

Statistical code: 10725759-2416-114-05
Company registration number: 05-10-000065

TISZAI VEGYI KOMBINÁT RÉSZVÉNYTÁRSASÁG

3581 Tiszaújváros, TVK-Ipartelep

2005

Annual Report

Árpád Olvasó
Chief Executive Officer

Tiszaújváros, 20 April 2006

This is the English translation of the Hungarian original

Independent Auditors' Report

To the Shareholders of **Tiszai Vegyi Kombinát Rt.**

We have audited the accompanying balance sheet of Tiszai Vegyi Kombinát Rt. (the "Company") as of 31 December 2005, which shows total assets of HUF 212,946 million and a profit for the year of HUF 4,538 million, the related statement of operations for the year then ended and the notes included in the Company's 2005 financial statements prepared according to the Hungarian Accounting Law. The financial statements are the responsibility of the Company's management. The auditor's responsibility is to express an opinion on the financial statements based on the audit and to assess whether the business report is consistent with that presented in the financial statements.

On 7 March 2005 we issued an unqualified opinion on the Company's financial statements as at 31 December 2004.

We conducted our audit in accordance with Hungarian National Auditing Standards and with applicable laws and regulations in Hungary. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

We have audited the elements of and disclosures in the annual financial statements, along with underlying records and supporting documentation, of Tiszai Vegyi Kombinát Rt. in accordance with Hungarian National Auditing Standards and have gained sufficient and appropriate evidence that the annual financial statements have been prepared in accordance with the Hungarian accounting law and with generally accepted accounting principles in Hungary. In our opinion, the annual financial statements give a true and fair view of the equity and financial position of Tiszai Vegyi Kombinát Rt. as at 31 December 2005 and of the results of its operations for the year then ended. The business report corresponds to the disclosures in the financial statements.

Without qualifying our opinion, we draw the attention to note 44.5 to the financial statements that describes the environmental aspects of the Company's operations and highlights the risk of potential significant decontamination expenses that might incur in relation to past environmental damage as may be identified by future environmental surveys, if any.

Budapest, 22 March 2006

(Except for the decision on dividend payment as to which the date is 20 April 2006)

(The original Hungarian language version has been signed)

Ernst & Young Kft.
Registration No. 001165

Szilágyi Judit
Registered Auditor
Chamber membership No.: 001368

TISZAI VEGYI KOMBINÁT PUBLIC LIMITED COMPANY

Balance sheet – Assets for the year ending on 31 December 2005

(All amounts in millions of HUF, unless otherwise indicated)

Statistical code: 10725759-2416-114-05

Company registration number: 05-10-000065

	Description	Notes	Prior year	Current year
A.	NON-CURRENT ASSETS		149,161	145,473
A/I	INTANGIBLE ASSETS	6	3,882	4,103
A/I/1	Capitalized value of foundation and restructuring		0	0
A/I/2	Capitalized value of research and development		0	0
A/I/3	Property rights		0	0
A/I/4	Intellectual property		3,795	4,054
A/I/5	Goodwill		87	49
A/I/6	Advances for intangible assets		0	0
A/I/7	Revaluation of intangible assets		0	0
A/II	TANGIBLE ASSETS	7	141,508	136,716
A/II/1	Real estate and related property rights		22,104	28,505
A/II/2	Technical machines and equipment		42,070	100,944
A/II/3	Other machines and equipment		5,683	6,467
A/II/4	Livestock		0	0
A/II/5	Assets in the course of construction		70,684	800
A/II/6	Advances for construction		967	0
A/II/7	Revaluation of tangible assets		0	0
A/III	FINANCIAL INVESTMENTS	14	3,771	4,654
A/III/1	Non-current investments in associates	11	3,364	4,215
A/III/2	Non-current loans to associates		0	0
A/III/3	Other non-current investments		0	0
A/III/4	Non-current loans to other related parties		0	0
A/III/5	Other non-current loans	12	296	281
A/III/6	Non-current debt securities	13	111	158
A/III/7	Revaluation of financial investments		0	0

Tiszaújváros, 20 April 2006

Árpád Olvasó
Chief Executive Officer

The accompanying notes are an integral part of this balance sheet.

TISZAI VEGYI KOMBINÁT PUBLIC LIMITED COMPANY

Balance sheet – Assets for the year ending on 31 December 2005

(All amounts in millions of HUF, unless otherwise indicated)

Statistical code: 10725759-2416-114-05

Company registration number: 05-10-000065

	Description	Notes	Prior year	Current year
B	CURRENT ASSETS		49,009	66,888
B/I	INVENTORIES	15, 16	9,103	10,376
B//1	Materials		3,661	3,295
B//2	Work in process		876	688
B//3	Breeding stock		0	0
B//4	Finished products		4,471	6,360
B//5	Merchandises		79	3
B//6	Advances for inventories		16	30
B/II	RECEIVABLES		33,344	49,882
B/III/1	Trade receivables	17	25,652	37,540
B/III/2	Receivables from associates	18	3,764	5,520
B/III/3	Receivables from other related parties		0	0
B/III/4	Bill receivables		0	0
B/III/5	Other receivables	19	3,928	6,822
B/III	MARKETABLE SECURITIES	21	1,029	174
B/III/1	Securities in related parties		857	0
B/III/2	Other securities		0	0
B/III/3	Treasury shares, participations		172	174
B/III/4	Debt securities held for trading		0	0
B/IV	CASH AND BANK	22	5,533	6,456
B/IV/1	Petty cash		4	3
B/IV/2	Bank accounts		5,529	6,453
C	PREPAYMENTS	23	68	585
C/1	Accrued income		19	534
C/2	Prepaid expenses		49	51
C/3	Deferred expenses		0	0
	TOTAL ASSETS		198,238	212,946

Tiszaújváros, 20 April 2006

Árpád Olvasó
Chief Executive Officer

The accompanying notes are an integral part of this balance sheet.

TISZAI VEGYI KOMBINÁT PUBLIC LIMITED COMPANY

Balance sheet – Liabilities for the year ending on 31 December 2005

(All amounts in millions of HUF, unless otherwise indicated)

Statistical code: 10725759-2416-114-05
Company registration number: 05-10-000065

	Description	Notes	Prior year	Current year
D	SHAREHOLDERS' EQUITY	24	114,519	119,057
D/I	Share capital		24,666	24,666
	- of which redeemed treasury shares at face value		0	0
D/II	Issued unpaid capital		0	0
D/III	Capital reserve		4,624	4,624
D/IV	Retained earnings		73,923	84,555
D/V	Allocated reserve	25	672	674
D/VI	Revaluation reserve		0	0
D/VII	Profit for the year		10,634	4,538
E	PROVISIONS	26	4,167	6,704
E/1	Provision for expected liabilities		4,167	6,704
E/2	Provision for future expenses		0	0
E/3	Other provisions		0	0
F	LIABILITIES		77,593	86,252
F/I	SUBORDINATED LIABILITIES		0	0
F/II/1	Subordinated liabilities due to associates		0	0
F/II/2	Subordinated liabilities due to other related parties		0	0
F/II/3	Subordinated liabilities due to third parties		0	0

Tiszaújváros, 20 April 2006

Árpád Olvasó
Chief Executive Officer

The accompanying notes are an integral part of this balance sheet.

TISZAI VEGYI KOMBINÁT PUBLIC LIMITED COMPANY

Balance sheet – Liabilities for the year ending on 31 December 2005

(All amounts in millions of HUF, unless otherwise indicated)

Statistical code: 10725759-2416-114-05

Company registration number: 05-10-000065

	Description	Notes	Prior year	Current year
F/II	NON-CURRENT LIABILITIES		54,338	53,220
F/II/1	Non-current loans		0	0
F/II/2	Convertible bonds		0	0
F/II/3	Non-current bonds		0	0
F/II/4	Investment and development loans		0	0
F/II/5	Other non-current loans		0	0
F/II/6	Non-current liabilities to associates	27	54,105	53,073
F/II/7	Non-current liabilities to other associates		0	0
F/II/8	Other non-current liabilities		233	147
F/III	SHORT-TERM LIABILITIES		23,255	33,032
F/III/1	Short-term debt		0	0
F/III/2	Short-term loans	28	4	0
F/III/3	Advances from customers		7	12
F/III/4	Trade payable	29	8,535	6,190
F/III/5	Bill of exchange		0	0
F/III/6	Current liabilities to associates	30	13,822	25,282
F/III/7	Current liabilities to other associates		0	0
F/III/8	Other current liabilities	31	887	1,548
G	ACCRUED EXPENSES	23	1,959	933
G/1	Deferred income		0	6
G/2	Accrued expenses		1,936	904
G/3	Deferred negative goodwill and extraordinary revenues		23	23
	TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		198,238	212,946

Tiszaújváros, 20 April 2006

Árpád Olvasó
Chief Executive Officer

The accompanying notes are an integral part of this balance sheet.

TISZAI VEGYI KOMBINÁT RT

Income Statement for the year ending on 31 December 2005

(All amounts in millions of HUF, unless otherwise indicated)

Statistical code: 10725759-2416-114-05
 Company registration number: 05-10-000065

	Description	Notes	Prior year	Current year
1	Net domestic sales		92,894	132,560
2	Net export sales		70,984	117,074
I	NET SALES	32	163,878	249,634
3	Change in self-produced stocks		809	1,701
4	Capitalised value of self-produced assets	33	4,403	552
II	CAPITALIZED VALUE OF OWN PERFORMANCE		5,212	2,253
III	OTHER INCOME	34	1,693	1,529
	-of which reversed impairment loss		133	0
5	Material costs		116,822	199,441
6	Material type services	36	9,056	12,455
7	Other services	37	1,255	1,456
8	Cost of goods sold		8,252	3,291
9	Cost of services sold		682	2,047
IV	MATERIAL TYPE EXPENSES		136,067	218,690
10	Wages and salaries	39	5,473	5,700
11	Other personnel expenses		2,514	1,426
12	Payroll related contributions		2,384	2,113
V	PERSONNEL COSTS		10,371	9,239
VI	DEPRECIATION	8	6,587	8,095
VII	OTHER EXPENDITURES	34	5,787	8,671
	-of which impairment loss		126	996
A	OPERATING PROFIT		11,971	8,721

Tiszaújváros, 20 April 2006

Árpád Olvasó
Chief Executive Officer

The accompanying notes are an integral part of this statement of operations.

TISZAI VEGYI KOMBINÁT RT

Income Statement for the year ending on 31 December 2005

(All amounts in millions of HUF, unless otherwise indicated)

Statistical code: 10725759-2416-114-05

Company registration number: 05-10-000065

	Description	Notes	Prior year	Current year
13	Dividend received		185	392
	-of which received from related parties		185	392
14	Capital gain on financial investments sold		14	0
15	Interest income and capital gains on financial investments		24	21
16	Other received interest and similar income		978	203
	-of which received from related parties		11	79
17	Other financial income	40	1,322	1,988
VIII	FINANCIAL INCOME		2,523	2,604
18	Foreign exchange loss on financial investments		0	0
19	Interest payable		97	1,766
	-of which received to related parties		14	1,673
20	Impairment loss of participations, securities and bank deposits		97	(43)
21	Other financial expenditures	40	2,433	3,201
	-of which received to related parties		70	1,428
IX	FINANCIAL EXPENDITURES		2,627	4,924
B	FINANCIAL RESULT		(104)	(2,320)
C	PROFIT FROM ORDINARY ACTIVITIES		11,867	6,401
X	EXTRAORDINARY REVENUES	41	3	2
XI	EXTRAORDINARY EXPENDITURES	41	63	845
D	EXTRAORDINARY PROFIT/LOSS		(60)	(843)
E	PROFIT BEFORE TAXATION		11,807	5,558
XII	Taxation	45	1,173	0
F	PROFIT AFTER TAXATION		10,634	5,558
22	Retained earnings used for dividends		0	0
23	Dividends approved, paid		0	1,020
G	PROFIT FOR THE PERIOD		10,634	4,538

Tiszaújváros, 20 April 2006

Árpád Olvasó
Chief Executive Officer

The accompanying notes are an integral part of this statement of operations.

Statistical code: 10725759-2416-114-05
Company registration number: 05-10-000065

TISZAI VEGYI KOMBINÁT RÉSZVÉNYTÁRSASÁG

3581 Tiszaújváros, TVK-lpartelep

2005

Supplementary Notes

Árpád Olvasó
Chief Executive Officer

Tiszaújváros, 20 April 2006

TISZAI VEGYI KOMBINÁT RT.
Supplementary Notes for the year ending on 31 December 2005

(All amounts in millions of HUF, unless otherwise indicated)

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(All amounts in millions of HUF, unless otherwise indicated)

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(All amounts in millions of HUF, unless otherwise indicated)

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TISZAI VEGYI KOMBINÁT RT.

Supplementary Notes for the year ending on 31 December 2005

(All amounts in millions of HUF, unless otherwise indicated)

1. Background And General Information

Tiszavidéki Vegyi Kombinát, TVK' legal predecessor was founded in 1953. In 1961 it was transformed into a state-owned company called Tiszai Vegyi Kombinát (the "state-owned company"). Prior to its privatisation, the state-owned company was incorporated as a public limited liability company on 31 December 1991 (the "Company").

As at 31 December 1995, the Company was 99.92% owned by the Hungarian State Privatisation and Holding Company ("ÁPV Rt.") and the remaining 0.08% was owned by local municipalities.

In 1996, the Company was privatised through an offering shares owned by ÁPV Rt. to foreign and domestic institutional and private investors. Following this privatisation, shares of the Company were listed on the Budapest Stock Exchange and Global Depository Receipts ("GDRs") representing the shares were listed on the London Stock Exchange.

As at 31 December 2005, domestic and foreign institutional investors own the majority of the shares (See Note 3).

The Company, with its registered seat in Tiszaújváros (H-3581 Tiszaújváros Pf.:20.) produces chemical raw materials including ethylene, propylene and polymers of these products for both domestic and foreign markets.

In 2002, the Company commenced a significant strategic development project and the last facility was capitalized in September 2005. As part of the capacity extending project, the Company built a new Olefin plant with an annual ethylene producing capacity of 250 kt and a new high-density polyethylene plant with an annual capacity of 200 kt. The Company implemented more off-battery facilities to supply the new plants; the largest was the new ethylene tank.

The registered seat of the Company is Tiszaújváros (H-3581 Tiszaújváros, TVK-lpartelep, Gyári út, Hungary), web-site: <http://www.tvk.hu>.

The Company has no seats in abroad.

The person entitled to sign the company's financial statement is Árpád Olvasó, Chief Executive Officer, address: H-2440 Százhalombatta, Nyárfa u. 4., Hungary.

Person responsible for managing accounting services:

Attila Kmetti, accounting manager

Address: H-3535 Miskolc, János u. 81., Hungary

PM (Ministry of Finance) registration number in the name register of person entitled to deal with accounting services: 128302

TISZAI VEGYI KOMBINÁT RT.

Supplementary Notes for the year ending on 31 December 2005

(All amounts in millions of HUF, unless otherwise indicated)

2. Accounting Policy of the Company

2.1. Method of bookkeeping, report format

Based on *Act C of 2000 on accounting* (hereinafter: Accounting Act) as amended, TVK Rt. uses double entry bookkeeping and prepared an annual report with a balance sheet date of 31 December. As required by the Accounting Act it consists of the balance sheet, income statement and supplementary notes including cash flow. At the time of the annual report, the Company also prepares a business report.

Based on the Accounting Act, the Company is deemed to be a parent company, so starting from the year 1994 it has been obliged to prepare a consolidated annual report as well, which consists of a consolidated balance sheet, a consolidated income statement and consolidated supplementary notes. In connection with the consolidated annual report, it also prepares a consolidated business report. Based on the option Accounting Act gave, from year 2005 company prepares its consolidated annual report pursuant to the International Accounting Standards.

As of 1 October 1999, TVK Rt. has been using the BPCS, an integrated information system for large companies with a modular structure.

Based on the 155. § (2) of the Accounting Act, the audit of books is compulsory for the Company, year-end financial statements are audited.

The Company, as a subsidiary, was fully consolidated in the financial statements of MOL Magyar Olaj- és Gázipari Részvénytársaság (H-1117 Budapest, Október huszonharmadika u. 18., Hungary).

2.2. Method and time schedule for report preparation

The preparation of the report is built on the annual closing process. Business events of the current period are completed, checked and summarised in the framework of annual closing, and the accounting of any corrective adjustment necessary pursuant to the consequences of business events incurred between the balance sheet date and the balance sheet preparation date and to the changes in the market conditions.

In lien with the scheduling of processes for closing the year of 2005, the date for preparing the balance sheet of the Company was specified for *13 January 2006*. It differs from the balance sheet preparation date of year 2004, which was on 16 January. The impact of the deviation is not significant.

2.3. The form of Balance Sheet and and Income Statement

Form of balance sheet

In line with Article 20 section (1) of the Accounting Act, TVK Rt. compiles a balance sheet linked to the annual report, according to variation "A" required by Annex No. 1 to the Accounting Act.

TISZAI VEGYI KOMBINÁT RT.

Supplementary Notes for the year ending on 31 December 2005

(All amounts in millions of HUF, unless otherwise indicated)

Form of the income statement

TVK Rt. compiles its income statement based on the total cost method, according to variation "A" included in Annex No. 2 to the Accounting Act.

2.4. Valuation methods and procedures used in the preparation of annual report

2.4.1. Changes in the Accounting policy

Due to the modifications of Accounting Act that became effective on 1 January 2005, the following changes were implemented in the Company's accounting policy:

- Based on the 10 § of the Accounting Act, starting from year 2005, MOL Rt. as published in the Official Gazette of European Union prepares its consolidated financial statements in accordance with International Financial Reporting Standards (IFRS). As the consequence of this modification, from year 2005 the Company does not have to prepare consolidated financial statements in accordance with Hungarian Accounting Act.
- Impairment loss could be recognised in case of Goodwill reported under Intangible Assets, as well, when its carrying amount exceeds its market value (recoverable amount expected).
- Widened scope of assets for which it is not allowed to recognise any depreciation if there is no expected loss in value during the period in use (goodwill)
- Exchange rates have been determined that should be used in case of foreign exchange and currency translation, exchange of liabilities denominated in foreign exchange and borrowings exchange transactions.
- The regulations on depositing and publishing the financial statements have been completed as well. The Company publishes the company only financial statements, business report, consolidated financial statements, consolidated business report and the audit report including the audit clause on its internet website and ensures its continuous availability until the information on the second following business year is published.

2.4.2. Valuation methods applied

According to the Accounting Act, TVK Rt. evaluates assets and liabilities individually.

For *tangible assets*, individual valuation is based on individual and group records. Assets that may be deemed to be identical in terms of type, purpose of use, date of putting into operation, purchase cost or production cost, cost centre and responsible owner consist of a group.

TISZAI VEGYI KOMBINÁT RT.

Supplementary Notes for the year ending on 31 December 2005

(All amounts in millions of HUF, unless otherwise indicated)

The detailed rules for the method of depreciation and impairment, the reversal of impairment and the depreciation rates applicable to each tangible asset are set out in the depreciation policy.

The company values *the inventories* individually. The valuation of assets booked in groups having the same parameters at average purchase price is also deemed to be individual valuation.

In case of purchased inventories, purchase value was determined as the weighted average price method, as according to the Hungarian Accounting Standards. The value of inventories produced in house equals to the value of calculated production cost.

The purchase or production cost of inventories purchased and produced are reduced if:

- ◆ do not comply with the requirements applicable to inventories (standards, terms of shipping, professional requirements, etc.) or are damaged. Inventories in this group are continuously written-off to the value of waste or utility materials throughout the year. Write-off is always accounted for regardless of the amount of the difference. This type of impairment means a final reduction in inventory value that cannot be reversed later even if such inventories are sold at a price higher than book value.

- ◆ for other inventories – including those that have become unnecessary or are not fit for their purpose -, the cost is considerably higher than the market price known at the time of preparing the balance sheet. In this case, impairment is accounted for up to the market value known at the time of preparing the balance sheet or the expected sales price. The expected sales price must be reduced by the costs expected to be incurred in order for sale.
The difference between the carrying amount and the value determined as recoverable value is deemed to be significant if it reaches 10% of the book value by individual inventory or homogeneous inventory group.

As from 2005, the Company creates impairments also for the strategic and security spare parts relating to production units. The amount of impairment was determined based on the expected useful life of the production facilities.

Considering the characteristics of inventories, the Company does not apply reversal, but impairment may be reversed if the amount of reversal by individual inventories or by homogenous inventory group reaches HUF 10 million, based on individual evaluation, in order to present a fair and true picture.

The Company does not make use of impairment and its reversal for industrial, construction industrial, other work in progress on products and services, mediated services and packaging materials, considering their amount not significant.

Foreign currency put into the foreign currency petty cash, *foreign exchange* transferred to the foreign exchange account, *receivables, non-current financial instruments, securities and liabilities* denominated in foreign currency are converted to HUF at the official FX exchange rate published by the National Bank of Hungary for the date of receipt or for the date of settlement.

The Company converts foreign exchange purchased against HUF, received to the FX account, to the selected NBH exchange rate everyday, pursuant to the fair valuation of financial instruments.

In the confines of year-end foreign exchange revaluation, that is set out in Article 60 section (2) of the Accounting Act the Company revalues its assets and liabilities, linked directly to investments and property rights and denominated in foreign currency and foreign exchange – irrespective of their amount – except for FX liabilities, not covered by FX assets and the assets included in fair valuation, so determines the significant limit at HUF 0.

TISZAI VEGYI KOMBINÁT RT.

Supplementary Notes for the year ending on 31 December 2005

(All amounts in millions of HUF, unless otherwise indicated)

The Company recognises exchange rate differences realised during the year and not realised at the end of the year on FX loans and FX liabilities, not covered by FX assets, that relates to investments as part of the value of the investment.

For the sake of the secure operation, but at least until the date of authority approvals, the test operation costs increases the purchase value of the assets. The Company decreases the test operation cost accounted as capital expenditures with the sales of the sold products and services produced and performed during the test operation and with the calculated production costs of stored products and performed services (maximum its market value and sales price decreased with the expected costs).

Non-current Investments are valued individually, based on a weighted average price.

The Company accounts for impairment on the balance sheet cut-off date, if:

- for investments listed in the stock exchange and other capital markets – in the case of a sufficiently active market – the quoted prices drop significantly below the average book price for the long run (impairment to the average quote price valid at the balance sheet preparation date),
- for investments not listed in the stock exchange, the value of the Company's equity share in the investment decreases significantly below the book value in the long-term (impairment is account for up to the amount of equity for the investment),
- the company is liquidated or wound up (the difference between the book value and the amount expected to be recovered is accounted for as impairment).

If the stock exchange price does not reflect the fair market price of the given company, TVK Rt. determines the market value that serves as the basis of the comparison in individual valuation, based on the information available (analytical studies, plans for the future).

For unquoted investments, if the price paid on acquisition is higher than the equity share in the investment, TVK Rt. analysis the Company's operating efficiency, the trend of its profitability and the durability of this trend to determine the amount of impairment loss to be accounted for.

The Company values *long-term credit securities* based on weighted average price.

It accounts for impairment on the balance sheet cut-off date for stock exchange securities if the stock exchange price less interest decreases significantly below the average book price in the long-term. The reduction is deemed to be a reduction in the long-term if it exists for a period exceeding one year and is not expected to recover within one year. The Company performs the impairment to the average stock exchange price valid at the balance sheet preparation date, less interest, irrespective of the amount.

The Company accounts for impairment on over-the-counter securities if the issuer's (debtor's) evaluation deteriorates in the long-term, i.e. for over one year. In connection with this, the Company investigates the over-the-counter price less interest, the market value, the long-term trend of the market value as well as the issuer's (debtor's) market position, i.e. whether the issuer is expected to pay the nominal value plus accumulated interest on maturity, at redemption, or what proportion of this amount the issuer will pay. In this case, the amount of impairment to be accounted for is the difference between the book value and the market price determined as above, if the difference is significant.

For *securities with maturity within one year and in one year*, the over the counter price is used for evaluation at the balance sheet date. TVK Rt. performs evaluation based on the expected recovery of the nominal value plus accumulated interest. If recovery of the nominal value plus interest becomes uncertain, it accounts for the difference between the book value and the amount expected to be recovered as impairment.

In respect of investments and securities, the amount of impairment to be accounted for is deemed to be

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significant if it reaches HUF 10 million. If the impairment to be accounted for reaches 50 % of the book value, it must be accounted for regardless of the amount

If the circumstances that give rise to impairment cease to exist in whole or in part – if this trend is not expected to be reversed within one year – the impairment accounted for will be reversed in the framework of qualification on the balance sheet date if the change is significant. Reversal may take place up to the original purchase price but may not be more than the nominal value. The changes deemed to be significant if it reaches HUF 10 million. It is also possible to reverse the market-based impairment accounted for before 1 January 2001.

Based on the individual rating of *customers* and *debtors*, TVK Rt. accounts for impairment on receivables outstanding on the balance sheet date that are not settled by the date of preparing the balance sheet, if the book value of the receivable is significantly exceeds the amount expected to be recovered from the receivable. Rating is made based on the information available at the time of preparing the balance sheet. The difference shall be significant if it reaches 20% of the value of the receivable for a customer or a debtor. If the amount of the difference exceeds HUF 1 million, impairment is always accounted for.

Rating is done at company level, and the expected percentage of collection of the receivable is estimated. The rating shall set out in the criteria that serve as the basis for determining the percentage of expected collection.

Major criteria for debtor rating:

- bankruptcy or liquidation proceedings have been launched against the debtor,
- foreclosure proceedings have been launched against the debtor,
- the due date of the receivable from the debtor has been passed,
- written statement or information issued by a receiver or administrator,
- collection of the receivable is not likely due to the debtor's financial position (e.g. indebtedness, bad solvency, etc.).

If the amount expected to be recovered out of the receivable based on the rating of the customer or debtor on the balance sheet date considerably exceeds the book value of the receivable (criteria for write-off are not in place or are in place only in part) the Company will reverse all or a part of the impairment accounted for earlier. The book value of the receivables following the reversal may not exceed the book value of the original receivable that is not yet settled. The amount will be deemed to be significant if it exceeds HUF 1 million.

NBH official rate is used for the HUF translation of new foreign exchange following the exchange of foreign exchanges on account. The difference between the book value of old and the initial book value of new foreign exchange is recognised as other financial expense or income. The Company applies the above mentioned procedure in case of transfers between foreign exchange and foreign currency accounts and between accounts with same foreign exchange.

In case of exchange of liabilities denominated in foreign exchange, the new liability is converted into HUF by using NBH official FX rate applicable on the settlement date of the agreement of the new liability. In case of loan exchange transactions, when only the foreign exchange in which the loan is denominated is modified, the new FX loan is converted into HUF by using NBH official FX rate applicable on the date of agreement.

For *assets denominated in foreign currency or foreign exchange*, both impairment and its reversal shall be determined in foreign exchange. The amount of impairment determined is converted to HUF at the book exchange rate of the given asset. The amount determined as reversal is converted to HUF at the weighted average exchange rate of the impairments reduced by any reversal. Impairment and reversal are accounted for before the year-end total foreign exchange revaluation.

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2.4.3. Depreciation policy

TVK Rt. interprets depreciation in accordance with the regulations of the Accounting Act, with the following additions

In respect of Property, Plant and Equipment, TVK Rt. usually applies a linear depreciation based on the gross value.

The depreciation time and the depreciation rates were chosen based on the expected economic life of the given asset, determined by technical evaluation.

Straight line depreciation rates are as follows:

Software	20-33%
Buildings and infrastructure	2-10%
Production machinery and equipment	5-14.5%
Office and computer equipment	14.5-50%
Vehicles	10-20%

No further depreciation may be recognised if the carrying value of the asset has already reached its residual value.

The residual value is not nil if it is clearly decided at the time of acquiring the asset that the asset's useful life for the Company will not reach 75 % of the asset's technical-economical useful life and the residual value expected to be significant at the end of its useful life. The residual value may be determined in respect of individual asset or asset groups required to undertake the core activities, representing a significant value at company level. The residual value is subject to yearly revision, modification should be made if the expectations significantly differs from previous expectations.

The Company will change the depreciation for Property, Plant and Equipment significant assets if there was a substantial change (if the amount of annual depreciation for an individual asset changes by at least 20% but minimum HUF 10 million) in the circumstances taken into account in determining the depreciation to be accounted for every year (gross value, useful life, proper use). The useful life of the asset is subject to yearly revision.

The effect of the revision on year 2005 Balance Sheet and Income Statement is provided in section 7.

The assets should be divided into main parts in the accounting records, if the technical useful life of the main parts differs from the useful life of the assets determined by the Company, and the depreciation should be applied for each main part. The definition of main part (component) is the smallest identifiable unit, that has a different useful life compared to that of other components and its has a significant value compared to the whole value of the asset.

TVK Rt. accounts for impairment if a rights and titles can be enforced only in a limited manner or not at all within the expected depreciation period, if the intellectual product and the Property, Plant and Equipment are missing, damaged or destroyed, or if the market value of intangible goods and Property, Plant and Equipment is significantly lower than their carrying value for the long term. If the market value of an individual asset cannot be determined, the Company will create the smallest asset group for which market evaluation is applicable.

For an individual asset or asset groups where individual market evaluation is not possible or does not reflects the

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real value in use of the asset or asset group, the comparative basis for impairment and reversal purposes will be determined by cash flow calculation based on profit-generating ability. The Company has created the asset groups in its Accounting policy for determining the profit generating ability.

Impairment based on market valuation will be reversed if the reasons for impairment do not exist any more or exist only in part. The Company will account for reversals only in connection with the end-of-year valuation of assets.

In the Accounting policy, the significant amounts of impairment and reversal purposes have been for each asset group.

Rules for provisions

The Company recognises provisions for contingent liabilities.

Provision for expected liabilities

The Company makes provisions for liabilities that may be expected due to severance payment and early retirement in the event that it has an accepted plan for redundancies applicable to the coming years, which is elaborated in detail and has a significant financial impact.

TVK Rt. makes provisions for retirement bonuses granted to employees. The amount of provision is determined considering three months' personal base salary on the retirement of employees as set out in the Collective Agreement, and taking into account financial assumptions and actuarial calculations, which are expected to arise as actual liabilities in the future.

Provision is recognised for guaranties and securities granted by the Company if there is a probability of more than 50% that a part of, or all the guarantee or security amount will be drawn. When determining this probability, it takes into account the financial and liquidity position of the company benefiting from the guarantee or surety, its willingness to pay in the normal course of business with TVK Rt. as well as any information obtained about its operation. The amount of provision is determined based on the possible draw downs weighted by probabilities.

The Company recognises provisions for future liabilities related to environmental protection. The amount of the provision is the discounted present value of the future liabilities expected to be incurred.

As from 2005, the Company creates provisions for the amount of quantity discounts based on the contractual conditions, if it is not financially performed until the balance sheet date.

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3. The shareholder's structure of the Company

Share capital as of 31 December 2004 and 2005 is summarized as follows:

Shareholder	Number of Shares (thousand)		Total Nominal Value (HUF million)		Ownership percentage (%)	
	2004	2005	2004	2005	2004	2005
Domestic institutional investors	11,014	10,830	11,124	10,938	45.10	44.35
International institutional investors	8,496	9,643	8,581	9,739	34.79	39.48
Domestic private investors	235	3	238	3	0.96	0.01
TVK Rt.	172	174	172	174	0.70	0.71
Employees	17	15	17	15	0.07	0.06
Foreign private investors	5	0	5	0	0.02	0.00
Unregistered investors	4,485	3,759	4,529	3,797	18.36	15.39
Total	24,424	24,424	24,666	24,666	100.00	100.00

Note: The par value of the shares owned by TVK Rt. and its employees is HUF 1,000 / share, in other cases it is HUF 1,010 / share.

Owners with investment above 5 % as of 31 December 2004 and 2005 based on the Share Register:

Owners	Ownership percentage (%)	
	2004	2005
MOL Hungarian Oil and Gas Public Limited Company	44.31	44.31
CE Oil & Gas Beteiligung und Verwaltung AG*	15.99	31.39
Slovnaft a.s.	0.00	8.02
Hermész Mérnöki Tanácsadó és Nagykereskedelmi Kft.**	8.02	0.00

*On 2 March 2005, additional 15.4% of the shares were recorded in the shares register, which increased TVK's investment in the company TVK to 31.39%.

** Held by Slovnaft A.S. as from 4 January 2005.

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4. The Company's true asset, financial and earning position

4.1. Analysis of the assets

4.1.1 Changes of the Company's structure of assets

Description	2004	2005	Percentage (%)		Change (%)
			2004	2005	
Non-current Assets	149,161	145,473	75.24	68.32	(2.47)
Current Assets	49,009	66,888	24.72	31.41	36.48
Prepayments and accrued income	68	585	0.04	0.27	760.29
Total	198,238	212,946	100.00	100.00	7.42

Total assets grew by HUF 14,708 million, compared to last year, mainly due to an increase in trade receivables.

4.1.2. Equity structure

Structure of sources of assets

Description	2004	2005	Percentage (%)		Change (%)
			2004	2005	
Shareholders' Equity	114,519	119,057	57.77	55.91	3.96
Provisions	4,167	6,704	2.10	3.15	60.88
Liabilities	77,593	86,252	39.14	40.50	11.16
Accrued expenses and deferred income	1,959	933	0.99	0.44	(52.37)
Total	198,238	212,946	100.00	100.00	7.42

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Internal structure of shareholders' equity

Description	2004	2005	Percentage (%)		Change (%)
			2004	2005	
Share capital	24,666	24,666	21.54	20.72	0.00
Capital reserve	4,624	4,624	4.04	3.88	0.00
Retained earnings	73,923	84,555	64.55	71.02	14.38
Allocated reserve	672	674	0.59	0.57	0.30
Profit of the period	10,634	4,538	9.28	3.81	(57.33)
Total	114,519	119,057	100.00	100.00	3.96

The increase in shareholders' equity is mainly due to the net profit.

4.1.3. Important Ratios

	2004	2005
Equity ratio		
$\frac{\text{Shareholders' Equity}}{\text{Total Liabilities and Shareholders' Equity}} * 100$	$\frac{114,519}{198,238} = 57.77 \%$	$\frac{119,057}{212,946} = 55.91 \%$
Liabilities ratio		
$\frac{\text{Debt}}{\text{Total Liabilities and Shareholders' Equity}} * 100$	$\frac{83,719}{198,238} = 42.23 \%$	$\frac{93,889}{212,946} = 44.09 \%$
Debt/equity ratio		
$\frac{\text{Debt}}{\text{Shareholders' Equity}}$	$\frac{83,719}{114,519} = 0.73$	$\frac{93,889}{119,057} = 0.79$

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Indebtedness

$$\frac{\text{Non-current debt and loans} + \text{Short term debt and loans} - \text{Marketable Securities} - \text{Cash and Bank}}{\text{Non-current debt and loans} + \text{Short term debt and loans} - \text{Marketable Securities} - \text{Cash and Bank} + \text{Shareholders' Equity}} * 100$$

$$\frac{47,547}{162,066} = 29.34 \% \qquad \frac{46,443}{165,500} = 28.06 \%$$

4.1.4. Current assets

	2004	2005
$\frac{\text{Current Assets} + \text{Prepayments}}{\text{Non-current Assets}} * 100$	$\frac{49,077}{149,161} = 32.90 \%$	$\frac{67,473}{145,473} = 46.38 \%$

The significant change in the working capital / fixed asset ratio was due to a significant increase in receivables.

4.2. Changes in the financial position

	2004	2005
Cash liquidity ratio		
$\frac{\text{Cash and Bank}}{\text{Short-Term Liabilities} + \text{Accrued expenses}}$	$\frac{5,533}{25,191} = 0.22$	$\frac{6,456}{33,936} = 0.19$
Liquidity quick ratio		
$\frac{\text{Cash and Bank} + \text{Receivables} + \text{Marketable Securities}}{\text{Short-Term Liabilities} + \text{Accrued expenses}}$	$\frac{39,906}{25,191} = 1.58$	$\frac{56,512}{33,936} = 1.67$
Liquidity ratio		
$\frac{\text{Current Assets} + \text{Accrued income}}{\text{Short-Term Liabilities} + \text{Accrued expenses}}$	$\frac{49,028}{25,191} = 1.95$	$\frac{67,422}{33,936} = 1.99$

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	2004	2005
Maturity of receivables		
Average amount of receivables 1 day valuation	$\frac{29,459}{449} = 65.61$	$\frac{41,613}{684} = 60.84$

Ratio of accounts receivables to accounts payables

Accounts receivables Accounts payable	$\frac{25,652}{8,535} = 3.01$	$\frac{37,540}{6,190} = 6.06$
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Furthermore the above the liquidity position improved due to an increase in debtors.

4.3. Changes in the profitability

ROAA

	2004	2005
Profit Before Taxation + Interest payable Average total assets	$\frac{11,904}{187,671} = 6.34 \%$	$\frac{7,324}{205,592} = 3.56 \%$

ROAE

	2004	2005
Profit After Taxation Average shareholders' equity	$\frac{10,634}{109,202} = 9.74 \%$	$\frac{5,558}{116,788} = 4.76 \%$

The significant negative changes of ROAE indexes were mainly due to the HUF 5,076 million decrease in profit after tax.

4.4. Yield and performance indices

Profit per number of employees

	2004	2005
Profit After Taxation Average number of employees	$\frac{10,634}{1,686} = 6.31$	$\frac{5,558}{1,473} = 3.77$

Profit per total assets and wages

Profit After Taxation Total Assets + Wages and salaries	$\frac{10,634}{203,711} = 5.22 \%$	$\frac{5,558}{218,646} = 2.54 \%$
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Equity proportionate profit

	2004	2005
$\frac{\text{Profit After Taxation}}{\text{Total Assets}} * 100$	$\frac{10,634}{198,238} = 5.36 \%$	$\frac{5,558}{212,946} = 2.61 \%$
$\frac{\text{Personnel Costs}}{\text{Profit After Taxation}} * 100$	$\frac{10,371}{10,634} = 97.53 \%$	$\frac{9,239}{5,558} = 166.23 \%$

The significant negative trend of yield and performance indices is mainly due to the 48% decrease of profit after tax.

	2004	2005
Labour cost		
$\frac{\text{Personnel Costs}}{\text{Net Sales Income}} * 100$	$\frac{10,371}{163,878} = 6.33 \%$	$\frac{9,239}{249,634} = 3.70 \%$

The significant change in labour cost was a result of the increase in net sales.

	2004	2005
ROACE		
$\frac{\text{After-tax operating profit}}{\text{Average capital employed}} * 100$	$\frac{10,798}{75,568} = 14.29 \%$	$\frac{8,721}{129,964} = 6.71 \%$

The return on average capital employed decreased significantly, due to the lower after-tax operating profit.

	2004	2005
EBITDA ratio		
$\frac{\text{EBITDA}}{\text{Net Sales Income}} * 100$	$\frac{18,558}{163,878} = 11.32 \%$	$\frac{16,816}{249,634} = 6.74 \%$

The decrease in profitability ratios is due partly to the lower operating profit and partly to the 52% increase in net sales income.

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4.5. Changes in the Sales Revenues

Description	2004	2005	Division (%)		Change (%)
			2004	2005	
Net domestic sales	92,894	132,560	56.68	53.10	42.70
Net export sales	70,984	117,074	43.32	46.90	64.93
Net sales income	163,878	249,634	100.00	100.00	52.33

The 52.33% increase in net sales was due to increased domestic and international turnover.

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5. Cash-flow

The table contains the summarized cash-flow information for the years 2004 and 2005:

Description	2004	2005
Profit before taxation	11,807	5,558
Dividends received	(185)	(392)
Unrealised foreign exchange gains/losses	393	1,266
Research expenses	362	486
Cash contribution free of charge	0	553
Profit on disposal of subsidiaries	(14)	0
Corrected profit before taxation	12,363	7,471
Depreciation	6,587	8,095
Impairment and reversal , scrap	69	1,156
Provisions made and used, net	618	2,537
Gain or loss of the sale of non-current	(100)	(163)
Change of liabilities to suppliers (incl. related parties)	1,201	9,104
Changes of other short-term liabilities	(812)	589
Change of deferrals	288	(1,026)
Changes of receivables (incl. related parties)	(10,357)	(13,710)
Change of current assets (excluding trade receivables and cash)	14,327	(4,893)
Change of accruals and prepayments	410	(517)
Tax payable	(1,173)	0
Dividend payable	0	(1,020)
Cash-flow from operating activities	23,421	7,623
Purchases of non-current assets	(38,199)	(4,870)
Sale of non-current assets	222	360
Cash-flow from sale of investments	192	0
Other changes of non-current assets	1,176	920
Research expenses	(362)	(486)
Cash and cash equivalents transferred finally	0	(553)
Dividend and profit share received	185	392
Cash used in investing activities	(36,786)	(4,237)
Long-term credits and loans received	67,532	0
Repayment of long-term credits and loans	(57,832)	(2,459)
Change of short-term credits	(22)	(4)
Change of liabilities towards founders and other long term liabilities	(90)	0
Cash flow from financing activities	9,588	(2,463)

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Net change in cash	(3,777)	923
Cash at the beginning of the year	9,310	5,533
Cash at the end of the year	5,533	6,456

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6. Intangible assets

The following table contains a summary of intangible asset movements during the years ended 31 December 2004 and 2005:

Gross Value

	Goodwill	Intellectual property	Total intangible assets
Opening balance as of 1 January 2004	191	5,785	5,976
Increase due to purchases	0	10	10
Other increase	0	2	2
Scrapping	0	(2)	(2)
Closing balance as of 31 December 2004	191	5,795	5,986
Increase due to purchases	0	603	603
Other increase	0	8	8
Scrapping	0	(51)	(51)
Closing balance as of 31 December 2005	191	6,355	6,546

Accumulated Amortization

	Goodwill	Intellectual property	Total intangible assets
Opening balance as of 1 January 2004	65	1,760	1,825
Ordinary amortisation	40	243	283
Scrapping	0	(2)	(2)
Other changes	(1)	(1)	(2)
Closing balance as of 31 December 2004	104	2,000	2,104
Ordinary Amortisation	39	352	391
Scrapping	0	(51)	(51)
Other changes	(1)	0	(1)
Closing balance as of 31 December 2005	142	2,301	2,443
Net Value as of 31 December 2004	87	3,795	3,882
Net Value as of 31 December 2005	49	4,054	4,103

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7. Tangible Assets

The following table contains a summary of tangible asset movements during the years ended 31 December 2004 and 2005:

Gross Value

Movements	Real estate and related property rights	Technical machines and equipment	Other machines and equipment	Assets under construction	Advances for construction	Total property, plant and equipment
Opening balance as of 1 January 2004	20,202	52,247	12,256	65,193	1,754	151,652
Increase due to purchases	0	0	0	38,190	0	38,190
Capitalisation	7,794	22,427	2,476	(32,697)	0	0
Other increase	0	0	0	0	48	48
Scrapping	(44)	(88)	(77)	0	0	(209)
Sales	0	(215)	(584)	0	0	(799)
Other changes	(4)	(4)	(10)	(2)	(835)	(855)
Closing balance as of 31 December 2004	27,948	74,367	14,061	70,684	967	188,027
Increase due to purchases	0	0	0	4,266	0	4,266
Capitalisation	7,730	64,393	2,016	(74,139)	0	0
Other increase	0	0	39	0	0	39
Scrapping	(504)	(646)	(428)	0	0	(1,578)
Sales	(224)	(6)	(40)	0	0	(270)
Other changes	(39)	(33)	(11)	(11)	(967)	(1,061)
Closing balance as of 31 December 2005	34,911	138,075	15,637	800	0	189,423

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Depreciation

Movements	Real estate and related property rights	Technical machines and equipment	Other machines and equipment	Assets under construction	Advances for construction	Total property, plant and equipment
Opening balance as of 1 January 2004	5,137	28,140	7,795	0	0	41,072
Ordinary Depreciation	737	4,446	1,121	0	0	6,304
Scrapping	(30)	(74)	(76)	0	0	(180)
Sales	0	(215)	(461)	0	0	(676)
Other changes	0	0	(1)	0	0	(1)
Closing balance as of 31 December 2004	5,844	32,297	8,378	0	0	46,519
Ordinary Depreciation	955	5,481	1,268	0	0	7,704
Scrapping	(364)	(641)	(428)	0	0	(1,433)
Sales	(29)	(6)	(38)	0	0	(73)
Other changes	0	0	(10)	0	0	(10)
Closing balance as of 31 December 2005	6,406	37,131	9,170	0	0	52,707

Net Value as of 31 December 2004	22,104	42,070	5,683	70,684	967	141,508
Net Value as of 31 December 2005	28,505	100,944	6,467	800	0	136,716

The Company reviewed the useful life of tangible assets. In case of those assets, whose useful life has changed significantly the planned depreciation was changed, resulting in a HUF 1,529 million effect.

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8. Description of Depreciation

Ordinary Depreciation

<i>Title</i>	Straightline		Lump sum		Unit of production		Total	
	2004	2005	2004	2005	2004	2005	2004	2005
Property rights	0	0	0	0	0	0	0	0
Goodwill	40	39	0	0	0	0	40	39
Intellectual property	243	352	0	0	0	0	243	352
Capitalized value of research and development	0	0	0	0	0	0	0	0
Capitalized value of foundation and restructuring	0	0	0	0	0	0	0	0
Intangible Assets	283	391	0	0	0	0	283	391
Real estate and related property rights	737	955	0	0	0	0	737	955
Technical machines and equipment	4,446	5,481	0	0	0	0	4,446	5,481
Other machines and equipment	1,101	1,259	20	9	0	0	1,121	1,268
Tangible Assets	6,284	7,695	20	9	0	0	6,304	7,704
Total	6,567	8,086	20	9	0	0	6,587	8,095

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Extraordinary Depreciation and rebooking of extraordinary depreciation

<i>Title</i>	Extraordinary depreciation based on market evaluation		Net values of scrapping, damages, losses		Reversal of extraordinary depreciation		Total	
	2004	2005	2004	2005	2004	2005	2004	2005
Property rights	0	0	0	0	0	0	0	0
Goodwill	0	0	0	0	0	0	0	0
Intellectual property	0	0	0	0	0	0	0	0
Capitalized value of research and development	0	0	0	0	0	0	0	0
Capitalized value of foundation and restructuring	0	0	0	0	0	0	0	0
Intangible Assets	0	0	0	0	0	0	0	0
Real estate and related property rights	0	0	14	140	0	0	14	140
Technical machines and equipment	0	0	14	5	0	0	14	5
Other machines and equipment	0	0	1	1	0	0	1	1
Assets under construction	0	0	0	0	0	0	0	0
Tangible Assets	0	0	29	146	0	0	29	146
Total	0	0	29	146	0	0	29	146

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9. Research and development

Research and development areas	2004			2005		
	Current year expenses	Of which		Current year expenses	Of which	
		capitalised	expensed		capitalised	expensed
Product development	192	0	192	319	0	319
Environment	10	0	10	21	0	21
Other (studies)	160	0	160	146	0	146
Total	362	0	362	486	0	486

10. Property, plant and equipment used for environmental protection

Gross Value

Movements	Real estate	Technical machines and equipment	Other machines and equipment	Assets under construction	Total property, plant and equipment
Opening balance as of 1 January 2004	0	80	0	0	80
Increase	19	9	19	14	61
Decrease and reclassification	0	0	0	0	0
Closing balance as of 31 December 2004	19	89	19	14	141
Increase	2	77	0	36	115
Decrease and reclassification	0	0	0	0	0
Closing balance as of 31 December 2005	21	166	19	50	256

Accumulated Amortization

Movements	Real estate	Technical machines and equipment	Other machines and equipment	Assets under construction	Total property, plant and equipment
Opening balance as of 1 January 2004	0	0	0	0	0
Increase	0	8	1	0	9
Decrease and reclassification	0	0	0	0	0
Closing balance as of 31 December 2004	0	8	1	0	9
Increase	0	12	3	0	15
Decrease and reclassification	0	0	0	0	0
Closing balance as of 31 December 2005	0	20	4	0	24

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	Real estate	Technical machines and equipment	Other machines and equipment	Assets under construction	Total
Net Value as of 31 December 2004	19	81	18	14	132
Net Value as of 31 December 2005	21	146	15	50	232

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11. Non-current investments in related parties

As of 31 December 2004 and 2005, the Company's non-current investments are summarized as follows:

Description	Location	Share (%)	Net book value		Proportionate amount of equity	
			31.12.2005	31.12.2004	31.12.2005	31.12.2004
Subsidiaries:						
TVK-Ingatlankezelő Kft.	Tiszaújváros	100.0	2,970	2,970	2,970	2,932
TVK InterChemol GmbH	Frankfurt am Main	100.0	151	151	190	294
TVK UK Ltd.	London	100.0	74	74	86	120
TVK Italia S.r.l.	Milan	100.0	27	27	59	57
TVK-France S.a.r.l.	Paris	100.0	20	20	31	73
TVK POLISEC Kft.	Tiszaújváros	100.0	14	14	40	13
TVK Polska Sp. z o.o.	Warsawa	100.0	6	6	31	86
Chemopetrol Kft.	Tiszaújváros	-	6	0	21	0
TVK Austria GmbH.	Wiener Neustadt	51.0	5	5	44	44
Associates:						
VIBA-TVK Kft.	Tiszaújváros	40.0	82	82	73	71
Tiszai Hulladékégető Kft.	Tiszaújváros	49.9	8	8	8	7
Tűzoltó és Műszaki Mentő Kft.	Tiszaújváros	30.0	1	1	113	114
TVK Erőmű Kft.	Tiszaújváros	26.0	0	857	0	917
Total			3,364	4,215	3,666	4,728

The current book value of the above investments is net of devaluation, if any, and in the case of foreign currency investments it also contains the amount of the year-end exchange differences.

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Shareholders' equity of the Company's investments as of 31 December 2004:

Name	Currency	Shareholders' equity	Share capital	Reserves	Net income
Subsidiaries:					
TVK-Ingatlankezelő Kft.	HUF million	2,970	2,970	0	0
TVK InterChemol GmbH.	EUR thousand	772	615	0	157
TVK UK Ltd.	GBP thousand	247	200	6	41
TVK Italia S.r.l.	EUR thousand	239	100	153	(14)
TVK-France S.a.r.l.	EUR thousand	125	76	8	41
TVK POLISEC Kft.	HUF million	40	14	26	0
TVK Polska Sp. z o.o.	PLN thousand	508	109	193	206
Chemopetrol Kft.	HUF million	32	30	0	2
TVK Austria GmbH.	EUR thousand	352	36	1	315
Associates:					
VIBA-TVK Kft.	HUF million	182	205	6	(29)
Tiszai Hulladékégető Kft.	HUF million	13	25	(11)	(1)
Tűzoltó és Műszaki Mentő Kft.	HUF million	379	3	376	0

Shareholders' equity of the Company's investments as of 31 December 2005:

Name	Currency	Shareholders' equity	Share capital	Reserves	Net income
Subsidiaries:					
TVK-Ingatlankezelő Kft.	HUF million	2,932	2,970	0	(38)
TVK InterChemol GmbH.	EUR thousand	1,165	615	0	550
TVK UK Ltd.	GBP thousand	325	200	44	81
TVK Italia S.r.l.	EUR thousand	226	100	146	(20)
TVK-France S.a.r.l.	EUR thousand	288	76	8	204
TVK POLISEC Kft.	HUF million	13	14	26	(27)
TVK Polska Sp. z o.o.	PLN thousand	1,311	109	236	966
TVK Austria GmbH.	EUR thousand	343	36	315	(8)
Associates:					
VIBA-TVK Kft.	HUF million	178	205	(20)	(7)
Tiszai Hulladékégető Kft.	HUF million	14	25	(12)	1
Tűzoltó és Műszaki Mentő Kft.	HUF million	379	3	375	1
TVK Erőmű Kft.	HUF million	3,525	3,298	10	217

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Changes of the non-current investments in associate companies in 2004:

Name	Gross value of investments			Write-off			Year-end Revaluation	Investment closing value
	Opening value	Increase	Decrease	Opening value	Increase	Decrease		
Subsidiaries:								
TVK-Ingatlankezelő Kft.	2,970	0	0	0	0	0	0	2,970
TVK InterChemol GmbH.	161	0	0	0	0	0	(10)	151
TVK UK Ltd.	74	0	0	0	0	0	0	74
TVK Italia S.r.l.	27	0	0	0	0	0	0	27
TVK-France S.a.r.l.	20	0	0	0	0	0	0	20
TVK POLISEC Kft.	14	0	0	0	0	0	0	14
TVK Polska Sp. z .o.o.	6	0	0	0	0	0	0	6
Chemopetrol Kft.	6	0	0	0	0	0	0	6
TVK Austria GmbH.	5	0	0	0	0	0	0	5
Tiszachem Kft.	3	0	(3)	(1)	0	1	0	0
Associates:								
VIBA-TVK Kft.	82	0	0	0	0	0	0	82
Tiszai Hulladékégető Kft.	12	0	0	(4)	0	0	0	8
Tűzoltó és Műszaki Mentő Kft.	1	0	0	0	0	0	0	1
Total	3,381	0	(3)	(5)	0	1	(10)	3,364

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Changes of the non-current investments in associate companies in 2005:

Name	Gross value of investments			Write-off			Year-end Revaluation	Investment closing value
	Opening value	Increase	Decrease	Opening value	Increase	Decrease		
Subsidiaries:								
TVK-Ingatlankezelő Kft.	2,970	0	0	0	0	0	0	2,970
TVK InterChemol GmbH.	151	0	0	0	0	0	0	151
TVK UK Ltd.	74	0	0	0	0	0	0	74
TVK Italia S.r.l.	27	0	0	0	0	0	0	27
TVK-France S.a.r.l.	20	0	0	0	0	0	0	20
TVK POLISEC Kft.	14	0	0	0	0	0	0	14
TVK Polska Sp. z .o.o.	6	0	0	0	0	0	0	6
Chemopetrol Kft.	6	0	(6)	0	(4)	4	0	0
TVK Austria GmbH.	5	0	0	0	0	0	0	5
Associates:								
VIBA-TVK Kft.	82	0	0	0	0	0	0	82
Tiszai Hulladékégető Kft.	12	0	0	(4)	0	0	0	8
Tűzoltó és Műszaki Mentő Kft.	1	0	0	0	0	0	0	1
TVK Erőmű Kft.	0	857	0	0	0	0	0	857
Total	3,368	857	(6)	(4)	(4)	4	0	4,215

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12. Non-current loans

Other non-current loans as of 31 December 2004 and 2005:

Title	2004	2005
Loan to Plastico S.A.*	550	575
House-building loan	99	75
Write-off of loan to Plastico S.A.	(353)	(369)
Total	296	281

* In 2002, TVK Rt. sold its investment in Plastico S.A. Due to the company's solvency problems, the recoverable amount decreased to HUF 197 million as at 31 December 2004, and as a result an impairment loss of HUF 353 million was recognized. Short-term part of loan receivable (HUF 77 million) and the related impairment (HUF 49 million) are reclassified to other current assets at the end of 2005. The recoverable amount of outstanding loan receivables were re-assessed as at 31 December 2005 and it decreased to HUF 205 million. Impairment recorded is based on expert's estimation of the pledged assets under the contract, less expected expenses of compulsory disposal of the property. (See Note 19)

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13. Non-current debt securities

The Company's securities as of 31 December 2004 and 2005 are summarized as follows:

Title	Maturity	2004	2005
2013/C government bond *	20.12.2013.	111	158
Total		111	158

* Non-current securities include type 2013/C government bonds with variable interest rates maturing in December 2013. The net value of government bonds increased by HUF 47 million as the Company rediscounted the bonds on 31 December 2005.

14. Impairment of non-current financial assets

Impairment loss of non-current financial assets recognised in 2004 and 2005 by balance sheet item:

Description	Non-current investments	Other non-current loans	non-current securities	Total
Opening balance as of 1 January 2004	5	401	23	429
Increase of impairment	0	45	97	142
Decrease of impairment	(1)	(93)	0	(94)
Reversal of impairment	0	0	0	0
Closing balance as of 31 December 2004	4	353	120	477
Increase of impairment	0	65	0	65
Decrease of impairment	0	(49)	0	(49)
Reversal of impairment	0	0	(47)	(47)
Closing balance as of 31 December 2005	4	369	73	446

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15. Inventories

Inventories as of 31 December 2004 and 2005 were as follows:

Description	2004	2005
Self-produced inventories	5,347	7,048
Purchased goods	3,740	3,298
Advances for inventories	16	30
Total	9,103	10,376

As of 31 December 2004, the Company had slow-moving inventories aged over one year (mainly spare parts) amounting to HUF 2,371 million, and totalling HUF 2,307 million in 2005.

In 2004 scrapping involved HUF 20 million, and the amount of recognised devaluation loss was HUF 81 million, in 2005 the amount of recognised devaluation loss was HUF 660 million.

16. Impairment of Inventories

Impairment loss of inventories recognised in 2004 and 2005 by balance sheet item:

Description	Materials	Work in process	Finished products	Commodities	Advances for inventories	<i>Total inventories</i>
Opening balance as of 1 January 2004	538	0	20	0	0	558
Increase of impairment	81	0	0	0	0	81
Decrease of impairment	0	0	(2)	0	0	(2)
Reversal of impairment	0	0	(18)	0	0	(18)
Closing balance as of 31 December 2004	619	0	0	0	0	619
Increase of impairment	660	0	0	0	0	660
Decrease of impairment	0	0	0	0	0	0
Reversal of impairment	0	0	0	0	0	0
Closing balance as of 31 December 2005	1,279	0	0	0	0	1,279

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17. Trade receivables

Receivables as of 31 December 2004 and 2005 were as follows:

Description	2004	2005
Domestic receivables	11,597	15,053
Foreign receivables	14,348	22,995
Impairment	(293)	(508)
Total	25,652	37,540

18. Receivables from related parties

As of 31 December 2004 and 2005 accounts receivables from related parties are the following:

Description	2004	2005
MOL Group	2,860	5,015
Accounts receivable from Subsidiaries	679	165
Accounts receivable from Associate companies	247	344
Impairment	(22)	(4)
Total	3,764	5,520

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19. Other Receivables

The Company's other receivables as of 31 December 2004 and 2005 are summarized as follows:

Description	2004	2005
Reclaimable VAT	3,592	6,544
Receivables from Plastico S.A due in 360 days *	207	323
Write-off of receivables from Plastico S.A due in 360 days	(116)	(315)
Corporate income tax	173	178
Receivables due to house-building loans	47	42
Employer contribution	0	17
Health contribution	0	4
Other	25	29
Total	3,928	6,822

*The long-term part of the loan receivable from Plastico S.A. reduced by the proportionate impairment loss has been disclosed among other fixed assets (See Note 12.)

At 31 December 2004 current assets include HUF 207 million short-term loan receivable from Plastico S.A less HUF 116 million impairment loss. Impairment recorded is based on expert's estimation of the pledged assets under the contract, less expected expenses of compulsory disposal of the property. Based on this, Company recorded further impairment loss of HUF 128 million for overdue loan receivables, thus in connection with the loan to Plastico S.A a HUF 323 million receivables, less a HUF 315 million impairment on this loan has been recorded as other current assets as at 31 December 2005.

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20. Impairment of Receivables

In 2004 and 2005, the following impairments of receivables were accounted:

Original historical cost

Description	Trade receivables	Receivables from related parties	Receivables from other related parties	Bill receivables	Other receivables	Total receivables
Closing balance as 2004	25,945	3,786	0	0	4,044	33,775
Closing balance as 2005	38,048	5,524	0	0	7,137	50,709

Impairment

Movements	Trade receivables	Receivables from related parties	Receivables from other related parties	Bill receivables	Other receivables	Total receivables
Opening balance as 2004	399	31	0	14	75	519
Increase	0	0	0	0	41	41
Decrease	(106)	(9)	0	(14)	0	(129)
Closing balance as 2004	293	22	0	0	116	431
Increase	215	0	0	0	199	414
Decrease	0	(18)	0	0	0	(18)
Closing balance as 2005	508	4	0	0	315	827

Net book value

Description	Trade receivables	Receivables from related parties	Receivables from other related parties	Bill receivables	Other receivables	Total receivables
Closing balance as 2004	25,652	3,764	0	0	3,928	33,344
Closing balance as 2005	37,540	5,520	0	0	6,822	49,882

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21. Marketable Securities

Marketable Securities as of 31 December 2004 and 2005 are summarized as follows:

Description	2004	2005
Redeemed employee shares *	172	174
Investments in related parties **	857	0
Total	1,029	174

* As of 31 December 2004, the parent company owned 171,506 redeemed employee shares at par value, amounting to 0.70% of TVK Rt's total shares. As of 31 December 2005, the parent company owned 173,650 redeemed employee shares at par value, amounting to 0.71% of TVK Rt's total shares. The book value and par value of the shares is HUF 1,000.

** Investments in related parties contain a HUF 857 million investment in TVK Erőmű Kft in 2004. In 2005 the investment in TVK Erőmű Kft. was restructured to long term financial investments.

22. Cash and Bank

The Company's cash at bank balances as of 31 December 2004 and 2005 are summarized as follows:

Description	2004	2005
Cash in hand, cheques	4	3
Short-term deposits	1,166	0
Bank accounts	4,363	6,453
Total	5,533	6,456

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23. Prepayments, accruals and deferrals

Prepayments as of 31 December 2004 and 2005 are summarized as follows:

Description	2004	2005
Interest receivables	1	10
Dividend receivables*	11	340
Other deferred income **	7	184
Deferred income	19	534
Subscription fees	7	5
Other deferred expenses	42	46
Prepayment of costs and expenses	49	51
Total	68	585

* Includes the proportional part of dividend due to TVK Rt. as approved by the general meeting of TVK Erőmű Kft.

** Includes the HUF 178 million redemption due according to the Company's insurance agreement.

Accrued expenses and deferred income as of 31 December 2004 and 31 December 2005 are as follows:

Description	2004	2005
Deferred revenues	0	6
Deferred revenues	0	6
Other accrues costs and expenses *	1,767	637
Expected carriage	124	248
Accrued energy costs	31	2
Interest payable to financial institutions	14	17
Accrues costs and expenses	1,936	904
Book value of assets received free of charge, found as a surplus, or received as a gift or legacy	23	23
Deferred income	23	23
Total	1,959	933

* Further to amendment of the standard employment contract, in 2004, the Company made a provision for severance pay above the statutory limit (HUF 1,359 million).

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24. Shareholders' Equity

Shareholders' equity consisted of the following during 2004 and 2005:

Description	Share capital	Capital reserve	Retained earnings	Allocated reserve	Net income	Total
31 December 2003.	24,666	4,624	68,079	665	5,851	103,885
Appropriation of 2003 net income	0	0	5,851	0	(5,851)	0
Allocation of retained earnings to the redemption of employee shares	0	0	(7)	7	0	0
Profit for 2004	0	0	0	0	10,634	10,634
31 December 2004	24,666	4,624	73,923	672	10,634	114,519
Appropriation of 2004 net income	0	0	10,634	0	(10,634)	0
Allocation of retained earnings to the redemption of employee shares	0	0	(2)	2	0	0
Profit for 2005	0	0	0	0	4,538	4,538
31 December 2005	24,666	4,624	84,555	674	4,538	119,057

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25. Allocated reserve

Allocated reserves as at 31 December 2004 and 2005:

Description	2004	2005
Development reserve	500	500
Redeemed treasury shares	172	174
Total	672	674

26. Provisions

The Company's provisions as of 31 December 2004 and 2005 are summarized as follows:

Description	Environ- mental **	Severance	Other ***	Total
Opening balance as of 1 January 2004	3,231	94	224	3,549
Provisions made in 2004 and reassessment of previous year's estimate	1,300	0	23	1,323
Provisions used during the year	(516)	(94)	(95)	(705)
Closing balance as of 31 December 2004	4,015	0	152	4,167
Provisions made in 2005 and reassessment of previous year's estimate *	504	60	2,555	3,119
Provisions used during the year *	(536)	0	(46)	(582)
Closing balance as of 31 December 2005	3,983	60	2,661	6,704

* Provisions made in the current year are disclosed within other expenses (See Note 34), while provisions used in the current year are disclosed within other incomes (See Notes 34).

** The information on environmental provision is disclosed in Note 44.5

*** Includes provisions for early retirement payments, retirement and volume discounts

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27. Long-term liabilities towards related parties

Non-current liabilities towards related parties on 31 December 2004:

Description	Balance	Interest Rate	Repayment Period
MOL Hungarian Oil and Gas Public Limited Company	54,105	EURIBOR+0.90%	12.29.2009
Total	54,105		

Non-current liabilities towards related parties on 31 December 2005:

Description	Balance	Interest Rate	Repayment Period
MOL Hungarian Oil and Gas Public Limited Company	53,073	EURIBOR+0.90%	12.29.2009
Total	53,073		

On 22 December 2004, the Company drew EUR 220 million from a loan facility of EUR 280 million granted by MOL Hungarian Oil and Gas Company (MOL Rt). According to the underlying contract, the loan is repayable in one sum upon expiry. Loan is free from additional costs. Total costs of short-term loan towards MOL Rt is lower with 11 percentage point than costs of syndicated foreign exchange loan. The Company repaid EUR 10 million on July 29, 2005 from the parent company loan.

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28. Short-term loans

The Company's short-term debt as of 31 December 2004 is summarized as follows:

Description	Balance	Interest Rate	Repayment Period
Overdraft	4	floating	11.30.2005
Total	4		

The Company's short-term debt as of 31 December 2005 is summarized as follows:

Description	Balance	Interest Rate	Repayment Period
Overdraft	0	floating	11.30.2006
Total	0		

Both long-term and short-term loan agreements are based on the pari passu and negative pledge (equal condition system and without cover) principles.

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29. Trade payables

Accounts payable consisted of the following as of 31 December 2004 and 2005:

Description	2004	2005
Domestic creditors	5,232	2,896
Foreign creditors	3,303	3,294
Total	8,535	6,190

30. Short-term liabilities to related parties

Short-term liabilities to related parties consisted of the following as of 31 December 2004 and 2005:

Description	2004	2005
Liabilities to MOL Group	13,403	24,465
Liabilities to Subsidiaries	124	251
Liabilities to associated companies	295	566
Total	13,822	25,282

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31. Other current liabilities

Other current liabilities as of 31 December 2004 and 2005 are summarized as follows:

Description	2004	2005
Dividends payable	0	1,020
Payables to employees, and related contributions	447	309
Financial lease	88	94
Taxes and similar charges	16	41
Local taxes	91	40
Personal income tax	139	21
Payables to customs authorities	8	5
Amounts payable to voluntary pension	16	0
Other	82	18
Total	887	1,548

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32. Net sales

Sales in 2004 and 2005 are summarized as follows:

Market segment description	2004		2005	
	Net sales	Rate %	Net sales	Rate%
Europe	66,696	40.70	109,951	44.04
America	2,071	1.27	4,080	1.64
Asia	2,183	1.33	2,959	1.19
Africa	34	0.02	84	0.03
Total export sales	70,984	43.32	117,074	46.90
Total domestic sales	92,894	56.68	132,560	53.10
Total	163,878	100.00	249,634	100.00

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Export sales by geographical area in Europe in 2004 and 2005 are summarized as follows:

Market segment description	2004		2005	
	Net sales	Rate %	Net sales	Rate%
European Union	55,712	83.53	92,006	83.68
Germany	12,170	18.25	22,039	20.05
Italy	10,364	15.54	17,600	16.01
Poland	14,543	21.80	15,541	14.13
United Kingdom	4,555	6.83	6,002	5.46
France	2,813	4.22	5,951	5.41
Slovakia	1,260	1.89	5,180	4.71
Austria	2,618	3.93	3,825	3.48
Greece	1,980	2.97	3,473	3.16
Bohemia	1,442	2.16	2,981	2.71
Netherlands	329	0.49	2,957	2.69
Lithuania	1,484	2.22	2,883	2.62
Slovenia	566	0.85	1,441	1.31
Spain	633	0.95	927	0.84
Finland	261	0.39	297	0.27
Latvia	168	0.25	258	0.24
Belgium	171	0.26	226	0.21
Sweden	215	0.32	190	0.17
Cyprus	98	0.15	110	0.10
Denmark	37	0.05	102	0.09
Portugal	5	0.01	23	0.02
Without European Union	10,984	16.47	17,945	16.32
Turkey	2,697	4.04	6,282	5.71
Rumania	2,768	4.15	3,508	3.19
Switzerland	612	0.92	1,043	0.95
Ukraine	960	1.44	532	0.49
Other	3,947	5.92	6,580	5.98
Total	66,696	100.00	109,951	100.00

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Sales in 2004 according to operational segments are as follows:

Operational segments	Domestic sales	Export sales	Total sales
Olefin	38,763	0	38,763
LDPE	12,384	11,862	24,246
HDPE	9,984	29,865	39,849
PP	26,689	29,188	55,877
Other	5,074	69	5,143
Total	92,894	70,984	163,878

Sales in 2005 according to operational segments are as follows:

Operational segments	Domestic sales	Export sales	Total sales
Olefin	67,178	3,610	70,788
LDPE	12,409	15,527	27,936
HDPE	11,246	65,134	76,380
PP	34,991	32,732	67,723
Other	6,736	71	6,807
Total	132,560	117,074	249,634

33. Change in self-produced assets

Title	2004	2005
Change in self-produced assets	4,403	552

The Company founded independent project organizations for implementing the four main strategic projects and a separate coordinating organization. According to the accounting law, the costs of these organizations are included in the cost of investment, accounted by the Company as capitalized value of self-produced assets. This amount was HUF 1,249 million in 2004 and HUF 15 million in 2005.

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34. Other income and other expenses

Other income for 2004 and 2005 is summarized as follows:

Other operative income	2004	2005
Provisions used	705	582
Revenues from the disposal of tangible and intangible assets	223	360
Received default interests, penalties, compensations	353	248
Received amount from bad debts and written-off receivables	0	62
Reversed write-off of trade receivables, loans and inventories	133	0
Other profit increasing items	279	277
Total	1,693	1,529

Other expenses for 2004 and 2005 are summarized as follows:

Other operative expenses	2004	2005
Provisions*	1,323	3,119
Retrospective discount	2,969	3,117
Impairment	126	996
Local taxes	755	756
Book value of disposed tangible assets, intangible assets	123	197
Scrapping tangible assets, inventories	50	177
Assistance, benefits	84	111
Expenses related to damages and losses	0	84
Bad debt write-off	70	47
Paid compensation, fines, default interest	207	12
Other profit decreasing items	80	55
Total	5,787	8,671

*Further environmental provisions are expected subject to the results of future environmental surveys. (See Note 44.5)

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35. Expenses according to “Cost of sales” method

The Profit and Loss Account prepared according to the „Cost of sales” method for the years ended 31 December 2004 and 2005 (the table below presents only those items that cannot be found in the Profit and Loss Account prepared with the “Total cost” method):

Description	2004	2005
Direct cost of sold products	127,153	216,721
Purchase Cost of goods sold	8,252	3,291
Cost of services sold	682	2,047
Total direct costs of sales	136,087	222,059
Sales, distribution expenses	1,391	2,130
Administration expenses	9,667	8,526
Other general overhead expenses	668	1,056
Total indirect costs of sales	11,726	11,712
Total costs	147,813	233,771

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36. Material type services

Material type services in 2004 and 2005 are as follows:

Description	2004	2005
Maintenance costs	3,083	3,963
Sundry sales costs	1,363	2,824
Rental fee cost	823	815
Cost of supervision performed	272	682
Transportation, loading, storage	221	632
Environmental expenses	516	537
PR, advertisement expenses, telecommunication	440	468
Public sanitation	396	405
Advisory, consultant and audit expenses	220	278
Fire protection service	145	205
Software development	141	183
Security service	200	182
Waste material utilization, cost of elimination	134	166
Technical development cost	139	158
Services provided by Petrolszolg Kft	86	124
Hiring cost of labour	267	117
Travel and accommodation expenses	48	71
Health care service	68	70
Translation	38	61
Training cost	48	53
Payroll	50	48
Fees paid to non natural entities	39	36
External data processing	0	24
Leasing	44	17
Other	275	336
Total	9,056	12,455

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37. Other services

Other services in 2004 and 2005 are as follows:

Description	2004	2005
Insurance fees	1,092	1,144
Authority charges	74	171
Bank charges	89	141
Total	1,255	1,456

38. Remuneration of the Board of Directors and Supervisory Board

The remuneration of the members of the Board of Directors and Supervisory Board of the Company for 2004 and 2005 is summarized below:

Description	2004	2005
Board of Directors	3	2
Supervisory Board	6	5
Total	9	7

No loans or advance payments were granted to the members of the Board of Directors or the Supervisory Board and the Company did not undertake guarantees in their names.

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39. Employees

In 2004 and 2005 the average number of employees per profit centers or service units was the following:

Description	2004			2005		
	Blue collar (persons)	White collar (persons)	Total (persons)	Blue Collar (persons)	White collar (persons)	Total (persons)
Polimer profit center	393	90	483	401	88	489
Olefin profit center	195	37	232	191	36	227
Energy supply unit	109	59	168	102	72	174
General management	5	65	70	4	52	56
Maintenance units	9	41	50	-	34	34
Other units	223	460	683	175	387	562
Total	934	752	1,686	873	669	1,542

Personnel related costs for 2004 and 2005 are detailed below:

	2004			2005		
	Blue collar	White collar	Total	Blue collar	White collar	Total
Polimer profit center	865	426	1,291	936	443	1,379
Olefin profit center	509	240	749	601	259	860
Energy supplying unit	280	287	567	283	318	601
General management	7	263	270	8	279	287
Maintenance units	16	208	224	-	154	154
Other units	497	1,875	2,372	487	1,932	2,419
Total	2,174	3,299	5,473	2,315	3,385	5,700

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40. Other financial income and other financial expenses

Other financial income for 2004 and 2005 are summarized as follows:

Other financial income	2004	2005
FX gain on monetary assets and liabilities denominated in foreign exchange	1,304	1,964
Other	18	24
Total	1,322	1,988

Other financial expenses for 2004 and 2005 are summarized as follows:

Other financial expenses	2004	2005
FX loss on monetary assets and liabilities denominated in foreign exchange	1,778	2,711
Loss on hedge transaction	461	0
Other	194	490
Total	2,433	3,201

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41. Extraordinary revenues and expenditures

Extraordinary revenues for 2004 and 2005 are summarized as follows:

Extraordinary revenues	2004	2005
In kind contribution value of Chemopetrol Kft.	0	2
In kind contribution value of TiszaChem Kft.	3	0
Total	3	2

Extraordinary expenditures for 2004 and 2005 are summarized as follows:

Extraordinary expenses	2004	2005
Cash given finally not for developments*	0	554
Book value of receivables remitted	60	272
Contractual value of debt assumption	0	17
Book Value of Chemopetrol Kft.	0	2
Book Value of TiszaChem Kft.	3	0
Total	63	845

*Includes the total amount of cash finally given to TVK Erőmű Kft. in 2005.

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42. Hazardous waste (non audited)

The following table shows the movement of hazardous waste at the Company in 2004 and 2005 (data in tons):

EWC code	Dangerous waste	2004	2005
201035	Scrapped electric and electronic equipments	0,0	8,0
130205	Waste oil	7,3	5,9
070704	Non- halogenous solvent mixture	0,1	4,1
070710	Other filter-cakes	0,0	2,1
150110	Chromium III stained drum	0,6	2,0
160601	Lead battery	1,0	1,8
060405	Heavy metal scrap	0,4	1,5
160213	Unused equipments containing hazardous materials	0,0	1,2
150202	Oil stained cloth	0,7	0,8
160602	Ni-Cd battery	0,2	0,2
070703	Halogenous solvent mixture	0,1	0,1
080317	Toners containing hazardous materials	0,0	0,1
170601	Asbestos containing scrap	0,0	0,1
050108	Other tars	0,0	0,1
160107	Oil filters	0,0	0,1
160506	Laboratory chemical mix	0,0	0,1
191307	Polluted CH waste	269,5	0,0
160802	Ni-katalyst	19,5	0,0
160807	CH stained catalyst	18,5	0,0
160802	Chrome VI. Containing catalyst	8,0	0,0
070704	Isodecan	3,9	0,0
150110	Oil drum	0,8	0,0
160213	Static condenser	0,7	0,0
150110	Stained drum	0,1	0,0
150110	Catalyst stained drum	0,1	0,0
150110	Toluene stained can	0,1	0,0
150110	Peroxide stained can	0,1	0,0
150110	Donor impurity drum	0,1	0,0
	Total	331,8	28,2

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Dangerous waste codes are classification are compliant with relevant EU regulations and standards. The value of dangerous waste is not recorded.

The following table shows the movement of hazardous waste at the Company in 2004 and in 2005 (data in tons):

	Opening value	Increases	Decreases	Closing value
2004	311	2,198	2,178	331
2005	331	2,725	3,028	28

In connection with the management of hazardous waste HUF 94 million and HUF 124 million expenses incurred for 2004 and 2005, respectively.

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43. Related party transactions

Related party transactions are carried out on an arm's length basis.

MOL Group has been TVK Rt's main raw material supplier and buyer of TVK products ever since the Company was established. Partner connection is based on long term supply contracts. The long-term contract on feedstock supply and co-product repurchase was signed in 1993 and valid until December 31, 2003. In 2001, the Company signed a long-term contract with MOLTRADE-Mineralimpex Rt. on supplying raw materials for the period between 2004 and 2013.

43.1. Related party transactions

	2004	2005
	HUF million	HUF million
Sales		
- of which: to MOL Group companies	23,095	43,025
of which : MOLTRADE- Mineralimpex Rt	22,267	38,717
to related parties	17,790	4,518
Purchase		
- of which: from MOL Group companies	102,673	180,412
of which : MOLTRADE- Mineralimpex Rt	93,701	169,158
from related parties	4,162	9,907

43.2. General Incentive Schemes for management

The Company operates a complex long- and short-term incentive scheme from 2004 for top and middle managers. The incentive aim involves company and organizational level financial and operational targets, evaluation of the contribution to the strategic goals of the company and determined individual tasks in the System of Performance Management (TMR), and competencies. From the settled incentive scheme based on evaluation of indicators and qualification of individual tasks and competencies, 60% will be paid after the evaluation and 40% will be paid in shares after a two years waiting period.

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44. Off-balance sheet items

44.1. Letter of support to related parties

TVK Rt. has issued a comfort letter to Raiffeisen Bank Rt. in relation to the HUF 60,000,000 overdraft of TVK-Ingatlankezes Kft. TVK Rt. has a 100% ownership in TVK-Ingatlankezes Kft. TVK Rt. has assumed an early warning obligation in the event its shareholding in TVK-Ingatlankezes Kft. should drop below 50%. The comfort letter is valid while the overdraft is available, i.e. until 30 November 2006.

44.2. Legal disputes over investments in securities

In 1998, a former executive of the Company misused her authority and instructed stockbrokers Quantum Bróker Rt to invest HUF 1,000 million in an equity portfolio and financial instruments instead of treasury bills as approved by TVK Rt's management. The Company disputed the proper authorisation of the transaction and believed that the broker firm did not perform its duty with proper professional care and stewardship, and the Company reported the case to the police in October 1998. The police took custody of the portfolio of shares and delivered them to TVK Rt.

In the lawsuit against Quantum Bróker, the Supreme Court rejected TVK's appeal, therefore the Company wrote off its receivable amounting to HUF 569 million from Quantum Bróker in 2001.

In 2002, TVK Rt had pecuniary demands of app. HUF 450 million at the Metropolitan Court against Insider Kft, as the related criminal proceedings revealed that Insider Kft could be connected to the damage caused to TVK Rt. It is not reasonable to expect the damages be returned as the result of the proceedings. Final judgement is expected in 2006.

44.3. Capital and contractual commitments

The total value of capital commitments as of 31 December 2005 is HUF 531 million relates to capital and contractual commitments of TVK Rt.

44.4. Other contractual liabilities

The Company and TVK-Erőmű Kft. concluded a contract valid until December 31, 2018 for booking the heat and electrical energy capacities of the power plant in long term, and to supply and purchase heat and electrical energy.

According to the contract, the heat and electrical energy capacity of TVK-Erőmű Kft. is at the Company's disposal, and the power plant supplies the Company according to its claims.

The contract price includes disposability fee (which cannot be bounded to the real disposability of the power plant) and energy fees.

44.5. Environmental protection

In 1996, before the privatisation of TVK Rt, an environmental audit of the Company had been carried out. Based on the findings of the audit, the restoration of the contaminated soil in the area of the Olefin plant was convened. The restoration on the area of the Paint Factory continued. The restoration of contaminated soil and water in other areas started in 1999, for which the Company contracted external consultants.

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Based on the findings of this environmental audit, the Company recorded a provision for the estimated total environmental expenses to clean up existing pollution in 1996. As a full-scale assessment of the Company's potential environmental obligation is still outstanding, the amount of provision has been updated every year based on the results of the original study, the actual clean up work performed and on management estimation.

The management of the company regularly assessed the measures and/or investments necessary in order to meet new Hungarian environmental requirements issued based on applicable EU directives.

In connection with this, an assessment of underground pollution of areas under decontamination began in the second half of 2002. Further to the findings of an environmental review carried out by an external consultant, HUF 2,101 million additional environmental provisions were created for expected extra restoration costs in 2002. The amount of provisions covers only those expenses that could be assessed and properly quantified at the time of reporting.

In 2003 the Company continued the survey of the underground pollution in order to get sufficient information about extension of environmental pollution and determine the most applicable technology for environmental restoration. The surveys found extensive underground pollution caused in the past. The Company submitted the summary report on the environmental survey completed at the end of 2004 to the North-Hungary Area Environment Authority by the required deadline.

The environmental authority requested further additions to the closing document. All the requested additions were prepared by TVK Rt and have been submitted to the authority. Based on the documentation submitted, the North-Hungary Authority for the Environment, Nature and Water issued a note to TVK Rt to prepare and submit a technical action plan by 30 September 2005.

In 2005 the Company was focusing on the localization of underground pollution within the TVK Rt site, to avoid further pollution on the southern part of the plant.

In 2005 HUF 79 million was spent on this action. Resulted from the complexity and the measure of the polluted areas, beside this project there was also initiated the common risk based concept strategy approach of recognizing environmental liability at TVK-TIFO plant participating by contracted external consultants.

Milestones of the environment liabilities treatment process:

- in accordance with legal requirements the Company has to prepare and submit the environmental restoration strategic action plan called Roadmap to the Environmental Authority on the underground pollution identified within TVK-TIFO industrial plant and its environmental area,
- at 30 September 2005 the technical action plan was submitted by the related segments, in accordance with the legal requirements and the concept of the Roadmap which contains the short and middle term technical steps and its time schedule.

The Company continuously analyses the progress of the clean-up process and has made significant financial and intellectual efforts in order to comply with relevant legal requirements by eliminating environmental problems inherited from the past. These potentially substantial future financial expenses will be reliably quantifiable only once the results of further surveys are known as currently available information is not adequate to identify either the extent of the pollution or the suitable restoration technology.

The Company recognized environmental provision based on the currently available quantifiable future financial expenses and it is totaled to HUF 3,983 million as of 31 December 2005.

Based on the existing contracts and on all the information available to us the Company has estimated environmental costs until 2018.

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45. Corporate tax

The differences between the profit before tax and the tax base for 2004 and 2005 are presented below:

Description	2004	2005
Profit before taxation	11,807	5,558
Temporary differences:		
Inventory and fixed asset write-offs	(4,298)	(8,991)
Provisions	618	2,537
Total	(3,680)	(6,454)
Permanent differences:		
Contribution of foundations	83	110
Gives cash finally	0	554
Debt assumption	0	17
Non-business related expenditure	14	64
Development reserve	(500)	(500)
Research and development costs according to the Act on accounting	(119)	(132)
Dividend received	(185)	(392)
Local corporate tax accounted as expense (25% in 2004, 50% in 2005)	(149)	(320)
Other	64	298
Total	(792)	(301)
Tax base	7,335	(1,197)
Corporate tax (16%)	1,173	0
Tax relief	0	0
Taxation	1,173	0
Profit after taxation	10,634	5,558

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The applicable corporate income tax rate in Hungary was 16% in 2005. As the tax base was negative in 2005, as a result of the negative effect of cumulated tax base correction items and as opposed to the positive profit after tax, TVK Rt. could not utilize the 100% tax holiday based on the capitalization of assets under strategic projects implemented in 2004. The negative tax base carried over from 2005 is available indefinitely for offset against future taxable profits.

Effect of tax revision for the years from 2001 to 2003

APEH the Hungarian Tax Authority performed general tax review for the years from 2001 to 2003. HUF 25.5 million tax shortage identified and related penalties were recognised in net income of 2005.

46. Subsequent events

TVK Ukraina tov was founded by the Company with a registered capital of 33,995.89 Hryvnia (5,770 EUR). It sells the polymers produced by TVK Rt. and Slovnaft a.s. in Ukraine as an agent. The establishment of the subsidiary aimed the direct presence on the strategically determining Ukrainian market. The company was registered on 17 January 2006.

The Board of Directors approved the Financial Statements on 22 March 2006.

Based on the Resolution of the Shareholders' Meeting held on 20 April 2006, HUF 1,020 million dividend will be paid out of the 2005 profit.