

Tiszai Vegyi Kombinát Rt. and Subsidiaries

Consolidated financial statements prepared in accordance with
International Financial Reporting Standards together with the independent
auditors' report

31 December 2005

Independent Auditors' Report

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

We have audited the accompanying consolidated balance sheet of Tiszai Vegyi Kombinát Rt. ("the Company") as at 31 December 2005 which shows a balance sheet total of HUF 227,714 million and a net income attributable to the equity holders of the parent for the year of HUF 6,409 million, the related consolidated profit and loss account for the year then ended, changes in shareholders' equity, consolidated cash flows for the years then ended and the related notes 1 to 28 included in the Company's 2005 consolidated annual financial statements. The consolidated annual financial statements are the responsibility of the Company's management. The auditor's responsibility is to express an opinion on the consolidated financial statements based on the audit and to assess whether the consolidated business report is consistent with the consolidated financial statements.

On 7 March 2005 we issued an unqualified opinion on the Company's consolidated annual financial statements prepared in accordance with the Hungarian accounting law and on the Company's consolidated annual financial statements prepared in accordance with the International Financial Reporting Standards 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 consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated 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 consolidated 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 consolidated annual financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the EU. In our opinion, the consolidated 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 consolidated business report corresponds to the disclosures in the consolidated financial statements.

Without qualifying our opinion, we draw the attention to note 25 to the consolidated 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

Ernst & Young Kft.
Registration No. 001165
001368

Szilágyi Judit
Registered Auditor
Chamber membership No.:

INDEPENDENT AUDITORS' REPORT

Independent auditors' report to the shareholders of **Tiszai Vegyi Kombinát Rt.**

We have audited the accompanying financial statements of Tiszai Vegyi Kombinát Rt. and its subsidiaries ("the Group"), which comprise the consolidated balance sheet as at 31 December 2005 and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes. These financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. 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.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as of 31 December 2005, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Without qualifying our opinion, we draw the attention to note 25 to the consolidated 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.

Ernst & Young Kft.
Budapest, Hungary
22 March 2006

The notes are an integral part of these consolidated financial statements

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Tiszai Vegyi Kombinát Rt. and Subsidiaries

Consolidated financial statements

prepared in accordance with International Financial Reporting Standards

31 December 2005

Tiszaújváros, 22 March 2006

Árpád Olvasó

Chief Executive Officer

The notes are an integral part of these consolidated financial statements

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Consolidated balance sheet

31 December 2005

	Notes	2005 HUF million	2004 HUF million restated
ASSETS			
Non-current assets			
Intangible assets	3	4,146	3,886
Property, plant and equipment	4	154,602	148,080
Investments in associated companies	5	211	285
Other non-current assets	6	476	1,659
Total non-current assets		159,435	153,910
Current assets			
Inventories	7	9,425	7,375
Trade receivables,	8	43,170	29,703
Other current assets	9	6,971	5,115
Cash and cash equivalents	10	8,713	6,223
Total current assets		68,279	48,416
TOTAL ASSETS		227,714	202,326
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Share capital	11	24,492	24,495
Reserves	12	86,774	77,797
Net income attributable to equity holders of the parent		6,409	8,947
Equity attributable to equity holders of the parent		117,675	111,239
Minority interests		43	43
Total equity		117,718	111,282
Non-current liabilities			
Long-term debt, net of current portion	13	65,403	56,809
Provisions for liabilities and charges	14	3,375	3,437
Deferred tax liabilities	22	3,457	1,945
Other non-current liabilities		22	-
Total non-current liabilities		72,257	62,191
Current liabilities			
Trade and other payables	15	36,137	26,365
Provisions for liabilities and charges	14	960	2,215
Short-term debt	16	-	118
Current portion of long-term debt	13	642	155
Total current liabilities		37,739	28,853
TOTAL EQUITY AND LIABILITIES		227,714	202,326

The notes are an integral part of these consolidated financial statements

Consolidated income statement

31 December 2005

	Notes	2005 HUF million	2004 HUF million Restated
Net sales	17	249,693	175,883
Other operating income	18	1,718	811
Total operating income		251,411	176,694
Raw materials and consumables used		213,952	144,954
Personnel expenses	19	10,121	11,138
Depreciation, depletion, amortization and impairment	3,4	9,723	6,925
Other operating expenses	20	6,734	6,771
Change in inventories of finished goods and work in progress		(1,701)	(809)
Work performed by the enterprise and capitalized		(554)	(4,438)
Total operating expenses		238,275	164,541
Profit from operations		13,136	12,153
Financial income	21	331	1,159
Financial expense	21	5,338	1,323
Net financial expense	21	5,007	164
Loss from associates		(44)	(60)
Profit before tax		8,085	11,929
Income tax expense	22	1,677	2,943
Profit for the year		6,408	8,986
Attributable to:			
Equity holders of the parent		6,409	8,947
Minority interests		(1)	39
Basic earnings per share attributable to ordinary equity holders of the parent (HUF)	23	264	369

The notes are an integral part of these consolidated financial statements

Consolidated statement of changes in equity

31 December 2005

	Share capital	Share premium	Retained earnings	Translation reserve	Total reserves	Net income attributable to equity holders of the parent	Total equity attributable to equity holders of the parent	Minority interest	Total equity
	HUF million	HUF million	HUF million	HUF million	HUF million	HUF million	HUF million	HUF million	HUF million
Opening balance 1 January 2004	24,501	15,022	57,543	19	72,584	5,278	102,363	39	102,402
Currency translation differences	-	-	-	(12)	(12)	-	(12)	-	(12)
Total income and expense for the year recognized directly in equity	-	-	-	(12)	(12)	-	(12)	-	(12)
Retained profit for the year	-	-	-	-	-	8,947	8,947	39	8,986
Total income and expense for the year	-	-	-	(12)	(12)	8,947	8,947	39	8,974
Transfer to reserves of retained profit for the previous year	-	-	5,278	-	5,278	(5,278)	-	-	-
Dividends	-	-	(53)	-	(53)	-	(53)	(35)	(88)
Redeemed treasury shares from employees	(6)	-	-	-	-	-	(6)	-	(6)
Closing balance 31 December 2004	24,495	15,022	62,768	7	77,797	8,947	111,239	43	111,282
Effect of IFRS 3 – Transfer of previously recorded negative goodwill to retained earnings	-	-	3	-	3	-	3	-	3
Restated opening balance 1 January 2005	24,495	15,022	62,771	7	77,800	8,947	111,242	43	111,285
Currency translation differences	-	-	-	24	24	-	24	-	24
Total income and expense for the year recognized directly in equity	-	-	-	24	24	-	24	-	24
Retained profit for the year	-	-	-	-	-	6,409	6,409	-	6,409
Total income and expense for the year	-	-	-	24	24	6,409	6,433	-	6,433
Transfer to reserves of retained profit for the previous year	-	-	8,947	-	8,947	(8,947)	-	-	-
Redeemed treasury shares	(3)	-	-	-	-	-	(3)	-	(3)
Other	-	-	3	-	3	-	3	-	3
Closing balance 31 December 2005	24,492	15,022	71,721	31	86,774	6,409	117,675	43	117,718

The notes are an integral part of these consolidated financial statements

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Consolidated statement of cash-flows

31 December 2005

	2005	2004
	HUF million	HUF million restated
<i>Profit from operations</i>	13,136	12,153
<i>Adjustments to reconcile operating profit to net cash provided by operating activities</i>		
Depreciation	9,368	6,640
Amortization	355	285
Write-off of inventories	58	9
Increase/(decrease) in environmental provisions	(355)	784
Increase/(decrease) in provisions	(1,297)	1,194
Net gain on sale of tangible assets	(167)	(90)
Negative goodwill released to income	(3)	-
Share of profit of associates	44	60
Write-off of receivables	322	7
Unrealised foreign exchange (gain) / loss on receivables and payables	(110)	40
<i>Operating cash flow before changes in working capital</i>	21,351	21,082
Increase in inventory	(2,006)	(407)
Increase in debtors	(13,486)	(4,227)
(Increase)/ decrease in other receivables	(1,931)	2,931
Increase/(decrease) in accounts payable	5,977	(1,089)
Increase/(decrease) in other current liabilities	1,013	(1,349)
Corporate tax paid	-	(1,346)
Net cash provided by operating activities	10,918	15,595
Purchase of Property, Plant and Equipments	(4,916)	(43,253)
Proceeds from disposals of fixed assets	528	144
Gain on disposal of subsidiaries	-	192
Acquisition of other investments	(1)	-
Loans and long-term bank deposits provided	15	162
Increase in marketable securities and other liquid assets	-	8,517
Interest received and other financial income	273	1,245
Dividends received	-	118
Net cash used in investing activities	(4,101)	(32,875)
Proceeds from issue of new debts	-	70,022
Repayments of long-term debt	(2,459)	(54,538)
Changes in long-term debt	360	-
Decrease in other long term liabilities	22	(110)
Decrease in short-term financial liabilities	(603)	(3,577)
Interest paid and other financial costs	(2,803)	(2,917)
Dividends paid to minority interest	-	(29)
Repurchase of treasury shares	(3)	(6)
Net cash provided by financing activities	(5,486)	8,845
(Decrease)/increase in cash and cash equivalents	1,331	(8,435)
Cash and cash equivalents at the beginning of the year	6,223	14,658
Cash effect of consolidation of subsidiaries previously accounted for as other investment	1,159	-
Cash and cash equivalents at the end of the year	8,713	6,223

The notes are an integral part of these consolidated financial statements

Notes to the consolidated financial statements prepared in accordance with International Financial Reporting Standards

31 December 2005

1. Presentation of The Group Structure

Background to the consolidated companies

Tiszai Vegyi Kombinát Rt.

Tiszavidéki Vegyi Kombinát, TVK's 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"). In accordance with the law on the transformation of unincorporated state-owned enterprises, the assets and liabilities of TVK were revalued as at that date.

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 of 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 of 31 December 2005, MOL Group holds the majority of the shares.

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

The Group had 1,488 and 1,602 employees as at 31 December 2005 and 2004, respectively.

Consolidated subsidiaries

Company name	Country	Range of activity	Ownership 31 Dec 2005	Ownership 31 Dec 2004	Consolidation Method 31 Dec 2005
TVK Ingatlankezelő Kft.	Hungary	Property leasing, management	100%	100%	Full consolidation
TVK Italia Srl.	Italy	Wholesale and retail trade	100%	100%	Full consolidation
TVK UK Ltd.	United Kingdom	Wholesale and retail trade	100%	100%	Full consolidation
TVK Inter-Chemol GmbH	Germany	Wholesale and retail trade	100%	100%	Full consolidation
TVK Austria GmbH*	Austria	Wholesale and retail trade	51%	51%	Full consolidation
TVK France S.a.r.l.	France	Wholesale and retail trade	100%	100%	Full consolidation
TVK-Erőmű Kft.**	Hungary	Electricity production and distribution	26%	26%	Full consolidation
TVK Polska Spzoo***	Poland	Wholesale and retail trade	100%	100%	Full consolidation

* TVK Austria GmbH is under voluntary liquidation from 1 January 2005.

** TVK Erőmű Kft. was consolidated according to proportionate method in 2004 (26%), and fully consolidated in 2005.

*** TVK Polska Spzoo was fully consolidated in 2005.

The ownership in the above companies corresponds to the voting right and to the level of control exercised by Tiszai Vegyi Kombinát Rt.

**Notes to the consolidated financial statements prepared
in accordance with International Financial Reporting Standards**

31 December 2005

The effect of TVK Erőmű Kft's inclusion in the consolidation on the Group accounts:

The ownership of TVK Rt. is 26% and based on the syndicate agreement between the owners TVK Rt. has the power to govern the financial and operating policies of TVK Erőmű Kft. once it has reached operation phase. As the power station is now operating, TVK Erőmű Kft. is now fully consolidated in 2005. In 2004 TVK Group proportionally consolidated TVK Erőmű Kft., using the 26% ownership of TVK Rt. No restatement was made in connection with change in the method of consolidation of TVK Erőmű Kft.

The Group share of assets and liabilities, and revenues and expenses of the subsidiary for the years ended 31 December 2005 and 2004 is represented in the consolidated financial statements as follows before elimination of intergroup profits:

	2005 HUF milli 100%	2004 HUF milli 26%
Fixed assets	12,940	3,806
Current assets	2,258	457
TOTAL ASSETS	15,198	4,263
Shareholders' equity	4,675	860
Long-term liabilities	9,382	2,471
Current liabilities	1,141	932
TOTAL EQUITY AND LIABILITIES	15,198	4,263
Total operating revenues	8,769	663
Total operating expenses	(6,698)	(663)
Net financial (loss)/profit	(551)	-
Deferred tax	(152)	-
NET INCOME	1,368	-

**Notes to the consolidated financial statements prepared
in accordance with International Financial Reporting Standards**

31 December 2005

The effect of TVK Polska Spzoo's inclusion in the consolidation on the Group accounts:

TVK Rt. owns 100% of TVK Polska Spzoo. The subsidiary was first included fully in the consolidation in 2005, as an increase in the significance of its activities in this financial year, meant it could no longer be considered immaterial.

The Group share of assets and liabilities, and revenues and expenses of the subsidiary for the year ended 31 December 2005 is represented in the consolidated financial statements as follows:

	2005 HUF million
Fixed assets	14
Current assets	119
TOTAL ASSETS	133
Shareholders' equity	85
Long-term liabilities	-
Current liabilities	48
TOTAL EQUITY AND LIABILITIES	133
Total operating revenues	335
Total operating expenses	(258)
Net financial (loss)/profit	(3)
Corporate income tax	(15)
NET INCOME	59

Notes to the consolidated financial statements prepared in accordance with International Financial Reporting Standards

31 December 2005

2. Basis of Preparation

TVK Rt. prepares its statutory unconsolidated financial statements in accordance with the requirements of the accounting regulations contained in Law C of 2000 on Accounting (HAS). Some of the accounting principles prescribed in this law differ from International Financial Reporting Standards (IFRS).

For the purposes of the application of the Historical Cost Convention, the consolidated financial statements treat the Company as having come into existence as of 31 December 1991, at the carrying values of assets and liabilities determined at that date, subject to the IFRS adjustments.

These consolidated financial statements have been approved and authorized for issue by the Board of Directors on 22 March 2006.

The financial year is the same as the calendar year.

i) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and all applicable IFRSs that have been adopted by the EU. IFRS comprise standards and interpretations approved by the International Accounting Standards Board ("IASB") and the International Financial Reporting Interpretations Committee ("IFRIC").

Effective 1 January 2005, the change in the Hungarian Accounting Act allows the Group to prepare its consolidated financial statements in accordance with IFRS that have been adopted by the EU. At this particular time, due to the endorsement process of the EU, and the activities of the Group, there is no difference in the policies applied by the Group between IFRS and IFRS that have been adopted by the EU.

ii) Principles of Consolidation

The consolidated financial statements include the accounts of TVK Rt. and the subsidiaries that it controls. This control is normally evidenced when the Group owns, either directly or indirectly, more than 50% of the voting rights of a company's share capital and is able to govern the financial and operating policies of an enterprise so as to benefit from its activities. The equity and the net income attributable to minority shareholders' interest are shown separately in the consolidated balance sheets and the consolidated income statement, respectively.

As required by IAS 27, immediately exercisable voting rights are taken into account when determining control.

The purchase method of accounting is used for acquired businesses by measuring assets and liabilities at their fair values upon acquisition, the date of which is determined with reference to the settlement date. Minority interest is stated at the minority's proportion of the fair values of net assets. Companies acquired or disposed of during the year are included in the consolidated financial statements from the date of acquisition or up to the date of disposal.

The Company's interests in its joint ventures are accounted for by the method of proportionate consolidation, where a proportionate share of the joint venture's assets, liabilities, income and expenses is combined with similar items in the consolidated financial statements on a line-by-line basis.

Investments in associated companies (generally investments of between 20% and 50% in a company's equity) where a significant influence is exercised by the Company are accounted for under the equity method. An assessment of investments in associates is performed when there is an indication that the asset has been impaired or the impairment losses recognised in prior years no longer exist.

Intercompany balances and transactions, including intercompany profits and unrealised profits and losses are eliminated. The consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances.

Notes to the consolidated financial statements prepared in accordance with International Financial Reporting Standards

31 December 2005

2.1 Changes in Accounting Policies

The accounting policies adopted are consistent with those applied in the previous financial years, except that the Group has adopted those standards designed to form the 'stable platform' intended to be mandatory for financial years beginning on or after 1 January 2005. The principal effects of this decision are discussed below.

IFRS 2 –Share-based Payment

In relation to the introduction of IFRS 2 the Group has revised its accounting policy of short-term and long-term (cash based) management incentives. From 2005 it is being expensed during the year of performance, as opposed to the previous practice (expensing in the year of approval). The revision had a positive HUF 63 million impact on the current year net profit and decrease of HUF 139 million in the net profit of 2004.

The effect of the retrospective adoption of IFRS 2 and the revision of the accounting policy of short-term and long-term management incentives had a negative impact on basic EPS for the year 2004. Basic earnings per share decreased by HUF 6 from HUF 375 to HUF 369 for the year 2004.

IFRS 3 - Business Combinations, IAS 36 - Impairment of Assets and IAS 38 - Intangible Assets

IFRS 3 applies to accounting for business combinations for which the agreement date is on or after 31 March 2004. Upon acquisition the Group initially measures the identifiable assets, liabilities and contingent liabilities acquired at their fair values as at the acquisition date hence causing any minority interest in the acquiree to be stated at the minority's proportions of the net fair values of those items. Furthermore, the Group is now only permitted to recognise an existing liability contained in the acquiree's financial statements on acquisition. Previously this type of restructuring provision could be recognised by the acquirer regardless of whether the acquiree had recognised this type of liability or not.

Additionally, the adoption of IFRS 3 and IAS 36 has resulted in termination of annual goodwill amortisation and implementation of testing for impairment annually at cash generating unit level (unless an event occurs during the year which requires the goodwill to be tested more frequently) in respect of these business combinations with an effective date of January 1, 2005. The transitional provisions of IFRS 3 have required the Group to eliminate the carrying amount of the accumulated amortisation of HUF 108 million with a corresponding entry to goodwill.

In case of acquisitions on or after 31 March 2004, any excess of the Company's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquired entity over the cost of the business combination are recognized directly in the consolidated income statement. Business combinations prior to 31 March 2004 have not been restated and negative goodwill on these acquisitions (HUF 3 million) has been reclassified into opening retained earnings as of 1 January 2005.

Moreover, as required by the revised IAS 38, the useful life of intangible assets acquired in a business combination are now assessed at the individual asset level as having either a finite or indefinite life. Where an intangible asset has a finite life, it has been amortised over its useful life. Amortisation years and methods for intangible assets with finite useful lives are reviewed at the earlier of annually or where an indicator of impairment exists. Intangibles assessed as having indefinite useful lives are not amortised, as there is no foreseeable limit to the year over which the asset is expected to generate net cash inflows for the Group. However, intangibles with indefinite useful lives are reviewed annually to ensure the carrying value does not exceed the recoverable amount regardless of whether an indicator of impairment is present.

Other International Financial Reporting Standards

In addition to the standards referred to above, the Group has adopted prospectively all new and revised Standards and Interpretations issued by the International Accounting Standards Board (the IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that are relevant to its operations and mandatory for financial

Notes to the consolidated financial statements prepared in accordance with International Financial Reporting Standards

31 December 2005

years beginning on 1 January 2005, except for IAS 21 – The Effects of Changes in Foreign Exchange Rates, which has been early adopted from 1 January 2004.

Group has not early adopted any IFRS standards where adoption is not mandatory at the balance sheet date. Where transition provisions in IFRS adopted give an entity a choice whether to apply the new standards prospectively or retrospectively (such as IFRS 5) Group has elected to apply the standard prospectively from the date of transition

Issued but not yet effective International Financial Reporting Standards

At the date of authorisation of these financial statements, the following Standards and Interpretations were in issue but not yet effective. The Group is currently assessing the effect that these standards may have on Group accounting policies and financial data but does not currently expect any significant impact on their application.

- *IAS 1 (amended 2005) Presentation of Financial Statements*
- *IAS 19 (amended 2004) Employee Benefits*
- *IAS 21 (amended 2005) The Effects of Changes in Foreign Exchange Rates*
- *IAS 39 (amended 2005) Financial Instruments: Recognition and Measurement – The Fair Value Option*
- *IAS 39 (amended 2005) Financial Instruments: Recognition and Measurement – Cash Flow Hedge Accounting of Forecast Intragroup Transactions*
- *IFRS 4 Insurance Contracts*
- *IFRS 7 Financial Instruments: Disclosures*
- *IFRIC 4 Determining whether an Arrangement contains a Lease*
- *IFRIC 5 Right to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds*
- *IFRIC 6 Liabilities arising from Participating in a Specific Market—Waste Electrical and Electronic Equipment*
- *IFRIC 7 Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies*
- *IFRIC 8 Scope of IFRS 2*
- *IFRIC 9 Reassessment of Embedded Derivatives*

Notes to the consolidated financial statements prepared in accordance with International Financial Reporting Standards

31 December 2005

2.2 Summary of significant accounting policies

i) Presentation Currency

Based on the economic substance of the underlying events and circumstances the functional currency of the parent company and the presentation currency of the Group have been determined to be the Hungarian Forint (HUF).

ii) Goodwill

The excess of the cost of an acquisition over the Company's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of subsidiaries acquired as at the date of the exchange transaction is recorded as goodwill and recognised as an asset in the consolidated balance sheet. Any goodwill arising on the acquisition of a foreign subsidiary are treated as an asset of the foreign operation and translated accordingly.

Goodwill is carried at cost less accumulated impairment losses. Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. As at the acquisition date, any goodwill acquired is allocated to each of the cash-generating units expected to benefit from the combination's synergies. Impairment is determined by assessing the recoverable amount of the cash-generating unit, to which the goodwill relates. Where recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised. Where goodwill forms part of a cash generating unit and part of the operation within that unit are disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit retained. An impairment loss recognised for goodwill is not reversed in a subsequent period.

iii) Cash and Cash Equivalents

Cash includes cash on hand and cash with banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with maturity less than three months from the date of acquisition and that are subject to an insignificant risk of change in value.

iv) Trade receivables

Receivables are stated at face value less provision for doubtful amounts.

v) Investments

Investments are classified into the following three categories: held-to-maturity, trading and available-for-sale. Investments with fixed or determinable payments and fixed maturity that the company has the positive intent and ability to hold to maturity are classified as held-to-maturity investments. Investments acquired principally for the purpose of generating a profit from short-term fluctuations in price are classified as trading. All other investments, other than loans and receivables are classified as available-for-sale.

Notes to the consolidated financial statements prepared in accordance with International Financial Reporting Standards

31 December 2005

Held-to-maturity investments are included in non-current assets unless they mature within 12 months of the balance sheet date. Held-to-maturity investments are carried at amortised cost using the effective interest rate method.

Available-for-sale investments are classified as current assets if management intends to realize them within 12 months of the balance sheet date. These investments are initially measured at cost, which is the fair value of the consideration given for them, including transaction costs. Amortised cost is calculated by taking into account any discount or premium on acquisition, over the year to maturity. For investments carried at amortised cost, gains and losses are recognised in the consolidated income statement when the investments are derecognised or impaired, as well as through the amortisation process.

After initial recognition, investments, which are classified as held for trading and available-for-sale, are measured at fair value. Gains or losses on investments held for trading are recognised in income. Gains or losses on available-for-sale investments are recognised as a separate component of equity until the investment is sold, collected or otherwise disposed of, or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement.

For investments that are actively traded in organised financial markets, fair value is determined by reference to quoted market prices at the close of business on the balance sheet date. For investments where there is no quoted market price, fair value is determined by reference to the current market value of another instrument which is substantially the same or is calculated based on the expected cash flows of the underlying net asset base of the investment.

Purchases and sales of investments are recognized on settlement date which is the date when the asset is delivered to the counterparty.

vi) Financial Instruments

Financial assets and financial liabilities carried on the consolidated balance sheet include cash and cash equivalents marketable securities, trade and other accounts receivable and payable, long-term receivables, loans, borrowings, investments, and bonds receivable and payable. The accounting policies on recognition and measurement of these items are disclosed in the respective accounting policies found in this Note.

Financial instruments (including compound financial instruments) are classified as assets, liabilities or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains, and losses relating to a financial instrument classified as a liability, are reported as expense or income as incurred. Distributions to holders of financial instruments classified as equity are charged directly to equity. In case of compound financial instruments the liability component is valued first, with the equity component being determined as a residual value. Financial instruments are offset when the Company has a legally enforceable right to offset and intends to settle either on a net basis or to realise the asset and settle the liability simultaneously.

The derecognition of a financial instrument takes place when the Group no longer controls the contractual rights that comprise the financial instrument, which is normally the case when the instrument is sold, or all the cash flows attributable to the instrument are passed through to an independent third party.

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vii) Derivative Financial Instruments

The Group uses derivative financial instruments such as forward currency contracts and interest rate swaps to hedge its risks associated with interest rate and foreign currency fluctuations. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value on derivatives that do not qualify for hedge accounting are taken directly to net profit or loss for the year as financial income or expense.

The fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles. The fair value of interest rate swap contracts is determined by reference to market values for similar instruments.

An embedded derivative is separated from the host contract and accounted for as a derivative if all of the following conditions are met:

- the economic characteristics and the risks of the embedded derivative are not closely related to the economic characteristics of the host contract,
- a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and
- a hybrid (combined) instrument is not measured at fair value with changes in fair value reported in current year net profit.

viii) Hedging

For the purpose of hedge accounting, hedges are classified as

- fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability;
- cash flow hedges when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a forecast transaction; or
- hedges of a net investment in a foreign operation.

A hedge of the foreign currency risk of a firm commitment is accounted for as a cash flow hedge. At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The

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documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Hedges which meet the strict criteria for hedge accounting are accounted for as follows:

Fair value hedges

Fair value hedges are hedges of the Group's exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment, or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk and could affect profit or loss.

For fair value hedges, the carrying amount of the hedged item is adjusted for gains and losses attributable to the risk being hedged, the derivative is remeasured at fair value and gains and losses from both are taken to profit or loss. For fair value hedges relating to items carried at amortised cost, the adjustment to carrying value is amortised through profit or loss over the remaining term to maturity. Any adjustment to the carrying amount of a hedged financial instrument for which the effective interest method is used is amortised to profit or loss.

Amortisation may begin as soon as an adjustment exists and shall begin no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged.

When an unrecognised firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognised as an asset or liability with a corresponding gain or loss recognised in profit or loss. The changes in the fair value of the hedging instrument are also recognised in profit or loss.

The Group discontinues fair value hedge accounting if the hedging instrument expires or is sold, terminated or exercised, the hedge no longer meets the criteria for hedge accounting or the Group revokes the designation.

Cash-flow hedges

Cash flow hedges are a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction and could affect profit or loss. The effective portion of the gain or loss on the hedging instrument is recognised directly in equity, while the ineffective portion is recognised in profit or loss.

Amounts taken to equity are transferred to the income statement when the hedged transaction affects profit or loss, such as when hedged financial income or financial expense is recognised or when a forecast sale or purchase occurs. Where the hedged item is the cost of a non-financial asset or liability, the amounts taken to equity are transferred to the initial carrying amount of the non-financial asset or liability.

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If the forecast transaction is no longer expected to occur, amounts previously recognised in equity are transferred to profit or loss. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, amounts previously recognised in equity remain in equity until the forecast transaction occurs. If the related transaction is not expected to occur, the amount is taken to profit or loss.

Hedges of a net investment

Hedges of a net investment in a foreign operation, including a hedge of a monetary item that is accounted for as part of the net investment, are accounted for in a way similar to cash flow hedges. Gains or losses on the hedging instrument relating to the effective portion of the hedge are recognised directly in equity while any gains or losses relating to the ineffective portion are recognised in profit or loss. On disposal of the foreign operation, the cumulative value of any such gains or losses recognised directly in equity is transferred to profit or loss.

ix) Inventories

Inventories, including work-in-process are valued at the lower of cost and net realisable value, after provision for slow-moving and obsolete items. Net realisable value is the selling price in the ordinary course of business, less the costs of completion, marketing and distribution. Cost of purchased goods is determined primarily on the basis of weighted average cost. The acquisition cost of own produced inventory consists of direct materials, direct wages and the appropriate portion of production overhead expenses. Unrealisable inventory is fully written off.

x) Property, Plant and Equipment

Property, plant and equipment are stated at historical cost (or the carrying value of the assets determined as of 31 December 1991) less accumulated depreciation, depletion and accumulated impairment loss. When assets are sold or retired, their cost and accumulated depreciation are eliminated from the accounts and any gain or loss resulting from their disposal is included in the consolidated income statement.

The initial cost of property, plant and equipment comprises its purchase price, including import duties and non-refundable purchase taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use, such as borrowing costs. Estimated decommissioning and site restoration costs are capitalized either upon initial recognition or at the time when decision on decommissioning is made. Changes in estimates adjust the carrying amount of assets. Expenditures incurred after the property, plant and equipment have been put into operation, such as repairs and maintenance and overhead costs (except form periodic maintenance costs), are normally charged to income in the period in which the costs are incurred. Periodic maintenance costs are capitalized as a separate component of the related assets.

Construction in progress represents plant and properties under construction and is stated at cost. This includes cost of construction, plant and equipment and other direct costs. Construction-in-progress is not depreciated until such time as the relevant assets are available for use.

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xi) Intangible Assets

Intangible assets acquired separately are capitalised at cost and from a business acquisition are capitalised at fair value as at the date of acquisition. Intangible assets are recognised if it is probable that the future economic benefits that are attributable to the asset will flow to the enterprise; and the cost of the asset can be measured reliably.

Following initial recognition, the cost model is applied to the class of intangible assets. The useful lives of these intangible assets are assessed to be either infinite or indefinite. Amortisation is charged on assets with a finite useful life over the best estimate of their useful lives using the straight line method. The amortisation period and the amortisation method are reviewed annually at each financial year-end. Intangible assets, excluding development costs, created within the business are not capitalised and expenditure is charged against profits in the year in which the expenditure is incurred. Intangible assets with indefinite useful life are tested for impairment annually either individually or at the cash generating unit level. Useful lives are also examined on an annual basis and adjustments, where applicable are made on a prospective basis.

Research costs are expensed as incurred. Development expenditure incurred on an individual project is carried forward when its future recoverability can reasonably be regarded as assured. Following the initial recognition of the development expenditure the cost model is applied requiring the asset to be carried at cost less any accumulated impairment losses. Costs in development stage can not be amortized. The carrying value of development costs is reviewed for impairment annually when the asset is not yet in use, or more frequently when an indicator of impairment arises during the reporting year indicating that the carrying value may not be recoverable.

The amount of research and development costs was million HUF 486 (2004: million HUF 362) relating to product development.

xii) Depreciation, Depletion and Amortization

Depreciation of each component of an intangible assets and property, plant and equipment is computed on a straight-line basis over the following rates:

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%

Amortization of leasehold improvements is provided using the straight-line method over the term of the respective lease or the useful life of the asset, whichever period is less.

Periodic maintenance costs are depreciated until the next similar maintenance takes place.

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The useful life and depreciation methods are reviewed at least annually to ensure that the method and period of depreciation are consistent with the expected pattern of economic benefits from items of property, plant and equipment.

xiii) Impairment of Assets

Property, plant and equipment and intangible assets with finite useful life are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Whenever the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognised in the income statement for items of property, plant and equipment and intangibles carried at cost. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. The fair value is the amount obtainable from the sale of an asset in an arm's length transaction while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. Recoverable amounts are estimated for individual assets or, if this is not practicable, for the cash-generating unit. Impairment losses are reviewed annually and, where the recoverable amount of an asset has changed, are increased or written back, fully or partially, as required.

xiv) Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received net of issue costs associated with the borrowing. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any issue costs, and any discount or premium on settlement. Gains and losses are recognised in net profit or loss when the liabilities are derecognised or impaired, as well as through the amortisation process, except to the extent they are capitalized as borrowing costs.

xv) Provisions

A provision is recognised when the Group has a present obligation (legal or constructive) as a result of a past event and it is probable (i.e. more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. The amount of the provision is the present value of the risk adjusted expenditures expected to be required to settle the obligation, determined using the estimated risk free interest rate as discount rate. Where discounting is used, the carrying amount of provision increases in each period to reflect the unwinding of the discount by the passage of time. This increase is recognised as interest expense.

Provision for Redundancy

The employees of the Group are eligible, immediately upon termination, for redundancy payment pursuant to the Hungarian law and the terms of the Collective Agreement between TVK and its employees. The amount of such a liability is recorded as a provision in the consolidated balance sheet when the workforce reduction program is defined, announced and the conditions for its implementation are met.

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Provision for Environmental Expenditures

Environmental expenditures that relate to current or future revenues are expensed or capitalised as appropriate. Immediate provision is made for expenditures that relate to an existing condition caused by past operations and that do not contribute to current or future earnings in order to recognise the cost in the year when they are identified. Measurement of liabilities is based on current legal requirement and existing technology. Provision for environmental contingency is established when it becomes probable that a liability has been incurred and the amount can be reasonably estimated.

Provision for Retirement Benefits

The Group operates a long term employee benefit program. None of this scheme requires contribution to be made to separately administered fund. The cost of providing benefits under this plan is determined using the projected unit credit actuarial valuation method. Actuarial gains and losses are recognised as income or expense immediately. Past service costs, resulting from the introduction of, or changes to the defined benefit scheme are recognised as an expense on a straight-line basis over the average period until the benefits become vested.

xvi) Leases

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income. Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term. Initial direct costs incurred in negotiating a finance lease are added to the carrying amount of the leased asset and recognised over the lease term on the same bases as the lease income. Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term.

xvii) Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the years necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the income statement over the expected useful life of the relevant asset by equal annual instalments.

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xviii) Reserves

Reserves shown in the consolidated financial statements do not represent the distributable reserves for dividend purposes. Reserves for dividend purposes are determined based on the company-only statutory earnings of TVK Rt.

Translation reserves

The translation reserve is used for translation differences arising on consolidation of financial statements of foreign entities. Exchange differences arising on a monetary item that, in substance, forms part of the company's net investment in a foreign entity are classified as equity in the consolidated financial statements until the disposal of the net investment. Upon disposal of the corresponding assets, the cumulative revaluation or translation reserves are recognised as income or expenses in the same period in which the gain or loss on disposal is recognised.

Hedging reserves

The hedging reserve includes the cumulative net change in the fair value of effective cash flow hedges.

xix) Treasury Shares

The nominal value of treasury shares held is deducted from registered share capital. Any difference between the nominal value and the acquisition price of treasury shares, together with any gains or losses on transactions therein, are recorded directly to share premium.

xx) Dividends

Dividends are recorded in the year in which they are approved by the shareholders.

xxi) Revenue Recognition

Revenue is recognised when it is probable that the economic benefits associated with a transaction will flow to the enterprise and the amount of the revenue can be measured reliably. Sales are recognised net of sales taxes and discounts when delivery of goods or rendering of the service has taken place and transfer of risks and rewards has been completed. In addition, the timing and extent of acknowledgement of costs in the rate setting process may not be exactly the same as in the statutory or IFRS financial statements of the Company. No costs or revenues have been accrued or deferred in the consolidated financial statements related to this difference.

Interest is recognised on a time-proportionate basis that reflects the effective yield on the related asset.

Dividends due are recognised when the shareholder's right to receive payment is established.

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Changes in the fair value of derivatives not qualifying for hedge accounting are reflected in income in the period the change occurs.

xxii) Borrowing Costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised. Capitalisation of borrowing costs commences when the activities to prepare the asset are in progress and expenditures and borrowing costs are being incurred. Borrowing costs are capitalised until the assets are ready for their intended use. Borrowing costs include interest charges and other costs incurred in connection with the borrowing of funds, including exchange differences arising from foreign currency borrowings used to finance these projects to the extent that they are regarded as an adjustment to interest costs.

xxiii) Income Taxes

The income tax charge consists of current and deferred taxes. Deferred taxes are calculated using the balance sheet liability method. Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Deferred tax assets and liabilities are measured using the tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The measurement of deferred tax liabilities and deferred tax assets reflects the tax consequences that would follow from the manner in which the enterprise expects, at the balance sheet date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets are recognised when it is probable that sufficient taxable profits will be available against which the deferred tax assets can be utilised. At each balance sheet date, the Company re-assesses unrecognised deferred tax assets and the carrying amount of deferred tax assets. The enterprise recognises a previously unrecognised deferred tax asset to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered. The Company conversely reduces the carrying amount of a deferred tax asset to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of that deferred tax asset to be utilised.

Current tax and deferred tax are charged or credited directly to equity if the tax relates to items that are credited or charged, in the same or a different period, directly to equity, including an adjustment to the opening balance of reserves resulting from a change in accounting policy that is applied retrospectively.

xxiv) Foreign Currency Transactions

Foreign currency transactions are recorded in the reporting currency by applying to the foreign currency amount the exchange rate between the reporting currency and the foreign currency at the date of the transaction. Exchange rate differences arising on the settlement of monetary items at rates different from those at which they were initially recorded during the periods are recognised in the consolidated income statement in the period in which they arise. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. Items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Foreign exchange differences on trade receivables

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and payables are included in operating profit, while foreign exchange differences on borrowings are recorded as financial income or expense.

Financial statements of foreign entities are translated at year-end exchange rates with respect to the balance sheet, and at the weighted average exchange rates for the year with respect to the income statement. All resulting translation differences are included in the translation reserve of equity. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation shall be recognised in the income statement.

xxv) Earnings Per Share

The calculation of basic earnings per share is based on the profit attributable to ordinary shareholders using the weighted average number of shares outstanding during the year after deduction of the average number of treasury shares held over the period.

The calculation of diluted earnings per share is consistent with the calculation of basic earnings per share while giving effect to all dilutive potential ordinary shares that were outstanding during the period, that is:

- the net profit for the period attributable to ordinary shares is increased by the after-tax amount of dividends and interest recognised in the period in respect of the dilutive potential ordinary shares and adjusted for any other changes in income or expense that would result from the conversion of the dilutive potential ordinary shares.
- the weighted average number of ordinary shares outstanding is increased by the weighted average number of additional ordinary shares which would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

xxvi) Segmental Disclosure

The Group has four major divisions (Olefin, Polyethylene, Polypropylene and Other) that serve as the primary basis for the Company's segment reporting purposes. These segments are vertically integrated, i.e. the output of one segment serves as raw material for the next one (a significant part of the end product of olefin production is used as raw material for polypropylene and polyethylene production). Revenues are presented by geographical segment.

xxvii) Contingencies

Contingent liabilities and assets are not recognised in the consolidated financial statements unless they are acquired in a business combination. They are disclosed in the Notes unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is not recognised in the consolidated financial statements but disclosed when an inflow of economic benefits is probable.

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2.3 Significant accounting judgments and estimates

Critical judgments in applying the accounting policies

In the process of applying the accounting policies, which are described in note 2.2 above, management has made the certain judgments that have significant effect on the amounts recognised in the financial statements (apart from those involving estimates, which are dealt with below). These are detailed in the respective notes, however, the most significant judgments relate to:

- Scope of environmental provision
- Tax holidays in forthcoming years and the availability of taxable income against which deferred tax assets can be recognized
- Actuarial judgments applied for calculation of retirement benefit obligations
- Degree of control over TVK Erőmű

Sources of estimate uncertainty

The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the amounts reported in the financial statements and the Notes thereto. Although these estimates are based on the management's best knowledge of current events and actions, actual results may differ from those estimates. These are detailed in the respective notes, however, the most significant estimates relate to the following:

- Calculation the fair values of financial instruments
- Determination of useful lives of property, plant and equipment and intangibles
- Quantification and timing of environmental liabilities
- Impairment of tangible assets and intangibles

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3. Intangible assets

The Group's intangible assets as of 31 December 2005 and 2004 were as follows:

	Goodwill HUF million	Software HUF million	Total HUF million
At 1 January 2004			
Gross book value	198	5,796	5,994
Accumulated amortization and impairment	(68)	(1,769)	(1,837)
Net book value	130	4,027	4,157
Year ended 31 December 2004			
- additions	-	11	11
- amortization for the year	(41)	(244)	(285)
- transfers	1	2	3
Closing net book value	90	3,796	3,886
At 31 December 2004			
Gross book value	198	5,806	6,004
Accumulated amortization and impairment	(108)	(2,010)	(2,118)
Net book value	90	3,796	3,886
Year ended 31 December 2005			
- Effect of IFRS 3 – Transfer of negative goodwill to retained earnings	3	-	3
Opening net book value as restated	93	3,796	3,889
- additions	-	603	603
- amortization for the year	-	(354)	(354)
- impairment	(1)	-	(1)
- transfers	-	9	9
Closing net book value	92	4,054	4,146
At 31 December 2005			
Gross book value	92	6,417	6,509
Accumulated amortization and impairment	-	(2,363)	(2,363)
Net book value	92	4,054	4,146

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Goodwill

Goodwill acquired in a business combination is allocated, at acquisition, to the cash generating units (CGUs) that are expected to benefit from that business combination. Before recognition of impairment losses, the carrying amount of goodwill had been allocated as follows:

	Net book value before impairment HUF million	2005 Impairment HUF million	Net book value HUF million	Net book value before impairment HUF million	2004 Impairment HUF million	Net book value HUF million
TVK Polska Spzoo	92	-	92	92	-	92
Total goodwill	92	-	92	92	-	92

The Company recognized goodwill of HUF 92 million relating to TVK Polska Spzoo, which is subject to annual impairment test according to the requirements of IAS 36 – Impairment of Assets.

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4. Property, plant and equipment

The Group's tangible assets as of 31 December 2005 and 2004 were as follows:

	Land and buildings HUF million	Technical equipment, vehicles HUF million	Other equipment and vehicles HUF million	Capital projects HUF million	Total HUF million
At 1 January 2004					
Gross book value	24,060	59,932	14,794	63,361	162,147
Accumulated depreciation and impairment	(6,132)	(35,402)	(8,244)	-	(49,778)
Net book value	17,928	24,530	6,550	63,361	112,369
Year ended 31 December 2004					
- additions	-	-	-	42,542	42,542
- capitalization	7,908	22,428	2,481	(32,817)	-
- depreciation for the year	(906)	(4,509)	(1,225)	-	(6,640)
- disposals	(3)	-	(51)	-	(54)
- transfers	(4)	(4)	(127)	(2)	(137)
Closing net book value	24,923	42,445	7,628	73,084	148,080
At 31 December 2004					
Gross book value	31,917	82,054	16,690	73,084	203,745
Accumulated depreciation and impairment	(6,994)	(39,609)	(9,062)	-	(55,665)
Net book value	24,923	42,445	7,628	73,084	148,080
Year ended 31 December 2005					
- additions	-	-	-	6,376	6,376
- capitalization	9,388	77,150	2,033	(88,571)	-
- acquisition of subsidiary	-	-	19	10,021	10,040
- depreciation for the year	(1,142)	(6,133)	(1,947)	-	(9,222)
- impairment	(140)	(5)	(1)	-	(146)
- disposals	(335)	-	(26)	-	(361)
- transfers and other changes	(37)	(42)	(8)	(78)	(165)
Closing net book value	32,657	113,415	7,698	832	154,602
At 31 December 2005					
Gross book value	40,392	158,503	18,013	832	217,740
Accumulated depreciation and impairment	(7,735)	(45,088)	(10,315)	-	(63,138)
Net book value	32,657	113,415	7,698	832	154,602

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Impairment

In 2005 impairment expenses of HUF 146 million were recorded mainly relating to assets used to supply energy for the plants and assets related to one of Polypropylene plant.

Borrowing costs

The amount of borrowing costs capitalized during 2005 is HUF 2,180 million (2004: HUF 435 million) and recorded as capital projects in 2005 is nil (2004 HUF 882 million).

Change in accounting policies

According to the requirements of IAS 16 – Property, Plant and Equipment, periodic maintenance costs related to production facilities are capitalized from 1 January 2005. These costs were expensed in prior periods. The effect of the implementation has decreased consolidated current year profits by HUF 42 million.

Change in estimates

As required by the same standard the TVK has performed an annual revision of useful lives of property, plant and equipment and intangibles, resulting in a HUF 1,529 million increase in the consolidated current year profits.

Depreciation of spare parts of HUF 1,008 million and HUF 365 million are included in the depreciation of other equipment and vehicles as of 31 December 2005 and 2004, respectively.

Leased assets

Property, plant and equipment includes machinery acquired under finance leases:

	2005 HUF million	2004 HUF million
Cost	478	478
Accumulated depreciation	169	99
Net book value	309	379

None of the assets of the Company were pledged as of 31 December 2005 and 2004. Assets of TVK Erőmű Kft. (HUF 12,971 million) are pledged as collateral for long-term investment loan.

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5. Investment in associated companies and other investments

The Group's financial investments as of 31 December 2005 and 2004 were as follows:

Company name	Country	Range of activity	Ownership 31 Dec 2005	Ownership 31 Dec 2004	Net book value of investment 31 Dec 2005 HUF million	Net book value of investment 31 Dec 2004 HUF million
Unconsolidated subsidiaries						
TVK Polisec Kft.	Hungary	Security service, Guarding-Protection	100%	100%	15	40
TVK Ukraina tov	Ukraine	Selling polymer products	100%	-	2	-
TVK-Polska Sp.Z.o.o.*	Poland	Selling polymer feedstock, produced by TVK Rt. and Slovnaft A.S. in the polish market	-	100%	-	31
Chemopetrol Kft.	Hungary	Domestic and foreign trade of chemical feedstock and products	-	66.66%	-	20
Total unconsolidated subsidiaries					17	91
Associates						
Tűzoltó és Műszaki Mentő Kft.	Hungary	Fire prevention, technical rescue, technical supervision	30%	30%	113	113
VIBA-TVK Kft.	Hungary	Producing black polymer dye	40%	40%	73	73
Tiszai Hulladékégető Kft.	Hungary	Dormant	49.96%	49.96%	8	8
Total associates					194	194
Total					211	285

* TVK-Polska was fully consolidated from 2005.

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Unconsolidated subsidiaries:

TVK is the majority owner of the following companies, but these were not consolidated as their sizes and significance are immaterial for consolidation purposes.

TVK Polisec Kft. was founded in 1996, by the TVK Rt. and TVK Gépgyár Kft. In 1999, TVK Rt. bought out the other investor and acquired 100% ownership. The company's activities include various security services. As an effect of this investment being equity accounted TVK Rt.'s investment increased by HUF 12 million in 2004, and its value was HUF 40 million as of 31 December 2004. The voluntary liquidation of the company commenced on 1 November 2005. Due to the voluntary liquidation the value of the investment decreased by HUF 25 million, representing HUF 15 million at 31 December 2005.

TVK Ukraina tov was founded by the Company with a registered capital of 33,995.89 Hryvnia (5,770 EUR). Cash consideration was paid on 23 November 2005. 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.

Chemopetrol Kft. was established by TVK Rt., the State Property Fund of the Ukraine and Mol Invest Vagyonkezelő és Értékesítő Rt with a seat in Tiszaújváros, Hungary. In 1999, the owners increased the company's capital to HUF 3 million and then to HUF 105 million. In 2000, the owners decided to reduce the capital to HUF 30 million, and TVK Rt. purchased the stake of Mol Invest Vagyonkezelő és Értékesítő Rt. As an effect of this investment being equity accounted, TVK Rt.'s investment decreased by HUF 4 million in 2004, and its value was HUF 20 million as of 31 December 2004. As a result, TVK's stake increased to 66.66%. The company sells petrochemical products. The voluntary liquidation of the company commenced on the 10 March 2005 and it was officially cancelled from the Company Registrar on the 17 October 2005.

Summarized financial information on subsidiaries that are not consolidated

	31 December 2005	31 December 2004
	HUF million	HUF million
Current assets	19	122
Non-current assets	-	39
Current liabilities	1	43
Revenue	241	311
After-tax gain/(loss)	(51)	(4)

Associates

Tűzoltó és Műszaki Mentő Kft. was founded by TVK Rt. and by other companies on the site in 1995 with a capital of HUF 1 million. TVK Rt. owns 30% of the company's capital. In 1998, further to an amendment of the companies act, the company's capital was increased to HUF 3 million from retained earnings. As an effect of this investment being equity accounted, TVK Rt.'s investment increased by HUF 112 million in early years, its value was HUF 113 million as of 31 December 2005. The company's activities include: fire prevention, technical rescue and technical supervision.

VIBA-TVK Kft. is a company formed in 1993 by TVK Rt. and VIBA-Italy to produce polymer dye. The company's seat is in Tiszaújváros, Hungary. The raw materials are supplied by TVK Rt. As an effect of this investment being equity accounted, TVK Rt.'s investment decreased by HUF 19 million during the previous years, and its value was HUF 73 million as of 31 December 2005.

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Tiszai Hulladékégető Kft was founded in 1996 by TVK Rt (49.96%) and Lobbe N.V., Belgium (50.04%). Prior years TVK Rt recognised a HUF 5 million impairment loss on the investment thus its value was HUF 8 million as of 31 December 2005. At present, the company is dormant.

Financial information on associates

Main financial data of the Group associates at 31 December 2005:

	Total assets	Liabilities	Total operating revenues	Profit for the year
	HUF million	HUF million	HUF million	HUF million
Tűzoltó és Műszaki Mentő Kft.	426	47	469	1
VIBA-TVK Kft.	694	516	1,577	(7)
Tiszai Hulladékégető Kft.	16	2	-	1

Main financial data of the Group associates at 31 December 2004:

	Total assets	Liabilities	Total operating revenues	Profit for the year
	HUF million	HUF million	HUF million	HUF million
Tűzoltó és Műszaki Mentő Kft.	416	37	437	(1)
VIBA-TVK Kft.	904	719	1,546	(26)
Tiszai Hulladékégető Kft.	15	2	-	-

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6. Other non-current assets

The Group's other non-current assets as of 31 December 2005 and 2004 were as follows:

	31 December 2005 HUF million	31 December 2004 HUF million
Loan to Plastico S.A.* (net of impairment of HUF 369 million and HUF 353 million as of 31 December 2005 and 2004, respectively)	205	197
Government bonds**	158	111
Other	75	99
Prepayments for capital projects	38	1,252
Total	<u>476</u>	<u>1,659</u>

*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 9.)

**Long-term securities include type 2013/C government bonds maturing in December 2013. Government bonds bear a floating interest rate equivalent to the Treasury Bonds previous 6 month average interest rate.

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7. Inventories

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

	At cost	Lower of cost or net realisable value	At cost	Lower of cost or net realisable value
	31 December 2005		31 December 2004	
	HUF million			
Work in progress and finished goods	7,183	7,183	5,456	5,456
Raw-material	1,225	1,225	979	979
Other materials	1,285	1,014	1,115	861
Purchased goods	3	3	79	79
Total	9,696	9,425	7,629	7,375

The Group believes that the level of provision as of 31 December 2005 is sufficient to cover potential future losses.

As of 31 December 2005 and 2004, no inventory owned by TVK Rt. was pledged as collateral.

The total amount of impairment was HUF 272 million and HUF 255 million as of 31 December 2005 and 2004, respectively.

Inventories are regularly reviewed for impairment.

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8. Trade receivables

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

	31 December 2005 HUF million	31 December 2004 HUF million
Domestic debtors	19,539	15,332
- of which: MOL Group members	4,424	2,824
Unconsolidated subsidiaries	-	2
Associates	203	180
Export debtors	24,160	14,692
- of which: MOL Group members	708	57
	<u>43,699</u>	<u>30,024</u>
Less: provision for doubtful debts	(529)	(321)
Total	<u>43,170</u>	<u>29,703</u>

The Group recorded a write-off on doubtful debts of HUF 47 million and HUF 70 million in 2005 and 2004, respectively.

To assess provision for doubtful debts, the Company estimated incurred losses that arise due to the liquidity problems of certain major debtors. The provision has been determined by reference to past default experience.

Export receivables are denominated primarily in EUR, USD and GBP and are recorded at the exchange rate as of 31 December 2005 and 2004. The resulting gain or loss is classified in a net amount either as other income or other expense, respectively (see notes 18 and 20) in the accompanying income statements.

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9. Other current assets

Other current assets as of 31 December 2005 and 2004 were as follows:

	31 December 2005 HUF million	31 December 2004 HUF million
Reclaimable VAT	6,487	3,488
Accrued income	185	16
Refundable income tax	79	209
Prepayments	65	71
Loans to employees and other receivables	63	67
Advances to suppliers	30	16
Interest receivables	10	1
Loan to Plastico S.A.* (net of impairment of HUF 315 million and HUF 116 million as of 31 December 2005 and 2004, respectively)	8	91
Import VAT reclaimable	7	-
Receivables from banks	-	1,121
Other	37	35
Total	6,971	5,115

*The long-term part of the loan receivable from Plastico S.A. reduced by the proportionate impairment loss has been recorded as other non-current asset (See Note 6).

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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10. Cash and cash equivalents

Cash and cash equivalents as of 31 December 2005 and 2004 were as follows:

	31 December 2005 HUF million	31 December 2004 HUF million
Cash at bank – HUF	5,167	2,460
Cash at bank – EUR	3,169	3,433
Cash at bank – other currencies	374	325
Cash on hand – other currencies	2	3
Cash on hand – HUF	1	2
Total	8,713	6,223

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11. Share capital

Share capital as of 31 December 2005 was as follows:

Shareholder	Number of shares (thousand)	Face value (HUF)	Total (HUF million)	Shareholding %
Domestic entities	10,831	1,010	10,939	44.7
International entities	9,642	1,010	9,738	39.7
Employees	15	1,000	15	0.1
Domestic private investors	3	1,010	3	0.0
Unregistered investors	3,759	1,010	3,797	15.5
Total	24,250		24,492	100.0

Shareholders with a shareholding above 5% registered in the Share Register as of 31 December 2005:

Shareholder	Shareholding %
MOL Hungarian Oil and Gas Company	44.31
CE Oil & Gas Beteiligung und Verwaltung AG	31.39
Slovnaft a s	8.02

MOL is the parent company of Slovnaft a s, and as a result it is the ultimate parent company of TVK.

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Share capital by type of shares as of 31 December 2005:

Type of share	Number of shares	Share capital (THUF)
Ordinary shares representing equal and equivalent rights of members (face value of one share is HUF 1,010)	24,234,843	24,477,191
Employee shares representing rights equal to ordinary shares (face value of one share is HUF 1,000)	15,350	15,350
Total	24,250,193*	24,492,541

*The total number of shares of 24,250,193 does not include 173,650 treasury shares redeemed from employees in 2005.

In accordance with IFRS, face value of redeemed employee shares is deducted from share capital.

Share capital as of 31 December 2004 was as follows:

Shareholder	Number of shares (thousand)	Face value (HUF)	Total (HUF million)	Shareholding %
Domestic entities	11,014	1,010	11,124	45.4
International entities	8,496	1,010	8,581	35.0
Domestic private investors	235	1,010	238	1.0
Employees	17	1,000	17	0.1
Foreign private investors	5	1,010	5	0.0
Unregistered investors	4,485	1,010	4,530	18.5
Total	24,252		24,495	100.0

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Shareholders with a shareholding above 5% registered in the Share Register as of 31 December 2004:

Shareholder	Shareholding %
MOL Hungarian Oil and Gas Company	44.31
CE Oil & Gas Beteiligung und Verwaltung AG	15.99
Hermész Mérnöki Tanácsadó és Nagykereskedelmi Kft	8.02

Share capital by type of shares as of 31 December 2004:

Type of share	Number of shares	Share capital (THUF)
Ordinary shares representing equal and equivalent rights of members (face value of one share is HUF 1,010)	24,234,843	24,477,191
Employee shares representing rights equal to ordinary shares (face value of one share is HUF 1,000)	17,494	17,494
Total	24,252,337*	24,494,685

*The total number of shares of 24,252,337 does not include 171,506 treasury shares redeemed from employees in 2004.

In accordance with IFRS, face value of redeemed employee shares is deducted from share capital.

12. Reserves

The total amount of reserves legally available for distribution based on the statutory company only financial statements of TVK Rt. is HUF 90,113 million and HUF 84,557 million as of 31 December 2005 and 2004, respectively.

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13. Long-term debt, net of current portion

Long-term debts, net of current portion as of 31 December 2005 and 2004 were as follows:

	Weighted average interest rate 2005 %	Weighted average interest rate 2004 %	2005 HUF million	2004 HUF million
Unsecured loan in EUR from MOL Rt. (majority stakeholder)*	3.07%	3.012%	53,073	54,105
Secured bank loan of TVK Erőmű Kft. in EUR**	3.05%	2.95%	9,778	2,538
Financial lease payable			239	321
Other***			2,955	-
Total long term debt			66,045	56,964
Current portion of long-term debt			642	155
Total long-term debt, net of current portion			65,403	56,809

*On 22 December 2004, the Company utilized EUR 220 million from a loan facility of EUR 280 million granted by MOL Hungarian Oil and Gas Company (MOL). Total cost of the short term loan from MOL is lower by 11 base point than the weighted total costs of syndicated foreign exchange loans. On 29 July 2005 the Company prepaid EUR 10 million from the EUR 220 million parent company loans.

**On 26 July 2002, TVK Erőmű Kft signed a project financing agreement with OTP Bank Rt, and the facility (EUR 40 million) had been fully drawn by 31 December 2004. The loan is secured by a pledge on TVK Erőmű Kft's assets. At the end of 2005 the short-term part of the loan amounts to EUR 2,208 thousand reported as short-term loan payable.

*** Based on the syndicate agreement the shareholding of the majority owner of the capital of TVK Erőmű Kft is to be reimbursed during the lifetime of the project, and is recorded as other long-term debt in accordance with IAS 32, as it qualifies as a financial liability.

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Secured loans were obtained for specific capital expenditure projects and are secured by the assets financed from the loan.

	2005 HUF million	2004 HUF million
Maturity two to five years	56,365	54,948
Maturity over five years	9,038	1,861
Total	<u>65,403</u>	<u>56,809</u>

Present values of financial lease liabilities as of 31 December 2005 and 2004 respectively are as follows:

	2005 HUF million	2004 HUF million
Maturity not later than 1 year	93	88
Maturity two to five years	146	233
Total	<u>239</u>	<u>321</u>

Future minimum lease payments under finance leases together with the present value of the net minimum lease payments are as follows:

	2005		2004	
	Minimum lease payments	present value of payments	Minimum lease payments	present value of payments
	HUF million	HUF million	HUF million	HUF million
Within one year	93	89	88	81
After one year but no more than five years	146	132	233	197
Total minimum lease payments	239	221	321	278
Less amount representing finance charges	(18)		(43)	
Present value of minimum lease payments	221	221	278	278

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14. Provision for liabilities and charges

Provisions for expected liabilities and charges as of 31 December 2005 and 2004 were as follows:

	Environmental HUF million	Severance HUF million	Long term employee retirement benefits HUF million	Early Retirement benefits HUF million	Total HUF million
Balance as of 1 January 2004	3,231	136	292	-	3,659
Provision made during the year and revision of previous estimate	1,300	1,369	52	-	2,721
Provision used during the year	(516)	(116)	(96)	-	(728)
Balance as of 31 December 2004	4,015	1,389	248	-	5,652
Provision made during the year and revision of previous estimate	182	98	9	38	327
Unwinding of the discount	322	-	12	-	334
Provision used during the year	(536)	(1,370)	(72)	-	(1,978)
Balance as of 31 December 2005	3,983	117	197	38	4,335
Current portion 31 December 2004	845	1,370	-	-	2,215
Non-current portion 31 December 2004	3,170	19	248	-	3,437
Current portion 31 December 2005	835	87	-	38	960
Non-current portion 31 December 2005	3,148	30	197	-	3,375

Environmental provision

The amount of provision contains the discounted value of amounts estimated for 13 years. The environmental provision is expected to be further increased subject to the completion of an ongoing environmental survey. (See Note 25) The amount of the provision has been determined on the basis of existing technology at current prices by calculating risk-weighted cash flows discounted using estimated risk-free real interest rates.

Provision for severance

The collective labour agreements of TVK include higher severance payment than required by law. In order to bring the collective agreements into line with current labour market conditions, in December, 2004 TVK has initiated a process to reduce future severance payments to the level required by labour law, while redeeming its extra severance payment obligation to the current employees at a discounted level. The acceptance of redemption by the employees exceeded 80%. Consequently, based on these acceptances, a provision of HUF 1,359 million has been recorded in the consolidated financial statements as of 31 December 2004. During 2005 all the redemption payment was settled to the employees who have accepted the discounted level.

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Provision for long term employee retirement benefits

As of 31 December 2005 the Company has recognised a provision of HUF 197 million to cover its estimated obligation regarding future retirement benefits payable to current employees expected to retire from group entities. TVK operate benefit schemes that provide lump sum benefit to all employees at the time of their retirement. TVK employees are entitled for maximum of 2 months of final salary respectively, depending on the length of service period. None of these plans have separately administered funds. The value of provision has been determined using the projected unit credit method, based on financial and actuarial variables and assumptions that reflect relevant official statistical data and are in line with those incorporated in the business plan of the TVK. Principal actuarial assumptions states an approximately 2% difference between the discount rate and the future salary increase.

15. Trade and other payables

The Group's payables and other current liabilities as of December 2005 and 2004 were as follows:

	31 December 2005 HUF million	31 December 2004 HUF million
Domestic trade creditors	25,022	17,116
- of which: MOL Group members	23,136	12,799
Unconsolidated subsidiaries	-	48
Associates	33	87
Import creditors	4,513	2,854
- of which: MOL Group members	1,330	-
Unconsolidated subsidiaries	-	19
Suppliers related to capital projects	1,240	2,779
- of which: MOL Group members	-	604
Discount payable to customers	2,521	1,687
Accrued expenses	1,311	1,074
Dividend payable to the majority owner of TVK Erőmű Kft.	968	-
Amounts due to employees and related contributions	306	477
Personal income tax	34	145
Local tax	40	91
Dividends payable	-	75
Import VAT	5	8
Other	177	59
Total	36,137	26,365

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16. Short-term debts

	2005 HUF million	2004 HUF million
Unsecured bank loans		
Overdraft	-	4
HypoVereinsbank, London loans to TVK UK Ltd (GBP 30 thousand)	-	11
Secured bank loans		
TVK Erőmű Kft. overdraft	-	77
TVK Erőmű Kft. overdraft (EUR 106 thousand)	-	26
Total	-	118

The Company's long-term and short-term loan agreements are based on the pari passu and negative pledge (without equal terms and security) principles.

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17. Net sales by geographical area

	2005 HUF million	2004 HUF million
Hungary (reduced by discount)	128,716	90,931
Other European Countries	31,642	16,156
Germany	23,465	20,277
Poland	15,841	14,803
Italy	18,324	14,155
United Kingdom	6,597	5,253
France	6,349	3,407
Austria	3,900	3,166
Romania	3,583	2,816
Slovakia	5,263	1,260
Non-European Countries	7,545	4,514
- Export quantity discount	(1,532)	(855)
Total	249,693	175,883

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18. Other operating income

Other operating income as of 31 December 2005 and 2004 were as follows:

	2005 HUF million	2004 HUF million
Foreign exchange gain on receivables and payables, net	704	-
Default interest received, indemnity, penalties	555	420
Gain on the disposal of tangible assets	167	90
Donations received	8	11
Retrospective discount	7	17
Reversal of impairment of inventories	-	18
Other	277	255
Total	1,718	811

19. Personnel expenses

Personnel expenses as of 31 December 2005 and 2004 were as follows:

	2005 HUF million	2004 HUF million
Wages and salaries	6,346	6,123
Social security	2,210	2,565
Other personnel expenses	1,565	2,450
Total	10,121	11,138

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20. Other operating expenses

Other operating expenses as of 31 December 2005 and 2004 were as follows:

	2005 HUF million	2004 HUF million
Insurance premium	1,181	1,079
Local taxes	868	857
Rental costs, leasing	611	661
Cost of supervision performed	682	272
Consulting, advisory and auditing costs	402	269
Property protection and fire prevention	387	490
Receivables impairment, net	322	7
Debt forgiven	272	60
Public sanitation	271	297
PR and promotion	245	220
Environmental expenses and environmental provision (See Notes 14 & 25.)	183	1,300
Elimination of waste	166	134
Administrative charges and duties	162	75
Bank charges	152	121
Damages, default interest, penalties, fines	120	211
Donations, contributions to set off costs and expenses	111	84
Foreign exchange loss on receivables and payables, net	-	274
Other	599	360
Total	<u>6,734</u>	<u>6,771</u>

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21. Financial (income) / expense

The financial (income) / expense as of 31 December 2005 and 2004 was as follows

	2005 HUF million	2004 HUF million
Interest received	261	603
Gain on short-term securities sold	-	411
Dividends received	-	118
Profit from the disposal of financial investments	-	9
Other	70	18
Total financial income	331	1,159
Interest paid*	2,649	173
Foreign exchange losses of loans	1,697	127
Discounts given for early payment of receivables	545	459
Interest on provision	334	-
Loss on hedging	-	454
Impairment of debt securities	-	97
Other	113	13
Total financial expenses	5,338	1,323
Total financial (income) / expense, net	5,007	164

* Interest expense of the Group for 2005 includes HUF 558 million, being the share from the net income of TVK Erőmű Kft. of its majority shareholder (ÉMÁSZ Rt.)

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22. Income taxes

The applicable corporate income tax rate in Hungary was 16% in 2005. TVK Rt. was entitled to a 100% tax holiday for its taxable profit of the year 2004 as a result of capitalization of assets under strategic projects, but despite of the positive profit after tax, the Company could not utilize the tax holiday as tax loss arose due to the cumulated correction items. The tax loss carried forward 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.

Deferred tax:

According to the provisions of the corporate tax act effective from 2002, the Company will be entitled to additional tax holidays only for construction projects started before the EU accession treaty act becomes effective. According to the act on corporate income tax, the last day of gaining eligibility for a tax holiday is the end of 2002. One of the main criteria is increasing the company's number of staff (compared to the average number of employees in the year prior to the inception of the project).

One of the Company's future priorities is to focus on increasing efficiency. Owing to changes in applicable legislation, management revised tax holiday forecasts based on major construction projects until 2011, as the necessary increase in the number of employees is unlikely to be achieved. According to the revised forecasts, the 100% tax holiday requirements can be met in only two years (in 2005 and in 2006). The Company calculated the deferred tax based on a tax rate of 16% except for 2005 and 2006, for which years a full tax holiday entitlement is expected. In 2005, HUF 1,511 million of deferred tax liability has been recorded in the consolidated financial statements. In view of the above factors, the deferred tax liability in 2004 of HUF 1,945 million increased to HUF 3,457 million in 2005.

Total applicable income taxes reported in the consolidated financial statements for the years ended 31 December 2005 and 2004 include the following components:

	2005 HUF million	2004 HUF million
Deferred income taxes	1,511	1,676
Current income taxes	166	1,267
Total income tax expense / (benefit)	1,677	2,943

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The deferred income/expense consisted of the following items as of 31 December 2005 and 2004:

	Balance sheet		Effect on profit and loss	
	2005 HUF million	2004 HUF million	2005 HUF million	2004 HUF million
Depreciation	4,405	2,337	2,067	1,033
Environmental provision	(504)	(382)	(122)	(79)
Statutory tax losses carried forward	(386)	-	(386)	-
Impairment losses and other provisions	(82)	(54)	(28)	419
Differences due to capitalisation according to IFRS	44	44	-	20
Differences due to accrued discount	-	-	-	283
Capitalized periodic maintenance cost	(20)	-	(20)	-
Total deferred tax	3,457	1,945	1,511	1,676

The Group has tax losses which arose in TVK Rt. and TVK Erőmű Kft. of HUF 2,410 million that are available indefinitely for offset against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of losses elsewhere in the Group as they may not be used to offset taxable profits and they have arisen in subsidiaries that have been loss-making for some time.

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A numerical reconciliation between tax expense and the product of accounting profit multiplied by the applicable tax rates is as the follows:

	2005 HUF million	2004 HUF million
Profit before tax per consolidated income statement	<u>8,085</u>	<u>11,929</u>
Tax at the applicable tax rate (16%)	1,294	1,909
Tax holiday available	(637)	-
Revaluation of deferred tax assets and liabilities	-	269
Impact of changes in Hungarian tax legislation	-	388
Adjustment to the period of realization	1,197	674
Losses of subsidiaries not recognized as an asset	6	-
Differences not expected to reverse	(469)	(455)
Effect of different tax rates	96	41
Other	190	117
Total income tax expense / (benefit)	<u>1,677</u>	<u>2,943</u>

23. Earnings per share (EPS)

The Group's earnings per share based on consolidated information for 31 December 2005 and 2004 are as follows:

	2005	2004
Net income, IFRS (million HUF)	6,409	8,947
Weighted average of shares outstanding in the period (pieces)	24,251,183	24,255,711
EPS (HUF 1,010 face value)	HUF 264	HUF 369

The average number of ordinary shares was determined based on the weighted mathematical average method. Employee shares were also considered in the calculation as employees are also entitled to dividends.

Diluted EPS is the same as undiluted EPS as the Company has no diluting instruments or purchase options.

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24. Financial instruments

Financial instruments in the balance sheet include investments, other non-current assets, trade receivables, other current assets, cash and cash equivalents, short-term and long-term debt, other long-term liabilities, trade and other payables. Derivatives are presented as other non-current assets, other current assets and trade and other payables. The estimated fair values of these instruments approximate their carrying amounts.

The following tables sets out the carrying amount, by maturity of the Group's financial instruments that are exposed to interest rate risk as of 31 December 2005:

	Within 1 year HUF million	1-2 year HUF million	2-3 year HUF million	3-4 year HUF million	4-5 year HUF million	Over 5 years HUF million
Interest-free						
Loans givens	50	51	52	51	31	95
Floating rate						
Cash and cash equivalents	8,713	-	-	-	-	-
Government bonds (2013/C)	-	-	-	-	-	158
Obligations under financial leases	93	97	49	-	-	-
Borrowing from MOL Rt	-	-	-	53,073	-	-
Capital project loan	549	586	624	664	705	6,650

The following tables sets out the carrying amount, by maturity of the Group's financial instruments that are exposed to interest rate risk as of 31 December 2004:

	Within 1 year HUF million	1-2 year HUF million	2-3 year HUF million	3-4 year HUF million	4-5 year HUF million	Over 5 years HUF million
Interest-free						
Loans givens	138	65	47	47	33	104
Floating rate						
Cash and cash equivalents	6,223	-	-	-	-	-
Government bonds (2013/C)	-	-	-	-	-	111
Obligations under financial leases	88	91	94	48	-	-
Borrowing from MOL Rt	-	-	-	-	54,105	-
Capital project loan	67	136	148	158	168	1,861

The fair value of the Group's financial instruments approximates their carrying amount.

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Financial risk management

Foreign exchange and commodity price risks

The prices of the most important raw materials and those of olefin and polymer products produced by TVK Rt fluctuate according to international market rates. Sales are significantly affected by the EUR/HUF exchange rate, while purchases are primarily USD based. In order to mitigate foreign exchange risks, TVK Rt has made a limited number of forward contracts. The loan granted to the Company is denominated in EUR in order to reduce exchange rate risks.

The Company did not have open forward buy contracts at 31 December 2005.

Credit risk

Credit risk arises from the possibility that customers may not be able to settle their liabilities to the Company within the normal terms of trade. Credit risk arises from the risk of late payment by another party. In order to mitigate these risks, the Company carefully assesses each debtor and the debtor's ability to repay its debt on a regular basis. The company covers a significant part of trade receivables by credit insurance. Management is of the opinion that the maximum credit risks approximate the carrying amounts of the respective assets.

Liquidity risk

The Company is to maintain sufficient cash and cash equivalents or have available funding through an adequate amount of committed credit facilities to cover the liquidity risk in accordance with its financing strategy. The amount of undrawn facilities as of 31 December 2005 consists the followings:

	HUF million
Long - term loan facilities available (general corporate purpose loan facilities)	-
Short - term facilities available	17,291
Total loan facilities available	17,291

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25. Commitments and contingency liabilities

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.

Operating leases

The operating lease liabilities of TVK UK Ltd. are as follows:

	2005 GBP	2004 GBP
Due not later than 1 year	25,000	25,000
Over 1 year	-	-
Total	25,000	25,000

Capital and contractual commitments

The total value of capital commitments as of 31 December 2005 is HUF 611 million, of which HUF 531 million relates to capital and contractual commitments of TVK Rt., HUF 80 million relates to capital and contractual commitments of TVK Erőmű Kft.

Gas Purchase Obligation, Take or Pay Contract

The TVK Erőmű Kft. has concluded long-term gas purchase contract with MOL in order to continuous operating of equipments in the power plant. As of 31 December 2005, 1 281 million cubic meters of natural gas (from which 740.4 mcm under take-or-pay commitment) will be purchased during the period ending 2017 based on this contract.

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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.

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 for the next 13 years.

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26. Segmental information

The Group's sales per operational segment for the years 2005 and 2004 were as follows:

Segment	2005			2004		
	Domestic sales	Export sales	Total sales	Domestic sales	Export sales	Total sales
	HUF million	HUF million	HUF million	HUF million	HUF million	HUF million
Polyethylene	23,657	83,981	107,638	22,368	43,308	65,676
Polypropylene	34,991	33,844	68,835	26,689	30,298	56,987
Olefin	67,171	3,680	70,851	38,757	-	38,757
Other*	5,289	1,004	6,293	5,143	12,201	17,344
- Quantity discount	(2,392)	(1,532)	(3,924)	(2,026)	(855)	(2,881)
Total	128,716	120,977	249,693	90,931	84,952	175,883

* Includes the revenues of consolidated companies.

The gross book value of tangible fixed assets and accumulated depreciation per operational segment as of 31 December 2005 and 2004 were as follows:

Segment	31 December 2005			31 December 2004		
	Gross book value*	Accumulated depreciation	Net book value	Gross book value*	Accumulated depreciation	Net book value
	HUF million	HUF million	HUF million	HUF million	HUF million	HUF million
Olefin	107,095	23,228	83,867	97,991	19,514	78,477
Polyethylene	37,649	12,636	25,013	36,602	10,465	26,137
Polypropylene	30,584	14,996	15,588	31,999	14,664	17,335
Other**	42,412	12,278	30,134	37,153	11,022	26,131
Total	217,740	63,138	154,602	203,745	55,665	148,080

*Also contains construction in progress.

** Includes the fixed assets of consolidated companies.

Assets capitalised on a Group level in 2005 and 2004 were as follows:

Segment	2005.		2004.	
	Capitalised value	Of which: intangibles	Capitalised value	Of which: intangibles
	HUF million	HUF million	HUF million	HUF million
Polyethylene	1,389	525	25,404	2,160
Olefin	68,199	48	1,635	1
Polypropylene	40	1	142	-
Other	19,595	78	7,805	8
Total	89,223	652	34,986	2,169

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27. Related party transactions

Transactions with associated companies in the normal course of business

MOL Group has been TVK Rt's main raw material supplier and buyer of TVK products ever since the Company was established. Deliveries are based on a long-term contract signed in 1993 and valid until 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.

	2005 HUF million	2004 HUF million
Sales		
- of which: to MOL Group companies	43,573	23,233
of which Moltrade-Mineralimpex Rt.	38,717	22,267
Slovnaft A.S.	4,005	165
MOL Rt.	688	655
to related parties	641	646
of which VIBA-TVK Kft.	629	628
Purchases		
- of which: from MOL Group companies	184,259	102,673
of which Moltrade-Mineralimpex Rt.	169,158	93,701
MOL Földgázellátó Rt.	8,552	3,795
Petroszolg Kft.	4,262	3,218
Slovnaft A.S.	1,832	10
Explant Kft.	-	1,702
from related parties	628	952
of which VIBA-TVK Kft.	249	364
TVK-Polska Sp. Zo.o.	-	182

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General Incentive Schemes for management

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 after a two years waiting period. The ratio of the incentive may change according to the individual agreements. Evaluation of the contribution relating to the performance provided during 2005 will be held in 2006, and based on this that part which is due within one year will be paid in May 2006, while deferred part will be settled in 2008.

	2005	2004
Short term incentive (60%)	82	121
Long term incentive (40%) 2004	18	18
Long term incentive (40%) 2005	16	-
	116	139

Key management compensation

	2005	2004
	HUF million	HUF million
Salaries and other short-term employee benefits	218	163
Termination benefits	-	-
Post-employment benefits	-	-
Other long-term benefits	7	3
Share-based payment	-	-
Total	225	166

Loans to the members of the Board of Directors and Supervisory Board

No loans have been granted to Directors or members of the Supervisory Board.

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28. Reconciliation between HAS unconsolidated financial statements and IFRS financial statements

The Hungarian Law on Accounting came into force on 1 January 1992 and has been subject to modifications since that date. A new act, Act C of 2000 came into force on 1 January 2001, which brought Hungarian accounting closer to IFRS. The accounting principles imposed by the law are based on the EU's 4th, 7th and 8th Directives. However, they still differ in certain respects from IFRS. The following table shows the reconciliation of the equity under HAS (company only) and IFRS financial statements.

:

	Share capital	Reserves	Net income	Minority interests	Shareholders' equity
	HUF million	HUF million	HUF million	HUF million	HUF million
31 December 2005– HAS	24,666	89,853	5,558	-	120,077
Effect of IFRS consolidation	-	(145)	722	-	577
Shareholding of external shareholders according to IFRS	-	-	1	43	44
<u>IFRS adjustments</u>					
- Redeemed employee shares	1	(174)	-	-	(174)
- Deferred tax	2	(1,945)	(1,227)	-	(3,172)
- Capitalised technical equipment	3	7,668	-	-	7,668
- Depreciation of technical equipment	3	(7,303)	(46)	-	(7,349)
- Amortisation of periodic maintenance costs capitalised	4	0	(42)	-	(42)
- Accrued unrealised quantity discount	5	(1,687)	1,687	-	-
- Revaluation difference on investments	6	320	(21)	-	299
- Elimination of amortization of goodwill	7	-	40	-	40
- Management incentives	8	-	67	-	67
- Transfer of negative goodwill to retained earnings	-	3	-	-	3
- Other	-	10	(330)	-	(320)
31 December 2005 – IFRS Group	24,492	86,774	6,409	43	117,718

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	Share capital	Reserves	Net income	Minority interests	Shareholders' equity
	HUF millions	HUF millions	HUF millions	HUF millions	HUF millions
31 December 2004 – HAS	24,666	79,219	10,634	-	114,519
Effect of IFRS consolidation	-	(101)	107	-	6
Shareholding of external shareholders according to IFRS	-	-	(39)	43	4
<u>IFRS adjustments</u>					
- Redeemed employee shares	1	(171)	-	-	(171)
- Deferred tax	2	-	(269)	-	(1,945)
- Capitalised technical equipment	3	-	7,668	-	7,668
- Depreciation of technical equipment	3	-	(7,258)	-	(7,303)
- Capitalisation of borrowing costs	3	-	(63)	-	-
- Accrued unrealised quantity discount	5	-	(1,766)	-	(1,687)
- Revaluation difference on investments	6	-	530	-	320
- Management incentives	8	-	-	-	(139)
- Other	-	(163)	173	-	10
31 December 2004 – IFRS Group	24,495	77,797	8,947	43	111,282

1. Redeemed employee shares

According to IFRS, the par value of the redeemed employee shares reduces the share capital.

2. Deferred tax

IFRS requires the recognition of a deferred tax asset or liability for all taxable temporary differences, which will result in taxable amounts in determining taxable profit of future periods when the carrying amount of the asset or liability is recovered or settled. HAS does not recognise the concept of deferred taxation.

3. Capitalisation of borrowing costs

IFRS allows capitalisation of borrowing costs directly attributable to the acquisition or construction of an asset. Borrowing costs may belong to either dedicated or general loan facilities and may include exchange differences to the extent that they are an adjustment to interest. HAS requires the capitalization of interests and foreign exchange differences, regardless of the extent of the latter, incurred only on dedicated borrowings.

4. Periodic maintenance cost

In accordance with IAS 16, the cost of regular major inspections, relating to assets, group of assets, technology, plant or unit, is included in the carrying amount of identifiable property, plant and equipment that should be depreciated over the period until the next major inspection takes place. HAS requires such costs to be expensed when incurred.

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5. Accrued unrealised quantity discount

IFRS allows for the recognition of given or received but unpaid discounts. According to the Hungarian accounting law, the contracted value of retrospective discounts (i.e. unbilled discounts indirectly related to product, material, goods or services) outstanding as of the balance sheet date are to be disclosed under other expenses.

6. Accounting for investments

Under IFRS, investments are measured based on the equity method. Under HAS, investments are presented at historic cost less impairment loss, if any.

7. Reversal of Goodwill amortisation

In accordance with the transitional provisions of IFRS 3 – Business Combination the annual amortisation of goodwill has been terminated after 1 January 2005. Under HAS the value of goodwill is amortised over its useful life.

8. Management incentives

In accordance with IFRS management incentives are recognised in the period it relates to while under HAS it is recognised when settled financially.