found to be unconstitutional. In some cases the Constitutional Court has already ruled a certain measure to be constitutional (e. g. tax on interest income and capital gain), while in other cases the Constitutional Court has ruled a measure to be unconstitutional (e. g. introduction of a tax on unjustifiable high cash balance of companies).

The EU's Commissioner for Economy and Monetary Affairs Joaquin Almunia has welcomed the new fiscal package being introduced by the government. On 10 October 2006, the ECOFIN approved the revised update of the Convergence Programme of Hungary. The ECOFIN obligated the Government to report on the development of the measures described in the revised update of the Convergence Programme, and indicated that the European Union may freeze EU funds if the Government does not fulfil its obligations.

Subsequently on 9 March 2008, a referendum was held on daily fees to visit the hospital or a doctor and on higher education tuition fees. The majority of votes demanded the abolition of these measures.

For the fiscal year 2009, the Government implemented spending cuts of HUF 800 billion or 3 per cent. of GDP in total in three stages since September 2008. In 2008, the forecasts of global growth and import demand

worsened from week to week. With regard to these worsening forecasts, the Ministry of Finance modified the Hungarian GDP forecast in several steps including adjusting the annual government budget for 2009, and the Ministry of Finance made further adjustments in the course of the first half of 2009. In this context, two steps were implemented within the Parliamentary adoption of the government budget. In particular, the appropriated expenditure was cut down by HUF 600 billion or 2 per cent. of GDP in December from the bill submitted in September 2008:

- The September bill — growth: +3 per cent., ESA-deficit -3.2 per cent.;
- The October bill — growth: +1.2 per cent., ESA-deficit: -2.9 per cent. spending cut: HUF 183 billion or 0.7 per cent. of GDP; and
- Adopted in December — growth: -0.9 per cent., ESA-deficit: -2.6 per cent., spending cut: HUF 408 billion or 1.5 per cent. of GDP.

In the first half of the year it was seen that further measures would be needed:

- February version — growth: -3.3 per cent., ESA-deficit: 2.9 per cent., spending cut: HUF 210 billion or 0.8 per cent. of GDP;
- May version – growth: -6.7 per cent., ESA-deficit: 3.9 per cent., further spending cut: HUF 170 billion or 0.7 per cent of GDP; and
- August – no change in GDP projection and in the deficit target.

Convergence Programme

On 19 December 2008, the Ministry of Finance published the latest version of the convergence programme. According to the convergence programme, GDP would contract by 0.9 per cent. in 2009, grow by 1.6 per cent. in 2010 and grow by 2.5 per cent. in 2011. The general government deficit according to ESA methodology was projected to amount to 2.6 per cent. of GDP in 2009, 2.5 per cent. of GDP in 2010 and 2.2 per cent. of GDP in 2011. In May 2009, the MoF published the implementation report on the convergence programme, reflecting the changes in the macro-economic outlook and the deficit targets. GDP contraction by 6.7 per cent. for 2009 and 0.9 per cent. for 2010 were indicated, followed by a GDP growth by 3.6 per cent. in 2011. The deficit targets for these years were set as 3.9 per cent., 3.8 per cent. and 2.8 per cent. of GDP, respectively.

Recent Budgets

The 2009 planned general government deficit (local governments excluded) is HUF 650.7 billion (2.3 per cent. of GDP) according to GFS methodology. The 2009 expected general government deficit (local governments excluded) is HUF 991.8 billion (3.8 per cent. of GDP) according to GFS methodology.

According to the data included in the draft law on the implementation of the 2008 budget (submitted to Parliament at the end of August 2009), the general government deficit (excluding local governments) for the year 2008 amounted to HUF 918.4 billion (3.4 per cent. of GDP) according to GFS methodology. According to the fiscal notification carried out by the Eurostat in April 2009 the general government deficit (including local governments) amounted to 3.4 per cent. of GDP according to ESA methodology for the year 2008.

Central Government

Revenues and Expenditures of the Central Budget

				2008	
2004 Final	2005 Final	2006 Final	2007 Final	Planned	2008

(HUF billion)

Revenues**Payments of Economic Units**

Corporate taxes (including financial institutions).....	448.7	465.6	555.0	700.3	716.3	699.9
DPTT.....	19.7	23.8	33.6	31.5	29.0	38.8
Customs and import duties	39.3	9.4	9.1	9.2	8.9	9.8
Gambling tax	60.4	66.4	71.5	71.5	73.5	72.7
Eco tax.....	17.4	15.9	18.1	19.9	20.5	25.2
Simplified business tax.....	67.0	91.4	143.1	152.8	168.7	166.5
Other central payments.....	126.4	165.1	140.4	124.1	130.7	139.2
Other payments.....	23.6	21.2	35.2	19.3	31.0	30.1
Total	<u>802.6</u>	<u>858.7</u>	<u>1,005.9</u>	<u>1,128.6</u>	<u>1,178.6</u>	<u>1,182.1</u>

Taxes on Consumption

Value Added Tax.....	1,727.7	1,785.3	1,832.0	1,979.4	2,130.6	2,114.1
Excises.....	716.2	739.0	849.2	912.0	937.6	929.7
Total	<u>2,443.9</u>	<u>2,524.3</u>	<u>2,681.2</u>	<u>2,891.4</u>	<u>3,068.2</u>	<u>3,043.8</u>

Payments of Households

Gross PIT revenues.....	1,360.4	1,437.7	1,579.8	1,800.0	1,938.3	1,998.9
PIT revenues of central budget	904.6	997.8	1,119.1	1,305.7	1,367.2	1,440.2
Private persons' special tax	0.0	0.0	0.0	20.8	26.9	27.6
Tax payments	5.8	3.4	7.3	5.6	5.3	5.8
Fees	100.1	111.8	111.1	118.8	131.4	131.0
Total	<u>1,010.5</u>	<u>1,113.0</u>	<u>1,698.2</u>	<u>1,945.3</u>	<u>2,101.8</u>	<u>2,163.3</u>

Central Budgetary Institutions and Chapter Administered Appropriations

Revenue of the central budgetary institutions	612.4	688.7	832.5	828.8	536.8	778.2
Own revenues of chapter administered professional appropriations.....	86.4	124.8	133.1	150.8	69.7	144.5
EU support of chapter administered professional appropriations.....	49.1	195.3	302.2	287.4	601.1	325
EU support of central investments.....	0.5	0.8	0.0	0.0	0.0	0.0
Total	<u>748.5</u>	<u>1,009.5</u>	<u>1,267.8</u>	<u>1,266.9</u>	<u>1,207.5</u>	<u>1,251.7</u>

Payments of Central Budgetary Institutions	35.7	57.9	110.5	49.5	21.5	94.4
Payments of Local Governments	10.4	15.3	15.6	11.3	6.5	17.0
Payments of Extrabudgetary and Social Security Funds	67.9	81.3	82.0	135.9	119.3	143.4
Revenues of International Transactions	16.0	6.4	8.6	3.5	2.2	1.5
Payments Related to State Property	68.2	632.0	33.0	48.8	96.4	71.7
Road Tolls	0.0	0.0	0.0	0.0	0.0	0.0

Revenues and Expenditures of the Central Budget

	2004 Final	2005 Final	2006 Final	2007 Final	2008 Planned	2008
			<i>(HUF billion)</i>			
Motorways.....	0.0	0.0	0.0	0.0	0.0	0.0
Other Revenues	10.9	39.9	20.7	20.3	6.2	47.7
Revenues Related to Debt Service.....	1.8	116.4	1.0	0.2	0.2	9.7
Lump Sum Cash Flow Facility from EU	42.8	17.8	7.8	0.0	32.0	51.1
Payments of NBH.....	0.0	0.0	0.0	0.0	0.0	0.0
Interest Revenues.....	74.0	108.6	77.6	92.7	59.1	82.0
Total Revenues	5,333.2	6,896.6	7,009.9	7,594.5	7,899.6	8,159.3
Expenditures						
Subsidies to Economic Units.....	122.7	113.1	124.0	197.4	141.8	203.1
Support to the Media from which.....	43.2	45.9	46.6	52.2	53.4	51.3
Support to the Broadcasting Fund.....	0.0	0.0	0.0	0.0	0.0	0.0
Consumer Price Subsidy.....	103.8	117.7	117.9	111.9	117.0	107.6
Housing Grants.....	204.0	232.6	223.5	228.5	190.7	185.6
Family Benefits Social Subsidies						
Family benefits.....	307.8	326.3	471.0	508.1	507.2	503.0
Income supplement benefits	133.7	141.1	147.6	151.7	159.7	156.6
Other specific subsidies	23.3	25.7	27.4	26.5	27.6	26.3
Total	464.8	493.1	646.0	686.3	694.5	685.9
Central Budgetary Institutions and Chapter Administered Appropriations						
Expenditures of central budgetary institutions	1,927.5	2,038.5	2,280.1	2,382.6	1,861.2	2,348.9
Chapter administered professional appropriations	1,099.5	1,248.6	1,565.4	1,814.5	2,015.4	1,647
Central investment.....	63.9	49.0	51.1	37.3	0.0	0.0
Chapter balance reserve.....	0.0	0.0	0.0	0.0	0.0	0.0
Total	3,090.9	3,336.1	3,896.6	4,234.4	3,876.5	3,995.8
Support to Political Parties and Other Civil Organizations.....	3.7	3.7	5.1	5.2	5.2	5.2
Transfer to Social Security Funds.....	335.9	422.4	890.6	777.8	841.3	835.0
Transfer To Local Governments						
Direct transfer from the budget.....	769.0	881.4	867.1	860.3	777.6	863.1
Transfer from EU	0.0	17.4	24.2	18.7	190.0	107.7
Yielded PIT revenues	455.8	439.9	460.7	494.3	571.1	558.6
Total	1,224.8	1,338.7	1,352.0	1,373.3	1,538.6	1,529.4
Transfer to Extrabudgetary Funds	15.9	20.4	19.2	27.9	32.4	32.8
Expenditures of International	7.7	7.6	8.0	14.6	14.2	14.2

Revenues and Expenditures of the Central Budget

	2004 Final	2005 Final	2006 Final	2007 Final	2008 Planned	2008
			(HUF billion)			
Transactions.....						
Debt Service Related Expenditures	10.8	11.1	13.2	10.3	12.3	20.6
Other Expenditures.....	20.2	34.3	53.2	22.5	23.3	26.1
General Reserves.....	0.0	0.0	0.0	0.0	0.0	0.0
Special Reserves.....	0.0	0.0	0.0	0.0	0.0	0.0
Safety Reserve.....	0.0	0.0	0.0	0.0	0.0	0.0
Reserves	0.0	22.7	0.0	0.0	230.3	0.0
Extraordinary Expenditures	47.1	181.2	433.4	73.2	24.1	16.0
Transfer to NBH.....	0.0	0.0	0.0	0.0	0.0	0.0
Government Guarantees Redeemed.....	2.7	13.9	10.8	10.3	19.3	17.1
Contribution to EU Budget.....	19.7	186.6	185.6	189.5	205.3	210.6
Expenditures Related to State property.	0.0	0.0	0.0	0.0	88.2	67.0
Expenditures Related to the NBH.....	0.0	0.0	0.0	0.0	0.0	0.0
Interest Payments.....	875.5	903.3	970.0	995.7	1,053.5	1,133.5
Interest risk buffer	0.0	0.0	0.0	0.0	45.0	0.0
Total Expenditures	6,237.6	7,004.5	8,971.5	8,992.4	9,017.1	9,029.2

Source: Hungarian Central Statistics Office and Ministry of Finance

Central Government Budget Process

The Ministry of Finance prepares the central government budget on a calendar year basis for the government, which submits it to Parliament for consideration and ultimate approval.

The major components on the revenue side of the central government budget are consumption taxes (including VAT), enterprise taxes and taxes on households (primarily personal income taxes). On the expenditure side, the major items are debt service and transfers to the social security funds, budgetary institutions, local governments and extra-budgetary funds.

Roles of the Ministry of Finance, the Hungarian State Treasury and the Government Debt Management Agency

The Ministry of Finance is responsible for supplying information to support decision making and for co-ordinating issues falling within the government's scope of authority in relation to public finances. Specific responsibilities include the preparation of the bill for the final accounts of the central government and the central government budget, which is presented to Parliament each year.

The Ministry of Finance must ensure central budget execution, solvency of the central government, central government financing and registration of government debt guarantees, including loans granted and claims of the central government. These tasks are executed through the Treasury and debt and liquidity management tasks are carried out by the Government Debt Management Agency Private Company Limited by Shares (the "ÁKK").

The Treasury was established on 1 January 1996 as a central budgetary organisation. The legal and professional supervision of the Treasury is performed by the Ministry of Finance. Within its budget execution responsibilities, the Treasury's main task is the management of budget appropriations and government cash flows and the determination of the daily financing needs of the central government. The management of budget appropriations includes the registration of annual appropriations, the monitoring of their changes and the right to authorise payments from appropriated amounts.

The cash management duties of the Treasury include account management for the budgetary institutions, who, in accordance with the Act on Public Finances, are authorised to keep their account with the Treasury. The Treasury administers the Single Treasury Account, which is the cash account of the Treasury held at the NBH.

In addition, the Treasury's responsibilities include the provision of funds for government investments and other investments based on government decisions, the transfer of contributions and subsidies to municipalities, and the management and collection of loans and other claims of the central government.

The government's borrowing needs are financed by the ÁKK. The Minister of Finance established the ÁKK in order to concentrate debt management functions into one organisation. Accordingly, the ÁKK manages, renews and records the Hungarian Forint and foreign exchange debt of the central government and, pursuant to the amendment of the Public Financing Act from 1 July 2003, manages the liquidity of the Single Treasury Account. In the context of liquidity management, from 2004, the ÁKK has introduced new secondary market operations (e.g. repurchase transactions on the domestic securities market).

In the domestic market, the responsibilities of the ÁKK include the administration of auctions and subscriptions, the development of the institutional frameworks and the structure of government securities markets. Another important ÁKK function is to provide easily accessible, up-to-date information on the government's securities markets and on the financing of the Republic's borrowing needs in the spirit of transparency and openness. In foreign debt management, the ÁKK acts in the name of the Republic of Hungary in raising funds, manages the foreign exchange debt of the central government, ensures promptness and accuracy in respect of debt service payments and effects hedging transactions to reduce risks.

Taxation

The current Hungarian taxation system was introduced in 1988. The Republic, in line with its EU membership, is continuously considering the implementation of administrative amendments to harmonise its taxation machinery with that of the other EU member states in terms of collection, technological advances and tax avoidance laws.

The most important elements of the Hungarian tax system are corporate profit tax, personal income tax, value added tax, registration tax, excise duty, solidarity surtax (until 1 January 2010) and local taxes.

Hungarian tax law distinguishes between domestic and foreign taxpayers. The tax liability of a domestic taxpayer extends to income originating from both Hungary and abroad, while the tax liability of a non-Hungarian taxpayer is restricted to its Hungarian source of income as defined by the respective Hungarian tax law and is also generally affected by the applicable double taxation treaty. Hungary has entered into a double taxation treaty with most of the OECD countries except Mexico and New Zealand.

Recent improvement in tax collection is demonstrated by increases in tax receipts that have outpaced GDP growth. Further improvement is expected as larger companies and multinational enterprises take on a greater role in the Hungarian economy. In 1998, Hungary also consolidated its tax collecting powers into one authority and increased the enforcement funding for this entity in the 1999 budget.

Corporate Profit Tax and Corporate Dividend Tax

The corporate income tax rate on profits is 16 per cent., which has been adjusted by a 4 per cent. solidarity tax since 2006. However, taxpayers may take advantage of certain tax preferences. The corporate income tax rate

will be increased to 19 per cent. as from 1 January 2010, and at the same time the solidarity tax for companies will be abolished. Dividends received by domestic entities are exempted from corporate tax. A foreign entity receiving dividend, interest and royalty from a local source is not currently subject to withholding tax. As from 1 January 2010, interest and royalties received by a foreign entity will be subject to withholding tax at the rate of 30 per cent. if there is no double tax treaty between Hungary and the country of residence of the foreign entity.

Personal Income Tax

Hungary had a three-tier graduated personal income tax rate structure with rates of 18 per cent., 26 per cent. and 38 per cent. On 1 January 2005, the second tier (26 per cent. personal income tax rate) was abolished. From 1 January 2006, the upper tier (38 per cent. personal income tax rate) has been reduced to 36 per cent. Upon the Act No LXXVII of 2009 on the amendment of laws in order to the modification of the tax system, retroactively as from January 2009, the personal income tax base has been broadened while the rate belonging to the first tier has been decreased to 17 per cent. and the rate for the upper tier to 32 per cent.

Value Added Tax

As from 1 September 2006 the 15 per cent. VAT rate (VAT rate lower than the standard rate imposed on certain items) was increased to 20 per cent.; while from the previous 25 per cent. rate the standard VAT rate became 20 per cent. (from the previous rate of 25 per cent.) the 5 per cent. rate on special sensitive items (e.g. medicine, books) remained unchanged. As from 1 July 2009 the standard VAT rate was increased to 25 per cent. A reduced 18 per cent. VAT rate was introduced in case of a few basic food items. Currently, there is no tax imposed on some services (e.g. postal and financial services).

Registration Tax

Registration tax has been payable on the registration of cars since February 2004, however, in line with a recent decision of the European Parliament, this tax will be abolished gradually within 10 years.

Excise Duty

An excise duty is levied on the manufacturing, importing, warehousing, storing and distributing of mineral oils, alcoholic products, beer, wine, champagne, intermediary alcohol products and tobacco products.

Solidarity Surtax

This surtax being 4 per cent. has been payable by natural persons on income in excess of a certain level, and entities which are the subject of corporate tax as from 1 September 2006 on accounting profit with certain adjustments.

Other Central Government Revenues

Customs duties are imposed on imported goods in accordance with international agreements. The central government levies duties on the acquisition of real estate, cars and certain other products and also on certain administrative procedures.

Local Taxes

Local taxes vary with each municipality. Local governments are permitted to assess property taxes.

Social Security and Extra-Budgetary Funds

The social security funds consist of two funds: the pension fund and the health fund.

A “three-pillar” pension system was instituted in 1998. The three pillars of this system are: State pensions (the “pay as you go” system), voluntary pension funds and private pension funds.

Mandatory payments are made to the State pension fund and to a private pension fund selected by the employee. The mandatory pension contribution equals 33.5 per cent. of the employee's monthly salary, out of which 9.5 per cent. is paid by the employee and 24 per cent. by the employer. The contribution paid by the employer goes to the State pension fund in each case. If the employee opts to join a private pension scheme, 8 per cent. out of the employee's 9.5 per cent. contribution is transferred to the private pension fund and 1.5 per cent. goes to the State fund. For employees remaining solely in the State system, the entire 9.5 per cent. contribution goes to the State pension fund.

Health fund contributions are similar to those for the pension fund. Employers pay 5 per cent. of an employee's income and the employee contributes 6 per cent. In addition, there is a fixed monthly health care contribution by employers of HUF 1,950 per employee per month.

The following table sets forth the revenues and expenditures for social security and certain extra-budgetary funds:

Social Security and Extra-Budgetary Funds⁽¹⁾

	As at year ended December 31					
	2004	2005	2006	2007	2008 Planned	2008
	(HUF billion)					
Social Securities Fund:						
Revenues	2,726.9	3,027.1	3,661.0	4,318.7	4,310.2	4,302.8
Expenditures	3,150.8	3,495.9	3,791.8	4,291.1	4,308.2	4,370.3
Surplus (deficit)	(423.9)	(468.8)	(130.8)	27.6	2.0	(67.5)
Extra Budgetary Funds⁽²⁾:						
Revenues	304.7	341.6	391.9	459.5	481.7	485.4
Expenditures	276.8	311.2	342.0	396.6	476.8	457.2
Surplus (deficit)	27.9	30.4	49.9	62.9	4.9	28.2

Source:

Ministry of Finance

Notes:

- (1) These funds had no privatisation revenues during these periods.
- (2) Prior to 1998, these funds consisted of labour, road, water, national culture, environment protection and central nuclear funds; currently these funds consist of the Central Nuclear Fund, the Labor Market Fund, the Research and Technology Innovation Fund and the 'Wesselényi Miklós' Flood and Inland Waters' Compensation Fund.

The contribution of the central government to the social security funds was HUF 220.5 billion in 2001, HUF 383.9 billion in 2002, HUF 301.9 billion in 2003, HUF 335.9 billion in 2004, HUF 422.4 billion in 2005, HUF 890.6 billion in 2006, HUF 777.8 billion in 2007, and amounted to HUF 835.0 billion in 2008 according to preliminary data.

Local Government Finance

The following table sets forth the revenues and expenditures at the local government level for the years indicated for all the local governments:

Year ended 31 December

	2004	2005	2006	2007	2008 Planned	2008 Preliminary
	(HUF billion)					
Revenues:						
Own revenues	1,250.0	1,284.2	1,366.5	1,430.4	1,614.7	1,642.9
Subsidiaries	769.0	881.4	867.1	884.8	777.6	863.1
Other revenues	643.6	709.3	804.3	708.3	884.5	737.5
Total GFS-revenues⁽¹⁾	2,662.6	2,874.9	3,037.9	3,023.5	3,276.8	3,243.5
Privatisation revenues	10.9	16.1	15.5	23.0	10.0	24.7
Total revenues	2,673.5	2,891.0	3,053.4	3,046.5	3,286.8	3,268.2
Expenditures:						
Wages	1,310.1	1,412.8	1,464.9	1,472.7	1,480.7	1,502.7
Investments	448.7	562.4	682.1	575.5	752.4	550.6
Other expenditures	931.2	997.2	1,062.9	1,058.1	1,164.7	1,199.3
Total GFS-expenditures⁽¹⁾	2,690.0	2,972.4	3,209.9	3,106.3	3,397.8	3,252.6
Surplus (deficit)-GFS⁽¹⁾	(27.4)	(97.5)	(172.0)	(82.8)	(121.0)	(9.1)
Total surplus (deficit)	(16.5)	(81.4)	(156.5)	(59.8)	(111.0)	15.6

Source: Ministry of Finance

Note:

(1) GFS excludes privatisation revenues.

DEBT OF THE REPUBLIC OF HUNGARY

Traditionally, the NBH was the primary entity through which Hungary borrowed amounts in foreign currencies. Since 1997 the NBH may only incur foreign currency debt for its own purposes and all foreign currency borrowings and debt security issuances for the central budget must be made directly by the Republic, acting through its Ministry of Finance. The Minister of Finance, in turn, has delegated such debt management functions to the ÁKK, which was part of the Treasury until 2001 when it became a separate legal entity. Since 1 January 1999, foreign currency debt issuances have been arranged by the ÁKK.

The NBH will remain the legal or named obligor on the outstanding foreign currency debt incurred before 1 January 1999. The majority of the interest rate and exchange rate risks associated with these debts and any related swaps, however, have been effectively transferred to the Republic pursuant to a series of transfer agreements, whereby the Republic has essentially agreed to pay the NBH sufficient funds to cover these obligations. Following this transfer of risk, the Republic entered into a number of swap agreements to match the currency profile of this debt portfolio to that of the currency basket (since January 2000; 100 per cent. Euro) to which the Hungarian Forint is pegged. See “Monetary and Financial System — National Bank of Hungary — National Bank of Hungary Interest Rates — Exchange Rate Policy and Operations”. The NBH may still act as an agent of the Republic for the purposes of securing foreign loans and securities issued abroad. Since January 1997, the NBH has acted in this agency role on the basis of an agency agreement, which was entered into by the NBH and the Republic as permitted by applicable provisions of the amended National Bank of Hungary Act.

Because of this history, all references to public debt include debt of the Republic, debt of the social security and other extra-budgetary funds, but does not include local government debt. External public debt refers to public debt that is denominated in a foreign currency and almost always owed to a non-Hungarian party.

Internal public debt refers to public debt denominated in HUF. Gross external debt refers to all of the debt owed by Hungarian persons and both public and private entities to non-resident creditors. Loans between the NBH and the Republic relating to external borrowings originally made by the NBH were not added for the purposes of calculating public debt figures to avoid double counting.

Public Debt⁴

	Year ended 31 December										
	1998 ⁽²⁾	1999 ⁽²⁾	2000	2001	2002	2003	2004	2005	2006	2007	2008 ⁽¹⁾
	<i>(HUF billion except for percentages)</i>										
Internal Public Debt.....	3,733.9	4,350.2	4,717.5	5,397.4	6,956.9	8,008.7	8,608.8	9,153.5	10,552.3	11,103.8	11,250.6
% of Nominal GDP.....	37.02%	38.18%	34.91%	35.42%	40.57%	42.34%	41.60%	41.62%	44.38%	43.58%	42.26%
External Public Debt.....	2,431.9	2,536.2	2,508.8	2,322.1	2,267.3	2,579.0	2,983.5	3,590.7	4,124.4	4,472.6	6,774.8
% of Nominal GDP.....	24.11%	22.26%	18.57%	15.24%	13.22%	13.63%	14.42%	16.33%	17.35%	17.55%	25.45%
Other Liabilities ⁽³⁾	0.0	0.0	0.0	0.0	0.0	0.0	0.0	21.4	29.0	9.1	78.5
Total Public Debt.....	6,165.8	6,886.4	7,226.2	7,719.5	9,224.2	10,587.7	11,592.4	12,765.6	14,676.7	15,585.5	18,103.9
% of Nominal GDP.....	61.12%	60.44%	53.48%	50.7%	53.79%	55.98%	56.01%	58.04%	61.73%	61.17%	68.01%
Nominal GDP	10,087	11,393	13,512	15,238	17,148	18,915	20,696	21,993	23,775	25,479	26,621

Notes:

⁴ This table shows the public debt of the Republic, from the perspective of the economic obligations of the central government. (Financial derivatives are included, whereas mark-to-market deposits are excluded).

- (1) Preliminary data.
- (2) Calculated according to the non-revised GDP data.
- (3) Including mark-to-market deposits since 2005 and a special item in connection with a debt assumption in 2006.

Source: ÁKK

In the past decade, the central government gross debt to GDP ratio decreased substantially, falling from 71.5 per cent. at the end of 1996 to about 51.6 per cent. by the end of 2001. This decrease was mainly due to the primary budget surplus and the debt redemption effected from privatisation proceeds and the significant real GDP growth. However, since 2002, the central government gross debt to GDP ratio grew remarkably due to the high fiscal deficit. The fiscal restrictions introduced by the Minister of Finance in 2006 diminished the budget deficit. In January 2006, the Republic issued a EUR 1,000 million bond maturing in 2016, in March a JPY 50 billion bond maturing in 2013 and a GBP 500 million bond maturing in 2016 and in September reopened the floating rate notes maturing in 2012 with additional amount of EUR 500 million. In January 2007, the Republic issued EUR 1 billion bond due in 2017. In October 2007, the Republic issued JPY 25 billion Samurai bond due in 2017. In April 2008, the Republic issued a two-tranche bond totalling CHF 350 million maturing in 2013 and in 2016. In June 2008, the Republic issued a EUR 1.5 billion bond due in 2018. The total central government debt totalled HUF 15,585.5 billion at the end of 2007. The government gross debt to GDP ratio in 2007 was approximately 61.4 per cent., which is lower than the ratio as at the end of the previous year.

Rating History

On 12 January 2005, Fitch Ratings Ltd. downgraded the Republic's Long-term local currency rating from "A+" to "A". The Republic's long-term foreign currency rating did not change and remained at "A-". The rating agency noted that the Republic's sovereign ratings remained under some downward pressure owing to large and persistent twin budget and current account deficits, which involved sizeable financing needs and upward pressure on public and external debt ratios.

On 27 May 2005, Standard & Poor's Ratings Services lowered its long and short-term local currency sovereign credit ratings on the Republic of Hungary from "A" and "A-1" to "A-" and "A-2", respectively, due to the country's weakened fiscal outlook and poor prospects for medium-term fiscal consolidation. At the same time, the "A-" long-term and "A-1" short-term foreign currency ratings on the sovereign were affirmed and the outlook was stable.

On 6 December 2005, Fitch Ratings credit rating agency lowered its long-term local and foreign currency sovereign credit ratings of the Republic of Hungary from "A" and "A-" to "A-" and "BBB+", respectively, due to the country's weakened fiscal outlook and possible delays in introducing the Euro in 2010.

On 25 January 2006, the Standard & Poor's rating agency announced the revision of Hungary's outlook from "stable" to "negative". The grade was not changed.

On 22 February 2006, the Moody's rating agency announced the revision of Hungary's outlook from "stable" to "negative". The grade was not changed.

On 15 June 2006, Standard and Poor's rating agency lowered its long-term sovereign credit ratings of the Republic from "A-" to "BBB+" due to the country's continued fiscal deterioration. The short-term rating and the outlook remained "A-2" and negative respectively.

On 20 September 2006, following political demonstrations in Hungary, Fitch Ratings credit rating agency changed its foreign currency and local currency sovereign credit ratings outlook of the Republic of Hungary from "stable" to "negative". The current ratings were affirmed.

On 22 September 2006, Moody's Investors Service placed the Republic of Hungary's local and foreign currency government bond ratings and foreign currency bank deposit ceiling rating, each currently A1, on review for possible downgrade.

On 4 October 2006, the JCR credit rating agency changed the foreign currency government bond rating from "A" to "A-".

On 21 December 2006, the Standard & Poor's rating agency changed the long term foreign currency debt outlook from "Negative" to "Stable", the rating remained "BBB+".

On 22 December 2006, the Moody's rating agency changed the long term foreign and local currency debt rating from "A1" to "A2", the outlook is "Stable".

On 5 November 2007, Fitch Ratings changed its foreign currency and local currency sovereign credit ratings outlook of the Republic of Hungary from "negative" to "stable". The then current ratings were affirmed.

On 14 March 2008, the Standard & Poor's rating agency changed the long term foreign currency and local currency debt outlook from "Stable" to "Negative", the rating remained "BBB+".

On 15 October 2008, Standard & Poor's put the sovereign credit rating of Hungary on negative watch list.

On 17 October 2008, Fitch Ratings changed its foreign currency and local currency sovereign credit ratings outlook of the Republic of Hungary from "stable" to "negative".

On 7 November 2008, the Moody's rating agency changed the long term foreign and local currency debt rating from "A2" to "A3", the outlook is "Negative".

On 10 November 2008, Fitch Ratings credit rating agency lowered its long-term local and foreign currency sovereign credit ratings of the Republic of Hungary from "A-" and "BBB+" to "BBB" and "BBB+", respectively.

On 17 November 2008, the Standard & Poor's rating agency changed the long term foreign currency and local currency debt rating from "BBB+" to "BBB", the outlook was "Negative".

On 2 March 2009 Fitch Ratings changed its foreign currency and local currency sovereign credit ratings outlook of the Republic of Hungary from "stable" to "negative".

On 30 March 2009, the Standard & Poor's rating agency changed the long term foreign currency and local currency debt rating from "BBB" to "BBB-", the outlook is "Negative".

On 31 March 2009, the Moody's rating agency changed the long term foreign and local currency debt rating from "A3" to "Baa1", the outlook is "Negative".

The following table sets forth the external public debt⁵ as at 31 December 2008 by category and by currency:

	Amount
	<i>(EUR million)</i>
By Category:	
Bank loans (including bank to bank and syndicated loans)	297
Bonds + FRN	15,376
Loans from multilateral financial institutions (e.g. IMF and World Bank)	9,434
Total	<u>25,107</u>
 By Currency:	 <i>Per cent.</i>
Euro	82
U.S. Dollar	0
British Pound	0
Other currencies (SDR)	18
Total	<u>100</u>
 By Currency:	 <i>before swaps Per cent.</i>
Euro	64
JPY	6
U.S. Dollar	4
Swiss franc	1
British Pound	7
SDR	18
Total	<u>100</u>

Source: ÁKK

External Public Debt Service and Schedule of Payments

Neither the Republic nor the NBH has ever defaulted on the payment of principal of, or premium or interest on, any debt obligation issued by it.

The following table sets forth the schedule of repayments on external debt⁶ in EUR millions at the end of December 2008:

⁵ Non-HUF-denominated debt liabilities of the government sector (financial derivatives are excluded, whereas mark-to-market deposits are included) 61 External Public Debt Service and Schedule of Payments Neither the Republic nor the NBH has ever defaulted on the payment of principal of, or premium or interest on, any debt obligation issued by it.

The maturity breakdown of Hungary's medium and long-term external debt by sectors*

The maturity breakdown of Hungary's medium and long-term external debt by sectors, (excluding SPE's) (as of 31 December 2008)

Date of maturity	Total							
	Central bank and General government					Other monetary institutions and other sectors		
	Total	Central bank and General government	Central bank	General government		Other monetary institutions and other sectors	Other monetary institutions	Other sectors
				General government	Hungarian Forint denominated bonds			
EUR millions								
Third quarter 2009.....	1,748.4	1,106.8	0.0	1,106.8	330.4	641.6	523.9	117.6
Fourth quarter 2009.....	3,189.8	465.6	0.0	465.6	404.4	2,724.2	2,392.0	332.2
2009	9,902.1	3,127.9	0.0	3,127.9	1,273.3	6,774.2	5,965.4	808.9
First quarter 2010	2,531.8	85.9	0.0	85.9	0.0	2,445.9	2,360.9	84.9
Second quarter 2010	2,211.2	604.3	68.6	535.7	498.1	1,606.9	1,488.0	118.9
Third quarter 2010	4,213.0	1,587.0	0.0	1,587.0	347.6	2,626.0	2,345.5	280.5
Fourth quarter 2010	3,462.2	540.0	0.0	540.0	484.5	2,922.3	1,755.4	1,166.9
2010	12,418.2	2,817.1	68.6	2,748.5	1,330.2	9,601.0	7,949.8	1,651.2
2011	15,799.7	7,849.6	189.3	7,660.3	1,009.2	7,950.1	6,183.0	1,767.2
2012	9,460.4	5,143.2	0.0	5,143.2	1,301.0	4,317.2	2,580.6	1,736.6
2013	5,781.1	2,352.9	64.3	2,288.6	598.6	3,428.2	2,118.3	1,309.9
2014	6,011.9	2,712.2	0.0	2,712.2	500.4	3,299.7	1,972.0	1,327.7
2015	3,939.0	2,020.1	43.4	1,976.7	520.1	1,918.9	844.1	1,074.9
2016	4,042.7	2,814.7	0.0	2,814.7	306.8	1,228.0	930.8	297.3
2017	3,874.7	3,226.8	0.0	3,226.8	1,006.1	647.9	472.4	175.6
2018	2,287.3	1,866.1	0.0	1,866.1	0.0	421.2	285.8	135.4
2019	644.7	347.2	0.0	347.2	230.8	297.5	218.8	78.7
After.....	4,508.7	2,436.6	0.0	2,436.6	491.6	2,072.1	597.9	1,474.2
Total	78,670.6	36,714.4	365.7	36,348.7	8,568.1	41,956.3	30,118.8	11,837.5

Note:

Only guaranteed loans of other sectors

Source: NBH

Internal Public Debt

The Republic's policy to finance budget deficits is based partly on internal debt, and partly on utilising the international markets. The issuance strategy is determined by a benchmark for the composition of debt portfolio. The weight of internal (domestic currency) debt ranges between 68 per cent. and 75 per cent. in the benchmark portfolio; the weight of external (foreign currency) debt is 32 per cent. to 25 per cent. The average

⁶ According to the National Bank of Hungary, external debt means debt owed to non-resident entities

maturity of internal debt was 3.21 years at the end of 2002, and increased to 3.44 years by the end of 2003, 3.46 by the end of 2004, 3.57 years by the end of 2005, 3.64 years by the end of 2006, 4.01 years by the end of 2007 and 3.88 years by the end of 2008.

Government Obligations to the National Bank of Hungary

The following table shows the government's obligations to the NBH, including those due to net foreign currency losses, as of 31 December for the years 1996 through to the end of 2007. Since 1997, these obligations are provided on a pro forma basis giving effect to the January 1997 agreements referenced above:

	As of 31 December				
	2004	2005	2006	2007	2008
	(HUF billion)				
Securities	194.07	154.71	150.71	146.71	360.01
Loans	331.47	91.93	81.89	0.00	0.00
Total	525.54	246.64	232.60	146.71	360.01

Source: National Bank of Hungary

Government Obligations to the National Bank of Hungary

The following table shows the government's obligations to the NBH, including those due to net foreign currency losses, as of 31 December for the years 1996 through to the end of 2007. Since 1997, these obligations are provided on a pro forma basis giving effect to the January 1997 agreements referenced above:

	As of 31 December												
	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
	(HUF billion)												
Short-term	7.30	464.80	376.90	404.80	367.50	172.10	167.10	198.10	194.07	154.71	150.71	146.71	360.01
Long-term	2,174.30	2,389.20	2,553.10	2,083.40	1,834.90	1,384.30	995.20	608.61	331.47	91.93	81.89	0.00	0.00
Total	2,908.60	2,854.00	2,930.00	2,488.20	2,202.40	1,556.40	1,162.30	806.67	525.54	246.64	232.60	146.71	360.01

Source: National Bank of Hungary

Debt Service Indicators of Hungary (on the basis of the balance of payments)

The following table set forth certain indicators related to Hungarian gross external debt (selected annual Balance of Payments ("BOP") and International Investment Position ("IIP") figures and debts services indicators of Hungary (BOP basis):

Selected annual BOP and IIP figures and debt service indicators of Hungary

	(BOP basis):				
	2004	2005	2006	2007	2008
1. Debt indicators*					

Selected annual BOP and IIP figures and debt service indicators of Hungary

(BOP basis):

	2004	2005	2006	2007	2008
Gross debt indicators					
Gross external debt (excl. FDI other loans)/GDP	55.4	63.1	74.0	78.3	92.1
-o/w: General government and Central bank (S.13+S.121).....	28.5	29.8	33.7	33.1	36.4
Gross external debt denominated in foreign currencies (excl. FDI other loans)/GDP.....	38.3	46.1	53.7	58.0	77.8
-o/w: General government and Central bank (S.13+S.121)	15.7	18.0	20.3	19.2	27.0
Gross external debt (incl. FDI other loans)/GDP	67.0	75.0	90.4	97.2	113.2
Net debt indicators Net external debt (excl. FDI other loans)/GDP.....	25.6	27.7	34.3	40.0	51.2
-o/w: General government and Central bank (S.13+S.121)	13.8	11.6	15.1	16.1	12.8
Net external debt denominated in foreign currencies (excl. FDI other loans)/GDP	13.7	16.4	22.6	27.7	38.5
-o/w: General government and Central bank (S.13+S.121)	1.1	(0.2)	1.7	2.3	3.4
Net external debt (incl. FDI other loans)/GDP	31.9	34.0	42.2	47.7	53.4

Selected annual BOP and IIP figures and debt service indicators of Hungary

(BOP basis):

	2004	2005	2006	2007	2008
2. Debt service indicators					
Total Debt Service denominated in foreign currencies (TDS) (excl. FDI other loans ⁽²⁾)/GDP	9.5	10.4	9.6	9.9	13.9
Total Debt Service denominated in foreign currencies (TDS) (excl. FDI other loans ⁽²⁾)/XGS	14.8	15.3	12.5	12.4	17.1
Gross interest expenditures (excl. FDI other loans)/GDP	2.2	2.4	2.8	3.2	4.2
Net interest expenditures (excl. FDI other loans)/GDP	1.3	1.6	1.6	1.8	2.7
<i>Memorandum:</i>					
GDP ⁽³⁾ (Euro millions).....	82,297	88,865	90,085	101,092	105,352
Exports of goods and services (XGS) (Euro millions)	53,178	60,023	68,998	80,824	85,994
Net external financing capacity/GDP	(8.3)	(6.7)	(6.9)	(5.3)	(7.4)
International reserves (RES) (Euro millions)...	11,703	15,721	16,397	16,385	24,040

Note:

- (1) External debt as defined in External Debt Statistics: Guide for Compilers and Users: equity and financial derivative instruments are excluded
- (2) (TDS) Medium-term credit amortisation and gross interest expenditures
- (3) GDP figures for 2007-2008 is preliminary data of CSO

Relationships with Multilateral Financial Institutions

IMF

Since Hungary joined the IMF, it has borrowed 2,193.7 million in Special Drawing Rights (the “SDRs”) (on 8 January 1999, 1 SDR=USD 1.407). By February 1998, all SDRs borrowed were repaid in full.

On 6 November 2008 the Board of Directors of IMF approved a Stand-by Arrangement amounting to SDR 10.5 billion. From this facility by the end of June 2009 SDR 6.323 billion was drawn by the sovereign and SDR 1.265 billion by the NBH.

World Bank

Since its accession in 1982 until the end of 2002, Hungary entered into 43 loan agreements with the World Bank in the amount of over USD 3.8 billion. Since 2000, no new borrowing has taken place, therefore Hungary graduated from the borrower status in 2007. In October 2008, the World Bank pledged EUR 1 billion in support of the IMF-EU stabilization package for Hungary, but no utilisation has been initiated until the end of 2008.

CEB

Hungary joined CEB in 1998. Since then, CEB activities have concentrated mainly on State-initiated projects (flood control systems, social housing, social integration, financing small and medium enterprises and protection of national heritage). Since the Republic’s accession to CEB an amount of Euro 1.4 billion has been approved by the bank (from which close to 90 per cent. for the public sector).

In 2007 CEB prepared its country strategy related to Hungary for the period of 2007-2009. According to this strategy the bank plans to lend in excess of EUR 680 million.

Under the new strategy the latest framework agreement with the Republic was signed in May 2008, whereby CEB undertook to co-finance programmes supported by EU funds (the South Great Plain Operational Programme and the North Great Plain Operational Programme in the amount of EUR 55 and 71 million respectively).

EBRD

Since 1991, EBRD has been involved in a number of State and non-State projects, both in the form of equity participation and loans. The total participation (net business volume) of the EBRD between 1991 and the end of 2008 was close to EUR 2 billion in more than 100 projects with a share of 90 per cent. for the private sector. In January 2008 EBRD and Hungary reached consensus that between 2008 and 2010 the bank will concentrate on infrastructure and energy related projects. In the meantime, as it faces the effects of the financial crisis, EBRD declared its commitment to continue supporting a sound financial sector in Hungary, as well.

European Investment Bank (EIB)

Since 1990, EIB has been financing different government and non-government projects in Hungary. In the past five years EIB financed projects by granting loans worth Euro 6,195 million in total.

EIB finances primarily infrastructure, environment protection, health care and education projects. Five new facility agreements were signed in the amount of Euro 751 million in 2008.

IFC

Between 1987 and 2003, the IFC financed 28 Hungarian projects worth approximately USD 341 million. Since then IFC has been mainly active with its Hungary Energy Efficiency Co-financing Program (HEECP), in the framework of which IFC grants guarantees and provides technical assistance to projects aiming to increase the efficiency of their energy consumption.

THE GR GROUP

Unless otherwise stated, all financial and operating data contained in this section is provided on a consolidated basis. The financial information in this section should be read in conjunction with and is qualified in its entirety by the audited consolidated financial statements of Gedeon Richter as at and for the two years ended 31 December 2008 and 2007, which are incorporated by reference in this Offering Circular.

Business Summary

Gedeon Richter is currently one of the largest pharmaceutical groups in Central and Eastern Europe in terms of revenues. As a vertically integrated pharmaceutical group, its core businesses cover a broad range of activities including R&D, manufacture of active pharmaceutical ingredients (“APIs”), production of final dosage form pharmaceuticals as well as packaging, marketing, distribution and sales thereof.

The Company’s organic growth strategy is based upon a dynamic blend of establishing focuses and balances both business-wise and across its geographies. The Company’s principal areas of focus are research undertaken in the field of the central nervous system and its related high added value niche business, and the manufacturing and sale of female healthcare products based mostly on Gedeon Richter’s steroid chemistry background. The Company has also made considerable steps towards building up a biotechnology business through acquisitions in Germany and greenfield investments in Hungary. The above core activities are balanced through a wide portfolio of branded generic and generic products across a number of therapeutic areas including cardiovascular, central nervous system and muscle relaxants. Through the geographic division of its sales Gedeon Richter focuses on Russia, Poland, Hungary, Romania, and Ukraine balanced by regions categorised by the Company as “Other CIS countries”, CEE, EU15, USA and “Rest of the World”. Gedeon Richter is assisted in its core markets and in the CIS and CEE region by an extensive and specialised sales and marketing network, while in the USA, EU15 and Rest of the World strategic alliances with local manufacturers enable the Company to extend beyond its traditional markets. In order to enhance further its product portfolio the GR Group has been able to license-in for sale in Hungary, CIS and CEE a number of products from leading pharmaceutical companies and as such take advantage of its geographic strengths.

In its long-established markets in Hungary, CEE and the CIS, the Company offers a wide range of products in many different therapeutic areas. In the western markets, the USA and the EU15, where the Company has been present for a relatively shorter period of time, its sales are more focused on female healthcare APIs, finished products, and selected generic products requiring complex development processes.

History

The Company had its roots in a company acquired in 1901 by Mr. Gedeon Richter, a pharmacist. Initially, drugs were produced from plant extracts and animal organs. This was soon followed by diversification into synthetic pharmaceuticals manufacturing. Initial expansion was driven by Gedeon Richter’s development of its product range and an international marketing network. The Chemical Works of Gedeon Richter Ltd. was registered as a joint stock company on 2 October 1923. After the Second World War, the Company was nationalised, and its shares taken into State ownership. The nationalisation did not affect the Company’s registration or legal existence. In June 1950, the Hungarian State established Richter Gyógyszer és Vegyészeti Gyár Nemzeti Vállalat, which subsequently became known as Kőbányai Gyógyszerárugyár, a State-owned enterprise which existed in parallel with and did not affect the existence of the Company. In the course of Kőbányai Gyógyszerárugyár’s transformation in 1990 from a State-owned enterprise into a company limited by shares, Kőbányai Gyógyszerárugyár was amalgamated into the Company.

The Company was subsequently registered at the Court of Registration, Metropolitan Court of Budapest as Court of Registration on 18 March 1991. In November 1992, the former Hungarian State Property Agency's (ÁVÜ's) majority shareholding in the Company was transferred to the ÁV Rt. (the former State Holding Company, ÁPV Rt.'s predecessor, which is the predecessor of the Issuer) by Act LIII of 1992 and by Government Decree 126 of 1992, and subsequently to the Issuer as the ÁV Rt.'s legal successor under the Hungarian Privatisation Act.

In 1994, the Hungarian State's shareholding was diluted to 62.5 per cent. of the total share capital of the Company (65.3 per cent. of the voting shares then outstanding) following a capital increase that raised HUF 5,509 million. As a result of a further sale of shares and global depositary receipts in 1995 and a combined capital increase and sale in 1997 (involving 1,000,000 new shares and 1,600,000 existing shares), the Hungarian State's shareholding was further reduced to 25.0 per cent. of the voting shares then outstanding. The Issuer agreed, as part of the underwriting arrangements for the capital increase and sale in 1997, that subject to certain exceptions it would not sell or issue Shares or related securities in the Company if such sale or issue would, prior to 31 December 2000, result in the combined shareholding of the Issuer and the Hungarian State Pension Fund in the Company falling below 25 per cent. of the Shares in issue plus one Share.

The Company is incorporated as a company limited by shares with indefinite duration under Act IV of 2006 on Business Associations. The Company is entered into the Hungarian Trade Register under Reg. No. Cg.01-10040944. The principal activity of the Company, as set out in Article 21.20 of its Statutes, is the manufacture of pharmaceutical preparations.

Strategy

The strategic objective of the Company is to achieve organic growth assisted, where appropriate, by certain targeted acquisitions. This objective is being fulfilled through focusing on the Company's original research into the central nervous system, its existing strength in the high added value field of steroid chemistry which translates into female healthcare products and the aim of increased involvement in the promising activity of biosimilar development and manufacturing. In addition to the different therapeutic areas in which the Company operates, the Company's activities can also be analysed on a geographical basis. The Company's primary focus is on its core markets (Russia, Poland, Hungary, Romania and Ukraine), although it operates in a number of other markets too.

Therapeutic Areas in Focus

(a) Original Research

Innovation and 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.

Compounds for the diseases of the central nervous system are in the exclusive spotlight of proprietary research activities, primarily linked to conditions such as schizophrenia, mania, depression, anxiety and chronic pain. There are 18 ongoing projects, of which two are in clinical phase II trials and three are in clinical phase I. The remainder are in a preclinical phase.

At the end of 2008 the advanced stage clinical portfolio was the following:

Name of compound	Clinical phase	Indications	Partner

Cariprazine (RGH-188)	II	USA Japan	Schizophrenia, bipolar mania	Forest Laboratories Mitsubishi-Tanabe
Radiprodil (RGH-896)	II	USA	Chronic pain	Forest Laboratories

Positive results of Phase II clinical trials of RGH-188 in the indication of bipolar mania were published during 2008. The ongoing Phase II/b trials of the same compound for schizophrenia are expected to be completed around the end of 2009.

(b) Female Healthcare

One of Gedeon Richter's most important niche areas is its gynaecological business. The Company has unique and long-term experience in this field dating back to when its founder, Mr. Gedeon Richter, himself began experimental work with steroids which, at the time, were completely novel. 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 produces one of the widest range of female healthcare products of any company in the world while continuing to broaden its product portfolio.

(c) Research and Manufacturing of Biosimilars

Another important area where the Company believes innovation is paramount is biologicals. It is a strategic goal of Gedeon Richter to establish a strong biological product line to be both competitive and to expand the Company's worldwide portfolio, offering products with high intellectual added value. Following the acquisition of Strathmann Biotec GmbH in 2007, and the acquisition of Helm AG in 2008, Gedeon Richter started construction works on a pilot plant in Budapest for the development of bacterial proteins and also a greenfield investment was commenced in Debrecen, Hungary to build up a manufacturing unit for mammalian cell development.

A balance of the portfolio

The high intellectual added value products are balanced with the development and manufacturing of generic / branded generic products aimed at a variety of conditions, through with an emphasis on such therapeutic areas as cardiovascular, central nervous system and muscle relaxants.

Focus and balance of sales geographies

While Russia, Poland, Hungary, Romania and Ukraine are in the centre of its sales strategy, the Company also has dedicated specialised sales and marketing teams to promote its branded products across the remaining countries of the CIS and CEE regions. Western Europe (EU15), USA and Rest of the World are all served with Gedeon Richter APIs and products through long term and strategic partnerships and alliances with local manufacturers.

Utilising strategic alliances to leverage its competitive advantage

The Company believes that it can foster its growth through strategic alliances that build upon its geographic and product strengths. Its reputation and marketing expertise in Hungary, the CIS and CEE countries have enabled it to license-in a number of products from leading multinational pharmaceutical companies which are seeking an independent partner. Conversely, in the USA and EU15, the Company's strategy is to market its products, both APIs and finished products, through local partners. The Company has in particular made significant efforts to expand its business in the USA in the field of steroid APIs in partnership with established companies such as Teva-Barr, which the Company believes was attracted by the Company's ability to manufacture high quality products at a competitive cost. Similarly, a fruitful co-operation in the field of

original research with Forest Laboratories in the USA has led two of Gedeon Richter's innovative molecules into advanced clinical trial phases.

Markets

In the following sections a brief introduction is provided to the core activity of Gedeon Richter – i.e. research, development and manufacturing of pharmaceutical products – in each of its key countries and across all of its regions.

Gedeon Richter's markets can be broadly divided into two major groups:

On the one hand, countries of the former COMECON region (an economic organisation of communist states) which are now clearly divided into the CEE region (comprising those countries that have joined the EU in two waves by 2007 including the three Baltic states) and the countries of the CIS (i.e. the former Soviet Union excluding the Baltic states) constitute the traditional markets of Gedeon Richter where its finished products are sold under the Gedeon Richter brand name and are supported by specialised sales and marketing teams.

On the other hand, sales in Western European countries (EU15), the USA and the Rest of the World, in addition to the finished form products, also include sales from the API business sold in co-operation with local partners.

Total pharmaceutical sales in 2008 (excluding sales realised by the complementary business segment of wholesale and retail) amounted to HUF 201,702 million (EUR 803.0 million), an increase of 5.3 per cent. in both HUF and EUR terms as compared with the previous year. Solid growth rates in certain EU countries and in the USA were partly offset by weaker performance in Hungary and Russia. The following table sets out a breakdown by region of the Company's revenues in the pharmaceutical segment for each of the years ended 31 December 2008 and 2007:

Pharmaceutical Sales and Sales Growth by Region

	2008	2007	2008	2007
	(HUF m)		(EUR m)	
Hungary	30,302	32,095	120.6	127.8
EU	64,003	58,839	254.8	234.2
Poland.....	23,510	19,971	93.6	79.5
Romania	5,852	6,277	23.3	25.0
EU9	17,507	16,797	69.7	66.8
EU15.....	17,134	15,794	68.2	62.9
CIS	72,725	69,660	289.6	277.3
Russia	48,754	49,850	194.1	198.5
Ukraine.....	10,145	8,452	40.4	33.6
Other CIS Republics.....	13,826	11,358	55.1	45.2
USA	22,430	19,489	89.3	77.6
Rest of the World	12,242	11,409	48.7	45.4
Total	201,702	191,492	803.0	762.3

The following table sets out the percentage of the GR Group's total pharmaceutical revenues for each of the years ended 31 December 2008 and 2007 that are attributable to each region:

Pharmaceutical Sales Breakdown by Region

	2008	2007
	%	
Hungary	15	17
EU	32	31
Poland	12	11
Romania	3	3
EU9	9	9
EU15	8	8
CIS	36	36
Russia	24	26
Ukraine	5	4
Other CIS Republics	7	6
USA	11	10
Rest of the World	6	6
Total	100	100

Hungary

Hungary is the Company's most established, traditional geographical market and remains important for a large number of products. In 2008, however, an overall weak performance of the Hungarian economy and an adverse business environment affecting the entire pharmaceutical industry, when combined with some hurriedly introduced measures aimed at changing the regulatory landscape, resulted in a decrease of turnover in Hungary. While pharmaceutical sales in Hungary in 2003 were HUF 34,050 million, representing approximately 30 per cent. of the GR Group's pharma revenue, by the end of 2008 they decreased to HUF 30,302 million or just above 15 per cent. of the GR Group's pharma revenue. Based on the available market audit (IMS) data for 2008, and primarily as a consequence of the mergers and acquisitions in the pharmaceutical sector over the last few years, at the end of 2008 Gedeon Richter was the fourth largest participant in the Hungarian pharmaceutical market with a 5.6 per cent. market share.

In spite of the difficult current economic and business environment Gedeon Richter's aim is to maintain its position in Hungary by regularly refreshing its product portfolio, particularly through the introduction of new branded generic products. The Company seeks to offer a full range of finished products in Hungary, supported by effective promotion and marketing. The GR Group continues to operate an extensive marketing and distribution network in Hungary.

The following table sets out the revenue attributable to the Company's ten best-selling products or product groups for each of the years ended 31 December 2008 and 2007:

Top 10 Products in Hungary

	Active ingredients	Therapeutic area	2008 (HUF m)	2007	2008 (EUR m)	2007
Oral contraceptives	hormones	Gynaecology	3,229	2,953	12.9	11.8
Cavinton	vinpocetine	CNS	2,225	2,314	8.9	9.2
Quamatel	famotidine	Antiulcer	1,938	2,331	7.7	9.3
Ednyt / Lisopress	enalapril/ lisinopril	Antihypertensive	1,317	2,367	5.2	9.4
Lisonorm	lisinopril+ amlodipine	Antihypertensive	1,276	857	5.1	3.4
Normodipine	amlodipine	Antihypertensive	1,138	2,094	4.5	8.3
Avonex	interferon-beta- 1a	Sclerosis multiplex	1,058	780	4.2	3.1
Atorvox	atorvastatin	Cholesterol lowering	983	772	3.9	3.1
Mydeton / Mydocalm	tolperisone	Muscle relaxant	969	1,175	3.8	4.7
Sedron / Calcisedron	alendronate	Osteoporosis	948	828	3.8	3.3
Subtotal			15,081	16,471	60.0	65.6
Others			15,221	15,624	60.6	62.2
Total.....			30,302	32,095	120.6	127.8

International sales

In 2008, international sales accounted for approximately 85 per cent. of the GR Group's pharmaceutical revenue, with sales of EUR 682.4 million, compared to EUR 634.5 million in 2007.

Sales to Top 10 Export Markets

Sales to the Company's top ten export markets accounted for approximately 80 per cent. of exports in both 2008 and 2007. These are set out in the following table:

	2008	2007	Change	
	(EUR m)	(EUR m)	(EUR m)	%
Russia	194.1	198.5	(4.4)	(2.2)
Poland.....	93.6	79.5	14.1	17.7
USA.....	89.3	77.6	11.7	15.1
Ukraine.....	40.4	33.6	6.8	20.2
Germany	24.3	20.4	3.9	19.1
Czech Republic.....	23.6	23.7	(0.1)	(0.4)
Romania	23.3	25.0	(1.7)	(6.8)
Slovakia.....	20.4	20.3	0.1	0.5
France.....	18.7	17.6	1.1	6.2
Kazakhstan	18.4	19.5	(1.1)	(5.6)
Subtotal	546.1	515.7	30.4	5.9
Total international sales.....	682.4	634.5	47.9	7.5
Share of the top 10 international markets.....	80.0%	81.3%		

CIS

The Company sells a large number of products in the CIS, having a leading position in terms of market share. The Company believes that this enhances its bargaining position with pharmaceutical distributors in the region. Brand awareness of the Company in the CIS, especially in Russia, has traditionally been substantial, providing a strong base for future expansion. The Company has its own sales and marketing networks in the CIS and so has been chosen as an in-licensing partner in this region by a number of pharmaceutical companies based in the USA and EU15.

In Russia, despite a relatively favourable economic environment prevailing during most of 2008 and solid GDP growth of 5.6 per cent., Gedeon Richter reported a slight sales decline for the year. Turnover totalled EUR 194.1 million (U.S.\$284.6 million), 2.2 per cent. lower (in U.S.\$ terms, 4.6 per cent. higher) than in 2007. The slowdown resulted predominantly from a significant reduction in inventory levels at wholesalers following stockpiling in 2007.

During the last quarter of 2008, Russia was also affected by the global financial and economic crisis and its currency suffered a substantial devaluation against the Euro. This devaluation, combined with a continuous decline in crude oil prices, created an unfavourable environment for all participants in the Russian pharmaceutical market. In view of the uncertain and unpredictable financial and business environment, Gedeon Richter's management agreed to give certain rebates to wholesalers in order to compensate part of the losses they incurred due to the weakened rouble. Following negotiations an agreement was reached which was acceptable for both parties. Gedeon Richter continues to monitor its payment terms closely, given the difficult financial circumstances.

During 2008 sales levels were supported by increased turnover of Diroton, Mydocalm, Suprax, Panangin, Simvastol and Ekvator.

Pharmaceutical sales to Ukraine amounted to U.S.\$59.3 million (EUR 40.4 million) in 2008, an increase of 28.6 per cent. (20.2 per cent. in EUR terms) as compared to the high base of the previous year. This increase was mainly due to higher sales levels of the oral contraceptives, Nifuroksazyd, Ekvator and Panangin. The overall unstable political and economic situation in Ukraine has deteriorated further due to the negative impact of the global financial crisis during the fourth quarter of 2008. Gedeon Richter's management has agreed to compensate wholesalers in part for their losses incurred as a consequence of the sharp devaluation of the local currency. Gedeon Richter continues to monitor its payment terms closely, given the difficult financial circumstances.

Sales in Other CIS republics also showed a substantial increase over the very high base recorded in 2007. Pharmaceutical turnover totalled U.S.\$80.7 million (EUR 55.1 million) for 2008, a 30.2 per cent. (21.9 per cent. in Euro terms) increase over the levels achieved in 2007. The sales growth in Other CIS republics was principally due to a good performance from various oral contraceptives, including Dironon, Mydocalm and Panangin. The most notable turnover was recorded in Kazakhstan where sales amounted to EUR 18.4 million in 2008. Excluding a EUR 4.2 million one-off item in the base period figures due to changes to the invoicing system effected in early 2007, sales in 2008 increased substantially by 20.4 per cent. in Euro terms. With effect from 1 February 2008, Gedeon Richter changed its invoicing currency in Kazakhstan, substituting U.S.\$ with EUR. Significant growth was recorded in Belorussia, Moldavia and Uzbekistan. In 2008 these three republics contributed U.S.\$31.9 million (EUR 21.7 million) to GR Group's sales revenues.

European Union

Pharmaceutical sales in the European Union, excluding Hungary, amounted to EUR 254.8 million in 2008, representing growth of 8.8 per cent. when compared to 2007.

In 2008, sales of gynaecological products increased by 12.4 per cent. in Euro terms. In the reported period this product group represented 29 per cent. of turnover in the region's pharmaceutical sales.

From the GR Group's business perspective, this region consists of two groups of countries: the new member states, which joined the EU either on 1 May 2004 or on 1 January 2007 namely Poland, Romania and the EU9, and the 15 'traditional' member states of the EU. The major characteristics of these two sub-regions as well as the GR Group's product portfolio and its marketing strategies are substantially different in these two areas.

Having been established for decades in Central and Eastern Europe, Gedeon Richter distributes and markets its products via its own sales network. The Company continues to increase both the efficiency of its specialised sales force teams and the number of medical representatives, which also contributed substantially to the higher sales levels recorded in 2008.

EU9, Poland, Romania

In Poland, the Company's largest market in the region, Gedeon Richter's sales grew broadly in line with the market, which itself showed a positive trend supported by sound GDP growth (4.8 per cent. in 2008) and an even higher rise in real wages, boosting purchasing power. The GR Group recorded consolidated sales (excluding intra-group transactions) of EUR 93.6 million in 2008, a significant increase of 17.7 per cent. over 2007 levels. This positive performance was mostly due to the sales growth of the third generation oral contraceptives, namely Novynette and Regulon as well as Verospiron and Mydocalm.

In Romania, 2008 was a very difficult year for the whole pharmaceutical market despite the country's robust GDP growth of just below 8 per cent. The Romanian government's failure to reset fixed drug prices to reflect depreciation of the local currency, along with unfavourable regulatory changes (notably an amended method of reference price calculation and extremely long payment terms) created uncertainty for producers as well as

for wholesalers and retailers. For the pharmaceutical segment in Romania, sales amounted to EUR 23.3 million, a 6.8 per cent. decrease compared to the performance in 2007. This decline was due both to price erosion among generic products and unfavourable regulatory changes. On the other hand, good growth was realised in sales of Quamatel, Aflamil and Mydocalm.

In the EU9 region sales totalled EUR 69.7 million in 2008, 4.3 per cent. higher in Euro terms than for the same period in the previous year, and representing 27 per cent. of the GR Group's total EU pharmaceutical sales.

The above performance in this region was achieved under difficult circumstances. The GR Group continued to face strong competition and sustained pressure from governments which has resulted in both lower prices and lower reimbursement levels year-on-year.

Despite the slowdown in economic growth, the Czech Republic's economy was still one of the strongest in Central and Eastern Europe. Gedeon Richter's turnover in this country in 2008 amounted to EUR 23.6 million, which was almost the same as the sales levels achieved in 2007. The reported slight (0.4 per cent.) decline, which was primarily due to the discontinuation of the distribution of the licensed-in product Avonex as of June 2008, was partly offset by good growth recorded across the product portfolio, primarily in the range of oral contraceptives.

Overall, the economic growth rate in Slovakia remained one of the fastest expanding in the EU, giving room for growing internal demand which contributed to increased pharmaceutical sales and provided compensation for the tightened reimbursement rules. The discontinuation of the Avonex licensing agreement also affected sales levels in Slovakia, where turnover amounted to EUR 20.4 million in 2008, representing a slight (0.5 per cent.) year-on-year increase. Good performances were reported for Mydocalm, Escapelle, Mollome and Aflamin which offset the lost revenues from the Avonex distribution.

In the Baltic States, sales amounted to EUR 14.5 million in 2008, principally due to the good performance of the licensed-in product Avonex which continues to be sold in this market. In Bulgaria, sales totalled EUR 10.9 million in 2008 representing an 18.9 per cent. increase as compared with 2007. Sales growth reflected a strong performance by Cavinton and Escapelle.

EU15

Expansion in the EU15 member states has been a primary objective for Gedeon Richter since the mid-1990s. Although it has trading companies in Spain, France, the UK and Germany, these markets are accessed via partners. Gedeon Richter does not intend in the medium term to effect distribution and marketing networks through its own subsidiaries in these countries.

In the 'traditional' 15 EU member states sales amounted to EUR 68.2 million in 2008, 8.4 per cent. higher in Euro terms than in the previous year. This region contributed 27 per cent. of total EU pharmaceutical sales in 2008.

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 GR Group's products.

In Germany, the GR Group reported sales of EUR 24.3 million, representing a 19.1 per cent. increase compared with the turnover of 2007. Sales growth was mainly attributable to revenues received by Gedeon Richter-Helm BioLogic, which was first included in the GR Group's consolidated financial statements during the last quarter of 2007. In France, the GR Group's turnover amounted to EUR 18.7 million in 2008, which represented a 6.2 per cent. increase when compared to the previous year. Sales of certain oral contraceptives improved significantly.

USA

Sales in the USA totalled U.S.\$130.9 million (EUR 89.3 million) in 2008, an increase of 23.0 per cent. (15.1 per cent. in Euro terms) when compared to the previous year. Increasing competition and price erosion in the case of mature products led to an accelerating decline in the sales levels of the Company's APIs which in U.S. dollar terms was more than offset by a slight increase in sales of the finished form emergency contraceptive, Plan B and by a strong contribution from the profit sharing agreements with Barr Laboratories Inc.

Sales of gynaecological products represented 84 per cent. of U.S. sales including the revenue associated with the profit sharing agreement related to drospirenone.

Rest of the World

This geographical market segment of Gedeon Richter does not represent a significant part of the pharma revenues of the GR Group. However, there are certain countries of importance as far as annual sales are concerned.

Sales in these countries amounted to U.S.\$71.5 million (EUR 48.7 million) in 2008, an increase of 14.8 per cent. (7.3 per cent. in EUR terms) when compared to 2007. The increase was attributable to the dynamically growing export of finished form products, particularly oral contraceptives and Panangin.

Considerable growth was achieved in China with revenues of EUR 3.6 million during 2008, although from a low base. Sales also increased substantially in Vietnam, where turnover in 2008 amounted to EUR 7.5 million. In Japan, turnover amounted to U.S.\$5.5 million during 2008, a decrease over the previous year due to lower levels of API shipments.

Products

Gedeon Richter is considered to be a branded generic pharmaceutical manufacturer. Whilst the dominant part of its turnover originates from generic drugs, the GR Group also manufactures and markets steroid-based pharmaceuticals which represent a special, higher margin group of products. See "—Female healthcare" for a description of the Company's gynaecological products in detail. Over the last decade this niche portfolio has contributed substantially to both the increase of sales and relatively high margins achieved by the GR Group.

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. It is management's opinion that it is important for the longer term success of the GR Group that it continues to research own-developed compounds.

Gedeon Richter's management continues to endeavour to provide greater focus and improved shape to the product portfolio. With this background it is understandable that most of the GR Group's top ten products in 2008 originate from the three largest therapeutic categories. Gynaecological, cardiovascular and central nervous system products together generated 67 per cent. of total pharmaceutical sales in 2008.

Central nervous system related drugs together contributed 13 per cent. of total pharmaceutical sales in 2008. The leading CNS product was the Company's original product, Cavinton (vinpocetine), a cerebral oxygenation enhancer. The turnover of Cavinton increased substantially in 2008. Positive sales increases were also achieved by Gordius, a gabapentin-containing product for the treatment of neuropathic pain, primarily in Hungary. The dynamic sales growth of the antiepileptic Lamolep (lamotrigine) was attributable to its good performance on the Hungarian market.

After a slight contraction in 2007, cardiovascular drugs again produced an above average sales growth in 2008, accounting for 23 per cent. of total pharmaceutical sales. While the leading product of the GR Group

remained Lisopress (lisinopril), the greatest increase was achieved by Panangin (asparaginates) and the lisinopril and amlodipine containing combination product Lisonorm, both of which realised most of their sales growth in the CIS markets. Cholesterol-lowering drugs containing simvastatin (Simvachol and Zeplan) also showed positive results, particularly in Russia and Poland. Turnover of Normodipine (amlodipine) continued to shrink following further price reductions in the domestic market.

Gastrointestinal products represented 5 per cent. of total pharmaceutical sales led by the H2-blocker Quamatel (famotidine). Unfortunately, a considerable decline in the turnover of this product in Russia and Hungary was only partially offset by the sales growth of Nifuroksazyd (nifuroxazide) in Ukraine.

Muscle relaxant drugs amounted to 5 per cent. of the total pharmaceutical revenue of the GR Group in 2008, following a substantial year-on-year increase. The most significant growth was achieved by our original product Mydeton (tolperisone), primarily in Russia and Poland.

The sales of antifungal products such as Terbisil (terbinafine) and Mycosyst (fluconazole) declined in 2008. In the case of the Terbisil the decline was a consequence of lower sales levels reported in Russia, while turnover of Mycosyst decreased primarily in Germany.

The table below shows in percentage terms the breakdown of the GR Group's revenues by product type for the year ended 31 December 2008:

Licensed-in products.....	9%
Own developed compounds.....	91%

Product Strategy

The Company, as a medium-sized independent pharmaceutical company with a global reach, focuses on identifying therapeutic areas in which it may have a competitive advantage. Using its advanced chemistry and process development knowledge, and taking advantage of its well-established record of developing original patents throughout the past decades, the Company focuses particularly on original research, and female healthcare (the latter comprising principally oral contraceptives). The Company also sells products in a range of other therapeutic fields, such as CNS, cardiovascular and gastrointestinal. The following table shows the breakdown of the Company's revenues as a percentage by therapeutic group for the years ended 31 December 2008 and 31 December 2007:

Products by Therapeutic Group

Therapeutic Area	2008	2007
	%	%
Central Nervous System.....	13	13
Cardiovascular	23	22
Gynaecology	31	31
Gastrointestinal	5	5
Muscle relaxant.....	5	5
Other	23	24

The Company regularly reviews its product portfolio, withdrawing low volume and low margin products and introducing new products with improved profit potential. This frequent refreshment of the product portfolio is a key focus in the Company's product strategy. Historically, the Company introduces a new product into the

Hungarian market before introducing it into export markets and as such its domestic product portfolio is usually wider than that in export markets.

Principal Products

In 2008, the Company's top ten products accounted for 63 per cent. of the Company's revenues. The following tables set out the Company's revenue attributable to each of these products in the years ended 31 December 2008 and 2007 in HUF (oral contraceptives are treated as one product for these purposes because they use several of the same APIs in differing combinations and proportions):

Brand name	Active ingredient	Therapeutic area	2008	2007
<i>(HUF m)</i>				
Oral contraceptives	hormones	Gynaecology	46,210	50,344
Ednyt/ Lisopress	enalapril / lisinopril	Cardiovascular, antihypertensive	18,778	18,417
Cavinton	vinpocetine	CNS	17,544	16,845
Mydeton/ Mydocalm	tolperisone	Muscle relaxant	9,555	7,873
Verospiron	spironolactone	Cardiovascular, diuretic	7,717	7,459
Quamatel	famotidine	Gastrointestinal, antiulcer	6,645	8,074
Panangin	asparaginate	Cardiovascular	5,670	4,322
Normodipine	amlodipine	Cardiovascular, antihypertensive	5,203	6,063
Terbisil	terbinafine	Antifungal	4,710	5,052
Mycosyst	fluconazole	Antifungal	4,500	4,862
Subtotal			126,532	129,311
Other			75,170	62,181
Total			201,702	191,492

Female healthcare

One of Gedeon Richter's most important niche areas is its gynaecological business. The Company believes it has unique and long-term experience in this field dating back to when its founder, Mr. Gedeon Richter himself, began experimental work with steroids. This was at a time when they were completely novel. 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 offers, when compared to its competitors, one of the widest range of female healthcare products of any company in the world while continuing to broaden its product portfolio. As a result, a key element of the Company's strategy has been and remains the development of its gynaecological business. This therapeutic area represented 31 per cent. of the GR Group's pharmaceutical turnover in 2008 and increased by 7 per cent. in EUR terms when compared to 2007. This product group contributed substantially to the GR Group's turnover in each of its international markets. Gynaecological products represented 21 per cent. of total CIS sales, 29 per cent. of turnover in the EU region and 84 per cent. of total U.S. sales during 2008.

Female contraception

Gedeon Richter offers a broad range of contraceptive options to assist women to shape their lives according to their wishes. When it comes to the choice of contraceptive methods, factors such as reliability, safety, ease of use and convenience all play a major role. Step by step the Company has built up a product portfolio which contains a number of second and third generation oral contraceptives and emergency contraceptives, providing a wide range of products for the female population to choose from according to their personal needs.

According to market intelligence, usage of oral contraceptives within fertility-age women has gradually increased in the Central Eastern European and CIS regions, currently reaching 3 per cent. in Russia, 9 per cent. in Romania, 14 per cent. in Poland, 16 per cent. in Slovakia, 20 per cent. in Hungary and 36 per cent. in the Czech Republic. These levels remain relatively low compared with 33 per cent. in Germany, 40 per cent. in France and 45 per cent. in the Netherlands, which gives the Company an opportunity for further growth in this area. Being one of the largest participants in the pharmaceutical business in the CEE and CIS, management considers these markets to be one of the major potential drivers of growth in the coming years.

In accordance with the main strategic objectives of the Company, new contraceptive products were launched in its markets during 2008. Azalia, a third generation, desogestrel containing oral contraceptive was introduced in Hungary, the Czech Republic, Slovakia, Poland, the Baltic States and Denmark in 2008.

The range of contraceptive products was one of the key drivers of growth in Ukraine and the other CIS republics, as well as in Poland, the Czech Republic and Slovakia. Gedeon Richter's main strategic partner for API sales is the U.S. based Barr Laboratories, Inc. (which was acquired by TEVA in 2008), which, according to IMS statistics, is the second largest participant measured by value in the hormonal contraceptive market in the USA. The Company supplies steroid APIs for nine of Barr's range of oral contraceptive products. Gedeon Richter also supplies the emergency contraceptive Plan B in finished form to Barr and this product also showed good results in 2008. In addition, Gedeon Richter also signed a profit sharing agreement with Barr in respect of drospirenone, and related turnover contributed to the Company's sales levels achieved in 2008.

Principal gynaecological products of Gedeon Richter

The principal gynaecological products produced by Gedeon Richter are as follows:

Brand name	Active ingredients	Product type	Regions where launched⁽¹⁾
Lindynette	gestodene + ethinyl estradiol	Third generation oral contraception	Hungary; CIS; EU; Other countries
Regulon	desogestrel + ethinyl estradiol	Third generation oral contraception	Hungary; CIS; EU; Other countries
Novynette	desogestrel + ethinyl estradiol	Third generation oral contraception	Hungary; CIS; EU; Other countries
Azalia	desogestrel	Third generation oral contraception	Hungary; EU; Other countries
Milligest	gestodene + ethinyl estradiol	Third generation oral contraception	Hungary; EU
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

Brand name	Active ingredients	Product type	Regions where launched⁽¹⁾
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 therapy (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
Gynasol ⁽²⁾	butoconazole	Antifungal (cream)	Hungary; CIS; EU; Other countries
Mycosyst Gyno	fluconazole	Antifungal	Hungary; CIS; EU; Other countries
Sedron	alendronate	Osteoporosis	Hungary; EU; CIS
Calcisedron-D	alendronate+calcium/ vitamine D	Osteoporosis	Hungary
bulk products		Oral contraception	EU; USA; Other countries

Notes: (1) Products are launched in certain countries in the given region.
(2) Licensed-in products.

Ednyt/Lisopress

The antihypertensive drug Lisopress, (a generic ACE-inhibitor), containing lisinopril, contributed significantly to sales growth in 2008. Lisopress has been launched both in CEE and CIS countries under the trade name Dirotan.

Although sales of the Company's other ACE-inhibitor, Ednyt, containing enalapril, have reached maturity level, the product contributed strongly to the total sales achieved in 2008. Together Ednyt and Lisopress achieved sales of HUF 18,778 million in 2008.

Cavinton

Cavinton (vinpocetine), a cerebral oxygenation enhancer, has been Gedeon Richter's most successful own-developed compound. Drugs for diseases of the CNS accounted for 13 per cent. of the GR Group's pharma sales, the main contributor being Cavinton. In 2008, Cavinton was Gedeon Richter's single largest selling drug worldwide. Total sales of Cavinton increased in 2008, compared to 2007. Higher sales of Cavinton in Gedeon Richter's traditional markets were primarily due to the improved formulation of the product, Cavinton Forte.

Mydeton/Mydocalm

The muscle relaxant Mydeton (branded Mydocalm in certain markets) contains tolperisone, an original product of Gedeon Richter. Mydeton is sold in most CEE countries, in the CIS and also in Hungary. Sales levels of Mydeton of HUF 9,555 million were recorded in 2008, an increase of 21.4 per cent. compared to 2007.

Verospiron

The diuretic Verospiron which contains spironolactone, a generic compound, is another of Gedeon Richter's long-established products. In spite of having reached a phase of maturity, the product showed a slight increase of 3.5 per cent. when compared with 2007.

Quamatel

Gastrointestinal products represented 5 per cent. of Gedeon Richter's pharma sales in 2008. A major contributor to this therapeutic area was the generic H₂-blocker Quamatel, containing famotidine, which – in spite of a decline due to overall market difficulties – recorded high sales levels in Hungary and displayed positive results in some of the Company's traditional markets too. Nevertheless, a decline in Russian sales could not be completely offset by the growth in sales recorded in Ukraine.

Panangin

Panangin (containing asparaginate) is a long-established generic cardiovascular compound marketed particularly in the CIS, China and the Central and Eastern European region. Sales increased by 31.2 per cent. between 2007 and 2008, and contributed substantially to the Company's performance in 2008.

Normodipine

One of the Company's most successful product launches has been the introduction of the antihypertensive Normodipine, containing amlodipine. Despite severe price reductions imposed by the National Health Insurance Fund during the past couple of years, this product is still considered as one of Gedeon Richter's leading products in its traditional markets.

Terbisil

Terbisil, the terbinafine-based antifungal product, showed a 6.8 per cent. decline in 2008 primarily due to lower sales levels reported in Russia, nevertheless it is still considered as an important contributor to turnover achieved in the traditional regions of Gedeon Richter.

Mycosyst

Mycosyst, containing fluconazole, an antifungal agent, decreased by 7.4 per cent. during 2008, compared to the previous year. Despite the fact that the product has reached a phase of maturity it still contributed by HUF 4,500 million to the sales recorded in 2008.

In-Licensing Activities

Gedeon Richter has a vertically integrated structure. This is based on a good market position with geographic and therapeutic niches supported by continuous enhancement of supply of specialties, including by way of

licensing agreements. Licensing-in is becoming an increasingly important way for the GR Group to renew its product portfolio. This is accomplished partly as an expansion of the Company's existing generic product line and partly by providing high added value products either in the field of female healthcare or with original features.

The main licensing partners of Gedeon Richter are as follows:

Company	Country	Product	Therapeutic area
Biogen Idec	USA	Avonex, Tysabri	Multiple sclerosis
KV Pharmaceutical	USA	Gynazol, Clindesse	Gynaecology, antifungal, antibiotic
Almirall Prodesfarma	Spain	Aflamin	Anti-inflammatory
Merck KGaA	Germany	Femseven, Femsevel Combi, Femseven Evo	Gynaecology, hormone replacement therapy
Takeda	Japan	Lansone	Gastrointestinal, antiulcer
Astellas	Japan	Suprax	Antibiotic
Janssen	Belgium	several products	CNS, Antifungal, Antibiotic
Sanofi-Aventis	France	Tarivid	Antibiotic
Helm	Germany	several products	Oncology, opioid analgesic

The Company has in-licensing relationships with several other partners which contributed, in total, approximately 9 per cent. of its revenue in 2008.

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.

Proprietary research activities are focused exclusively on compounds for the diseases of the central nervous system, with a primary emphasis on schizophrenia, mania, depression, anxiety and chronic pain. The Company has a portfolio of 18 ongoing projects, of which two are in clinical phase II trials and three are in clinical phase I. The remainder are in the preclinical phase. At the end of 2008 the clinical portfolio was the following:

Name of compound	Clinical phase	Indications	Partner
Cariprazine (RGH-188)	F2 - United States Japan	Schizophrenia, bipolar mania	Forest Laboratories Mitsubishi-Tanabe
Radiprodil (RGH-896)	F2 - United States	Chronic pain	Forest Laboratories

Positive results of phase II clinical trials of RGH-188 in the indication of bipolar mania were published during 2008. The ongoing phase II/b trials of the same compound for schizophrenia are expected to be completed in the second half of 2009.

Following the gradual restructuring between 1998 and 2004 of research activities targeting NCEs and a comprehensive modernisation of the Company's technical infrastructure and laboratories, the Company is confident that it has established the most up to date research centre in the region. Based on its long term (almost 50-year) experience in the area of classical fermentation, combined with its molecular biological knowledge, a strategic decision was made by the management in 2006 to start recombinant biotechnological activities at the Company. In order to process this, Gedeon Richter Plc jointly with Helm AG acquired the Hamburg based Strathmann Biotec GmbH, a highly experienced company in the field of development and manufacturing microbial proteins. The acquired company (which has 80 employees) possesses an R&D laboratory, a pilot plant and a manufacturing unit, all of which meet the highest quality standards. In addition, construction of a biotechnology pilot plant in Budapest also started during 2007 and is expected to be operational in 2009. Meanwhile a greenfield investment has commenced in Debrecen which incorporates the building of a manufacturing unit for mammalian cell product development. According to construction plans this unit is expected to start its operations during 2012.

The Company considers it essential to establish partnerships to facilitate the development and marketing of new molecules. Gedeon Richter joins forces with academic and university institutions in the early phase of research activities, while it makes efforts to establish co-operation with other pharmaceutical companies when it comes to development of molecules in clinical phases. In this regard partnerships with the U.S.-based Forest Laboratories and with the Japanese Mitsubishi-Tanabe Pharmaceuticals have contributed substantially to the Company's research activity. In particular Gedeon Richter's experience in preclinical trials has complemented Forest's experience in clinical trials.

Development work in several therapeutic areas continued in 2008 at Gedeon Richter and at its two subsidiaries in Poland and Romania, all of which is coordinated by the Director of Development of Gedeon Richter. The GR Group'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. Licensing-in activity increasingly contributes to the continuous development of the GR Group's product portfolio. 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.

As a result of the GR Group's development activity it successfully enhanced during 2008 its female healthcare product portfolio, launching the third generation desogestrel containing oral contraceptive, Azalia in Hungary and in Poland, the Czech Republic, Slovakia and the Baltic States. The CNS, donepezil containing Palixid and the cardiovascular, indapimide-containing Narva, were also introduced in Hungary in 2008. In addition, the Company launched a number of licensed-in products on its various markets during the year, including the narcotic analgesic fentanyl-containing Dolforin in Hungary, the cardiovascular, atorvastatin-containing Larus and the multiple sclerosis Tysabri in Poland and the CNS quetiapin-containing Nantarid in Hungary, Poland, Slovakia and the Baltic States.

In 2008, the GR Group reported a 1.9 per cent. increase compared to 2007 in its spending on research and development which totalled HUF 18,402 million (EUR 73.2 million), representing 7.8 per cent. of consolidated sales.

Intellectual Property

Patents and Proprietary Rights

Gedeon Richter's policy is to file patent applications to protect its invented products and technologies that it considers important to the development of the business. Gedeon Richter also relies upon trade secrets, know-how, continuing technological innovations and licensing opportunities to develop and maintain its competitive position.

The GR Group holds a large portfolio of patents and patent applications including over 70 U.S. patents, 70 European patents and 140 Hungarian patents and patent applications and has filed numerous patent applications worldwide. These include patents and applications covering new chemical entities (e.g. Cariprazine, Radiprodil) and morphological forms, processes for manufacturing APIs (for example, famotidine and various steroids) and research tools and techniques.

Gedeon Richter also uses various trademarks, primarily the corporate name, Gedeon Richter, and brand names for its products. Gedeon Richter has obtained over 15,000 trademark registrations around the world. Approximately 300 of these are kept in reserve so that they may quickly be used for new products.

Third party Proprietary Rights

An important part of Gedeon Richter's business is to analyse the existence and scope of third party patents and other proprietary rights to establish whether and when it is appropriate to launch generic versions of existing products. Gedeon Richter has extensive facilities to gather information about third party proprietary rights, including access to online and offline databases. The Company has a team of in-house patent professionals who are skilled in identifying and analysing proprietary rights. Third party patents may cover not only a chemical entity, but also processes of manufacture, compositions, crystalline forms and therapeutic applications. Other proprietary rights of which the GR Group needs to be aware are patent term extensions (such as supplementary protection certificates and paediatric exclusivity terms), data exclusivity periods and trademark rights. Gedeon Richter actively considers all of these before launching a new product.

Regulatory Affairs

The pharmaceutical industry operates in a highly controlled regulatory environment. There are stringent regulations relating to analytical, toxicological and clinical standards and protocols in respect of testing of pharmaceuticals, as well as regulations covering research, development and manufacturing procedures. The evolving and complex nature of regulatory requirements, the broad authority and discretion of some regulators and the high level of regulatory oversight require Gedeon Richter to engage in continuing efforts to maintain compliance with regulatory requirements.

Regulatory authorities also regulate the facilities and procedures used to manufacture pharmaceutical products. Compliance with cGMP regulations requires the dedication of substantial resources and requires significant costs.

Clinical development of a new pharmaceutical product is typically conducted in three sequential phases, referred to as Phases I, II and III. In the U.S., Europe and certain other markets, brand equivalent or generic versions of existing chemical drug compounds may be approved for sale through an abbreviated regulatory approval process which avoids the need to carry out full testing.

Gedeon Richter's regulatory strategies integrate internationally recognised requirements for quality, safety and efficacy in order to support successful and fast approvals of new therapeutic products and their placing on the market worldwide. Gedeon Richter's goal for generic products is to file applications for approval in key markets within a short timeframe, and to obtain generic marketing approvals in time for a speedy introduction of the product once applicable proprietary protection has expired. In order to achieve this Gedeon Richter begins preparation for patent expiry well in advance, and aims to make its initial application for approval three years before the proposed launch date. Gedeon Richter has obtained approximately 3,300 marketing authorisations ("MAs"), of which approximately 1,500 are in the EU. Many of these are held in the names of

Gedeon Richter's marketing partners and affiliates. Among the EU MAs, there are 220 granted in Hungary. Gedeon Richter also holds approximately 1,100 licences in the CIS. Gedeon Richter also holds Drug Master Files ("DMFs") for APIs supplied to U.S. partners.

European Union Regulation

In the EU, Gedeon Richter makes use of the mutual recognition procedure, whereby an application for approval is made in one member state. If an authorisation is granted, it may be relied upon in the other EU member states to obtain equivalent authorisations there.

Hungarian Regulation

Since the accession of Hungary and other new EU member states to the European Union on 1 May 2004, and the subsequent accession of further new EU member states on 1 January 2007, the European regime also applies in these states. Products which are to remain on the market in these countries were required to have their marketing approval documentation brought into line with EU requirements. Gedeon Richter anticipated these requirements several years in advance and undertook an extensive review exercise in order to comply with the changing requirements. As a part of this review, a small number of products which were no longer regarded as being important to the GR Group's portfolio were discontinued.

Pricing Controls

In addition to requiring approvals for marketing, many countries impose pricing controls on pharmaceutical products, or controls on the level of government reimbursement for pharmaceutical products. These are highly variable between different countries and vary from time to time as national governments' policies change. Of particular importance to the Company is the pricing regime in Hungary.

The pricing of pharmaceutical products sold in Hungary is closely monitored by the Government of Hungary. The nature of the pricing control to which a pharmaceutical product is subject depends on whether the product has been designated a "reimbursed product". Whether a product is designated a reimbursed product and the level to which it is reimbursed is decided by the *Országos Egészségbiztosítási Pénztár* (National Health Insurance Fund), on application by the party marketing the product. The National Health Insurance Fund organises quarterly offerings, when manufacturers can submit their prices which are decisive factors in obtaining the reference product status for each of the therapeutic indications. The majority of pharmaceutical products sold in Hungary are reimbursed products, with reimbursement effected at the pharmacy level.

As a part of a programme of restrictive measures implemented in Hungary from October 2006 and throughout 2007, changes were made to the regulation of the Hungarian healthcare system in general and to the pharmaceutical products market in particular which had significant effects on the Hungarian domestic pharmaceutical industry including the Hungarian operations of Gedeon Richter. The introduction of "solidarity tax" and the increase in taxes levied on employee allowances impacted the national economy. The pharmaceutical industry in particular was affected by regulatory changes that impacted the market both on the demand and on the supply side. On the demand side, the decrease in reimbursement rates, the introduction of a minimum per box fee payable for drugs which had previously been reimbursed fully and the introduction of a medical visit fee (abolished in 2008 as a consequence of a national referendum) resulted in a significant drop in demand volume. On the supply side, a 12 per cent. flat rate tax was levied on manufacturers for reimbursed products sold, a HUF 5 million per capita medical representative fee was introduced, and manufacturers were made fully financially responsible in the event of an eventual budget overrun. The amount due in respect of the medical representatives' fee for 2007 amounted to HUF 721 million. This fee was abolished by the Constitutional Court as of 16 June 2008; therefore Gedeon Richter's payment obligation was limited to the first half of 2008 and amounted to HUF 301 million. Rules of competition were also changed by allowing products with a 1 per cent. market share to be chosen as reference products (instead of

the previous 3 per cent.) and by selecting reference products on a quarterly basis rather than yearly as was the case before. Strong competition distorted by the changes in the rules on the selection of reference products led to a significant decrease in the results of the Hungarian operations in Gedeon Richter's portfolio. Hungarian sales decreased from almost 20 per cent. in 2006 to 15 per cent. of Gedeon Richter's overall pharmaceutical sales portfolio at 31 December 2008.

From 2009 onwards, up to 20 per cent. of the extraordinary taxes (namely the 12 per cent. flat tax on reimbursed products, the tax on medical representatives and the contribution to the pharmaceutical budget in the case of an eventual overrun) can be deducted should companies undertake R&D activity, and the amount deductible can reach 100 per cent. of these extraordinary taxes from 2010 onwards. Thanks to the volume of its R&D activity, Gedeon Richter expects to take advantage of the permitted tax deduction in full.

Production in Hungary

Overview

Gedeon Richter manufactures API products at its production facilities in both Budapest and Dorog, while finished-form products are manufactured in Budapest only. The Company's headquarters, administration, marketing and distribution, and R&D departments are located at its Budapest site. Packaging of finished products is carried out in Budapest, and warehousing is at Budapest, Vecsés and Dorog.

In line with the overall pharmaceutical sales growth reported by the GR Group, the volume of finished products showed a moderate year-on-year increase in 2008.

The volume of API manufacturing declined in 2008 as compared to the high base recorded in 2007. This year-on-year decrease was primarily due to the lower sales levels of generic APIs in the USA market, notably a decline in lisinopril, finasterid and spironolacton turnover. This was further impacted by a lack of any drospirenone shipments following the Bayer-Schering – Barr agreement, published on 24 June 2008, relating to the supply and licensing by Bayer-Schering of generic versions of its oral contraceptive products to be marketed and sold in the United States by Barr.

According to the management's decision in 2007 to reduce the total capital expenditure spending of the GR Group, no major investment programmes were started during 2008 except for the investments initiated in the field of biotechnology.

Gedeon Richter has always paid special attention to offering reliable and modern products at affordable prices. Throughout 2008, several audits were conducted both on a regulatory and business partnership level, encompassing not only the Company's facilities, but also the production processes of finished-form products and APIs. All audits resulted in positive and satisfactory feedback.

Budapest site

The Budapest site covers 39 hectares (390,000m²) and is located in the city's industrial suburbs. The site is owned by the Company, which has been using it since 1907 when the Company started pharmaceutical production. Currently, some of the Company's primary production, all secondary production and most packaging is carried out at the Budapest site. A sterile plant for injectables and a fermentation plant were opened in 1989. In addition, a new hormone plant, packaging plant, R&D facilities and a new warehouse for finished products were completed in 2000. A new state-of-the-art chemical research centre was completed in early 2007. Investment is also directed at upgrading facilities to permit GMP requirements to be met when higher standards are introduced. The site has good access to road and rail links.

Dorog site

Acquired in 1967, the production site covers 69 hectares (690,000m²) and has significant scope for further expansion of facilities. The site is on the outskirts of Dorog, a small town approximately 40 km north-west of Budapest, and has its own rail connection. The main activity at Dorog is primary production. The APIs are transferred to Budapest for further processing or shipped directly to customers.

Vecsés site

The site covers 18 hectares (180,000m²) and is located 15 km south-east of Budapest close to the Férihegy airport. Originally established to provide warehousing, it is used for the following activities:

- storage of raw materials in large quantities; and
- storage of packaging materials.

Debrecen site

In 2007, Gedeon Richter's management took the decision to acquire a new site to set up a manufacturing facility for APIs obtained via biotechnological processes. It covers an area of 57,000 m². The production hall has an area of 13,500 m², of which the processing area is 6,300 m². The site is served by its own entire utility centre where electricity, natural gas and tap water are available. The investment is being carried out with a strong commitment to environmental standards. The investment is expected to be operational in 2011.

Subsidiaries and joint ventures belonging to the GR Group

The following table sets out the principal subsidiaries of Gedeon Richter, which are included in its consolidated financial statements of the GR Group as at 31 December 2008:

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	99.45	99.45	Pharmaceutical manufacturing
GZF Polfa Sp. z o.o.	Poland	99.85	99.85	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	Ukraine	98.10	98.10	Pharmaceutical

Name	Place of incorporation (or registration) and operation	Proportion of ownership %	Proportion of voting rights held %	Principal activity
V.A.T.				manufacturing
Biowet Drwalew S.A.	Poland	99.50	99.50	Manufacturing of veterinary products
Gedeon Richter UK Ltd.	UK	100.00	100.00	Pharmaceutical trading
Gedeon Richter Iberica S.A.	Spain	100.00	100.00	Pharmaceutical trading
Medimpex Hong Kong Ltd.	Hong Kong	100.00	100.00	Pharmaceutical trading
Nedermed B.V.	The 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 control services
Armedica Trading S.R.L.	Romania	99.45	99.45	Asset management
Dita Import Export S.R.L.	Romania	99.44	99.44	Pharmaceutical wholesale
Gedeon Richter Farmacia S.A.	Romania	99.25	99.25	Pharmaceutical retail
Magnolia S.R.L.	Romania	99.26	99.26	Pharmaceutical retail

Name	Place of incorporation (or registration) and operation	Proportion of ownership %	Proportion of voting rights held %	Principal activity
Pharmaplus S.R.L	Romania	94.28	94.28	Pharmceutical retail
Gedeon Richter France S.A.R.L.	France	99.66	99.66	Pharmaceutical retail
Gedeon Richter-Retea Farmaceutica S.R.L.	Moldavia	51.00	51.00	Pharmaceutical retail
Richter-Helm BioLogic Co. & KG.	Germany	70.00	70.00	Biotechnological manufacturing and research
Richter-Helm BioLogic Management GmbH	Germany	70.00	70.00	Asset management

Subsidiaries included in the consolidated financial statements of the GR Group since 2008:

Name	Place of incorporation (or registration) and operation	Date of acquisition	Proportion of ownership %	Proportion of voting rights held %	Principal activity
Gedeon Richter Aptyeka sp.O.O.O	Armenia	01.2008	51.00	51.00	Pharmaceutical retail
Pharmafarm S.A.	Romania	01.2008	95.68	95.68	Pharmaceutical wholesale
Pharmanet S.R.L.	Romania	01.2008	95.68	95.68	Pharmaceutical retail
Gedeon Richter Ukrfarm O.O.O.	Ukraine	01.2008	100.00	100.00	Pharmaceutical wholesale and retail

The GR Group has the following interests in joint ventures:

Name	Place of incorporation (or registration) and operation	Proportion of ownership %	Proportion of voting rights held %	Principal activity
Medimpex UK.	UK	50.00	50.00	Pharmaceutical

Ltd.				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
Westpharma S.R.L.	Romania	49.72	49.72	Informatics services
Richter-Helm BioTec Management GmbH	Germany	50.00	50.00	Asset management

Joint ventures newly included in the consolidated financial statements of the GR Group since 2008:

Name	Date of acquisition	Place of incorporation (or registration) and operation	Proportion of ownership %	Proportion of voting rights held %	Principal activity
Richter-Helm BioTec Co. & KG	01.2008	Germany	50.00	50.00	Trading of biotech products

Brief presentation of the principal companies in the GR Group

Pharmaceutical companies

Parent company: Gedeon Richter. Founded in 1901, nationalised in 1949 and re-privatised in stages from 1990 onwards, Gedeon Richter is a vertically integrated regional multinational company carrying out research and development, manufacturing, sales and marketing activities.

Gedeon Richter RUS: Established as a greenfield investment in 1996, this Russian subsidiary manufactures and supplies products to its domestic market. A significant share of its portfolio comprises finished form products and APIs shipped from the parent company that are packaged or tableted on the site.

Gedeon Richter Romania: Acquired in 1998, this Romanian subsidiary executes pharmaceutical manufacturing and sales mainly to its domestic market and delivers contract manufacturing and product development activities for the GR Group.

GZF Polfa: Acquired in 2002, GZF Polfa is a Polish manufacturing company that in addition to its domestic operations conducts export activities mainly to the CIS region. It also carries out contract manufacturing for the Gedeon Richter parent company.

Richter Themis: Joint venture established in India in 2004. Manufactures intermediates and active pharmaceutical ingredients for the GR Group's exclusive use and carries out development activities.

Richter-Helm BioLogic: Acquired in 2007, a German joint venture which is involved in the development, manufacturing and marketing of biosimilar products of microbial origin.

Wholesaler and retail companies

Wholesalers:

Dita Import Export and Pharmafarm S.A.: Wholesaling group, which supports the GR Group's products on the Romanian market.

Retail companies:

Gedeon Richter Farmacia: Retail operation in Romania comprising 155 pharmacy units which supports the promotion and sale of Gedeon Richter products.

Other companies

All other subsidiaries and joint ventures of Gedeon Richter rendering services or performing commercial and marketing activities to the GR Group were classified under this segment.

Capital Expenditure

Capital expenditure combined with intangible assets in 2008 totalled HUF 22,010 million (EUR 87.6 million), compared to HUF 23,197 million (EUR 92.3 million) reported for 2007. Responding to the adverse business environment in Hungary, Gedeon Richter has deliberately reduced capital expenditure in 2007 and 2008, but without compromising its high manufacturing standards. In line with this policy, in 2008 important equipment replacements occurred at the injectables plant and at the tableting facilities in Budapest. A number of projects were undertaken with the aim of enhancing environmental protection and the safety of manufacturing processes at both the Budapest and Dorog sites of Gedeon Richter.

Among the capital expenditures carried out at GR Group level, the main developments during 2008 were a warehouse expansion at the Russian manufacturing unit as well as a laboratory and a pilot plant capable of running R&D projects requiring isolated conditions at the Romanian subsidiary.

In line with the Company's strategic goal of improving its share of high intellectual value intensive production and taking advantage of a sound knowledge in the field of large scale fermentation procedures, the Company decided to enter into the development of biosimilar research and manufacturing capacities. Following the acquisition in 2007 in Germany of a manufacturing unit dedicated to the development of bacterial fermentation together with a related pilot plant and laboratory, Gedeon Richter announced in 2008 a greenfield investment to be carried out in the Hungarian city of Debrecen aimed at the manufacturing of biosimilar products by means of mammalian cell fermentation. Related small scale fermentation units were completed during 2008 in Budapest, while the laboratory is expected to be completed during the second half of 2009. The construction of the manufacturing plant commenced in late 2008 in Debrecen. The plant is expected to be operational in 2012.

Safety, Health and Environment

GR Group has always maintained a reputation for paying particular attention to social and environmental standards. The health and welfare of society is highly dependent on the quality of products produced by pharmaceutical manufacturers and on innovation activity carried out by such companies. Not only the patient but the whole of society and the national economy benefit from new high quality products which help people maintain their health and physical and mental condition. Gedeon Richter strives to offer efficient and affordable treatment options and in doing so it needs the active support of healthcare policy makers. Environmental responsibility has equal importance in the Company's activities. Consuming a wide range of potentially hazardous chemicals, and conducting activities which result in the emission of materials with a

safe but certain environmental load, Gedeon Richter considers environmental standards as key important issues.

Gedeon Richter is subject to extensive regulation in the field of quality and the environment, together with health and safety matters, in the wide range of countries in which it manufactures and markets its products. The Company aims to set and maintain high standards in respect of social responsibility worldwide ensuring that all members of the GR Group meet both national and international legal requirements. In line with these standards, particular attention is paid to creating a safe workplace environment. Continually improving technological standards in all of its plants, ongoing training in the field of safety and regular reviews of safety procedures are all factors taken into account in this initiative.

The Environmental Management System at the Company meets all requirements of ISO 14001:2004 standards. A regular audit was successfully completed during 2008. Reconstruction of the Company's ageing waste water pre-treatment plant and the solvent recovery system applied to the vents of the final processing unit at certain of the Budapest plants were completed during the year. In addition, a project related to the enhancement of the Company's fire reserve tanks was also finalised. The installation of charging units for solids and liquids assuring production in a closed system continued at the Company's facilities in Dorog, while the rainwater sewage system was completed during 2008. Review of the action plan for the reduction of noise pollution is an ongoing activity and it is upgraded on a regular basis.

The Company continues to make progress on the harmonisation of tasks related to employment healthcare and safety. The employment healthcare and safety management system established at the Company was originally certified according to the requirements of OHSAS 18001:1999 in 2006. The follow-up audit with the more stringent criteria of OHSAS 18001:2007 was successfully completed in 2008.

Community involvement

Gedeon Richter has always been aware of the importance of community involvement. Gedeon Richter recognises that as a leading pharmaceutical manufacturer and employer in Hungary it has a responsibility to maintain dialogue with society at large and with those who have an interest in the Company's activities. In this respect, Gedeon Richter supports projects in the areas of healthcare, science, education and environmental control in line with its target for improving health and the quality of life. To encourage young people's interests Gedeon Richter sponsors a range of science-based school programmes, including chemistry education in secondary schools and university programmes both in Hungary and abroad. On the occasion of its centenary in 2001 the Company created a foundation which has as its aim the support of scientific research and university education in the field of pharmaceutical research not only in Hungary but also for Hungarian talents living abroad.

Pending litigation proceedings

In November 2007, the Company and Genefar BV, as shareholder of Polpharma (Poland), entered into a subscription agreement aimed at merging the business operations of the Company and Polpharma by way of the acquisition by the Company of Polpharma in exchange for new shares in the Company issued to Genefar. The subscription agreement was endorsed by Mr. Jerzy Starak, the controlling shareholder of Genefar. The closing of the contemplated transaction was subject to the approval of the Polish merger control authorities. Following that approval, the Company announced on 15 July 2008 that the closing of the transaction and the subscription of the new shares scheduled for 14 July 2008 did not take place due to the absence of the representatives of Genefar at the closing. The Company immediately initiated discussions in order to find an amicable settlement and complete the anticipated transaction. However, in spite of the Company's efforts, such negotiations remained unsuccessful and as a result the merger with Polpharma could not take place. The

Company initiated arbitration proceedings in December 2008 under the arbitration rules of the International Chamber of Commerce, claiming a U.S.\$40 million break fee and compensation for additional damages caused by the failure of Genefar to proceed with the closing of the transaction as anticipated under the subscription agreement. In February 2009, Genefar filed a statement of defence rejecting the Company's claims and with a counterclaim for approximately U.S.\$3.3 million seeking indemnification for damages allegedly sustained in connection with the negotiation, signing and implementation of the subscription agreement. The arbitration proceedings are ongoing.

Taxation

From 1 January 2004, as a result of its capital expenditure programme and an increase in the number of employees, the parent company, Gedeon Richter, benefits from a 100 per cent. tax holiday, which is expected to last until 2011.

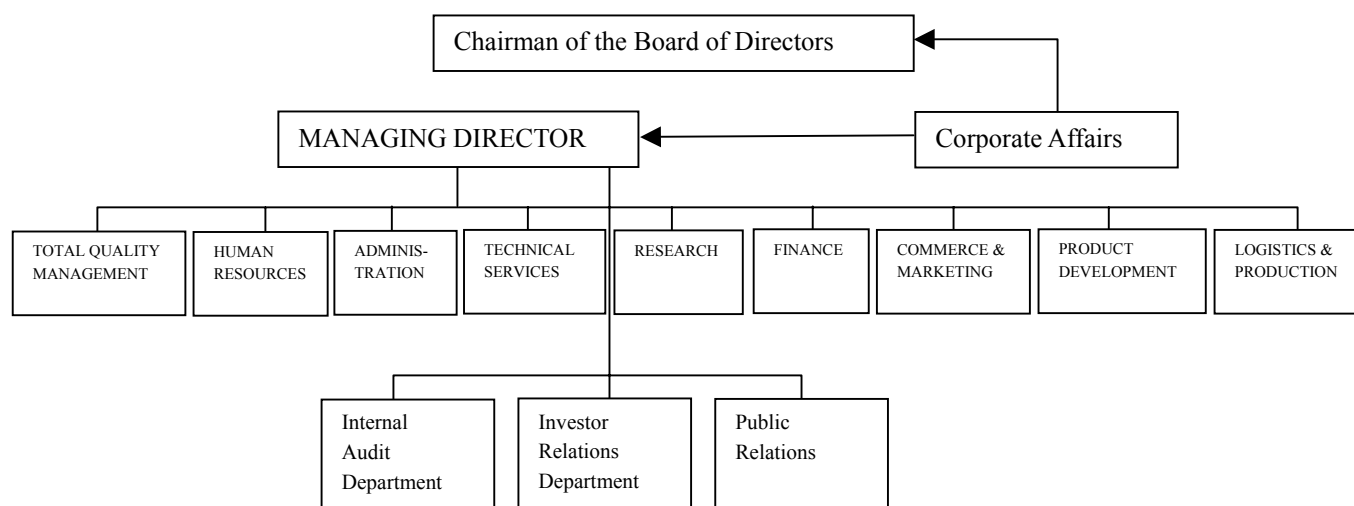
In accordance with a "solidarity tax" which targets the correction of the budget balance and which was passed by Parliament and promulgated in July 2006, the Company is also obliged to pay a 4 per cent. solidarity tax on its profit before taxation. The rules were changed during the fourth quarter of 2006 with the direct costs of R&D being deducted from the calculation base so as to promote innovation. The GR Group was subject to an extraordinary tax payment obligation of HUF 1,378 million in 2008 (HUF 1,030 million in 2007).

The average effective tax rate of the Company calculated on the basis of the current tax regime is 4.6 per cent. (or 4.3 per cent. including deferred assets); in 2007 these rates were 4.3 per cent. and 5.1 per cent., respectively.

Management and Employees

Overview

Management of the Company is the responsibility of the Board of Directors, Executive Board and Supervisory Committee. The Company's management structure is set out below:



Board of Directors

Pursuant to Hungarian law, the Company's Board of Directors is responsible for the management of the Company and is required to report to the shareholders on the Company's management, financial condition and business policy.

In accordance with the Statutes of the Company, the Board of Directors may not have more than eleven or fewer than three members. Directors are elected for a term of up to five years at the Company's annual general meeting, based on nominations of the shareholders. Each member of the Board has a single vote at Board meetings. The Board decides on issues which are not exclusively in the domain of the general meeting or that are delegated to the authority of the Board by the general meeting or as provided by the Statutes of the Company.

The Company's Board of Directors currently consists of ten members. They are:

WILLIAM DE GELSEY (1921)

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

ERIK BOGSCH (1947)

Appointed Managing Director in 1992. Chemical engineer, qualified economic engineer. With Gedeon 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 (Hungarian Pharmaceutical Manufacturers Association), Chairman from 2006.

Dr GYÖRGY BIRÓ (1945)

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

Dr JENŐ KOLTAY (1944)

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

Dr LÁSZLÓ KOVÁCS (1944)

Strategic adviser to 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 Hungarian Privatisation and State Holding Company between 2002 and 2006. Joined the Board in 2006.

Dr GÁBOR PERJÉS (1941)

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

ISTVÁN SOMKUTI (1958)

Economist. Employed by the Issuer as Deputy Managing Director of the Portfolio Department. Joined the Board in 2004.

Prof Dr SZILVESZTER E. VIZI (1936)

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

Executive Board

The Company's business affairs are managed on a day to day basis by the Managing Director who is supported by the Executive Board. The Executive Board currently consists of seven members and is constituted as follows:

ERIK BOGSCH (1947)

Dr GÁBOR GULÁCSI (1958)

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

LAJOS KOVÁCS (1960)

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

SÁNDOR KOVÁTS (1960)

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

ANDRÁS RADÓ (1954)

Appointed Director in 1995. Responsible for Production and Logistics. Deputy Managing Director since 2000. Chemical engineer, economic engineer. With Gedeon 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 Gedeon 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 Gedeon Richter since 1983 in a number of management positions.

Supervisory Committee

The Supervisory Committee is responsible for monitoring the financial affairs of the Company and for ensuring that the Company complies with Hungarian law and with its own organisational documents. It examines all important reports and proposals by the Board of Directors, the annual balance sheet and recommendations concerning the distribution of profits and prepares a report to the general meeting. Two thirds of the Supervisory Committee members are elected by the general meeting and one third are employee representatives. There are currently eight members of the Supervisory Committee.

Dr ATTILA CHIKÁN (1944)

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

JÓZSEF ERŐS (1933)

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

JENŐ FODOR (1958)

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

Dr MÁRIA BALOGH, JÁNOKINÉ (1951)

Economist with University doctorate in Economic Sciences. Executive Director at Magyar Hitelbank since 1987. Director of OTP Bank since 1995. Has been a member of the Committee since 1991. Member of Audit Committee.

ANDRÁS BALASKÓ (1972)

Employee representative. Chemical engineer, a graduate of Budapest University of Technology. With Gedeon Richter since 1995, currently Unit Manager and Deputy Plant Manager of Gedeon Richter's Synthetic Plant I.

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 Alaska Advisory Ltd. since 2000. Joined the Committee in 2004.

GÁBOR TÓTH (1955)

Employee representative. Chemical engineer, economic engineer. With Gedeon 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.

Employees

The pharmaceutical business is built on innovation. Gedeon Richter is engaged in attracting, recruiting and retaining the most talented employees to help maintain high levels of innovation and strong business growth.

The total headcount for the GR Group was 10,527 at the end of 2008, a 10 per cent. increase when compared with 2007, as a result of inclusion in the headcount of wholesale and retail companies.

The proportion of skilled employees at the GR Group increased by 823 to 5,319 at the end of 2008, from 4,496 reported in 2007. The proportion of graduates represented 77 per cent. of white collar staff and 51 per cent. of the total number of employees at the GR Group.

The total headcount for Gedeon Richter was 6,174 at the end of 2008, a slight decrease of 20 during the year. In Hungary, Gedeon Richter's headcount totalled 4,624 at the end of 2008, a decrease of 206 when compared with the end of 2007.

The proportion of skilled employees at Gedeon Richter in 2008 remained virtually unchanged to that in 2007. Gedeon Richter employed 3,003 graduates at the end of 2008 and these represented 79 per cent. of white collar staff and 49 per cent. of the total number of employees in the Company.

Attracting the best people in the industry is critical to enhancing and sustaining Gedeon Richter's performance. The Company's Human Resources Department is focused on proactive identification of talented external candidates for key roles.

Most available positions are posted on the Company's careers website. Using the web enables the Company to reach far more people than through any other media for recruitment. This facility is also available to existing employees via the Company's careers intranet site. Employees are encouraged to develop their careers within Gedeon Richter rather than looking outside the Company.

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

Employees receive regular feedback on their performance and meet with their managers to discuss development opportunities and their career goals. This annual performance and development planning process ensures that employees set business-aligned objectives and behavioural goals and helps them identify the training they need to develop their careers. The performance and development planning process is reviewed during the course of each year, leading to compensation decisions – a practice that has been increasingly used and has become a well-received performance appraisal method within the Company.

Members of staff are encouraged and supported in fully developing their capabilities with a range of high-quality learning and development opportunities. Training programmes are offered, including coaching, languages and other courses to ensure employees have the skills needed in the business. The Company makes special efforts to assist scientific and professional education and postgraduate training. To encourage personal development, the Company continued during 2008 to support employees to participate in university education, including PhD courses. The new form of education – e-learning, which was first established at the Company a few years ago, was developed further during 2008. It is intended to expand this still further to those areas and subjects which benefit from this new method of education.

The Company believes that good leadership is critical to stimulating the high level of performance that is essential to continued success in a changing and increasingly challenging environment.

Management training programmes continued in 2008 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 special skills. For those managers appointed within the last three years a

special manager training programme has been implemented so as to identify and develop management skills and self-knowledge.

The new career development programme first initiated in 2006, which focuses on further development of high potential management talent, continued in 2008. Approximately 20 per cent. of the participants were promoted to new management positions during the development programme. Additionally, new candidates have been admitted to this programme every year.

The employee health programme, which was first initiated and financed by the company in 2006, has continued during 2008 and into 2009. All employees can participate in this wide-ranging medical programme which aims to prevent illness by early diagnosis.

Providing a safe workplace and promoting the health and well-being of the employees have always been a core priority for Gedeon Richter. 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.

In order to strengthen loyalty to the GR Group, special meetings have been organised by the Human Resources Department at individual subsidiaries. The main topics of these meetings included the review of the current HR policy of the GR Group and identification of areas which may be the subject of further development.

Employee Share Schemes

As part of its remuneration policy the Company distributes treasury shares to management and employees. Gedeon Richter has had in place a bonus share programme since 1996 to incentivise further managers and key employees whose performance can significantly influence the Company's profitability.

In 2008, 31,727 shares were distributed to 416 employees of the Company and 61,674 shares were granted to qualified employees as bonuses during the year. Pursuant to its "Recognised Staff Stock Option Plan" approved by the Ministry of Finance, in 2008 the Company granted 59,473 treasury shares to 4,573 employees. The shares are held in deposit in the relevant employees' security accounts with UniCredit Bank Hungary Zrt. until 2 January 2011.

The Company's Annual General Meeting held on 28 April 2008 approved the purchase of treasury shares, the aggregate nominal value of which shall not exceed 10 per cent. of the registered capital of the Company. Based on this approval, the Company purchased 80,000 treasury shares on the Budapest Stock Exchange in 2008, and a further 46,899 shares on the OTC market.

Number of shares

	Ordinary shares
at 31 December 2007	54,548
Out of these, number of shares owned by subsidiaries	10,550
Share purchase	126,899
Issued as part of bonus program.....	(31,727)
Bonuses	(61,674)
Granted pursuant to the Finance Ministry-approved plan.....	(59,473)
Granted pursuant to the Finance Ministry – re-entry	1,875

	Ordinary shares
Shares of newly consolidated companies.....	—
at 31 December 2008	30,448

	HUF m
Book value	
at 31 December 2007	1,718
Share purchase	3,412
Issued as part of bonus programme.....	(961)
Bonuses	(2,047)
Granted pursuant to the Finance Ministry-approved plan	(1,579)
Granted pursuant to the Finance Ministry – re-entry	61
Shares of newly consolidated companies.....	—
at 31 December 2008	604

Shareholders

The Company's shareholders as at 30 June 2009 are set out in the table below.

Ownership	Ordinary shares	Voting rights	Share capital
	<i>Number</i>	<i>%</i>	
Domestic ownership	6,749,473	36.31	36.22
MNV.....	4,680,898	25.18	25.12
Municipality	100	0.00	0.00
Institutional investors	1,492,750	8.03	8.01
Retail investors.....	575,725	3.10	3.09
International ownership	11,839,018	63.67	63.51
Institutional investors.....	11,742,426	63.15	62.99
out of which Bank of New York Mellon.....	1,493,990	8.04	8.02
Retail investors.....	96,592	0.52	0.52
Treasury shares	45,680	0.00	0.25
Undisclosed property	3,315	0.02	0.02
Share capital	18,637,486	100.00	100.00

Recent Developments

The Company's financial performance in the six months ended 30 June 2009 can be summarised as follows:

Sales amounted to HUF 134,539 million (EUR 462.5 million) in the six months to June 2009, a 17.2 per cent. increase (in Euro terms 2.1 per cent.) when compared with the same period of 2008. The severe global

economic downturn accompanied by significant currency depreciation in many of the Company's core markets impacted adversely the turnover reported in Euro or U.S. dollar terms. However, this negative effect was more than offset by the sales growth achieved in the Company's two largest export markets, Russia and the USA.

In Hungary sales totalled HUF 15,882 million (EUR 54.6 million) in the first half of 2009. While in the first quarter of 2009 turnover increased significantly, sales in the second quarter remained at the level reported during the same period of last year, mainly due to reduced reimbursement rates implemented by the Government, which adversely impacted consumer demand.

Export sales amounted to EUR 407.9 million in the first six months of 2009, an increase of EUR 13.3 million or 3.4 per cent. over the same period in 2008. Sales in the CIS totalled EUR 152.0 million (U.S.\$202.2 million), 2.5 per cent. higher (in U.S.\$ terms 10.9 per cent. lower) when compared to the same period in 2008. While turnover in Russia increased post January and exceeded levels in the same period in 2008, sales in Ukraine and in other CIS republics did not recover. Sales declined in the EU region by 7.2 per cent. in Euro terms. Sales in the USA increased by 63.6 per cent. in U.S.\$ terms in the reported period due primarily to significant revenues from the Company's profit sharing agreements. Turnover in the 'Rest of the World' region decreased by 8.3 per cent. in Euro terms.

Profit from operations in the six months to June 2009 at HUF 27,327 million (EUR 94.0 million) was HUF 8,049 million (41.8 per cent.) higher when compared with the same period in 2008. Favourable exchange rates prevailing in the reporting period, with the Hungarian Forint weaker as against the Euro and U.S. dollar, impacted significantly this performance. In Euro terms, operating profit increased by EUR 17.9 million (a 23.5 per cent. increase on the same period in 2008).

Operating margins in the first half of 2009 increased to 20.3 per cent. as compared with 16.8 per cent. in the same period in 2008.

Profit after taxation increased by 105.1 per cent. in HUF and by 78.6 per cent. in Euro terms during the reported period to a total of HUF 27,704 million (EUR 95.2 million). Beyond a favourable operating profit, the increase was principally due to the positive effect of the Company's realised financial gains within the net financial income.

Diluted earnings per share amounted to HUF 1,492 per share (EUR 5.13 per share) in the six months to June 2009, an increase of 111.7 per cent. (84.6 per cent. in Euro terms) over the previous year.

Total assets and total shareholders' equity and liabilities amounted to HUF 409,477 million as at 30 June 2009, an increase of HUF 25,344 million as compared with the totals reported at 31 December 2008. The cash position remains positive.

SUMMARY FINANCIAL INFORMATION RELATING TO THE COMPANY AND THE GR GROUP

The following tables set out in summary form, the consolidated balance sheets as at 31 December 2007 and 2008 and the consolidated statements of income, cash flow and changes in shareholders' equity for the years then ended and the consolidated balance sheets as at 30 June 2009 and 2008 and the consolidated statements of income, cash flows and changes in shareholders' equity for the six month periods then ended. Such information is derived from, is qualified by reference to and should be read in conjunction with, the audited consolidated financial statements of Gedeon Richter as at and for the years ended 31 December 2008 and 2007 and the unaudited condensed consolidated interim financial information of Gedeon Richter as at and for the six month periods ended 30 June 2009 and 30 June 2008.

The GR Group does not publish full interim financial statements in accordance with IAS 34. However it does publish an unaudited consolidated report to the Budapest Stock Exchange on a quarterly basis, from which the information for the six month periods ended 30 June 2009 and 30 June 2008 is extracted.

Consolidated Statements of Income

	For the years ended 31 December		For the six month periods ended 30 June	
	2008	2007	2009 <i>unaudited</i>	2008 <i>unaudited</i>
	<i>(HUF m)</i>		<i>(HUF m)</i>	
Sales	236,101	223,624	134,396	114,721
Royalty and other similar income	417	452	143	113
Total sales	236,518	224,076	134,539	114,834
Cost of sales	(108,421)	(104,379)	(57,724)	(51,563)
Gross profit	128,097	119,697	76,815	63,271
Sales and marketing expenses	(51,921)	(43,308)	(26,891)	(24,096)
Administration and general expenses ..	(15,965)	(14,900)	(9,369)	(7,313)
Research and development expenses ..	(18,402)	(18,063)	(13,579)	(9,420)
Other income and other expenses	(7,653)	(7,143)	351	(3,164)
Profit from operations	34,156	36,283	27,327	19,278
Income from associates	903	735	301	457
Net financial income	8,394	(1,238)	2,237	(4,769)
Profit before taxation	43,453	35,780	29,865	14,966
Income tax	(1,876)	(1,809)	(2,161)	(1,459)
Profit after taxation	41,577	33,971	27,704	13,507
Out of which:				
Net income attributable to equity holders of parent company	41,410	33,336	27,805	13,134
Net income attributable to non- controlling interest	167	635	(101)	373
Earnings per share (HUF)				
Basic	2,227	1,792	1,494	706
Diluted	2,222	1,789	1,492	705

*Data for 2008 and 2007 have been readjusted in accordance with the new IFRS standards as of 2009

Consolidated Balance Sheets

	As at 31 December		As at 30 June	
	2008	2007	2009	2008
			<i>unaudited</i>	<i>unaudited</i>
	<i>(HUF m)</i>		<i>(HUF m)</i>	
Assets				
Non-current assets.....	171,057	175,487	168,866	172,717
Property, plant and equipment	141,935	144,863	139,632	142,218
Investment property	766	762	759	755
Intangible assets.....	9,821	7,747	9,882	9,259
Investments in associates	6,533	6,032	6,530	5,938
Investments	3,578	10,388	3,570	7,627
Deferred tax assets.....	1,048	789	904	796
Goodwill	5,815	3,892	5,945	4,657
Loans receivable	1,561	1,014	1,644	1,467
Current assets	213,076	172,476	240,611	183,054
Inventories	56,808	52,874	57,126	57,307
Trade receivables	68,671	55,453	73,788	62,584
Other current assets.....	9,190	6,140	9,526	7,109
Current tax assets	-	208		
Investments in securities.....	18,862	5,400	32,975	8,863
Cash and cash equivalents	57,456	49,831	65,278	47,191
Assets classified as held for sale	2,089	2,570	1,918	-
Total assets	384,133	347,963	409,477	355,771
Equity and Liabilities				
Capital and reserves	339,286	314,381	353,919	318,320
Share capital	18,638	18,638	18,638	18,638
Share premium.....	15,214	15,212	15,214	15,214
Capital reserves.....	3,475	3,475	3,475	3,475
Foreign currency translation reserves on reserves	(7,518)	(3,562)	(9,232)	(5,126)
Treasury shares	(604)	(1,718)	(1,174)	(1,432)
Fair value reserves	92	25	273	(21)
Retained earnings.....	307,202	274,113	324,030	278,885
Capital attributable to non-				

	As at 31 December		As at 30 June	
	2008	2007	2009	2008
			<i>unaudited</i>	<i>unaudited</i>
	<i>(HUF m)</i>		<i>(HUF m)</i>	
controlling interest	2,787	8,198	2,695	8,687
Non-current liabilities	1,099	1,712	1,158	1,137
Borrowings	70	463	102	177
Deferred tax liability	817	725	841	642
Other non-current liabilities	212	524	215	318
Current liabilities	43,748	31,870	54,400	36,314
Borrowings	5,053	392	6,599	528
Trade payables	27,864	18,083	24,168	22,391
Current tax liabilities	485	-	-	-
Other payables and accruals	8,293	11,287	21,759	12,429
Provisions	1,201	1,020	1,151	966
Liabilities directly associated with assets classified as held for sale	852	1,088	723	-
Total equity and liabilities	384,133	347,963	409,477	355,771

*Data for 2008 and 2007 have been readjusted in accordance with the new IFRS standards as of 2009

Consolidated Cash Flow Statements

	For the years ended 31 December		For the six month periods ended 30 June	
	2008	2007	2009	2008
	<i>unaudited</i>	<i>unaudited</i>	<i>unaudited</i>	<i>unaudited</i>
	(HUF m)		(HUF m)	
Profit for the year.....	41,410	33,336	27,805	13,134
Depreciation and amortisation	20,583	20,213	10,152	10,269
Net financial income.....	(8,394)	1,238	(2,237)	4,769
Income tax	1,876	1,809	2,161	1,459
Changes in reserve on share-based payments.....	-	(1,753)	-	-
Reversal of reserve on share-based payments.....	-	316	-	-
Adjustments in connection with acquisition of new Romanian investments.....	41	250	-	(3,190)
Movements attributable to non- controlling interests	-	-	(72)	421
Changes in provision for defined benefit plans.....	312	213	-	-
Result from disposal of property, plant and equipment.....	2,368	991	(88)	96
Result of disposal of investment.....	(18)	-	-	(18)
<i>Changes in working capital</i>				
Changes in receivables	(9,671)	(5,867)	(5,309)	(1,386)
Changes in inventories	(1,384)	(158)	(318)	(1,883)
Changes in payables and other liabilities	(1,486)	166	9,194	(3,497)
Change in the amount of assets and related liabilities classified as held for sale.....	(1,237)	(1,482)	42	-
Tax paid	(1,983)	(1,536)	(2,097)	(1,404)
Net cash flow from operating activities	42,417	47,736	39,233	18,770
Cash flow from investing activities				
Purchase of property, plant and equipment	(22,010)	(23,197)	(7,953)	(6,480)
Effect of fixed assets of newly	-	(10,679)	-	-

	For the years ended 31 December		For the six month periods ended 30 June	
	2008	2007	2009 <i>unaudited</i>	2008 <i>unaudited</i>
	<i>(HUF m)</i>		<i>(HUF m)</i>	
consolidated companies				
Proceeds from disposal of property, plant and equipment.....	630	645	161	438
Changes in non-current investments...	6,309	(2,242)	11	2,855
Changes in current investments	(13,395)	2,493	(13,932)	(3,509)
Changes in loans receivable.....	(547)	(818)	(83)	(453)
Interest and similar income	3,152	2,797	2,232	1,400
Acquisition of subsidiary	(11,146)	-	(150)	(1,184)
Dividend income.....	78	70	5	6
Disposal of investment	1,500	-	-	1,500
Net cash flow from investing activities.	<u>(35,429)</u>	<u>(30,931)</u>	<u>(19,709)</u>	<u>(5,427)</u>
Cash flow from financing activities				
Proceeds from conversion of preference shares	2	3	-	2
Proceeds from disposal of treasury shares	1,114	(1,180)	(570)	286
Dividends paid	(8,404)	(12,816)	(10,973)	(8,369)
Other cash flows from financing activities.....	5,164	(4,105)	-	(6,175)
Net repayment of long-term borrowings	4,255	(39)	1,578	(163)
Net cash flow from financing activities	<u>2,131</u>	<u>(18,137)</u>	<u>(9,965)</u>	<u>(14,419)</u>
Net increase (decrease) in cash and cash equivalents	9,119	(1,332)	9,559	(1,076)
Cash and cash equivalents at beginning of year	49,831	51,208	57,456	49,831
Effect of foreign exchange rate changes	(1,494)	(45)	(1,737)	(1,564)
Cash and cash equivalents at end of year	<u>57,456</u>	<u>49,831</u>	<u>65,278</u>	<u>47,191</u>

SHARE PRICE HISTORY AND DIVIDENDS

The Shares are listed on the Budapest Stock Exchange under the symbol RICHTER. The following table sets out, for the periods indicated below, the highest and lowest closing prices in HUF on the Budapest Stock Exchange and dividends paid per Share in HUF:

Year Ended	High	Low	Dividends
2006	47,137.09	33,262.06	600
2007	40,674.74	31,836.54	690
2008	39,820.22	23,785.02	450

The following table sets out, for each month from January 2009 to September 2009, the highest and lowest closing prices of the Shares in HUF on the Budapest Stock Exchange:

Month	High	Low
January 2009	30,783.21	26,040.92
February 2009	28,345.86	22,362.82
March 2009	26,825.58	22,460.9
April 2009	28,522.41	24,520.64
May 2009	31,494.31	28,738.19
June 2009	34,990	29,915.18
July 2009	37,500	32,400
August 2009	39,200	35,900
September 2009 (up to 18 September 2009)	38,880	35,350

The Board of the Company intends to propose annual dividends of an amount approximately equivalent to 25 per cent. of distributable earnings adjusted to exclude non-recurring extraordinary or exceptional income, insofar as this is consistent with maintaining the soundness of the Company's finances and with the capital expenditure requirements associated with the Company's tax holiday.

This dividend policy has been unchanged since 1994.

DESCRIPTION OF THE GEDEON RICHTER SHARES

The following is a summary of certain information concerning the Shares and certain provisions of the Statutes of the Company and of Hungarian law in effect as the date hereof. The following information should be read in conjunction with and is qualified in its entirety by the Statutes of Gedeon Richter, copies of which are available at the offices of the Paying, Transfer and Exchange Agents.

General

The registered share capital of the Company is equal to HUF 18,637,486,000, divided into 18,637,486 ordinary shares with a nominal value of HUF 1,000 each ("**Ordinary Shares**").

Form and Transfer of Shares

All of the Shares are Ordinary Shares and are in registered, dematerialised form, validly issued and fully paid up.

The dematerialised security is a data complex created, recorded, transmitted and registered in an electronic format, identifiably containing all material information relating to the securities, as defined in the Capital Market Act and in other specific legislation. At its issue, the Company issued a document in one copy and placed it in KELER, the central depository, and simultaneously requested KELER to create the securities on accounts.

Whenever title to the Ordinary Shares as dematerialised securities is conveyed, it must be effectuated through the crediting and debiting of securities accounts. Unless evidenced to the contrary, the holder of an Ordinary Share shall be the person in whose account it is registered.

Disclosure Obligations

Holders of shares or voting rights in the Company (hereinafter referred to as "**shareholders**") shall notify the Company and the HFSA at the time of reaching or exceeding the following thresholds relating to voting rights, or shares to which voting rights are attached, held directly or indirectly, including when such holdings of shares or voting rights fall below the said threshold: 5%, 10%, 15%, 20%, 25%, 30%, 35%, 40%, 45%, 50%, 75%, 80%, 85%, 90%, 91%, 92%, 93%, 94%, 95%, 96%, 97%, 98%, 99%.

The notification shall be made without delay, but not later than within two calendar days, the first of which shall be the day after the date on which the shareholder (i) learns of the acquisition or disposal of shares carrying voting rights or of the possibility of exercising voting rights, or on which, having regard to the circumstances, should have learned of it, regardless of the date on which the acquisition, disposal or possibility of exercising voting rights takes effect; or (ii) is informed by the Company's notice concerning changes in the quantity of shares to which voting rights are attached in accordance with the Company's Statutes.

The voting rights shall be calculated - irrespective of any provisions for restrictions on voting rights - on the basis of all the shares to which voting rights are attached according to the Statutes of the Company.

In calculating the shareholding, in addition to the shares held by the shareholder, the voting rights described below shall also be taken into account.

Voting rights attached to shares shall be recognized as the voting right of the applicant in any of the following cases, where the voting right:

- a) is exercised by the shareholder and a third party under an agreement, which permits the concerted exercise of the voting rights for the parties to the agreement;
- b) is exercised by the shareholder under an agreement providing for the temporary transfer of the voting rights in question;
- c) is exercised by the shareholder, in the case of voting rights attaching to shares which are lodged as collateral, under an agreement which provides for the exercise of such voting rights;
- d) is exercised by the shareholder under the right of beneficial interest;
- e) is exercised by the shareholder's controlled company within the meaning of paragraphs a) to d) above;
- f) is exercised by the shareholder, if functioning as a custodian, at its discretion in the absence of specific instructions from the depositor;
- g) is exercised by a third party in its own name on behalf of the shareholder, under an agreement with the applicant;
- h) is exercised by the shareholder, if functioning as a proxy, at its discretion in the absence of specific instructions from the principal.

The voting rights of (i) any fund management company, if the fund management company is controlled by the shareholder and if able to exercise the voting rights attached to the securities it manages, (ii) any investment firm or credit institution, if the investment firm or credit institution is controlled by the shareholder and if able to exercise the voting rights attached to the portfolio it manages, under direct or indirect instructions from the shareholder or another controlled company of the shareholder, or in any other way, shall also be taken into account.

Voting rights that are held by any investment fund management company, management company engaged in the management of UCITS, investment firm or credit institution that is controlled by the shareholder shall be disregarded, if the investment fund management company, management company engaged in the management of UCITS, investment firm or credit institution is authorized to provide portfolio management services, and it is permitted to exercise the voting rights attached to the portfolio it manages (i) under instructions received on paper or by way of electronic means, (ii) independently from the shareholder.

However, the above exception applies only if:

- the shareholder is required to send to the HFSA the name of the investment fund management company, management company engaged in the management of UCITS, investment firm, credit institution it controls and the name of the competent supervisory HFSA supervising them;
- the shareholder shall provide a statement to the HFSA to the effect that (i) the voting rights attached to the portfolio it manages are exercised by the investment fund management company, management company engaged in the management of UCITS, investment firm or credit institution it controls independently from the shareholder, and (ii) it neither intervenes in the management of the investment fund management company, management company engaged in the management of UCITS, investment firm or credit institution it controls nor exerts any influence on them by way of direct or indirect instructions in their exercise of such voting rights;
- the shareholder and its controlled companies shall establish written policies and procedures reasonably designed to prevent the distribution of information between them in relation to the exercise of voting rights.

The requirement of notification shall apply to any person who, directly or indirectly, is in possession of any financial instruments specified in Act CXXXVIII of 2007 on Investment Firms and Commodity Dealers, and on the Regulations Governing their Activities - including futures and options contracts -, provided that they result in an entitlement to acquire, on the holder's own initiative alone or under a formal agreement, shares of an issuer to which voting rights are attached.

The shareholder shall not be required to comply with the obligation of notification if the notification requirement is satisfied by its parent company, or if the parent company is controlled by others, by that parent company.

In connection with shares shown in the trading book, the credit institution and the investment firm shall not be required to comply with the obligation of notification, if (i) they ensure that the voting rights attaching to shares held in the trading book are not exercised, (ii) they are not involved in the decisions relating to the appointment and removal of members for the Company's decision-making, management or supervisory bodies, and (iii) the voting rights held in the trading book do not exceed five per cent.

Market makers shall not be required to comply with the obligation of notification if (i) they ensure that the voting rights attaching to shares held in the trading book are not exercised, (ii) they notify the HFSA in advance of the commencement and termination of market making activities, (iii) they keep separate accounts on the shares and financial instruments required for market making activities.

Where the market maker has concluded a market-making agreement with the stock exchange and/or the Company, this agreement shall be presented to the HFSA upon request.

In the event of non-compliance with the obligation of notification, the person affected may not exercise his voting rights in the Company until the notification is submitted.

Mandatory Offer

Any acquisition of interest in the Company in excess of 33 per cent. shall be subject to a public purchase offer approved in advance by the HFSA. In case there are no shareholders – with the exception of the shareholder intending to acquire the interest – holding (either directly or indirectly) more than 10 per cent. of the voting rights, the purchase offer must be made in case of acquiring an interest in excess of 25 per cent.

The person (“**Bidder**”) acquiring an interest in excess of 33 per cent. (or 25 per cent.) shall be obliged to make a public purchase offer in respect of all Ordinary Shares outstanding. The main rules of such public purchase offer are the following:

- The offer may be validly submitted only if the offer is to all of the shareholders of the Company having voting rights and for all of the voting shares of the Company, currently the Ordinary Shares including the Shares.
- An authorised investment service provider (“**Offer Manager**”) must be commissioned to manage the public purchase offer process.
- An offer document must be prepared containing, *inter alia*, the terms and conditions of the public purchase offer. The Bidder must present a report detailing its business activities (“**Business Report**”) and a strategic plan concerning the potential acquisition of an interest in the Company (“**Strategic Plan**”). The Offer Manager and the Bidder must sign a responsibility declaration to the effect that the information in the Business Report is true and accurate and the Business Report does not omit any substantial information necessary or desirable for the evaluation of the Bidder and the public purchase offer and they are jointly and severally liable for all losses caused by misleading information or information not disclosed in the Business Report. All the above documents must be prepared in

Hungarian and English and shall contain the data and information set out in the Statutes of the Company and the Capital Market Act.

- The offer price per share shall not be less than the price calculated in accordance with the provisions of the Capital Market Act.
- The Bidder shall submit the offer document to the HFSA for approval, to the Board of Directors of the Company for notification, and shall simultaneously initiate its publication.
- The acceptance period of the offer shall be at least 30 days, but no longer than 65 days. The offer document, together with the annexes such as the Business Report and the Strategic Plan, must be made available to shareholders for inspection during the entire acceptance period.
- Up until the 15th day prior to the closing day of the acceptance period, any third party may make a counter offer. The rules of the public purchase offer are applicable to the counter offer as well. The price offered in the counter offer must be at least 5 per cent. higher than the previous offer price. A new counter offer may be made exceeding the original counter offer if the price offered by such new counter offer is at least 5 per cent. higher than the offer price in the previous counter offer.
- If a counter offer is submitted, the previous offer or previous counter offer, and the acceptances in respect of such offer automatically lapse.
- In case of a public purchase offer, the Bidder must purchase all shares offered, unless the interest to be acquired by the Bidder in the Company would be less than 50 per cent. pursuant to the declarations of acceptance, and the purchase offer contains a clause of rescission for this case.
- If, within 3 months after the public purchase offer is completed, the Bidder holds more than 90 per cent. of the voting rights, and it has paid the purchase price to the shareholders, the Bidder has an option to purchase the remaining shares of the Company within 3 months of the publication of the announcement in relation to the result of the offer. The Bidder may set a deadline for the delivery of the shares of the non-accepting shareholders. The price of the shares must be the highest of (i) the offer price; or (ii) the equity per share. After the expiry of the deadline set, the Board of Directors of the Company is entitled to cancel the outstanding shares.
- If, after the public purchase offer is completed, a shareholder has acquired more than 90 per cent. of the voting rights it is obliged to purchase the outstanding shares at the request of the holder of those shares if such request has been made within 90 days of the publication of the announcement in relation to the result of the offer. The price of those shares must be the highest of (i) the offer price; or (ii) the equity per share.

If the interest is acquired other than in accordance with the Statutes and the law, shareholders' rights in the Company cannot be exercised. The HFSA is entitled to suspend both ownership rights and shareholders' rights if a person fails to meet the requirements. If a person does not make a public purchase offer although obliged to do so, it must sell all of the shares acquired in contravention of the public purchase offer rules within 60 days of (i) the acquisition of the shares, or (ii) the date of the HFSA's resolution notifying the investor about the public purchase offer. The HFSA also has the power to fine investors and companies acting in violation of the rules.

Shareholders' rights in the Company on the basis of shares which are not affected by the selling obligation may be exercised only after the sale of the shares subject to such obligation.

General Meetings, Voting Rights

The General Meeting is the highest decision-making body of the Company, and shall be comprised of all of the shareholders.

The Annual General Meeting of the Company must be convened annually by the Board of Directors not later than 30 April in each financial year. An Extraordinary General Meeting must be convened by the Board of Directors at the request of the Supervisory Board or the Court of Registration or Company's auditor or if the shareholders representing at least 10 per cent. of the shareholders holding Ordinary Shares so request in writing.

No less than 30 days before a General Meeting notice of it must be given on the website of the Company, and if required by law in the *Cégközlöny* (the official gazette of the Hungarian Courts of Registration). The quorum for a General Meeting is more than 50 per cent. of the shares entitling their holders to vote, currently the Ordinary Shares. In the absence of a quorum, the General Meeting will be adjourned to a later date, reconvening with an unaltered agenda. The notice of the General Meeting must specify the date on which the General Meeting will be reconvened if the General Meeting is adjourned. The reconvened General Meeting shall have a quorum for the purposes of considering items on the agenda of the original General Meeting if the shareholders representing more than 20 per cent. of the votes relating to the voting shares issued by the Company are presented personally or via proxy at the reconvened General Meeting and their shareholding or representation right has been duly evidenced.

Resolutions at the General Meeting are passed by a simple majority of votes present at the General Meeting, but at least 20 per cent. + 1 vote of all the voting shares, currently the Ordinary Shares except as required by law or by the Statutes of the Company as hereafter described.

The following matters require a majority of three-quarters of the votes present at the General Meeting, but at least 35 per cent. +1 vote of all the voting shares, currently the Ordinary Shares: removal of a member of the Board of Directors.

The following matters require a majority of three-quarters of the votes present at the General Meeting, but at least 20 per cent. +1 vote of all the voting shares, currently the Ordinary Shares: amendment of the Statutes, except for those issues requiring a greater majority pursuant to the Statutes; an increase in the share capital of the Company; a decision on the transformation of categories or classes of shares; any amendment of the rights attaching to the various series of shares; and listing of the Company's shares on a stock exchange.

The following matters require a majority of three-quarters of the votes present at the General Meeting, but at least 35 per cent. +1 vote of all the voting shares, currently the Ordinary Shares: a decrease in the share capital of the Company; delisting of the Company's shares from a stock exchange; exclusion of the exercise of preferential subscription rights; and removal of the members of the Supervisory Board and the auditors of the Company.

The following matters require a majority of 90 per cent. of the votes present at the General Meeting, but at least 45 per cent. + 1 vote of all of the voting shares, currently the Ordinary Shares: change of the form of operation of the Company; transformation or termination without a legal successor of the Company; decisions which may result, in one or more steps, in a fundamental reduction of the research and development or manufacturing activities of the Company in Hungary; renaming, or any amendment to the registered and/or trading name of the Company; decisions concerning the changing of the registered seat of the Company; cancellation of the registration with the Court of Registration of certain activities which are currently registered as activities of the Company, namely manufacturing basic pharmaceutical products, manufacturing pharmaceutical preparations, manufacturing other inorganic basic chemicals, manufacturing other organic basic chemicals, or the cessation of any of such activities; and if in any given year at least three members of the Supervisory Board are removed, the removal of the third or subsequent members of the Supervisory Board.

The following matter requires a simple majority of the votes present at the General Meeting, but at least 45 per cent. + 1 vote of all of the voting shares: if in any given year at least four members of the Board of Directors are removed, the removal of the fourth and subsequent members of the Board of Directors.

Subject to the limitation set out below, each Ordinary Share of nominal value HUF 1,000, including the Shares, entitles its holder to one vote. Shareholders may also exercise their rights at a General Meeting through an authorised representative.

At General Meetings, a shareholder may not exercise voting rights, for its own account or as the representative of another shareholder, alone or in concert with affiliated persons, in excess of 25 per cent. of the voting rights attached to the shares held by shareholders present or represented at the General Meeting.

Share Capital Increase

The share capital of the Company may be increased (i) by the decision of the General Meeting, with the majority of three-quarters of the votes present at the General Meeting, but at least 20 per cent. +1 vote of all of the voting shares, currently the Ordinary Shares and (ii) by the decision of the Board of Directors. The authorisation of the Board of Directors to decide on the increase of the share capital is valid until 27 April 2010, and is restricted by a maximum increase of 25 per cent. of the share capital per annum. The authorisation is set out in the Statutes of the Company and may be amended, withdrawn or extended only pursuant to the Companies Act and with a decision of the General Meeting, with the majority of three-quarters of the votes present at the General Meeting, but at least 20 per cent. +1 vote of all of the voting shares, currently the Ordinary Shares.

Dividends

A holder of Shares is entitled to dividends declared by the General Meeting in proportion to their shareholding.

Dissolution of the Company

The Company may be dissolved voluntarily without a legal successor being named by a resolution passed at a general meeting with a majority of 90 per cent. of the votes present at the General Meeting, but at least 45 per cent. + 1 vote of all of the voting shares, currently the Ordinary Shares. It may also be dissolved if: it merges or amalgamates with another company; it is split up or is transformed into another corporate form; it is declared to be terminated by the Court of Registration; or the Court of Registration dissolves the Company in the course of a liquidation procedure; or the Court of Registration orders the cancellation of the Company from the company register.

Notices

Announcements of the Company shall be published on the website of the Company. Furthermore, if required by law, announcements shall be published in the *Cégközlöny*. In addition thereto, as long as the shares of the Company are traded on the Budapest Stock Exchange (the “BSE”), those announcements required by the BSE shall be published in a manner as set forth by the BSE.

Changes in Share Capital

There have been no changes in the share capital of the Company in the three years ended 31 December 2008, 2007 and 2006.

TAXATION

The following is a general discussion of certain Hungarian tax consequences of the acquisition, ownership and exchange of the Bonds. It does not purport to be a comprehensive description of all tax considerations which may be relevant to a decision to purchase Bonds, and, in particular, does not consider any specific facts or circumstances that may apply to a particular purchaser. This summary is based on the laws of Hungary currently in force and as applied on the date of this Offering Circular, which are subject to change, possibly with retroactive effect.

Prospective purchasers of the Bonds are advised to consult their own tax advisers as to the tax consequences of the purchase, ownership and disposition of the Bonds, including the effect of any State or local taxes, under the tax laws of Hungary and each country of which they are residents.

Taxation of foreign resident Bondholders other than individuals

Interest

Subject to the following paragraph, any payment of interest under the Bonds by the Issuer shall be exempt from taxes in Hungary.

If the receipt of the interest is attributable to a permanent establishment of the Bondholder in Hungary then, until 31 December 2009, the interest received will be subject to Hungarian corporate income tax and “solidarity” surtax at the rate of 16 per cent. and 4 per cent. respectively. With effect from 1 January 2010, the 4 per cent. “solidarity” surtax will be abolished and a general corporate income tax rate of 19 per cent. will be introduced.

Notwithstanding the above, with effect from 1 January 2010, a 30 per cent. withholding tax will be levied on interest paid under the Bonds as long as no double tax treaty has been concluded between Hungary and the country of domicile or tax residence of the recipient. Pursuant to Condition 12, the Issuer shall gross up payments of interest under the Bonds such that Bondholders receive such amounts as would have been received by them if no such withholding tax applied, subject to the exemptions described in Condition 12.

Capital gains

Provided that the capital gain is not attributable to a permanent establishment of the Bondholder in Hungary, any capital gain realised by the foreign resident Bondholder on the sale of the Bonds is not subject to tax in Hungary.

Exchange

The exchange of the Bonds into Shares and the receipt of the Shares by the Bondholders will not be taxable in Hungary provided that the income of the Bondholder arising from the exchange is not attributable to a permanent establishment in Hungary.

Transfer tax

Sale and other dispositions of the Bonds as well as receipt of the Shares will not be subject to transfer taxes or stamp duties in Hungary.

EU Savings Directive

On 3 June 2003, the European Council of Economics and Finance Ministers adopted a Directive on the taxation of savings income under which Directive Member States were required, from 1 July 2005, to provide to the tax authorities of another Member State details of payments of interest (or similar income) by a person

within its jurisdiction to an individual resident in that other Member State, except that, for a transitional period, Belgium, Luxembourg and Austria will instead be required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the end of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries).

SUBSCRIPTION AND SALE

Pursuant to a subscription agreement dated 9 September 2009 (the “**Subscription Agreement**”) among the Issuer, Gedeon Richter and Morgan Stanley & Co. International plc and UniCredit (Bayerische Hypo- und Vereinsbank AG) (together, the “**Joint Lead Managers**”), the Issuer has agreed to issue, and Joint Lead Managers have severally agreed to subscribe for the aggregate principal amount of the Bonds set out opposite their respective names below at 100 per cent. of their principal amount:

	Principal amount of Bonds
	<u>€</u>
Bayerische Hypo- und Vereinsbank AG.....	416,650,000
Morgan Stanley & Co. International plc	416,650,000
Total	<u>833,300,000</u>

The Issuer and Gedeon Richter have agreed to indemnify the Joint Lead Managers in respect of certain matters pursuant to the Subscription Agreement. The Issuer and Morgan Stanley & Co. International plc have entered into a separate agreement in respect of the payment of commissions and the reimbursement of certain expenses in connection with the management of the issue of the Bonds. The Subscription Agreement contains provisions entitling the Joint Lead Managers to terminate the Subscription Agreement in certain circumstances prior to payment to the Issuer.

The Hungarian State has agreed to indemnify the Joint Lead Managers in respect of certain matters pursuant to a Letter Agreement dated 9 September 2009.

Neither the Issuer nor Gedeon Richter will, without the prior consent of the Joint Lead Managers (such consent not to be unreasonably withheld or delayed) for a period commencing on 9 September 2009 and ending on the date falling 90 days after the Closing Date (i) issue, offer, sell, contract to sell or otherwise transfer or dispose of any Gedeon Richter Shares or any option, right or warrant to purchase or acquire or otherwise transfer or dispose of, directly or indirectly, any Gedeon Richter Shares (or any receipt, certificate or other right, title or interest in respect of or representing any Gedeon Richter Shares or an interest therein) or any securities, instrument or other right or interest convertible into or exercisable or exchangeable for or which confers a right or entitlement to purchase or acquire Gedeon Richter Shares (or any receipt, certificate or other right, title or interest in respect of or representing Gedeon Richter Shares or an interest therein) or (ii) enter into any swap or other agreement that transfers, in whole or in part, any of the economic consequences of ownership of any Gedeon Richter Shares, whether any such transaction described in paragraph (i) or (ii) above is to be settled by delivery of Gedeon Richter Shares (or any receipt, certificate or other right, title or interest in respect of or representing Gedeon Richter Shares or an interest therein) or such other securities relating to Gedeon Richter Shares, in cash or otherwise, provided always that nothing in this paragraph shall prevent the Issuer from satisfying its obligations to Bondholders or prevent Gedeon Richter from issuing new or granting existing Gedeon Richter Shares to its officers and employees pursuant to any staff stock option plan or management incentive scheme disclosed in Gedeon Richter’s Annual Report for the year ended 31 December 2008 or any staff stock option plan or management scheme similar thereto, provided that the number of Gedeon Richter Shares which are so issued or granted pursuant to such schemes does not exceed a certain limit.

United States of America

The Bonds, the Statutory Guarantee and the Gedeon Richter Shares deliverable upon exchange of the Bonds have not been and will not be registered under the Securities Act and may not be offered or sold within the United States except in certain transactions exempt from the registration requirements of the Securities Act. Each of the Joint Lead Managers has agreed that it will not offer or sell any Bonds within the United States. Terms used in this paragraph have the meanings given to them by Regulation S.

United Kingdom

Each of the Joint Lead Managers has further represented and agreed that it has only communicated or caused to be communicated, and will only communicate or cause to be communicated, any invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000 (the “FSMA”)) received by it in connection with the issue or sale of any Bonds in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer or the Company.

European Economic Area

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a “**Relevant Member State**”), each Joint Lead Manager has represented and agreed that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the “**Relevant Implementation Date**”) it has not made and will not make an offer of Bonds which are the subject of the offering contemplated by the Offering Circular to the public in that Relevant Member State other than:

- (i) to legal entities which are authorised or regulated to operate in the financial markets or, if not so authorised or regulated, whose corporate purpose is solely to invest in securities;
- (ii) to any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than €43,000,000; and (3) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts;
- (iii) to fewer than 100 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the Joint Lead Managers; or
- (iv) in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Bonds shall require the Issuer or any Joint Lead Manager to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression an “**offer of Bonds to the public**” in relation to any Bonds in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Bonds to be offered so as to enable an investor to decide to purchase or subscribe the Bonds, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression “**Prospectus Directive**” means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State;

General

No action has been or will be taken in any jurisdiction by the Issuer or either of the Joint Lead Managers that would, or is intended to, permit a public offering of the Bonds, or possession or distribution of this Offering Circular or any other offering material, in any country or jurisdiction where action for that purpose is required. Persons into whose hands this Offering Circular comes are required by the Issuer, the Republic, and the Joint Lead Managers to comply with all applicable laws and regulations in each country or jurisdiction in which they purchase, offer, sell or deliver Bonds or have in their possession, distribute or publish this Offering Circular or any other offering material relating to the Bonds, in all cases at their own expense.

Purchase of Bonds and Stabilising Activities

In connection with the offering of the Bonds, the Stabilising Manager (or persons acting on behalf of the Stabilising Manager) is permitted to engage in certain transactions that may stabilise the price of the Bonds or the price of the Gedeon Richter Shares. These transactions may consist of bids or purchases for the purpose of pegging, fixing or maintaining the price of the Bonds.

Neither the Issuer nor the Joint Lead Managers make any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of the Bonds or the price of the Gedeon Richter Shares. In addition, neither the Issuer nor the Joint Lead Managers makes any representation that the Joint Lead Managers will engage in such transactions or that such transactions will not be discontinued without notice, once they are commenced.

In connection with the offering of the Bonds, the Joint Lead Managers and/or their affiliates may act as an investor for their own account and may take up Bonds in the offering and in that capacity may retain, purchase or sell for their own account such securities and any securities of the Issuer or related investments and may offer or sell such securities or other investments otherwise than in connection with the offering of the Bonds. Accordingly, references herein to the Bonds being offered should be read as including any offering of Bonds to the Joint Lead Managers and/or their affiliates acting in such capacity. Such persons do not intend to disclose the extent of any such investment or transactions otherwise than in accordance with any legal or regulatory obligation to do so.

The Company received a preferential allocation of Bonds in the offering.

GENERAL INFORMATION

Listing

Application has been made for the Bonds to be listed on the Official List of the Luxembourg Stock Exchange and traded on the Euro MTF Market.

The outstanding issued Gedeon Richter Shares are listed on the Budapest Stock Exchange.

Authorisations

Each of the Issuer and Gedeon Richter has obtained all necessary consents, approvals and authorisations in Hungary in connection with the issue and performance of the Bonds. The issue and sale of the Bonds has been authorised by the Minister of Finance of the Republic of Hungary in its resolution on 4 September 2009 (resolution No. 1/2009 in accordance with Section 6(1) of the Act CII of 2008 and Section 22(3) of the State Property Act and by the National Holding Board of the Issuer in its resolution on 2 September 2009 (resolution No. 710/2009(IX.02)) in accordance with Section 7(1) of the Issuer's Internal Rules of Organisation and Operation (*Szervezeti és Működési Szabályzat*).

Clearing of the Bonds

The Bonds have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The International Securities Identification Number for the Bonds is XS0451905367 and the Common Code is 045190536. The address of Euroclear is 1 Boulevard de Roi Albert I, B-1210 Brussels, Belgium and the address of Clearstream, Luxembourg is 42 Avenue JF Kennedy, L-1855, Luxembourg. The ISIN number for the Gedeon Richter Shares is HU0000067624 and they are listed on the Budapest Stock Exchange under the symbol RICHTER.

Litigation

Save as disclosed in this Offering Circular, neither the Issuer nor Gedeon Richter are involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which either of the Issuer or Gedeon Richter is aware) in the 12 months preceding the date of this Offering Circular which may have, or have had in the recent past, significant effects on the Issuer's or Gedeon Richter's financial position or profitability.

Save as disclosed in this Offering Circular, the Hungarian State is not involved in any litigation or arbitration proceedings against or affecting the Hungarian State or any of its assets or revenues, which are or might be material in the context of the Statutory Guarantee, nor so far as the Hungarian State is aware is any such litigation or arbitration pending or threatened.

No material change

Save as disclosed in this Offering Circular, there has been no significant change in the financial or trading position of the Issuer or Gedeon Richter since 30 June 2009 and no material adverse change in the financial position or prospects of the Issuer or Gedeon Richter since 31 December 2008, and no adverse change, or any development reasonably likely to involve an adverse change, in the condition (financial or otherwise) or general affairs of the Hungarian State since 24 July 2009 that is material in the context of the issue of the Bonds.

Auditors

The auditors of the Issuer are Ernst & Young Kft. of Váci út 20., H-1132, Budapest, Republic of Hungary, who have audited the accounts of the Issuer, without qualification, for each of the three financial years ended 31 December 2008. Although the audit report dated 2 April 2008 in relation to the year ended 31 December 2007 is not qualified, the auditors have called to the attention of the addressees four technical issues relating to matters connected with the audit report

The auditors of Gedeon Richter are Deloitte Auditing and Consulting Ltd. of Dózsa György út 84/C, Budapest 1068, Republic of Hungary, who have audited the accounts of Gedeon Richter and the GR Group, without qualification, for each of the two financial years ended 31 December 2008.

Documents available

For so long as any of the Bonds are outstanding, copies of the following documents (together with English translations thereof if the original document is not in English) will be available during normal business hours at the specified office of each Paying, Transfer and Exchange Agent (including the Paying, Transfer and Exchange Agent in Luxembourg):

- (a) the Agency Agreement;
- (b) the Trust Deed;
- (c) the Offering Circular;
- (d) the Statutes of the Issuer;
- (e) the Statutes of the Company; and
- (f) copies of notices issued by the Company to its shareholders.

Financial statements available

For so long as any of the Bonds are outstanding, copies of the following documents (together with English translations thereof if the original document is not in English) will be available during normal business hours at the specified office of each Paying, Transfer and Exchange Agent (including the Paying, Transfer and Exchange Agent in Luxembourg):

- (a) the most recent publicly available audited consolidated financial statements of Gedeon Richter, beginning with the consolidated financial statements as at and for the years ended 31 December 2008 and 2007;
- (b) the most recent subsequently published unaudited condensed consolidated interim financial information of Gedeon Richter beginning with such financial statements for the six months ended 30 June 2008 and 2009; and
- (c) the most recent publicly available audited financial statements of the Issuer regarding its own assets, beginning with such financial statements for the years ended 31 December 2008 and 2007.

The Issuer does not publish interim accounts. Gedeon Richter publishes unaudited condensed consolidated quarterly interim financial information.

Notices

Financial notices concerning the Issuer and/or Gedeon Richter including annual accounts, quarterly interim reports and notices of general meetings shall be published on the websites of each of the Issuer and Gedeon Richter at www.mnvzrt.hu and www.richter.hu respectively.

All notices regarding the Bonds and any notices relevant to the rights attaching to the Gedeon Richter Shares shall be published (for so long as the Bonds are admitted to the official list of the Luxembourg Stock Exchange and traded on the Euro MTF market of the Luxembourg Stock Exchange and the rules of that exchange so require), in a leading daily newspaper having general circulation in Luxembourg (which is expected to be the *Luxemburger Wort*) or on the website of the Luxembourg Stock Exchange on www.bourse.lu. The additional publication of such notices on the Luxembourg Stock Exchange does not alter the effectiveness of the publication in a leading newspaper or as otherwise prescribed by the Conditions.

GLOSSARY

ACE-inhibitor	Angiotensin converting enzyme-inhibitor – a class of antihypertensive agents.
Alzheimers	Degenerative brain disorder which causes mental deterioration typically in middle to late life.
ANDA	Abbreviated new drug application – an application to the FDA for authorisation to market in the U.S. a generic product.
Antiacne	An agent that kills or prevents the multiplication of bacteria which cause the skin inflammation condition known as acne.
Antidepressant	An agent that improves symptoms of depression.
Antiemetic	An agent that counteracts nausea or sickness.
Antifungal	An agent that kills fungus or prevents its growth.
Antihypertensive	An agent that leads to the decrease of pathologically elevated blood pressure.
Antiinflammatory	An agent that inhibits the inflammation process.
Antiulcer	An agent that helps to cure or treat gastrointestinal ulcer.
API	Active pharmaceutical ingredient - a pharmaceutical which without further chemical change can induce a biological or physiological effect.
Asparaginate	A class of compounds derived from the amino acid asparagine.
Barr	Barr Laboratories, Inc.
BPH	Benign prostate hypertrophy – a non-cancer-type enlargement of the prostate.
Bulk products	APIs and intermediate products which require further processing to be turned into final dosage form.
Cardiovascular	Pertaining to the heart and blood vessels.
CEE	Bulgaria, Czech Republic, Estonia, Latvia, Lithuania, Poland, Romania, Slovakia, Slovenia and Vietnam (for historical accounting reasons).
Cerebral oxygenation enhancer	An agent that improves the oxygen utilisation of the brain.
cGMP	current Good Manufacturing Practice.
CIS	Azerbaijan, Armenia, Belarus, Georgia, Kazakhstan, Kyrgyzstan, Moldova, Russia, Tajikistan, Turkmenistan, Uzbekistan and Ukraine.
CNS	Central nervous system.
COMECON	Council for Mutual Economic Assistance.
Contraceptive	An agent or device intended to prevent conception.
Data exclusivity	A proprietary right providing for a period of non-disclosure of test data relating to a pharmaceutical product (including pharmacological and clinical trials data) submitted to a

	regulatory authority as a condition of obtaining marketing approval.
Diuretic	An agent that increases the volume of urine production.
DMF	Drug master file - an optional submission to the U.S. Food and Drug Administration (FDA) that may be used to provide confidential detailed information about facilities, processes, or articles used in the manufacturing, processing, packaging, and storage of one or more human drugs to support applications for approval of particular products.
EMA	European Medicines Agency, formerly known as the European Agency for the Evaluation of Medical Products.
EMU	The European Economic and Monetary Union.
EU15	Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, Sweden and UK.
EU25	EU15 and Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia and Slovenia.
Expectorant	An agent which helps in the removal of secretions from the air passages.
Extraction	The process of separation and removal of active ingredients from plants or animal organs.
FDA	The U.S. Food and Drug Administration.
Fermentation	A process whereby certain chemical changes are made to organic chemicals by the use of living micro-organisms.
Final dosage form, or finished products	Pharmaceuticals in the form ready for administration (for example tablets, ampoules).
GMP	Good Manufacturing Practice.
Gastrointestinal	Pertaining to the digestive system.
Generic pharmaceuticals, or generics	Drugs of a particular type which may be freely produced because they are no longer covered by patents. Such products are marketed primarily by reference to their non-proprietary names, rather than their brand names, and have the same active ingredients as branded medicines.
Gynaecology	A branch of medicine concerning the female pelvic and urogenital organs.
HFSA	Hungarian Financial Supervisory Authority
H ₂ -blocker	Agent that blocks histamine H ₂ -receptors, leading to reduced acid secretion in the stomach and generally having an antiulcer effect.
HRT	Hormone replacement therapy.
Hormone	Chemical transmitter which is secreted directly into the blood or other extracellular fluid.

IMS	Intercontinental Medical Statistics.
Indication	The disease or condition for which a pharmaceutical has been shown to be effective and for which it may be prescribed or promoted.
Inhibitor	An agent that blocks or inhibits the action of another agent.
Intermediate, or intermediate product	A compound used for, or created during, the manufacturing of the final product.
Licensing	The granting of permission by the owner of a proprietary right (for example, a patent) to a third party to use that proprietary right (for example, to produce and/or market a patented pharmaceutical product).
Lipid	Any member of a large and diverse group of oils, fats and fat-like substances that are characteristically insoluble in water.
Lipid lowering agent	Agent that decreases the level of lipids in an organism.
MA	Marketing authorisation - a consent or approval granted by the competent regulatory authority which permits the sale of a pharmaceutical product in a particular country or region.
Multiple sclerosis	A chronic and usually progressive disease of the nervous system.
Multivitamin	Combination of two or more vitamins, usually in tablet form.
NCE	New chemical entity, forming the basis for own-developed compounds.
NDA	New drug application – an application to the FDA for approval for the first marketing in the U.S. of an NCE.
Non-proprietary name	Generic name of an active ingredient given by WHO.
OTC	Over the counter products, involving the sale of drugs not requiring a prescription.
Paediatric exclusivity	A six month extension to data exclusivity and U.S. patent protection periods granted by the FDA in respect of pharmaceutical products following the conduct of specified clinical studies of the product on children.
Pharmaceutical	Any therapeutic product used in medicine.
Pharyngeal	Pertaining to the pharynx (more commonly known as the throat).
Primary production	Production of APIs.
Proton-pump inhibitor	An agent which reduces stomach acid levels, commonly used for the treatment of gastrointestinal ulcers.
R&D	Research and development.
Schizophrenia	Psychiatric disorder characterised by delusions, hallucinations and/or abnormal thought processes.
Secondary production	Production of secondary products.

Secondary products	Pharmaceuticals in final dosage form.
Steroid	The common name of any of a class of compounds having a certain carbon ring form structure, known as a sterane.
Supplementary protection certificate	A certificate granted by a regulatory authority in the EU which extends the protection conferred by a patent but only in respect of a pharmaceutical product covered by the patent. The duration of the extension is the length of time between patent filing and marketing authorisation of the patented pharmaceutical product, less five years, up to a maximum of five years.
WHO	World Health Organisation.

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