

**Tisza Chemical Group Public Limited Company and Subsidiaries**

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

**31 December 2006**

## **Independent Auditors' Report**

To the Shareholders of **Tiszai Vegyi Kombinát Nyilvánosan Működő Részvénytársaság**

1.) We have audited the accompanying 2006 consolidated annual financial statements of Tiszai Vegyi Kombinát Nyilvánosan Működő Részvénytársaság ("the Company"), which comprises the consolidated balance sheet as at 31 December 2006 - showing a balance sheet total of HUF 229,998 million and a net income attributable to the equity holders of the parent for the year of HUF 17,271 million -, the related consolidated profit and loss account for the year then ended, changes in shareholder's equity, consolidated cash flows for the year then ended and the summary of significant accounting policies and other explanatory notes.

2.) We issued an unqualified opinion on the Company's consolidated annual financial statements prepared in accordance with the International Financial Reporting Standards as adopted by EU as at 31 December 2005 on 22 March 2006.

### **Management's Responsibility for the Consolidated Financial Statements**

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

### **Auditor's Responsibility**

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

5.) An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our work regarding the consolidated business report is restricted to assessing whether the consolidated business report is consistent with the consolidated financial statements and does not include reviewing other information originated from non-audited financial records.

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

## Opinion

7.) 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 Nyilvánosan Működő Részvénytársaság 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 the International Financial Reporting Standards as adopted by 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 Nyilvánosan Működő Részvénytársaság as at 31 December 2006 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.

8.) Without qualifying our opinion we draw the attention to Note 25 to the consolidated financial statements that describe the environmental aspects of the Company's operations and highlights the risk of additional significant decontamination expenses that might incur over the current amount of the provision in relation to past environmental damage as may be identified by future environmental surveys.

Budapest, 3 April 2007

Ernst & Young Kft.  
Registration No. 001165

Szilágyi Judit  
Registered Auditor  
Chamber membership No.:  
001368

## Independent Auditor's Report

To the Shareholders of **Tiszai Vegyi Kombinát Nyilvánosan Működő Részvénytársaság**

We have audited the consolidated financial statements of Tiszai Vegyi Kombinát Nyilvánosan Működő Részvénytársaság and its subsidiaries ("the Group"), which comprise the consolidated balance sheet as at 31 December 2006, 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 on pages 9-70.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility and Basis of Audit Opinion**

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

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

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

### **Opinion**

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of Tiszai Vegyi Kombinát Nyilvánosan Működő Részvénytársaság and its subsidiaries as of 31 December 2006, and of the consolidated results of their operations and their cash flows for the year then ended in accordance with International Financial Reporting Standards.

Without qualifying our opinion we draw attention to Note 25 to the consolidated financial statements that describe the environmental aspects of the Company's operations and highlights the risk of additional significant decontamination expenses that might incur over the current amount of the provision in relation to past environmental damage as may be identified by future environmental surveys.

Ernst & Young Kft.  
Budapest, Hungary  
3 April 2007

**Tisza Chemical Group Public Limited Company and Subsidiaries**

Consolidated financial statements

prepared in accordance with International Financial Reporting Standards

**31 December 2006**

Tiszaújváros, 3 April 2007

**Árpád Olvasó**

Chief Executive Officer

## Consolidated balance sheet

31 December 2006

	Notes	2006 HUF million	2005 HUF million
<b>ASSETS</b>			
<b>Non-current assets</b>			
Intangible assets	3	4,001	4,146
Property, plant and equipment	4	150,836	154,602
Investments in associated companies	5	194	211
Other non-current assets	6	235	476
<b>Total non-current assets</b>		<b>155,266</b>	<b>159,435</b>
<b>Current assets</b>			
Inventories	7	8,361	9,425
Trade receivables, net	8	46,293	43,170
Other current assets	9	4,457	6,971
Cash and cash equivalents	10	15,621	8,713
<b>Total current assets</b>		<b>74,732</b>	<b>68,279</b>
<b>TOTAL ASSETS</b>		<b>229,998</b>	<b>227,714</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity attributable to equity holders of the parent</b>			
Share capital	11	24,534	24,492
Reserves	12	92,154	86,774
Net income attributable to equity holders of the parent		17,271	6,409
<b>Equity attributable to equity holders of the parent</b>		<b>133,959</b>	<b>117,675</b>
Minority interests		0	43
<b>Total equity</b>		<b>133,959</b>	<b>117,718</b>
<b>Non-current liabilities</b>			
Long-term debt, net of current portion	13	51,551	65,403
Provisions for liabilities and charges	14	3,423	3,375
Deferred tax liabilities	22	3,038	3,457
Other non-current liabilities		9	22
<b>Total non-current liabilities</b>		<b>58,021</b>	<b>72,257</b>
<b>Current liabilities</b>			
Trade and other payables	15	36,473	36,137
Provisions for liabilities and charges	14	754	960
Short-term debt	16	2	-
Current portion of long-term debt	13	789	642
<b>Total current liabilities</b>		<b>38,018</b>	<b>37,739</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>229,998</b>	<b>227,714</b>

The notes are an integral part of these consolidated financial statements

## Consolidated income statement

31 December 2006

	Notes	2006 HUF million	2005 HUF million
Net sales (revenue)	17	308,736	249,693
Other operating income	18	403	1,718
<b>Total operating income</b>		<b>309,139</b>	<b>251,411</b>
Raw materials and consumables used		259,793	213,952
Personnel expenses	19	9,766	10,121
Depreciation, depletion, amortization and impairment	3,4	12,405	9,723
Other operating expenses	20	5,393	6,734
Change in inventories of finished goods and work in progress		897	(1,701)
Work performed by the enterprise and capitalized		(444)	(554)
<b>Total operating expenses</b>		<b>287,810</b>	<b>238,275</b>
<b>Profit from operations</b>		<b>21,329</b>	<b>13,136</b>
Financial income	21	645	331
Financial expense	21	4,552	5,338
<b>Net financial expense</b>	<b>21</b>	<b>3,907</b>	<b>5,007</b>
Loss from associates		(2)	(44)
<b>Profit before tax</b>		<b>17,420</b>	<b>8,085</b>
Income tax expense	22	149	1,677
<b>Profit for the year</b>		<b>17,271</b>	<b>6,408</b>
Attributable to:			
Equity holders of the parent		17,271	6,409
Minority interests		-	(1)
<b>Basic and diluted earnings per share attributable to ordinary equity holders of the parent (HUF)</b>	<b>23</b>	<b>712</b>	<b>264</b>

The notes are an integral part of these consolidated financial statements

## Consolidated statement of changes in equity

31 December 2006

	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
<b>Opening balance 1 January 2005</b>	<b>24,495</b>	<b>15,022</b>	<b>62,768</b>	<b>7</b>	<b>77,797</b>	<b>8,947</b>	<b>111,239</b>	<b>43</b>	<b>111,282</b>
Effect of IFRS 3 – Transfer of previously recorded negative goodwill to retained earnings	-	-	3	-	3	-	3	-	3
<b>Restated opening balance 1 January 2005</b>	<b>24,495</b>	<b>15,022</b>	<b>62,771</b>	<b>7</b>	<b>77,800</b>	<b>8,947</b>	<b>111,242</b>	<b>43</b>	<b>111,285</b>
Currency translation differences	-	-	3	24	27	-	27	1	28
Total income and expense for the year recognized directly in equity	-	-	3	24	27	-	27	1	28
Retained profit for the year	-	-	-	-	-	6,409	6,409	(1)	6,408
Total income and expense for the year	-	-	3	24	27	6,409	6,436	-	6,436
Transfer to reserves of retained profit for the previous year	-	-	8,947	-	8,947	(8,947)	-	-	-
Redeemed treasury shares	(3)	-	-	-	-	-	(3)	-	(3)
<b>Closing balance 31 December 2005</b>	<b>24,492</b>	<b>15,022</b>	<b>71,721</b>	<b>31</b>	<b>86,774</b>	<b>6,409</b>	<b>117,675</b>	<b>43</b>	<b>117,718</b>
Currency translation differences	-	-	1	(5)	(4)	-	(4)	-	(4)
Total income and expense for the year recognized directly in equity	-	-	1	(5)	(4)	-	(4)	-	(4)
Retained profit for the year	-	-	-	-	-	17,271	17,271	-	17,271
Total income and expense for the year	-	-	1	(5)	(4)	17,271	17,267	-	17,267
Transfer to reserves of retained profit for the previous year	-	-	6,409	-	6,409	(6,409)	-	-	-
Redeemed treasury shares	42	-	-	-	-	-	42	-	42
Dividends	-	-	(1,025)	-	(1,025)	-	(1,025)	(43)	(1,068)
<b>Closing balance 31 December 2006</b>	<b>24,534</b>	<b>15,022</b>	<b>77,106</b>	<b>26</b>	<b>92,154</b>	<b>17,271</b>	<b>133,959</b>	<b>-</b>	<b>133,959</b>

The notes are an integral part of these consolidated financial statements

## Consolidated statement of cash-flows

31 December 2006

	2006 HUF million	2005 HUF million
<i>Profit from operations</i>	21,329	13,136
<i>Adjustments to reconcile operating profit to net cash provided by operating activities</i>		
Depreciation and impairment	11,994	9,368
Amortization and impairment	411	355
Write-off of inventories	(2)	58
Increase/(decrease) in environmental provisions	(503)	(355)
Increase/(decrease) in provisions	141	(1,297)
Net gain on sale of tangible assets	(136)	(167)
Negative goodwill released to income	-	(3)
Share of profit of associates	2	44
Write-off of receivables	151	322
Unrealised foreign exchange (gain) / loss on receivables and payables	554	(110)
<i>Operating cash flow before changes in working capital</i>	<i>33,941</i>	<i>21,351</i>
(Increase)/ decrease in inventory	1,066	(2,006)
(Increase)/ decrease in debtors	(3,642)	(13,486)
(Increase)/ decrease in other receivables	2,410	(1,931)
Increase/(decrease) in accounts payable	(1,958)	5,977
Increase/(decrease) in other current liabilities	1,519	615
Corporate tax paid	(168)	-
<b>Net cash provided by operating activities</b>	<b>33,168</b>	<b>10,520</b>
Purchase of Property, Plant and Equipments	(6,709)	(4,071)
Proceeds from disposals of fixed assets	465	528
Gain on disposal of subsidiaries	-	-
Acquisition of other investments	-	(1)
Loans and long-term bank deposits provided	15	15
Proceeds from liquidation of investments	13	-
Interest received and other financial income	556	273
Dividends received	-	-
<b>Net cash used in investing activities</b>	<b>(5,660)</b>	<b>(3,256)</b>
Proceeds from issue of new debts	-	-
Repayments of long-term debt	(15,376)	(2,459)
Increase /(Decrease) in other long term liabilities	(13)	22
Increase/(Decrease) in short-term financial liabilities	(687)	(690)
Interest paid and other financial costs	(3,590)	(2,803)
Dividends paid to minority interest and payment on liquidation	(1,157)	-
Repurchase of treasury shares	-	(3)
<b>Net cash provided by financing activities</b>	<b>(20,823)</b>	<b>(5,933)</b>
<b>(Decrease)/increase in cash and cash equivalents</b>	<b>6,685</b>	<b>1,331</b>
Cash and cash equivalents at the beginning of the year	8,713	6,223
Cash effect of consolidation of subsidiaries previously accounted for as other investment	223	1,159
Cash and cash equivalents at the end of the year	15,621	8,713

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 2006

## 1. Presentation of The Group Structure

### Background to the consolidated companies

#### TVK Plc.

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 2006, 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 1,231 and 1,488 employees as at 31 December 2006 and 2005, respectively.

### Consolidated subsidiaries

Company name	Country	Range of activity	Ownership 31 Dec 2006	Ownership 31 Dec 2005	Consolidation Method 31 Dec 2006
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	0%	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 Ukraina tov***	Ukraine	Wholesale and retail trade	100%	100%	Full consolidation
Tisza WTP Kft****	Hungary	Feed water and raw water	0%	0%	Full consolidation

\* TVK Austria GmbH's liquidation finished on 26 July 2006.

\*\* The ownership of TVK Plc is 26%. As based on the syndicated agreement between the owners, TVK Plc. has the power to govern the financial and operating policies of TVK Erőmű Kft., it is fully consolidated in 2006 and 2005.

\*\*\* TVK Ukraina tov was fully consolidated in 2006.

\*\*\*\* Tisza-Wtp Kft was formed in 2002 specifically for providing feed water and raw water to TVK Plc. and TVK Erőmű Kft under a long-term co-operation agreement. Tisza WPT Kft has been included in the Company's consolidation since 1 January 2006 as in accordance with IFRS (SIC 12). As based on the syndicated agreement between the owners, TVK Plc is considered to control the operating and financial policies of Tisza-Wtp Kft.

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

31 December 2006

## 2. Basis of Preparation

TVK Plc. 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 3 April 2007.

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 as at 31 December 2006.

### ii) Principles of Consolidation

#### Subsidiaries

The consolidated financial statements include the accounts of TVK Plc. 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. 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. The income and expenses of 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.

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

**31 December 2006**

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.

Minority interest represent the profit or loss and net assets not held by the Group and are shown separately in the consolidated balance sheets and the consolidated income statement, respectively. Acquisitions of minority interests are accounted for using the parent company extension method, whereby the difference between the consideration and the book value of the share of the net assets acquired is recognized as goodwill.

### Joint ventures

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. The financial statements of the joint ventures are prepared for the same reporting year as the parent company, using consistent accounting policies.

When the Group contributes or sells assets to the joint venture, any portion of gain or loss from the transaction is recognized based on the substance of the transaction. When the Group purchases assets from the joint venture, the Group does not recognize its share of the profits of the joint venture from the transaction until it resells the assets to an independent party.

### Investments in associates

The Group's investments in its associates are accounted for using the equity method of accounting. An associate is an entity in which the Group has significant influence and which is neither a subsidiary nor a joint venture. Under the equity method, the investment in the associate is carried in the balance sheet at cost plus post acquisition changes in the Group's share of net assets of the associate. Goodwill relating to an associate is included in the carrying amount of the investment and is not amortised. The income statement reflects the share of the results of operations of the associate. Where there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes and discloses this, when applicable, in the statement of changes in equity. Profits and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

The reporting dates of the associate and the Group are identical and the associate's accounting policies conform to those used by the Group for like transactions and events in similar circumstances.

Investments in associates are accounted for to determine whether there is any objective evidence of impairment. If there is evidence the recoverable amount of the investment is determined to identify any impairment loss to be recognised. Where losses were made in previous years, an assessment of the factors are made to determine of any loss may be reversed.

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

31 December 2006

## 2.1 Changes in Accounting Policies

The accounting policies adopted are consistent with those applied in the previous financial years, except as follows.

The Group has adopted the following new and amended IFRS and IFRIC interpretations during the year. Except as noted below, adoption of these standards and interpretations did not have any effect on the financial statements of the Group. They did however give rise to additional disclosures.

- *IAS 19 Amendment – Employee Benefits*

- *IAS 21 Amendment – The Effects of Changes in Foreign Exchange Rates*

- *IAS 39 Amendments – Financial Instruments: Recognition and Measurement*

- *IFRIC 4 Determining whether an Arrangement contains a Lease*

- *IFRIC 5 Rights 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*

Group has not early adopted any standards and interpretations not effective as of balance sheet date.

The principal effects of these changes are as follows:

### IAS 19 Employee Benefits

As of January 2006, the has Group adopted the amendments to IAS 19. As a result, additional disclosures are made providing information about trends in the assets and liabilities in the defined benefit plans and the assumptions underlying the components of the defined benefit cost. This change has resulted in additional disclosures being included for the years ending 31 December 2006 and 31 December 2005 but has not had any recognition or measurement impact, as the Group has chose not to apply the option offered to recognise actuarial gains and losses outside of the income statement.

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

**31 December 2006**

### IAS 21 The Effects of Changes in Foreign Exchange Rates

As of 1 January 2006, the Group adopted the amendments to IAS 21. As a result, all exchange differences arising from a monetary item that forms part of the Group's net investment in a foreign operation are recognised in a separate component of equity in the consolidated financial statements regardless of the currency that the monetary item is denominated. This change has had no significant impact as at 31 December 2006 or 31 December 2005.

### IAS 39 Financial Instruments: Recognition and Measurement

Amendment for financial guarantee contracts (issued August 2005) – amended the scope of IAS 39 requiring financial guarantee contracts that are not considered to be insurance contracts to be recognised initially at fair value and to be remeasured at the higher of the amount determined in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets and the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with IAS 18 Revenue. This amendment did not have an effect on the financial statements.

Amendment for hedges of forecast intragroup transactions (issued April 2005) – amended IAS 39 to permit the foreign currency risk of a highly probable intragroup forecast transaction to qualify as the hedged item in a cash flow hedge, provided that the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction and that the foreign currency risk will affect the consolidated income statement. As the Group currently has no such transactions, the amendment did not have an effect on the financial statements.

Amendment for the fair value option (issued June 2005) – amended IAS 39 to restrict the use of the option to designate any financial asset or any financial liability to be measured at fair value through the income statement. The Group had not previously used this option, hence the amendment did not have an effect on the financial statements.

### IFRIC 4 Determining Whether an Arrangement contains a Lease

The Group adopted IFRIC Interpretation 4 as of 1 January 2006, which provides guidance in determining whether arrangements contain a lease to which lease accounting must be applied. This interpretation has had no impact on the financial statements.

### IFRIC 5 Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds

The Group adopted IFRIC Interpretation 5 as of 1 January 2006, which establishes the accounting treatment for funds established to help finance decommissioning for a companies assets. As the entity does not currently operate in a country where such funds exists, this interpretation has had no impact on the financial statements.

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

**31 December 2006**

### IFRIC 6 Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment

The Group adopted IFRIC Interpretation 6 as of 1 January 2006, which established the recognition date for liabilities arising from the EU Directive relating to the disposal of Waste Electrical and electronic Equipment. As the operations of the company does not result in such obligations, there was no impact on the financial position as at 31 December 2006 and 2005.

### 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*
- *IFRS 4 Insurance Contracts*
- *IFRS 7 Financial Instruments: Disclosures*
- *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*
- *IFRIC 10 Interim Financial Reporting and Impairment*
- *IFRIC 11 IFRS 2 – Group and Treasury Share transactions*
- *IFRIC 12 Service Concession Arrangements*

The management does not anticipate that the adoption of these standards and interpretations will have a material impact on the consolidated financial statements in the period of initial application. Upon adoption of IFRS 7, the Group will disclose additional information about its financial instruments, their significance and the nature and extent of risks to which they give rise. More specifically, the group will be required to disclose the fair value of its financial instruments and its risk exposure in greater detail. There will be no effect on reported income or net assets.

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## 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 therefore the presentation currency of the Group has been determined to be the Hungarian Forint (HUF).

### *ii) Business Combinations*

Business combinations are accounted for using the acquisition accounting method. This involves recognising identifiable assets (including previously unrecognised intangible assets) and liabilities (including contingent liabilities and excluding future restructuring) of the acquired business at fair value.

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the business combination over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash generating units, or groups of cash generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is allocated represents the lowest level within the Group at which the goodwill is monitored for internal management purposes, and is not larger than a segment based on the Group's reporting format determined in accordance with IAS 14 Segment Reporting.

Where goodwill forms part of a cash-generating unit (group of cash generating units) and part of the operation within that unit is 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 based on the relative values of the operation disposed of and the the cash-generating unit retained.

When subsidiaries are sold, the difference between the selling price and the net assets plus cumulative translation differences and unamortised goodwill is recognised in the income statement.

### *iii) Investments and Other Financial Assets*

Financial assets within the scope of IAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held to maturity investments, and available for sale financial assets, as appropriate. When financial assets are recognized initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

The Group considers whether a contract contains an embedded derivative when the entity first becomes a party to it.

The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year end.

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

### Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss includes financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit and loss.

Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments or a financial guarantee contract. Gains or losses on investments held for trading are recognised in profit and loss.

Financial assets may be designated at initial recognition as at fair value through profit or loss if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognising gains or losses on them on a different basis; or (ii) the assets are part of a group of financial assets which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or (iii) the financial asset contains an embedded derivative that would need to be separately recorded. As at 31 December 2006 and 2005, no financial assets have been designated as at fair value through profit and loss.

### Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets which carry fixed or determinable payments and fixed maturities and which the Group has the positive intention and ability to hold to maturity. After initial measurement held to maturity investments are measured at amortised cost. This cost is computed as the amount initially recognised minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initially recognised amount and the maturity amount, less allowance for impairment. This calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. Gains and losses are recognised in the income statement when the investments are derecognised or impaired, as well as through the amortisation process.

### Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement loans and receivables are subsequently carried at amortised cost using the effective interest method less any allowance for impairment. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

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### Available-for-sale financial investments

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. After initial measurement, available for sale financial assets are measured at fair value with unrealised gains or losses being recognised directly in equity in the net unrealised gains reserve. When the investment is disposed of, the cumulative gain or loss previously recorded in equity is recognised in the income statement.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the income statement, is transferred from equity to the income statement. Reversals in respect of equity instruments classified as available for sale are not recognised in the income statement. Reversals of impairment losses on debt instruments are reversed through the income statement, if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognised in the income statement.

### Fair Value

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.

### *iv) Classification and Derecognition of 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.

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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### *v) 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.

### *vi) Hedging*

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 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.

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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.

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

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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. The Company had no derivative financial instrument and hedging transactions in 2005 and 2006.

### *vii) Impairment of financial assets*

The Group assesses at each balance sheet date whether a financial asset or group of financial assets is impaired.

#### Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (ie the effective interest rate computed at initial recognition). The amount of the loss shall be recognised in profit or loss.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in profit or loss, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

#### Available-for-sale financial investments

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the income statement, is transferred from equity to the income statement.

Reversals in respect of equity instruments classified as available for sale are not recognised in the income statement. Reversals of impairment losses on debt instruments are reversed through the income statement, if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognised in the income.

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### *viii) 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.

### *ix) Trade Receivables*

Receivables are stated at face value less provision for doubtful amounts. Where the time value of money is material, receivables are carried at amortized cost. A provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Group will not be able to collect all of the amounts due under the original terms of the invoice. Impaired debts are derecognised when they are assessed as uncollectible.

### *x) 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 costs of making the sales. The acquisition cost of own produced inventory consists of direct materials, direct wages and the appropriate portion of production overhead expenses including royalty. Unrealisable inventory is fully written off.

### *xi) 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 at the time when decision on decommissioning is made. The Company has no obligation for restoration the asset. 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 is available for use.

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*Cash generating units*

The Company identified two cash generating units (CGU) which are the production of Olefin 2 for sales and the production of Olefin plants for internal use for the production of polymers.

The recoverable amount of each CGU has been determined based on a value in use calculation using cash flow projections based on financial budgets approved by senior management covering a 19-year period. The average pre-tax discount rate applied to cash flow projections is 4.14% (2005: 4.61%).

The calculation of value in use for cash generating units are most sensitive to the following assumptions:

- Material balance;
- Discount rates;
- Raw materials price;
- Product price; and
- Exchange rate

With regard to the assessment of value in use of these cash-generating units, the management believes that no reasonably possible change in any of the above key assumptions would cause the carrying value of the units to materially exceed its recoverable amount.

*xii) Intangible Assets*

Intangible assets acquired separately are capitalised at cost and intangible assets acquired in business acquisitions 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 finite or indefinite (during 2006 and 2005 the Company has no intangible asset with indefinite useful life). 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 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.

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Research and development 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 564 (2005: million HUF 486) relating to product development.

### *xiii) 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.

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.

The base of the depreciation of security and strategic spare parts is the average depreciation rate of technical equipments and vehicles relating to the production.

### *xiv) Impairment of Assets*

Property, plant and equipment and intangible assets 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

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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.

Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of the cash-generating unit (or group of cash-generating units), to which the goodwill relates. Where the recoverable amount of the cash-generating unit (or group of cash-generating units) is less than the carrying amount of the cash-generating unit (group of cash-generating units) to which goodwill has been allocated, an impairment loss is recognised. Impairment losses relating to Goodwill cannot be reversed in future periods. The Group performs its annual impairment test of goodwill as at 31 December.

Intangible assets with indefinite useful lives are tested for impairment annually as of 31 December either individually or at the cash generating unit level, as appropriate.

### *xv) 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, as well as through the amortisation process, except to the extent they are capitalized as borrowing costs.

### *xvi) 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. Expenditures that relate to an existing condition caused by past operations and do not contribute to current or future earnings are expensed. Liabilities for environmental costs are recognized when environmental assessments or clean-ups are probable and the associated costs can be reasonably estimated. Generally, the timing of these provisions coincides with the commitment to a formal plan of action or, if earlier, on divestment or on closure of inactive sites. The amount recognized is the best estimate of the expenditure required. Where the liability will not be settled for a number of years, the amount recognized is the present value of the estimated future expenditure.

### Provision for Retirement Benefits

The Group operates three defined long term employee benefit programmes. None of these schemes requires contribution to be made to separately administered funds. The cost of providing benefits under those plans is determined separately for each plan 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.

### Provision for Old Team benefits

Based on the modification of Collective Agreement on 19 December 2006, the Company pays Old Team benefits to its employees as follows:

Every five years, the Company pays a fix set amount to all employees who had worked at least 10 years for the Company. Based on actuarial calculations, the Company made a HUF 201 million provision for Old Team benefits of current employees that reflects the expected payments based on their past service levels.

### *xvii) Greenhouse gas emissions*

The Group receives free emission rights in Hungary as a result of the European Emission Trading Schemes. The rights are received on an annual basis and in return the Group is required to remit rights equal to its actual emissions. The Group has adopted a policy of applying a net liability approach to the emission rights granted. Therefore, a provision is only recognized when actual emissions exceed the emission rights granted and still held. Where emission rights are purchased from other parties, they are recorded at cost, and treated as a reimbursement right.

### *xviii) Share-based payment transactions*

Certain employees (including directors and managers) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares ('equity-settled transactions').

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### Equity-settled transactions

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by generally approved option pricing models (usually by the binomial formula). In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the parent company ('market conditions').

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ('vesting date'). The cumulative expense recognised for equity settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the number of awards that, in the opinion of the directors of the Group at that date, based on the best available estimate of the number of equity instruments that will ultimately vest.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any increase in the value of the transaction as a result of the modification, as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

### Cash-settled transactions

The cost of cash-settled transactions is measured initially at fair value at the grant date using the binomial formula. This fair value is expensed over the period until vesting with recognition of a corresponding liability. The liability is remeasured at each balance sheet date up to and including the settlement date with changes in fair value recognized in profit or loss.

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### *xix) 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 (if there is reasonable certainty that the lessee will obtain the ownership by the end of the lease term, the period of expected use is the useful life of the asset, otherwise the asset is depreciated over the shorter of the lease term and its useful life). 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.

### *xx) 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.

### *xxi) 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 Plc.

#### 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. The Company had no hedging during 2005 and 2006.

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### *xxii) 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.

### *xxiii) Dividends*

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

### *xxiv) 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.

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

### *xxv) 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.

### *xxvi) 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.

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Deferred tax assets are recognised when it is probable that sufficient taxable profits will be available against which the deferred tax assets can be utilized except:

- where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred income tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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.

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

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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.

### *xxviii) 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.

### *xxix) 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.

### *xxx) Contingencies*

Contingent liabilities 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 certain judgments that have a 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:

- Outcome of certain litigations (Note 25)

### *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:

- Scope of environmental provision and quantification and timing of environmental liabilities (Note 14, 25)
- The availability of taxable income against which deferred tax assets can be recognized (Note 22)
- Actuarial estimate applied in the calculation of retirement benefit obligations (Note 14)
- Determination of useful lives of property, plant and equipment and intangibles
- Impairment of tangible assets and intangibles (Notes 3,4)

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**3. Intangible assets**

The Group's intangible assets as of 31 December 2006 and 2005 were as follows:

	Goodwill HUF million	Software HUF million	Total HUF million
<b>At 1 January 2005</b>			
Gross book value	198	5,806	6,004
Accumulated amortization and impairment	(108)	(2,010)	(2,118)
<b>Net book value</b>	<b>90</b>	<b>3,796</b>	<b>3,886</b>
<b>Year ended 31 December 2005</b>			
- Effect of IFRS 3 – Transfer of negative goodwill to retained earnings	3	-	3
<b>Opening net book value as restated</b>	<b>93</b>	<b>3,796</b>	<b>3,889</b>
<b>Year ended 31 December 2005</b>			
- additions	-	603	603
- amortization for the year	-	(354)	(354)
- impairment	(1)	-	(1)
- transfers	-	9	9
<b>Closing net book value</b>	<b>92</b>	<b>4,054</b>	<b>4,146</b>
Gross book value	92	6,417	6,509
Accumulated amortization and impairment	-	(2,363)	(2,363)
<b>Net book value</b>	<b>92</b>	<b>4,054</b>	<b>4,146</b>
<b>Year ended 31 December 2006</b>			
- additions	-	255	255
- amortization for the year	-	(411)	(411)
- impairment	-	-	-
- transfers	-	11	11
<b>Closing net book value</b>	<b>92</b>	<b>3,909</b>	<b>4,001</b>
Gross book value	92	6,586	6,678
Accumulated amortization and impairment	-	(2,677)	(2,677)
<b>Net book value</b>	<b>92</b>	<b>3,909</b>	<b>4,001</b>

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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	2006 Impairment HUF million	Net book value HUF million	Net book value before impairment HUF million	2005 Impairment HUF million	Net book value HUF million
TVK France	-	-	-	1	(1)	-
TVK Polska Spzoo	92	-	92	92	-	92
<b>Total goodwill</b>	<b>92</b>	<b>-</b>	<b>92</b>	<b>93</b>	<b>(1)</b>	<b>92</b>

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 2006 and 2005 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
<b>At 1 January 2005</b>					
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)
<b>Net book value</b>	<b>24,923</b>	<b>42,445</b>	<b>7,628</b>	<b>73,084</b>	<b>148,080</b>
<b>Year ended 31 December 2005</b>					
- 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)
<b>Closing net book value</b>	<b>32,657</b>	<b>113,415</b>	<b>7,698</b>	<b>832</b>	<b>154,602</b>
<b>Year ended 31 December 2006</b>					
Gross book value	40,392	158,503	18,013	832	217,740
Accumulated depreciation and impairment	(7,735)	(45,088)	(10,315)	-	(63,138)
<b>Net book value</b>	<b>32,657</b>	<b>113,415</b>	<b>7,698</b>	<b>832</b>	<b>154,602</b>
<b>Year ended 31 December 2006</b>					
- additions	-	-	-	6,389	6,389
- capitalization	535	4,144	568	(5,247)	-
- acquisition of subsidiary	317	1,737	126	-	2,180
- depreciation for the year	(1,324)	(9,218)	(1,368)	-	(11,910)
- impairment	(6)	(4)	(10)	(65)	(85)
- disposals	(280)	-	(49)	-	(329)
- transfers and other changes	(4)	(45)	51	(13)	(11)
<b>Closing net book value</b>	<b>31,895</b>	<b>110,029</b>	<b>7,016</b>	<b>1,896</b>	<b>150,836</b>
<b>Year ended 31 December 2006</b>					
Gross book value	40,896	164,305	18,029	1,896	225,126
Accumulated depreciation and impairment	(9,001)	(54,276)	(11,013)	-	(74,290)
<b>Net book value</b>	<b>31,895</b>	<b>110,029</b>	<b>7,016</b>	<b>1,896</b>	<b>150,836</b>

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*Impairment*

In 2006 impairment expenses of HUF 85 million were recorded (from this HUF 65 million is caused by the impairment of capital projects of ETBE plant).

*Change in estimates*

As required by IAS 16 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 profits in 2005.

*Borrowing costs*

The Group had no capital projects financed by debt in 2006, so there is no borrowing costs capitalized and recorded as capital projects in 2006. Borrowing cost capitalized was HUF 2,180 million in 2005.

*Leased assets*

Property, plant and equipment includes machinery under finance leases:

	2006 HUF million	2005 HUF million
Gross value	478	478
Accumulated depreciation	239	169
<b>Net book value</b>	<b>239</b>	<b>309</b>

*Pledged assets*

None of the assets of the Company were pledged as of 31 December 2006 and 2005. Assets of TVK Erőmű Kft. (HUF 12,416 million) and assets of Tisza-WTP Kft. (HUF 2,014 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 2006 and 2005 were as follows:

<b>Company name</b>	<b>Country</b>	<b>Range of activity</b>	<b>Ownership 31 Dec 2006</b>	<b>Ownership 31 Dec 2005</b>	<b>Net book value of investment 31 Dec 2006 HUF million</b>	<b>Net book value of investment 31 Dec 2005 HUF million</b>
<b>Other investment</b>						
TVK Polisec Kft.*	Hungary	Security service, Guarding-Protection	-	-	-	15
TVK Ukraina tov	Ukraine	Selling polymer products	-	-	-	2
<b>Total other investment</b>					<b>-</b>	<b>17</b>
<b>Associates</b>						
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
<b>Total associates</b>					<b>194</b>	<b>194</b>
<b>Total</b>					<b>194</b>	<b>211</b>

\* TVK Polisec Kft.'s liquidation finished on 18 April 2006.

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**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 2006. 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 2006.

**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 2006. At present, the company is dormant.

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**Financial information on associates**

Main financial data of the Group associates at 31 December 2006: (These amounts represent 100% of the values of the companies reported by those companies in accordance with IFRS.)

	<b>Total assets</b>	<b>Liabilities</b>	<b>Total operating revenues</b>	<b>Profit for the year</b>
	HUF million	HUF million	HUF million	HUF million
Tűzoltó és Műszaki Mentő Kft.	421	41	481	0.5
VIBA-TVK Kft.	883	669	2,036	36
Tiszai Hulladékégető Kft.	14	-	-	-

Main financial data of the Group associates at 31 December 2005: ((These amounts represent 100% of the values of the companies reported by those companies in accordance with IFRS.)

	<b>Total assets</b>	<b>Liabilities</b>	<b>Total operating revenues</b>	<b>Profit for the year</b>
	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

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**6. Other non-current assets**

The Group's other non-current assets as of 31 December 2006 and 2005 were as follows:

	31 December 2006 HUF million	31 December 2005 HUF million
Government bonds**	177	158
Prepayments for capital projects	6	38
Loan to Plastico S.A.* (net of impairment of HUF 575 million and HUF 369 million as of 31 December 2006 and 2005, respectively)	-	205
Other***	52	75
<b>Total</b>	<b>235</b>	<b>476</b>

\*In 2002, TVK Rt. sold its investment in Plastico S.A. Due to the company's solvency problems, the recoverable amount decreased to HUF 205 million as at 31 December 2005, and as a result an impairment loss of HUF 369 million was recognized ( as cumulated figures).

In 2006, based on a legal opinion, the Company reassessed the recoverability of its outstanding loan receivable from Plastico S.A. and decided to fully write it off. (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. These bonds are accounted for as held to maturity instruments.

\*\*\* It contains loans given which are interest free in the amount of HUF 51 million in 2006.

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**7. Inventories**

Inventories as of 31 December 2006 and 2005 were as follows:

	At cost	Lower of cost or net realisable value	At cost	Lower of cost or net realisable value
	31 December 2006		31 December 2005	
	HUF million			
Work in progress and finished goods	6,153	6,149	7,183	7,183
Raw-material	1,257	1,257	1,225	1,225
Other materials	1,160	895	1,285	1,014
Purchased goods	60	60	3	3
<b>Total</b>	<b>8,630</b>	<b>8,361</b>	<b>9,696</b>	<b>9,425</b>

The Group believes that the level of provision as of 31 December 2006 is sufficient to cover potential future losses. As of 31 December 2006 and 2005, no inventory owned by TVK Plc. was pledged as collateral.

The total amount of impairment was 269 HUF million and HUF 272 million as of 31 December 2006 and 2005, respectively ( as cumulated figures).

Inventories are regularly reviewed for impairment.

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**8. Trade receivables, net**

Receivables as of 31 December 2006 and 2005 were as follows:

	31 December 2006 HUF million	31 December 2005 HUF million
Domestic debtors	23,396	19,539
- of which: MOL Group members	4,998	4,424
Associates	267	203
Export debtors	22,906	24,160
- of which: MOL Group members	1,290	708
	<u>46,302</u>	<u>43,699</u>
Less: provision for doubtful debts	(9)	(529)
<b>Total</b>	<b><u>46,293</u></b>	<b><u>43,170</u></b>

The Group recorded a write-off on doubtful debts of HUF 448 million and HUF 47 million in 2006 and 2005, 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 2006 and 2005. 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 2006 and 2005 were as follows:

	31 December 2006 HUF million	31 December 2005 HUF million
Reclaimable VAT	3,899	6,487
Accrued income	277	185
Interest receivables	81	10
Prepayments	62	65
Loans to employees and other receivables	56	63
Advances to suppliers	14	30
Refundable income tax	-	79
Loan to Plastico S.A.* (net of impairment of HUF 323 and 315 million as of 31 December 2006 and 2005 , respectively)	-	8
Other	68	44
<b>Total</b>	<b><u>4,457</u></b>	<b><u>6,971</u></b>

\*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 2005 current assets include HUF 323 million short-term loan receivable from Plastico S.A less HUF 315 million impairment loss.

In 2006, based on a legal opinion, the Company reassessed the recoverability of its outstanding loan receivable from Plastico S.A. and decided to fully write it off.

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**10. Cash and cash equivalents**

Cash and cash equivalents as of 31 December 2006 and 2005 were as follows:

	31 December 2006 HUF million	31 December 2005 HUF million
Cash at bank – HUF	10,427	5,167
Cash at bank – EUR	4,749	3,169
Cash at bank – other currencies	441	374
Cash on hand – other currencies	3	2
Cash on hand – HUF	1	1
<b>Total</b>	<b>15,621</b>	<b>8,713</b>

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**11. Share capital**

Share capital as of 31 December 2006 was as follows:

Shareholder	Number of shares (thousand)	Face value (HUF)	Total (HUF million)	Shareholding %
International entities	12,825	1,010	12,953	52.8
Domestic entities	11,215	1,010	11,327	46.2
Domestic private investors	186	1,010	188	0.8
International private investors	4	1,010	4	0.0
Unregistered investors	61	1,010	62	0.2
<b>Total</b>	<b>24,291</b>		<b>24,534</b>	<b>100.0</b>

Shareholders with a shareholding above 5% registered in the Share Register as of 31 December 2006:

Shareholder	Shareholding %
MOL Hungarian Oil and Gas Company	44.55
CE Oil & Gas Beteiligung und Verwaltung AG	31.56
Slovnaft a s	8.06

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

On February 27 and 28, MOL purchased TVK shares that represent 42.25% of TVK's share capital. Subsequent to the transaction, MOL's direct and indirect influence over the Company increased to 94.86%.

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Share capital by type of shares as of 31 December 2006:

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)	24,290,843	24,533,751
<b>Total</b>	<b>24,290,843</b>	<b>24,533,751</b>

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
<b>Total</b>	<b>24,250</b>		<b>24,492</b>	<b>100.0</b>

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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.

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
<b>Total</b>	<b>24,250,193*</b>	<b>24,492,541</b>

\*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.

## **12. Reserves**

The dividend approved by the shareholders at the Annual General Meeting in April 2006 in respect of 2005 was HUF 1,020 million, equivalent to HUF 42 per issued share.

The total amount of reserves legally available for distribution based on the statutory company only financial statements of TVK Plc. is HUF 105,662 million and HUF 89,088 million as of 31 December 2006 and 2005, respectively.

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**13. Long-term debt, net of current portion**

Long-term debt, net of current portion as of 31 December 2006 and 2005 were as follows:

	Weighted average interest rate 2006 %	Weighted average interest rate 2005 %	2006 HUF million	2005 HUF million
Unsecured loan in EUR from MOL Plc. (majority stakeholder)*	3.79%	3.07%	37,845	53,073
Secured bank loan of TVK Erőmű Kft. in EUR**	3.81%	3.05%	9,213	9,778
Secured bank loan of Tisza-WTP Kft. in EUR***	3.48%	-	1,585	-
Financial lease payable			147	239
Other****			3,550	2,955
<b>Total long term debt</b>			<b>52,340</b>	<b>66,045</b>
Current portion of long-term debt			789	642
<b>Total long-term debt, net of current portion</b>			<b>51,551</b>	<b>65,403</b>

\*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 cost of syndicated foreign exchange loans. On 29 July 2005 the Company prepaid EUR 10 million from the EUR 220 million parent company loans. The Company prepaid EUR 60 million in 2006, and EUR 70 million was irrevocably withdrawn from the parent company's loan.

\*\*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 2006 the short-term part of the loan amounts to EUR 2,352 thousand reported as short-term loan payable.

\*\*\* In order to implement a water treatment plant to be operated by Tisza WTP Kft, on 17 December 2002, the Kft signed a long-term project and development loan agreement for EUR 8,000,000 with OTP Bank Rt. By the end of the availability period (29 December 2003), the Kft had drawn down a total of EUR 7,340,000 from the facility. The project loan is secured by the Company's assets. At the end of 2006, Tisza WTP Kft reclassified a instalment of TEUR 427 due in 12 months to current liabilities.

\*\*\*\* Based on the syndicate agreement the shareholding of the majority owners of the capital of TVK Erőmű Kft and Tisza WTP 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.

	2006 HUF million	2005 HUF million
Maturity two to five years	41,078	56,219
Maturity over five years	10,423	9,038
<b>Total</b>	<b><u>51,501</u></b>	<b><u>65,257</u></b>

Present values of financial lease liabilities as of 31 December 2006 and 2005 respectively are as follows:

	2006 HUF million	2005 HUF million
Maturity not later than 1 year	97	93
Maturity two to five years	50	146
<b>Total</b>	<b><u>147</u></b>	<b><u>239</u></b>

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

	2006		2005	
	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	101	97	97	93
After one year but no more than five years	53	50	160	146
Total minimum lease payments	154	147	257	239
Less amount representing finance charges	(7)		(18)	
Present value of minimum lease payments	147	147	239	239

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**14. Provision for liabilities and charges**

Provisions for expected liabilities and charges as of 31 December 2006 and 2005 were as follows:

	Environ- mental	Severance	Long term employee retirement benefits	Long-term Old Team benefit	Early Retirement benefits	Total
	HUF million	HUF million	HUF million	HUF million	HUF million	HUF million
<b>Balance as of 1 January 2005</b>	<b>4,015</b>	<b>1,389</b>	<b>248</b>	-	-	<b>5,652</b>
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)
<b>Balance as of 31 December 2005</b>	<b>3,983</b>	<b>117</b>	<b>197</b>	-	<b>38</b>	<b>4,335</b>
Provision made during the year and revision of previous estimate	0	26	15	201	33	275
Unwinding of the discount	195	-	9	-	-	204
Provision used during the year	(503)	(96)	-	-	(38)	(637)
<b>Balance as of 31 December 2006</b>	<b>3,675</b>	<b>47</b>	<b>221</b>	<b>201</b>	<b>33</b>	<b>4,177</b>
Current portion 31 December 2005	835	87	-	-	38	960
Non-current portion 31 December 2005	3,148	30	197	-	-	3,375
Current portion 31 December 2006	673	32	16	-	33	754
Non-current portion 31 December 2006	3,002	15	205	201	-	3,423

*Environmental provision*

The amount of provision contains the discounted value of amounts estimated for 12 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 provision for severance pays equals the amount of severance pays due but not yet paid as at 31 December 2006.

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*Provision for long term employee retirement benefits*

As of 31 December 2006 the Company has recognised a provision of HUF 221 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.

*Provision for Old Team benefits*

On 31 December 2006, based on actuarial calculations, the Company made a HUF 201 million provision for the future Old Team benefits of current employees. Every five years, TVK pays a fix set amount to all employees who had worked at least 10 years for the Company.

**15. Trade and other payables**

The Group's payables and other current liabilities as of December 2006 and 2005 were as follows:

	31 December 2006 HUF million	31 December 2005 HUF million
Domestic trade creditors	23,707	25,022
- of which: MOL Group members	20,718	23,136
Associates	137	33
Import creditors	3,636	4,513
- of which: MOL Group members	478	1,330
Suppliers related to capital projects	1,389	1,240
- of which: MOL Group members	324	-
Discount payable to customers	4,198	2,521
Accrued expenses	1,799	1,311
Dividend payable to the majority owner of TVK Erőmű Kft.	576	968
Amounts due to employees and related contributions	433	306
Current income tax	221	-
Personal income tax	69	34
Dividend payable to owner of Tisza-WTP Kft.	48	-
Local tax	10	40
Dividends payable*	5	-
Other	382	182
<b>Total</b>	<b>36,473</b>	<b>36,137</b>

\*Dividend payable in 2006 is related to 2005's dividend which hasn't been paid yet

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**16. Short-term debts**

	2006 HUF million	2005 HUF million
Unsecured bank loans		
TVK Italia Srl. overdraft	2	-
<b>Total</b>	<b>2</b>	<b>-</b>

**17. Net sales by geographical area**

Net sales by geographical area as of 31 December 2006 and 2005 were as follows:

	2006 HUF million	2005 HUF million
Hungary (reduced by discount)	157,518	128,716
Germany	29,259	23,465
Italy	26,227	18,324
Poland	20,672	15,841
Slovakia	7,888	5,263
United Kingdom	7,635	6,597
France	6,594	6,349
Austria	6,192	3,900
Romania	3,011	3,583
Other European Countries	39,831	31,642
Non-European Countries	6,591	7,545
- Export quantity discount	(2,682)	(1,532)
<b>Total</b>	<b>308,736</b>	<b>249,693</b>

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**18. Other operating income**

Other operating income as of 31 December 2006 and 2005 were as follows:

	2006 HUF million	2005 HUF million
Gain on the disposal of tangible assets	136	167
Default interest received, indemnity, penalties	118	555
Donations received	15	8
Foreign exchange gain on receivables and payables, net	12	704
Retrospective discount	12	7
Other	110	277
<b>Total</b>	<b>403</b>	<b>1,718</b>

**19. Personnel expenses**

Personnel expenses as of 31 December 2006 and 2005 were as follows:

	2006 HUF million	2005 HUF million
Wages and salaries	6,251	6,346
Social security	1,480	2,210
Other personnel expenses	2,035	1,565
<b>Total</b>	<b>9,766</b>	<b>10,121</b>

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**20. Other operating expenses**

Other operating expenses as of 31 December 2006 and 2005 were as follows:

	2006 HUF million	2005 HUF million
Insurance premium	1,242	1,181
Local taxes	900	868
Rental costs, leasing	575	611
Property protection and fire prevention	399	387
Consulting, advisory and auditing costs	266	402
PR and promotion	264	245
Public sanitation	240	271
Administrative charges and duties	180	162
Damages, default interest, penalties, fines	171	120
Bank charges	158	152
Receivables impairment, net	152	322
Elimination of waste	145	166
Donations, contributions to set off costs and expenses	120	111
Debt forgiven	44	272
Cost of supervision performed	-	682
Environmental expenses and environmental provision (See Notes 14 & 25.)	-	183
Other	537	599
<b>Total</b>	<b>5,393</b>	<b>6,734</b>

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**21. Financial (income) / expense**

The financial (income) / expense as of 31 December 2006 and 2005 was as follows

	2006 HUF million	2005 HUF million
Interest received	602	261
Other	43	70
<b>Total financial income</b>	<b>645</b>	<b>331</b>
Interest expense*	3,251	2,649
Discounts given for early payment of receivables	606	545
Foreign exchange losses of loans	482	1,697
Interest on provision	204	334
Other	9	113
<b>Total financial expenses</b>	<b>4,552</b>	<b>5,338</b>
<b>Total financial (income) / expense, net</b>	<b>3,907</b>	<b>5,007</b>

\* Interest expense of the Group for 2006 includes HUF 624 million, being the share from the net income of TVK Erőmű Kft. of its majority shareholder (ÉMÁSZ Rt.), and Tisza WTP Kft. of shareholder (Sinergy).

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**22. Income taxes**

The applicable corporate income tax rate in Hungary was 16% in 2006.

As the combined effect of the pre-tax profit and the corporate tax base adjusting items resulted in a positive tax base (i.e. net profit), the Company opted for the 100% tax allowance available on ground of commissioned strategic project (Olefin 2 plant).

Since 1 September 2006, the Company has had to pay 4% extra tax further to act LIX of 2006 on solidarity surplus taxes and contributions aimed to improve the government budget.

**Deferred tax:**

The Company calculated the deferred tax based on a tax rate of 16% with respect to the statutory tax base adjusting items and a tax rate of 20 % with respect to IFRS tax base adjusting items.

In 2006, HUF 419 million of deferred tax asset has been recorded in the consolidated financial statements. In view of the above factors, the deferred tax liability in 2005 of HUF 3,457 million decreased to HUF 3,038 million in 2006.

Total applicable income taxes reported in the consolidated financial statements for the years ended 31 December 2006 and 2005 include the following components:

	2006 HUF million	2005 HUF million
Deferred income taxes	(419)	1,511
Current income taxes	568	166
<b>Total income tax expense / (benefit)</b>	<b>149</b>	<b>1,677</b>

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The deferred income/expense consisted of the following items as of 31 December 2006 and 2005:

	Balance sheet		Effect on profit and loss	
	2006 HUF million	2005 HUF million	2006 HUF million	2005 HUF million
Depreciation	5,019	4,405	614	2,067
Environmental provision	(588)	(504)	(84)	(122)
Statutory tax losses carried forward	(884)	(386)	(498)	(386)
Impairment losses and other provisions	(730)	(82)	(648)	(28)
Differences due to capitalisation according to IFRS	55	44	11	-
Differences due to accrued discount	-	-	-	-
Capitalized periodic maintenance cost	166	(20)	186	(20)
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Total deferred tax</b>	<b>3,038</b>	<b>3,457</b>	<b>(419)</b>	<b>1,511</b>
	<hr/>	<hr/>	<hr/>	<hr/>

The Group has tax losses of HUF 5,521 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.

The temporary difference relating to foreign subsidiaries have not been recognized because of the xxv.) section of the accounting policy.

The Group has unrecognized tax losses of HUF 191 million which is relating to TVK Ingatlankezelő Kft.

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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:

	2006 HUF million	2005 HUF million
Profit before tax per consolidated income statement	<u>17,420</u>	<u>8,085</u>
Tax at the applicable tax rate (16%)	2,787	1,294
Tax holiday available	(2,353)	(637)
Revaluation of deferred tax assets and liabilities	(229)	-
Impact of changes in Hungarian tax legislation	75	-
Solidarity surplus tax	221	
Adjustment to the period of realization	(642)	1,197
Losses of subsidiaries not recognized as an asset	31	6
Differences not expected to reverse	(24)	(469)
Effect of different tax rates	203	96
Other	<u>80</u>	<u>190</u>
<b>Total income tax expense / (benefit)</b>	<b><u>149</u></b>	<b><u>1,677</u></b>

**23. Earnings per share (EPS)**

The Group's earnings per share based on consolidated information for 31 December 2006 and 2005 are as follows:

	2006	2005
Net income, IFRS (million HUF)	17,271	6,409
Weighted average of shares outstanding in the period (pieces)	24,270,569	24,251,183
EPS (HUF 1,010 face value)	HUF 712	HUF 264

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. The financial assets and liabilities are carried at amortized cost.

The following tables sets out the carrying amount, by maturity of the Group's financial instruments that bear interest as of 31 December 2006:

	Within 1 year HUF million	1-2 years HUF million	2-3 years HUF million	3-4 years HUF million	4-5 years HUF million	Over 5 years HUF million
<b>Floating rate</b>						
Cash and cash equivalents	15,621	-	-	-	-	-
Government bonds (2013/C)	-	-	-	-	-	177
Obligations under financial leases	97	50	-	-	-	-
Borrowing from MOL Plc	-	-	37,845	-	-	-
Capital project loan	692	736	783	831	883	6,873

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

	Within 1 year HUF million	1-2 years HUF million	2-3 years HUF million	3-4 years HUF million	4-5 years HUF million	Over 5 years HUF million
<b>Floating rate</b>						
Cash and cash equivalents	8,713	-	-	-	-	-
Government bonds (2013/C)	-	-	-	-	-	158
Obligations under financial leases	93	97	49	-	-	-
Borrowing from MOL Plc	-	-	-	53,073	-	-
Capital project loan	549	586	624	664	705	6,650

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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 Plc fluctuate according to international market rates. Sales are significantly affected by the EUR/HUF exchange rate, while purchases are primarily USD based. In 2006, TVK Plc. did not have any forward or option contract nor had other derivatives to hedge FX risks. The loan granted to the Company is denominated in EUR in order to reduce exchange rate risks.

**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 2006 consists the followings:

	2006 HUF million	2005 HUF million
Short - term facilities available	17,285	17,291
<b>Total loan facilities available</b>	<b>17,285</b>	<b>17,291</b>

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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 Plc. 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 claimed pecuniary demands of app. HUF 450 million at the Metropolitan Court against Insider Kft as Insider Kft is alleged to have contributed to causing losses to TVK Rt. The case was stalled throughout 2006. On 1 February 2007, TVK received the court's verdict rejecting the case. No appeal has been filed.

### Excise tax

The regional excise centre of the customs authority conducted a full scope excise audit at the Company with respect to the year 2001 to 2005. The result of the excise audit was unpaid excise tax of HUF 27.6 million (financially settled) plus HUF 43.3 million tax penalty and late payment interest. TVK has appealed against the initial decision and the appeal is currently under consideration. There was no provision recorded for the finding of the customs authority review due to expected favourable result of the related findings.

### Operating leases

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

	2006 GBP	2005 GBP
Due not later than 1 year	47,407	-
Over 1 year	-	49,000
<b>Total</b>	<b>47,407</b>	<b>49,000</b>

### Capital and contractual commitments

The total value of capital commitments as of 31 December 2006 is HUF 1,133 million, which is fully attributable to TVK Plc.

### Gas Purchase Obligation, Take or Pay Contract

The TVK Erőmű Kft. has concluded long-term gas purchase contract with EON in order for continuous operation of equipments in the power plant. As of 31 December 2006, 1 175 million cubic meters of natural gas (from which 799 mcm under take-or-pay commitment calculated with an average price) 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 Plc, 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 2003 to the North-Hungary Area Environment Authority by the required deadline in 2004.

The environmental authority requested further additions to the closing document. All the requested additions were prepared by TVK Plc. 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 Plc. prepare and submit a technical action plan by 30 September 2005.

The submitted Technical Interference Plan has been prepared in accordance with relevant legislation in force and contains, in a scheduled manner, all the strategic measures and actions to be taken in the short and middle-term to achieve standard management of environmental responsibilities and to ensure compliance with environmental regulations with respect to the entire area of the TVK-TIFO industrial site. The Company manages liabilities and commitments related to past operations as part of an integrated project in co-operation with MOL. Plc The joint liability was agreed to by both TVK Plc and MOL Plc in their Co-operation Agreement signed in July 2006.

In 2006 the Company was focusing on the localization of underground pollution within the TVK Plc's site, to avoid further pollution on the southern part of the plant and is making significant efforts to gauge the extent of the pollution as well as to identify and map the possible movement of pollutants.

In 2006 HUF 112 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.

In its decision dated in December 2006 in relation to the complex Technical Intervention Plan, the Authority issued a decontamination order to both TVK and MOL with respect to the entire area of the TVK-TIFO industrial site. The decision approved the companies' short and middle-term action plan that aims manage decontamination commitments on a risk and exposure basis while focusing on the continuous optimisation of environmental expenses and on decontamination solutions. As a major milestone, the plan aims to draw a complete pollution risk map by the beginning of 2009. The map will then be used to re-define middle-term environmental goals and to prioritise implementation.

The Company's environmental commitments and the related action plan were reviewed by an independent environmental auditor in 2006. The review found that the Company has deep awareness and detailed knowledge of its environmental commitments and liabilities.

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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 – consideration of above-mentioned - an environmental provision based on the currently available quantifiable future expenses HUF 3,675 million as of 31 December 2006 (2005: HUF 3,983 million).

The aggregate of contingent environmental liabilities may exceed HUF 4 billion. However, the probability of having these tasks completed is less than 50% due to the fact that there is no legal obligation for these tasks and to uncertainties regarding the technical contents of these tasks.

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**26. Segmental information**

The Group's sales per operational segment for the years 2006 and 2005 were as follows:

Segment	2006			2005		
	Domestic sales	Export sales	Total sales	Domestic sales	Export sales	Total sales
	HUF million	HUF million	HUF million	HUF million	HUF million	HUF million
Olefin	85,362	4,810	90,172	67,171	3,680	70,851
Polyethylene	26,396	106,884	133,280	23,051	82,886	105,937
Polypropylene	39,849	38,204	78,053	33,205	33,407	66,612
Other	5,911	1,320	7,231	5,289	1,004	6,293
<b>Total</b>	<b>157,518</b>	<b>151,218</b>	<b>308,736</b>	<b>128,716</b>	<b>120,977</b>	<b>249,693</b>

The gross book value of tangible fixed assets and accumulated depreciation per operational segment as of 31 December 2006 and 2005 were as follows:

Segment	31 December 2006			31 December 2005		
	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	110,824	28,981	81,843	107,095	23,228	83,867
Polyethylene	37,189	16,693	20,496	37,649	12,636	25,013
Polypropylene	30,574	16,525	14,049	30,584	14,996	15,588
Other	46,539	12,091	34,448	42,412	12,278	30,134
<b>Total</b>	<b>225,126</b>	<b>74,290</b>	<b>150,836</b>	<b>217,740</b>	<b>63,138</b>	<b>154,602</b>

\*Also contains construction in progress.

Assets capitalised on a Group level in 2006 and 2005 were as follows:

Segment	2006.		2005.	
	Capitalised value	Of which: intangibles	Capitalised value	Of which: intangibles
	HUF million	HUF million	HUF million	HUF million
Olefin	3,396	10	68,199	48
Polyethylene	753	-	1,389	525
Polypropylene	190	-	40	1
Other	1,018	100	19,595	78
<b>Total</b>	<b>5,357</b>	<b>110</b>	<b>89,223</b>	<b>652</b>

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**27. Related party transactions**

*Transactions with associated companies in the normal course of business*

MOL Group has been TVK Plc's main raw material supplier and buyer of TVK products ever since the Company was established. In 2001, the Company signed a long-term contract with MOLTRADE-Mineralimpex Zrt. on supplying raw materials for the period between 2004 and 2013.

	2006 HUF million	2005 HUF million
<b>Sales</b>		
- of which: to MOL Group companies	52,375	43,573
of which Moltrade-Mineralimpex Zrt.	45,363	38,717
Slovnaft A.S.	3,402	4,005
Slovnaft Pethrolcemics	2,463	-
MOL Plc.	950	688
To other related parties	913	641
of which VIBA-TVK Kft. (associate)	911	629
<b>Purchases</b>		
- of which: from MOL Group companies	210,747	184,259
of which Moltrade-Mineralimpex Zrt.	195,101	169,158
MOL Földgázellátó Zrt.*	1,639	8,552
Petroszolg Kft.	5,513	4,262
Slovnaft A.S.	5,479	1,832
from other related parties	637	628
of which VIBA-TVK Kft. (associate)	409	249

\* MOL Földgázellátó Zrt. was sold 31 march 2006.

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**28. Share-based payment plans**

*General Incentive Schemes for management*

The incentive scheme 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 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. Expenses incurred by this scheme in 2006 were HUF 230 million.

	<b>2006</b>	<b>2005</b>
Short term incentive (60%)	139	82
Long term incentive (40%) 2004	-	18
Long term incentive (40%) 2005	33	16
	<hr/> <b>172</b>	<hr/> <b>116</b>

*Share-option incentive from 2006*

The incentive system based on stock options and launched in 2006 ensures the interest of the management of the MOL Group in the long-term increase of MOL stock price.

The incentive stock option is a material incentive disbursed in cash, calculated based on call options concerning MOL shares, with annual recurrence, which

- operates covering periods of 5 years (3 year vesting plus 2 year exercising period) starting annually,
- its rate is defined by the quantity of units specified by MOL job category
- the value of the units is set annually (in 2006 and 2007, 1 unit equals to 100 MOL shares).

It is not possible to redeem the share option until the end of the third year of the period (waiting period); the redemption period lasts from 1 January of the 4<sup>th</sup> year until 31 December of the 5<sup>th</sup> year.

The incentive is paid in the redemption period according to the declaration of redemption. The paid amount of the incentive is determined as the product of the defined number and price increase (difference between the redemption price and the initial price) of shares.

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Details of the share option rights granted during the year are as follows:

	Number of shares in conversion options 2006 share	Weighted average exercise price 2006 HUF/share
Granted during the year	13,000	20,170
<b>Outstanding at the end of the year</b>	<b>13,000</b>	<b>20,170</b>

As required by IFRS 2, this share-based compensation is accounted for as cash-settled payments, expensing the fair value of the benefit as determined at vesting date during the vesting period. Expense incurred by this scheme in 2006 was HUF 41 million, recorded as personnel-type expenses with a corresponding increase in Trade and other payables.

Fair value as of the balance sheet date was calculated using the binomial option pricing model. The inputs to the model were as follows:

	2006
Weighted average exercise price (HUF / share)	20,170
Weighted average share price (HUF / share)	21,300
Expected volatility based on historical data	29.31%
Expected dividend yield	1.46%
Expected life (years)	4,0
Risk free interest rate	7.54%
Weighted average fair value of the options	7, 179

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*Key management compensation*

	<b>2006</b>	<b>2005</b>
	HUF million	HUF million
Salaries and other short-term employee benefits	213	218
Termination benefits	-	-
Post-employment benefits	-	-
Other long-term benefits	15	7
Share-based payment	-	-
Honoraria	10	7
	<hr/>	<hr/>
<b>Total</b>	<b>238</b>	<b>232</b>

*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.

**Notes to the consolidated financial statements prepared  
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**29. 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
<b>31 December 2006– HAS</b>	<b>24,534</b>	<b>94,391</b>	<b>15,895</b>	-	<b>134,820</b>
Effect of IFRS consolidation	-	710	-	-	710
Shareholding of external shareholders IFRS according to	-	(4)	-	-	(4)
<u>IFRS adjustments</u>					
- Redeemed employee shares	1	-	-	-	-
- Deferred tax	2	(3,172)	383	-	(2,789)
- Capitalised technical equipment	3	7,668	-	-	7,668
- Depreciation of technical equipment	3	(7,349)	(44)	-	(7,393)
- Capitalised periodic maintenance	4	-	1,073	-	1,073
- Amortisation of periodic maintenance costs capitalised	4	(42)	(201)	-	(243)
- Revaluation difference on investments	6	299	(43)	-	256
- Elimination of amortization of goodwill	7	40	39	-	79
- Management incentives	8	(72)	32	-	(40)
- Transfer of negative goodwill to retained earnings	-	3	(1)	-	2
- Other	-	(318)	138	-	(180)
<b>31 December 2006 – IFRS Group</b>	<b>24,534</b>	<b>92,154</b>	<b>17,271</b>	<b>0</b>	<b>133,959</b>

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

**31 December 2006**

	Share capital	Reserves	Net income	Minority interests	Shareholders' equity
	HUF million	HUF million	HUF million	HUF million	HUF million
<b>31 December 2005– HAS</b>	<b>24,666</b>	<b>89,853</b>	<b>5,558</b>	-	<b>120,077</b>
Effect of IFRS consolidation	-	(7)	722	-	715
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	-	(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	(139)	67	-	(72)
- Transfer of negative goodwill to retained earnings	-	3	-	-	3
- Other	-	11	(330)	-	(319)
<b>31 December 2005 – IFRS Group</b>	<b>24,492</b>	<b>86,774</b>	<b>6,409</b>	<b>43</b>	<b>117,718</b>

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.

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

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### 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. The cost of new tangible assets capitalised in 2005 were already net of periodic maintenance costs, which were recorded as separate components. The useful life of a "maintenance component" is the planned length of the maintenance period. The costs of periodic maintenance of tangible assets capitalised before 1 January 2005 were also capitalised by the Company as separate components (previously, these costs were expensed).

### 5. Accrued unrealised quantity discount

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 to 31 december 2004. IFRS allows for the recognition of given or received but unpaid discounts. Since 1 January 2005, there is no difference between the treatments under the Hungarian accounting law and IFRS which would have an impact on the profit and loss.

### 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. It contains the difference of the valuation of investment between HAS and IFRS and furthermore the elimination of revaluation of liquidated subsidiaries.

### 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 short term management incentives are recognised in the period it relates to while under HAS it is recognised when settled financially. Long term management incentives are recognised time-proportionally during 36 months in IFRS.