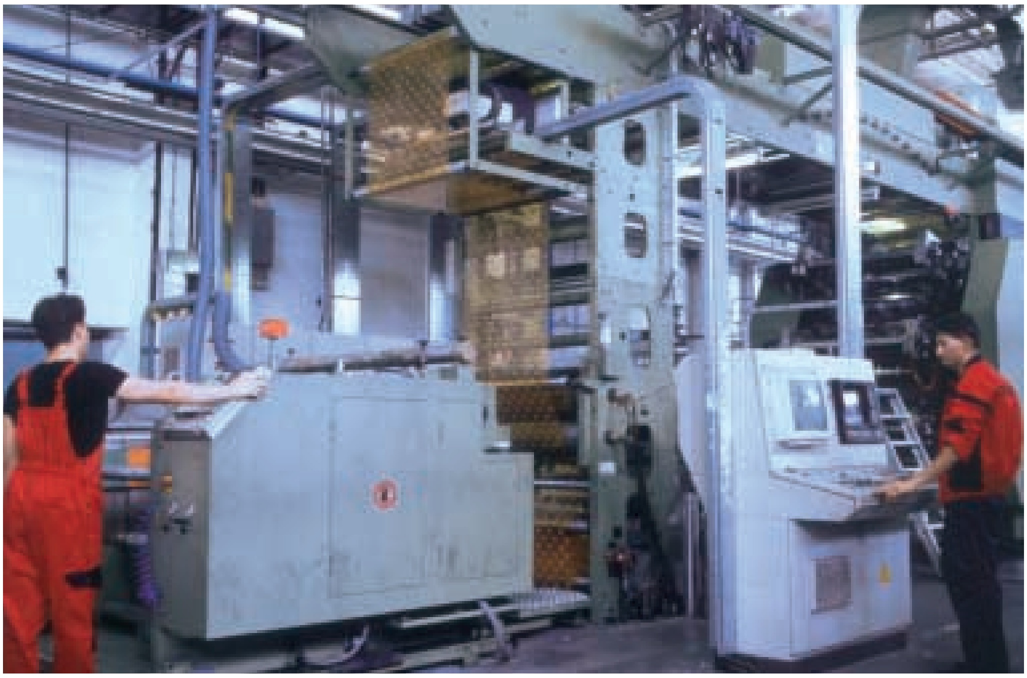
Olefin intensification

As a result of the revamp of the cracker carried out from 1995 to 1998, which was followed by intensification the annual ethylene production of the Olefin Plant increased from 290,000 tons to 350,000 tons, production of propylene from 145,000 tons to 180,000 tons. More than 2/3 of the feedstock requirement of the expansion are provided by hydrocarbon fractions produced by processing of hardly saleable by-products, which together with naphtha make a better feedstock. After expansion the Olefin Plant produces ethylene and propylene - the feedstock for polymer plants - with more favourable utilisation of material and energy specifics. The propylene produced as a result of expansion will be used by TVK Rt.'s new Polypropylene Plant. The ethylene will in part redeem the one purchased from the Ukraine. Capex cost was HUF 10.9 billion; ROI, based on the above results, less than three years. Owing to the upgrading TVK's ethylene balance is more stable and depends on external impacts to a lesser extent.

BOPP III.

The new BOPP Plant of high technical level, with capacity of 15,000 tons/years started up on April 21, 1999. Prior to the expansion, in 1998 the company produced 7,339 tons of BOPP film. In 1999 it doubled its production, and reached nearly 14,100 tons. In 2000, according to the plans, the original capacity will triple, reaching 21-22,000 tons. The most part of the new products will be sold in export markets. In compliance with the co-operation framework contract for June 1999 - June 2001 at least half of the quantity produced will be sold by Mobil Plastics Europe as its own product. The manufacturing line was supplied by Brückner, the auxiliary equipment by Atlas and Stahl. The DGV proved that the line met both the quantity and quality requirements specified in the Foreign Trade Contract. Capital expenditures amounted to HUF 6.9 billion.



PP IV.

In 1999 construction of the new Polypropylene Plant of the 140,000 tons/year capacity was completed. On December 8, 1999 the trials started and on December 25 the production commenced. Main technological equipment of PP IV. were supplied by Italian Technimont, based on Montell license. The pellets storage silos of the Plant - suitable for shipping both by road and by rail - are directly linked with the feedstock supply system of BOPP III. The new polypropylene plant was completed in 20 months, which is a world record time. The project cost of PP IV. amounted to HUF 22.6 billion. With putting the plant on stream TVK's polypropylene capacity doubled. It reached 280,000 tons/year.

Environmental Protection, Safety, Health Protection

With its successful business management and considerable capacity expansion in 1995 TVK Rt. reduced the effect of its operations on the environment and improved its environmental performance. It gave priority attention to improving of safety on the work places and protection of employees' health.

Environmental protection

In 1999 TVK Rt.'s Environmental Management System proved to be successful again (second time) at the supervisory audit conducted in accordance with International Standards ISO 14001. With consistent observation of this system TVK satisfied the objectives laid in its environmental protection policy. Continuing the successes of the past years in 1999 TVK achieved significant results in environmental protection due to the following expenditures, which totalled HUF 826 million.

Environmental expenditures in 1999:

environmental protection investments	*HUF 157 million*
decontamination	*HUF 217 million*
waste management	*HUF 210 million*
water purification	*HUF 242 million*

Waste management

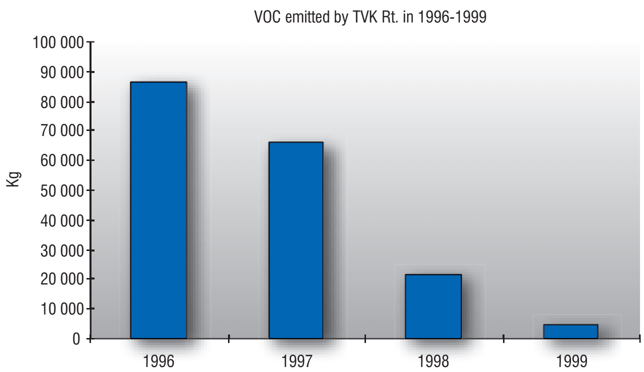
Along with its environmentally sound production the Company set a target to collect and utilise the largest possible amount of scrap and to develop new utilisation technologies. In order to reach this objective TVK Rt. elaborated a complex waste utilisation concept and set up the Environment Technology Business Sector.

Water quality protection

TVK's water consumption slightly reduced, as compared to that of year on year. The quality of treated and used water met the legal requirements. That is why it is the third year when the Company had not to pay waste water fine in 1999.

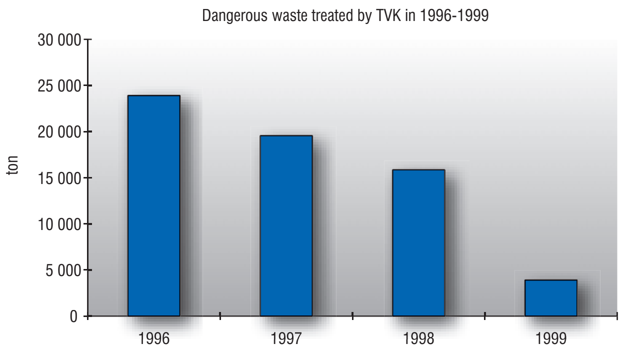
Air purity protection

With taking engineering measures and keeping stricter technological discipline the company managed to reduce the quantity of emitted air-polluting materials in 1999. Besides reducing of emitted polluting components, quality of which can be measured, the Company reduced emission of diffuse air-polluting materials. As a result of the measures taken the company - first time in its history - did not emit air-polluting material in 1999. Thus, it had not to pay air-pollution fine.



Waste management

In 1999, TVK Rt., compared to the previous years, significantly reduced (to approx. 25%) the quantity of dangerous wastes, mostly due to the fact, that the company managed to solve dehydrating of sewage sludge. In 1999 the Company commenced establishment of an area for final disposal of solid incineration wastes. As a result of lawful management of dangerous wastes TVK had not to pay fine in 1999.



Recovery of contaminated areas

In 1999 a comprehensive revelation of the areas contaminated to a smaller extent was completed and preparations started for decontamination. TVK Rt. aims at overall recovery completed, of contaminated areas until the end of 2002. In 1999 the company initiated decontamination and recovery of soil and ground water on several contaminated areas.

TVK Rt. is interested in minimising the impacts of its operations on the environment and in improving its employees environmental protection consciousness. Moreover, it aims at contributing to the improvement of environmental performance of the industry and the whole Hungarian economy, creating the conditions for conformity with EU requirements, and EU accession. Management of the Company is committed to the environment protection, so it will do its best for further reducing of the impacts on the environment and overall liquidation of the existing environmental problems.

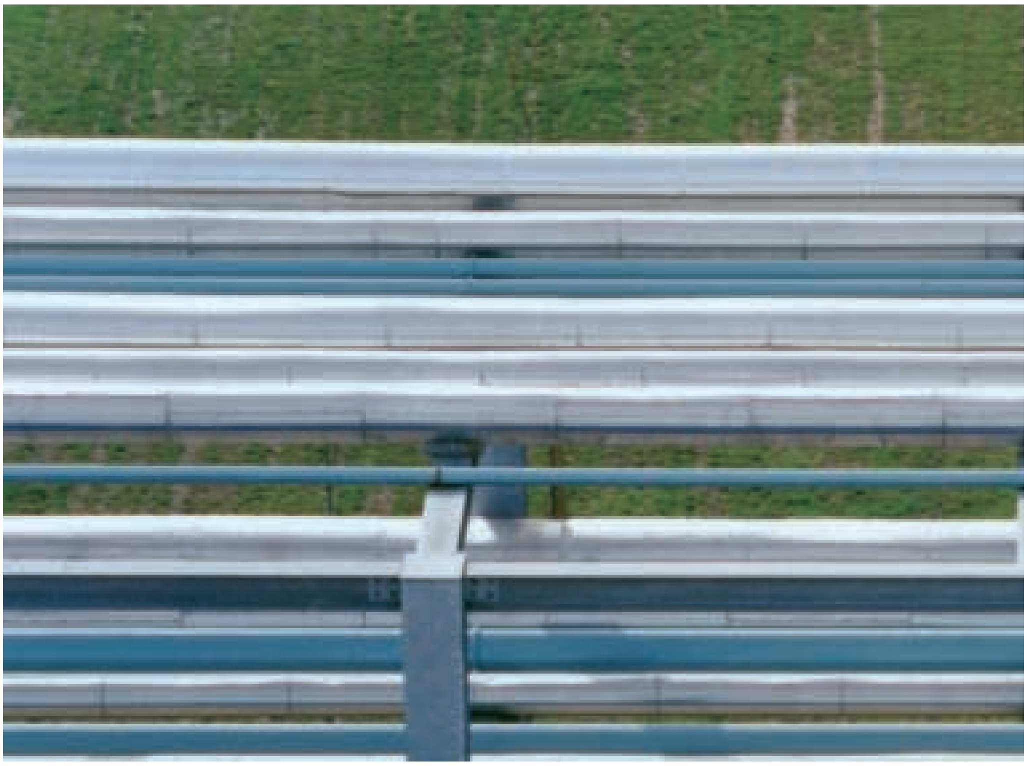
Safety

TVK's core activity is petrochemistry, where fire and explosion danger are extreme. The company always paid attention to preventing and eliminating of dangerous situations. For this purpose various system-safety analyses are made, which are used for exploration of emergency reasons; several comprehensive diagnostic and structure examinations are carried out and state of pressure systems are being regularly checked. Besides preventive engineering measures TVK Rt. strictly observes fire-fighting instructions, maintains the high level of protective means and fire-fighting equipment and provides an efficient protection and good working order of the equipment. Every year TVK Rt. spends significant amounts of money to provide and develop all these conditions: in 1998 it spent HUF 183 million on safety investments; in 1999 HUF 143 million.

TVK's Safety organisation supervises implementation of Safety Plan and observation of instructions, legal regulations concerning engineering safety, work-safety and fire-fighting. The organisation provides professional conditions for execution as well. It acts in accordance with the quality assurance system ISO 9001, which was proved again in the course of re-certification in 1999. The employees are being regularly trained for appropriate use of technical means.

In line with the built-in fire-fighting equipment there is a need for a fire-fighting brigade which is able to provide a quick and efficient assistance. TVK Rt., together with other large companies in the region, operates such a fire service. The service continuously increases its efficiency and facilities by purchase of new, up-to-date means. In 1998 HUF 155 million, in 1999 HUF 130 million were spent on purchase of mobile fire-fighting equipment.

As a result of co-ordinated, overall safety activity in 1999 only one serious accident with injury happened (the number of TVK staff is 3200); the number of plant accidents taking three or more sick-pay days was 10.4/1000 persons; there was not a fire accident with personal injury; total damage value of smaller fire accidents did not reach HUF 1 million. When evaluating and judging statistic data it is worth considering that in 1999 in line with high capacity utilisation of petrochemical plants three significant capex projects were completed.



Health protection

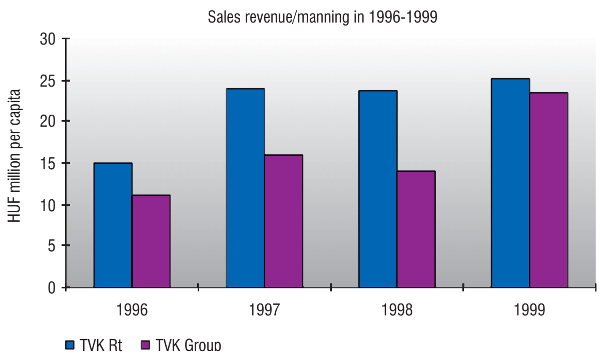
The Company takes care of continuous improvement of the quality of working conditions. For this reason it lays special stress on prevention, makes continuous screening and aptitude tests. This activity is being performed by TVK MED Ltd, which was established in 1995 with 100% TVK ownership. In line with this activity TVK MED Ltd. operates four consulting rooms, an ambulance, conducts training and recovery activity and gives utmost urgency care. In 1999 TVK-MED Ltd. built its quality assurance system as per ISO 9002 standards and made it successfully audited.

Human resources management

In 1999 the Company’s average number of employees amounted to 3,304. As of December 31 the closing headcount was 3,259, against that of 3,267 year on year. Reduction in staff (8 persons) occurred in line with transferring some 90 employees to the new capacities and jobs were provided for 150 persons. In consequence of „profile cleaning“ TVK manning reduced by 46 in 1999. Further charge was produced by implementation of a rationalisation program, which reduced the number of staff by 112. Considering the employees working at TVK’s various production and servicing Ltds, TVK provided jobs for 6,094 persons in 1999.

As a result of an organisation streamlining project initiated in 1998 the Company’s organisational and operational model and managing system adjusted to the changing circumstances. Corresponding to the new organisation and market circumstances a new activities and wage structure have been introduced. In consequence of implementation the wage policy program the annual wage bill totalled HUF 5,115 million. The employees’ annual average wage was HUF 1,461,356/person.

The Company lays a special emphasis on recruiting young specialists. A modern multi-stage selection, career planning and training system promotes hiring of specialists and satisfying of the increasing and changing personnel demand of the organisation. To implement this objective the company kept good relations with colleges and universities and raised several university funds.



Quality assurance

For the take of enhancement customers trust and preservation of competitiveness TVK set up a Quality Assurance Office in 1992, the task of which is to manage and co-ordinate building and accreditation of quality assurance systems. The well operating, continuously certified systems make up the basis of TVK Rt.'s quality assurance development.

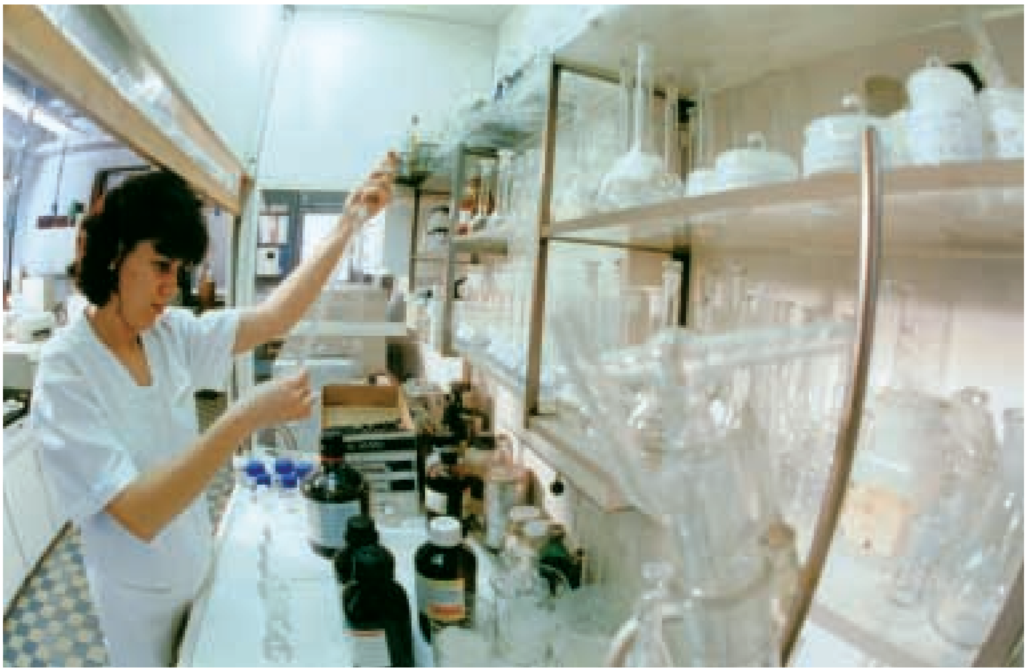
In 1993 every production unit acquired ISO 9001 compliant, internationally acknowledged accreditation of TÜV Rheinland Euroqua. The Company set a target to introduce an independent quality assurance system at the units ensuring infrastructural background to production plants. Safety Division acquired ISO 9001 compliant accreditation in 1996, Engineering Design Unit in 1997, IT and Investment Division in 1998. In 1998 Formplast Business Division obtained QS 9000/ISO 9002 compliant accreditation which satisfies the stricter requirements of automotive industry.

Further step was the implementation of TQM philosophy. The first self-assessment according to EFQM was carried out in 1996 when TVK Rt. announced an internal competition with the conditions corresponding to those of the National Quality Reward. In 1998 the Company won the National Quality Reward in the category of large companies.

In 1999 the Company laid a special stress on maintaining and improvement of the quality assurance level. High level operation of the quality assurance systems, increasing of customer satisfaction and successful operation were proved by regenerating and supervisory audits conducted at production business divisions and servicing units. Creating of operating conditions for laboratories accredited as per MSZ EN 45001 in 1999 was a new challenge. A site inspection prior to accreditation was made in the Technical Testing Laboratory of the Safety Division in November 1999. Activities continued to prepare the laboratories of the Research Centre and PP Division for accreditation. Internal audit of Y2k project was also a success.

Enhancing of customer satisfaction and customer-centred conduct are considered to be the most important in fulfilling the Company's strategic objectives. Therefore, TVK Rt. takes a special care of solving complaints, management of customer suggestions raised during customer visits, meetings with customers and pertaining analyses. Further, product upgradings initiated by customers, measuring of customer satisfaction, introduction of correction and preventive measures, qualifying of suppliers are of similar importance.

In 2000 TVK will also take part in modifying of international standards related to quality management systems. The well operating and continuously developed QA systems ensure the conditions of accession to EU, satisfying the market demands and expectations.



Tiszai Vegyi Kombinát Rt. Audited Separate Financial Statements in Accordance with International Accounting Standards

Financial statements

Statements of results
(IAS, separate, audited)

Description	1998 TVK Rt. (M HUF)	1999 TVK Rt. (M HUF)
Sales Revenue	77,468	82,804
Sales Costs	52,094	62,960
Gross Profit	25,374	19,844
General and Administrative Sales Costs	10,516	13,007
Operating Results	14,858	6,837
Other Receipts	4,906	3,633
Other Expenses	7,827	4,500
Profit Before Interest Received and Taxes	11,937	5,970
Interest Received	4,110	1,745
Interest Costs	1,882	685
Profit Before Tax	14,165	7,030
Corporate Taxes	2,565	150
Tax Benefit Receipts	-	1,354
Net Profit	11,600	8,234

BALANCE SHEET

(IAS, separate, audited)

Description	12.31.1998 TVK Rt. (M HUF)	12.31.1999 TVK Rt. (M HUF)
Invested Assets	*57,409*	*91,705*
Net Value of Material Assets	42,373	69,622
Net Value of Immaterial Assets	166	439
Investments	14,839	20,368
Receivables	31	1,276
Current Assets	*54,731*	*37,986*
Finances	5,513	1,107
Net Receivables	10,350	16,774
Inventories	6,677	10,545
Accruals and Other Receivables	10,481	6,170
Short-term Securities	17,383	3,390
Shares Repurchased	4,327	-
Total Assets	*112,140*	*129,691*
Short-term Liabilities	*21,323*	*18,183*
Trade Liabilities	6,134	9,833
Shot-term Credit	3,233	1,095
Other Short-term Liabilities	11,956	7,255
Long-term Liabilities	*17,761*	*34,045*
Long-term Credit	17,759	33,381
Other Long-term Liabilities	2	664
Shareholders Equity	*73,056*	*77,463*
Subscribed Capital	25,084	24,980
Capital Reserve	4,933	5,125
Profit Reserve	42,935	47,254
Revaluation Reserve	104	104
Total Liabilities and Equity	*112,140*	*129,691*

Cash Flow statement

(IAS, separate, audited)

Description	12.31.1998 M HUF	12.31.1999 M HUF
I. OPERATING CASH-FLOW Before Interest Received and Taxes	***11,937***	***5,970***
Modification		
Depreciation	4,234	5,694
Change in Receivables Provisions and Write-off of Receivables	760	47
Year-end Revaluation of Credit	588	431
Other Items, without Movement of Funds	234	604
Tax Benefits Receipts and Corporate Taxes	-2,565	1,204
Operating Results Before Changes in Ready Capital	*15,188*	*13,950*
Change in Ready Capital:		
Increase of Inventories	-1,479	-4,007
Change in Trade Receivables	688	-6,379
Change in Other Receivables	-6,262	4,311
Change in Trade Liabilities	-35	3,691
Change in Other Liabilities	1,055	-2,630
Cash-flow from Changes in Ready Capital:	*-6,033*	*-5,014*
Finances from Operating Activities	***9,155***	***8,936***
II. INVESTMENT CASH-FLOW		
Purchase of Material Assets	-17,779	-33,816
Selling of Material Assets	590	85
Acquisition of Ownership Interests	-3,083	-1,606
Selling of Ownership Interests	65	456
Interest Receipts	4,110	1,745
Changes in the Short-term Securities and in the Long-term		
Receivables Portfolios	-3,935	12,746
FINANCES FROM INVESTMENT ACTIVITIES	***-20,032***	***-20,390***
III. CASH-FLOW OF FINANCIAL ACTIVITIES		
Issue of Shares	237	-
Premium from Issue of Shares	359	-
Loan Proceeds	32,170	32,839
Loan Payments	-16,976	-19,784
Dividend Payment	-1,705	-5,322
Interest Expenses	-1,882	-685
FINANCES FROM FINANCIAL ACTIVITIES	***12,203***	***7,048***
IV. CHANGE IN FINANCES	***1,326***	***-4,406***
Finances at Beginning of Period	4,187	5,513
Finances at End of Period	5,513	1,107

The Financial Statements

1999

TISZAI VEGYI KOMBINÁT RT.

FINANCIAL STATEMENTS AS OF 31 DECEMBER 1999
PREPARED IN ACCORDANCE WITH
INTERNATIONAL ACCOUNTING STANDARDS

TOGETHER WITH INDEPENDENT AUDITORS' REPORT

Pálfi Sándor
Chief Executive Officer

Tiszai Vegyi Kombinát Rt.
H-3581. Tiszaújváros, Hungary

TISZAI VEGYI KOMBINÁT RT.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Shareholders of Tiszai Vegyi Kombinát Rt.:

We have audited the accompanying balance sheets of Tiszai Vegyi Kombinát Rt. (the "Company") as of 31 December 1999 and 1998, and the related statements of income, shareholders' investment and cash flows for the years then ended. These financial statements are prepared in accordance with International Accounting Standards and are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

The accompanying financial statements were prepared using the equity method of accounting rather than full consolidation of subsidiaries. International Accounting Standards Number 27 generally requires the consolidation of the controlled subsidiaries. The Company also prepared a set of fully consolidated financial statements. We audited the consolidated financial statements and issued an unqualified auditors' report on such consolidated statements dated 10 March 2000. The only difference between the accompanying financial statements and the consolidated financial statements is use of the equity method rather than consolidation of subsidiaries.

In our opinion, except for impact of using the equity method of accounting rather than consolidation of subsidiaries as discussed in the preceding paragraph, the financial statements referred to above give a true and fair view of the financial position of Tiszai Vegyi Kombinát Rt. as of 31 December 1999 and 1998, and the results of its operations and cash flows for the years then ended in accordance with International Accounting Standards.

Arthur Andersen Kft.

Budapest, Hungary
10 March 2000
(except with respect to dividend for 1999 as to which the date is 28 April 2000)

TISZAI VEGYI KOMBINÁT RT.

CONSOLIDATED BALANCE SHEETS AS OF
31 December 1999 and 1998
(Millions of HUF)

	Notes	1999	1998
Long-term assets:			
Tangible, net	7	91,559	44,995
Intangible, net	6	1,141	301
Long-term investments	8	7,306	13,058
Receivables		568	56
		100,574	58,410
Current assets:			
Cash	10	3,419	6,505
Receivables, net	11	22,354	10,975
Inventories	9	-	4,514
Prepayments and other current assets	12	17,581	7,977
Current investments	13	7,285	10,561
Treasury stock	14	3,405	17,468
		54,044	58,000
Total assets		**154,618**	**116,410**
Current liabilities:			
Accounts payable	15	15,396	7,666
Short-term debt	16	9,938	4,577
Other current liabilities	18	9,957	12,702
		35,291	24,945
Long-term liabilities:			
Long-term debt	17	40,478	18,132
Other		3,755	2
		44,233	18,134
Minority interest:			
Share capital	20	22,605	25,084
Capital reserve	21	46,317	43,028
Retained earnings		3,629	4,933
Revaluation reserve		104	104
		72,655	73,149
Total liabilities and shareholders' investment		**154,618**	**116,410**

The accompanying notes are integral part of these consolidated balance sheets

TISZAI VEGYI KOMBINÁT RT.

CONSOLIDATED STATEMENTS OF INCOME
for the years ended 31 December 1999 and 1998
(Millions of HUF)

	Notes	1999	1998
Sales	21	122,360	86,039
Cost of sales	21	-95,479	-58,373
Gross profit	**21**	**26,881**	**27,666**
Selling, general and administrative expense	23	-20,851	-12,242
Operating income		**6,030**	**15,424**
Other income	24	4,639	5,151
Other expense	25	-5,388	-8,162
Income before interest, income tax and minority income		**5,281**	**12,413**
Interest income		2,061	4,198
Interest expense		-1,676	-2,106
Income before income tax and minority income		**5,666**	**14,505**
Income tax expense	29	50	-2,653
	3	1,354	0
Income before minority income		**7,070**	**11,852**
Minority interest		126	-12
Net income		**7,196**	**11,840**
Eaenings per Share (EPS)			
Basic EPS	28	323 Ft	550 Ft
Diluted EPS	28	323 Ft	547 Ft

The accompanying notes are integral part of these consolidated balance sheets

TISZAI VEGYI KOMBINÁT RT.

STATEMENT OF CHANGES IN SHAREHOLDERS' INVESTMENT
for the years ended 31 December 1998 and 1999
(Millions of HUF)

	Share capital	Retained earnings	Capital reserves	Revaluation reserves
Balance as of 1 January 1998	24,000	36,737	5,197	104
Issuance of employee shares (see Note 27.2.)	606	-	-606	-
Management share purchase option (see Note 27.4.)	478	-240	359	-
Differences due to consolidation	-	26	-17	-
Net income 1998	-	11,840	-	-
Dividends for 1998	-	-5,335	-	-
Balance as of 31 December 1998	25,084	43,028	4,933	104
Employee shares purchased (see Note 8)	-104	-	-	-
Management share purchase option	-	-	192	-
Treasury stock reclassified as decrease in equity	-2,375	-	-1,496	-
Differences due to consolidation	-	8	-	-
Net income in 1999	-	7,196	-	-
Dividends for 1999	-	-3,915	-	-
Balance as of 31 December 1999	22,605	46,317	3,629	104

The accompanying notes are integral part of these consolidated balance sheets

TVK CSOPORT

CONSILIDATED STATEMENTS OF CASH FLOW
For the years ended 31 December 1999 and 1998
(millió forint)

	1999	1998
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before interest and income taxes	**5,281**	**12,413**
Depreciation and amortization	8,304	4,234
Increase in receivables provision and write-offs	47	760
Unrealized exchange loss on foreign currency loans	431	588
Other non-cash adjustments	1,496	347
Income tax and tax allowance	1,404	-2,653
Minority interest	126	-12
Operating cash-flows before working capital changes	**17,089**	**15,677**
Increase in inventory	-4,526	-1,664
(Increase)/decrease in trade receivables	-7,201	1,870
(Increase)/decrease in prepayments and other current assets	4,161	-6,237
Increase/(decrease) in accounts payable	4,058	-392
Increase/(Decrease) in other liabilities	-2,528	612
Cash flows due to changes in working capital	-6,036	-5,811
Net cash provided by operating activities	11,053	9,866
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of fixed assets	-37,037	-18,673
Disposal of fixed assets	85	590
Purchase of investments	-1,606	-2,436
Sale of investments	456	65
Interest received	2,061	4,198
Sale/(Purchase) of securities, net	14,795	-3,868
Net cash used in investing activities	**-21,246**	**-20,124**
CASH FLOWS FROM FINANCING ACTIVITIES		
Issuance of new shares	0	237
Share premium on the issuance of new shares	0	359
Loan proceeds	33,917	32,395
Interest paid	-1,676	-2,106
Dividend paid	-5,322	-1,745
Loan principal repayments	-19,812	-17,312
Net cash provided by financing activities	**7,107**	**11,828**
Net increase/(decrease) in cash and cash equivalents	**-3,086**	**1,570**
Cash and cash equivalents, at the beginning of the period	**6,505**	**4,935**
Cash and cash equivalents, at the end of the period	**3,419**	**6,505**

The accompanying notes are integral part of these statements of cash flows.

1. Presentation of The Group Structure

1.a. Structure of TVK Group

The following is a summary of ownership shares and voting rights of entities belonging to Tiszai Vegyi Kombinát Group (the "Group") as of 31 December 1999:

Description	Other owners	TVK Group Ownership	Minority Interest Share Percentage	Consolidation method
Parent Company				
Tiszai Vegyi Kombinát Rt.	(See Note 19.)	-	-	
Subsidiaries				
TVK Gépgyár Kft.		100	-	Full consolidation
TVK Italia S.R.L.		100	-	Full consolidation
TVK UK Ltd.		100	-	Full consolidation
Amerwind B.V.		100	-	Full consolidation
TIPSZO Kft.	Employees of TIPSZO Kft.	99	1	Full consolidation
Plastico S.A.	Employees of Plastico S.A. and private investors	91	9	Full consolidation
Tiszachem Rt.	Tiszachem Rt.	75	8.7	Full consolidation
	employees Tiszachem Rt.		7.3	
	Tufail and Brothers		4.5	
	Mineral- Mol Trade Rt.		4.5	
Unterland A.G.	Beteiligungs und Investment Gmbh	74	26	Full consolidation
Unichem Inc.	Nitrokémia Rt.	65	30	Full consolidation
	Private investors		5	
TVK InterChemol GmbH	Metallgesellschaft GmbH	51	49	Full consolidation
Joint Ventures				
TiszaTextil Kft.	Ibiscus Ltd.	50	50	Proportionate
TVK-MOL-Chem S.a.r.l.	MOL-Chem Kft.	50	50	Proportionate

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

1.b. Background of consolidated companies:

Tiszai Vegyi Kombinát Rt.

Tiszai Vegyi Kombinát was founded in 1961 as a state company. Effective 31 December 1991, Tiszai Vegyi Kombinát Részvénytársaság ("TVK Rt.", "Parent Company" or "Company") was incorporated. TVK Rt. is the legal successor of the Tiszai Vegyi Kombinát, which was terminated as a result of its transformation as of 1 January 1992.

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

In 1996, the Company was privatized through offering shares owned by ÁPV Rt. to foreign and domestic institutional and private investors. Following the privatization, the shares of the Company were listed on the Budapest Stock Exchange and the Global Depositary Receipts ("GDRs") representing the shares were listed on the London Stock Exchange. As of 31 December 1999, the majority of the shares is owned by foreign and domestic institutional investors.

The Company, headquartered in Tiszaújváros is engaged in the production of chemical raw materials including ethylene, propylene and polymers of these products as well as plastic products for both domestic and export markets.

TVK Gépgyár Kft.

TVK Gépgyár Kft. was set up by TVK Rt. in 1994 with a share capital of HUF 437 million. It manufactures spare parts and pressure-resistant elements and repairs equipment mainly for TVK Rt.

In 1997, TVK Rt. sold TVK Gépgyár Kft. to TIPSZO Kft., one of its subsidiaries, at a loss of HUF 134 million (eliminated on consolidation). However, TVK Gépgyár Kft. is still fully consolidated as part of TVK Group.

TVK Italia S.R.L.

TVK Italia S.R.L. is a trading company seated in Milan, Italy, set up in 1994 by TVK Rt. and an Italian partner, Cordusio SpA. The company purchases plastic raw materials on its own account from TVK Rt. and sells them in Italy. In 1995, TVK Rt. acquired the remaining 40% ownership in TVK Italia S.R.L. and became the 100% owner of the company.

TVK UK Ltd.

TVK UK Ltd. was established in 1996 by TVK Rt. with a residence in London. The issued capital was GBP 200,000. The company purchases polymers on its own account from TVK Rt. and sells them in the United Kingdom.

Amerwind B.V.
In December 1999, TVK acquired Amerwind B.V. registered in the Netherlands. Amerwind B.V. is a 100% owned subsidiary, which will carry out international acquisition activities on behalf of TVK. The subsidiary is being currently renamed to TVK Finance BV. The Company is located in Amsterdam.

TIPSZO Kft.
TVK Rt. formed TIPSZO Kft. in 1996. The owners raised the issued capital to HUF 433 million in 1997. The entity renders repair services and trades material transportation equipment, containers and cooling equipment.

Plastico S.A.
The Company bought a 67% share of the Romanian Plastico S.A. in October 1997. In 1998, TVK Rt. raised the capital of its subsidiary by HUF 373 million in several installments. TVK Rt. also acquired additional shares in Plastico S.A. As a result of these actions, TVK Rt.'s share in Plastico S.A. increased to 91%. Plastico S.A. is located in Sepsiszentgyörgy, Romania, and is engaged in plastics processing and selling.

Tiszachem Rt.
Tiszachem Rt. was set up in 1990 by the Tiszai Vegyi Kombinát, Chemol Rt., Mineralimpex and HIB International Ltd. with share capital HUF 100 million. Effective 1 January 2000, the company ceased operations and will be transformed from Incorporation to Limited Liability Company.

Unterland A.G.
During 1998, TVK Rt. acquired a 74% share in Unterland A.G. (Austria) as follows. TVK Rt. purchased a 24% share in Unterland A.G., with its legal seat in Kufstein-Schaftenau and share capital of ATS 100 million. TVK Rt. also acquired 100% ownership in Hamburger Holding (since renamed to TVK Holding) seated in Pitten which held a 50% share in Unterland A.G.. In December 1998, TVK Rt. also committed to raise the reserves of the Holding by ATS 219 million (HUF 3,981 million, see Note 18.) and transferred the cash in January 1999. In March 1999, the shareholders raised the registered capital of Unterland AG by ATS 100 million to ATS 200 million. Following this increase, TVK owns a total of 74% of Unterland A.G.'s shares comprising 49% shares direct and 25% indirect shareholding in the subsidiary. Unterland A.G. produces and sells polypropylene and polyethylene clingfilm products, such as industrial stretch and films, carrier and other bags.

Unichem Inc.
In 1996 Unichem Int. Inc. (registered in Lafayette, Indiana) was established to strengthen trading and marketing activities in the USA. The share capital of the company is USD 200 thousand. The owners are TVK Rt. (65%), Nitrokémia (30%), and a private investor (5%). The company suspended its operation from 1 January 2000.

TVK InterChemol GmbH
TVK InterChemol GmbH was established in 1997, with a residence in Frankfurt am Main, by TVK Rt. and Metallgesellschaft GmbH (in 49%) with share capital of DEM 1,200,000. The company purchases chemical products on its own account from TVK Rt. and sells them in Germany.

TiszaTextil Kft.
Tiszatextil Kft. is a producer of woven bags. The company was established by TVK Rt. and Ibiscus Ltd. in 1991. TVK Rt. provides the company with raw materials and purchases about 20% of Tiszatextil Kft.'s production. The owners decreased the issued capital from HUF 1,293 million to HUF 793 million in 1997.

TVK-MOL-CHEM S.a.r.l.
TVK-MOL-CHEM S.a.r.l. was established in 1997 by TVK Rt. and MOL Rt. Both companies' share is 50% with FRF 500,000 total capital. The residence of the company is Paris. The company purchases chemical and plastic products on its own account and sells them in France.

2. Operational Highlights

The following is a summary of the Group's consolidated results of operations (HUF billions):

	1999	1998
Sales	122.4	86.0
Gross profit	26.9	27.6
Operating income	6.0	15.4
Income before tax and minority interest	5.7	14.5
Net income	7.2	11.8

The net revenue growth in 1999 of more than HUF 36.4 billion is a compound effect due to rising sales prices resulting in about a HUF 6.7 billion increase and to a decrease in physical quantities sold resulting in a decrease of about HUF 2 billion, and the consolidation of Unterland A.G. 1999 average sales prices rose by about 8.7% compared to 1998 average prices. The decrease in physical quantities sold is due to the down time during the upgrading of the Olefin plant in the period April to June 1999.

The 1999 operational result decreased significantly compared to 1998 (HUF 9.4 billion) due to a rise in raw material prices of about HUF 12.2 billion which more than offset the increase in sales prices. Further impact that decreased 1999 operational result is the operational loss suffered by Unterland A.G. amounting to HUF 604 million.

1999 net income is lower than the prior year net income by about only HUF 4.6 billion. This was due to the decrease in operational profit partially offset by the tax holiday for 1998 accounted for in 1999 and the 1999 tax allowance (see Note 3).

In 1999 and 1998, the management of TVK Rt. concentrated its efforts in the following major areas:

- Ensured high level utilization of the cracking and polymerizing production capacities and increased the utilization of the plastics producing divisions.
- Assessed, with the help of consultants, the existing organizational structure of the Company and implemented an organizational structure best suited to TVK Rt.'s long-term strategy.
- Finished the upgrade of the Olefin plant aimed at increasing the capacity and installed a new production line for biafol clingfilm in July 1999. The new polypropylene plant started test production in December 1999 and will be fully operational in early 2000.
- Continued to streamline the petrochemical profile of the Company by separating the servicing units and disposing of non-operating assets.
- Continued the clean-up of environmental pollution identified by the environmental audit related to the privatization.
- Established a new trading network in the major European and overseas export markets to enhance the volume and effectiveness of sales.

- Continued the expansion of production capacities abroad by acquiring majority ownership in the Romanian company, Plastico S.A. and the Austrian Unterland A.G.
- The integrated management information system, Business Planning and Control System (BPCS) was supplemented with a new Controlling Software (CS) in 1996 and a Management Information System (MIS) in 1997. In October, 1999 BPCS was updated to a new version able to cope with the Y2K problem and introducing enhanced functions.
- Successfully dealt with the Year 2000 issue; the change of date was smooth.
- Won the National Quality Award in 1998. New services divisions qualified for ISO 9001 certificate in 1999.
- Prepared, together with a consulting firm, a cost reduction program which will be implemented in 2000.

3. Tax Refund

The statements of position of the Ministry of Finance and the Tax Authority affecting the Company's 1998 tax return were received after the 1998 financial statements were finalized, audited and approved by the annual shareholders meeting. Based on the statements of position received in May 1999, TVK qualified for a 50% tax holiday for 1998. The impact of the 50% tax holiday has been recorded in the accompanying 1999 statements of income as tax allowance. For 1999, TVK is entitled to a 95.7% tax holiday. This holiday was achieved due to construction of product manufacturing facilities of HUF 1.5 billion in 1996 and HUF 3.7 billion in 1997 and 1998. The Company met the requirements for growth in revenues in those periods.

4. Basis of Presentation

The Company maintains its books and records in accordance with generally accepted accounting standards in Hungary. The accompanying financial statements have been prepared primarily for use outside of Hungary and reflect certain reclassifications and adjustments required to present them in accordance with International Accounting Standards ("IAS").

The effect of these adjustments to the net income of the Company for the year ended 31 December 1999 is as follows :

	1999
Net income before dividends per TVK Rt. consolidated Hungarian statutory reporting	6,417
Adjustments:	
The 50 % tax holiday for 1998	1,354
Unterland A.G.'s statutory loss for 1999**	-907
Accounting for finance leases *	-688
Reversal of the write off of investment notes	356
Capitalization of the foreign currency loss related to construction loan	350
Decrease of deferred tax liability of Unterland A.G. (see Note O.)	326
Increase in environmental accrual (see Note O.)	-282
Gain on treasury shares sold in the framework of management share purchase option	-192
Unterland A.G.'s goodwill amortization	-117
Other	579
Net income per the accompanying statements of income	**7,196**

* Finance leases entered into before 1 January 1997 are accounted for as operational leases under Hungarian Accounting Standards. Since the lease contracts have expired, only the depreciation of the related assets is recorded as a charge to the income statement.
** Unterland A.G. was consolidated from 1 January 1999 in the financial statements according to IAS and from 31 December 1999 in the statutory consolidated financial statements. Therefore, the statutory loss of Unterland A.G. for 1999 decreases the negative goodwill arising on consolidation of Unterland A.G. under Hungarian Accounting Standards as of 31 December 1999.

5. Significant Accounting Policies

Investments

Major subsidiaries and joint ventures have been consolidated fully or on a proportionate basis. The Parent Company's ownership in certain newly established companies exceeds 50% (see Note 8.). Management believes that the effect of using the equity method rather than performing a full consolidation of those companies is not material to the accompanying consolidated financial statements.
The Parent company has significant (greater than 20%) ownership in certain companies (see Note 8.). These investments have been accounted in accordance with the equity method whereby the investment is recorded at the Parent's ownership percentage of the net assets of the investment.

Intercompany transactions

All material intercompany transactions have been eliminated from the consolidated financial statements.

Goodwill

The excess of the cost of an acquisition over the Company's interest in the fair value of the net identifiable assets acquired as at the date of the transaction is recorded as goodwill and recognized as an asset in the balance sheet. Goodwill is carried at cost less accumulated amortization and accumulated impairment losses. Goodwill is amortized on a straight-line basis over five years.

Impact of inflation

IAS requires the restatement of financial statements in terms of constant monetary units if hyperinflationary conditions exist in an economy. IAS defines hyperinflation in relation to various criteria, one of which is if the cumulative inflation over the preceding three years exceeds 100%. The inflation rate based on the Hungarian consumer price index was 24%, 18%, 14% and 10% for the four years ended 31 December 1996, 1997, 1998 and 1999 respectively, giving a three year cumulative rate of 67% through 1998 and 48% through 1999. Since the cumulative rates are below 100%, the accompanying financial statements are presented in local currency without giving effect to inflation. Nevertheless, the effect of inflation is significant and should be taken into account in assessing the performance of the Group.

Foreign currency transactions

The functional currency of the Parent Company is the Hungarian Forint (HUF), in which the accompanying consolidated financial statements are presented. Any gains or losses arising from a change in exchange rates from the date of the transaction to the applicable year-end rate for settled and unsettled foreign currency transactions are recorded in the accompanying consolidated statements of income in other income (see Note 24.) or other expense (see Note 25.).

Revenue and expense recognition

Revenue is recognized when goods are delivered or services rendered and performance is accepted by the customer. Expenses are recognized on an accrual basis.

Tangible fixed assets

In conjunction with TVK Rt.'s transformation to a company limited by shares as of 1 January 1992, a valuation of tangible fixed assets was prepared by a professional appraisal firm. The basic valuation approach was depreciated replacement cost. The Company replaced the historic depreciated cost of tangible fixed assets with the valuation amounts as of 1 January 1992. A portion of the net gain arising from the recording of the valuation amounts and the writing off of accumulated depreciation have been capitalized upon transformation to share capital. The remaining net gain of HUF 7,910 million was reflected as retained earnings carried forward in the balance sheet of TVK Rt. as of 31 December 1992. Subsequent additions to tangible fixed assets have been recorded at cost.

Interest and other expenses related to loans obtained for financing fixed assets construction are capitalized in the cost of the related assets.

Depreciation is calculated using the straight-line method at rates calculated to write off the gross book value of the assets over their estimated economic useful lives remaining after the Company's transformation on 1 January 1992. On 31 December 1994, the Company assessed the remaining life of the leased plants at 10 years. The following table presents a summary of the estimated useful lives.

Buildings and infrastructure	10-50 years
Production machinery and equipment	7-15 years
Office and computer equipment	3-10 years
Leased plants	10 years
Vehicles	5-10 years

Leased plants include PP III, PE III and BOPP. These leasing contracts have expired as of 31 December 1997.

Long-term investments
The Company values the investments at the lower of historical cost or net realizable value.

Inventories
Inventories are stated at the lower of historical cost or net realizable value. The historical cost of purchased inventory is determined using a weighted average cost formula. Self-manufactured inventory includes production-related overhead costs. Obsolete and slow-moving inventories identified by management have been written off in the relevant period.

Treasury Stock
Treasury stocks are recorded in the accompanying financial statements as reductions of equity from 1 January 1999.

Deferred tax
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 Group expects, at the balance sheet date, to recover or settle the carrying amount of its assets and liabilities.
Deferred tax assets are recognized when it is probable that sufficient taxable profits will be available against which the deferred tax assets can be utilized. At each balance sheet date, the Group re-assesses unrecognized deferred tax assets and the carrying amount of deferred tax assets. The Group recognizes a previously unrecognized 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 Group 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 utilized.

Management share purchase option
When the Company settled the management share option using treasury stock, the difference between the historical book value of treasury stocks and consideration received from management was charged to reserves in 1999.
In 1998 the Company settled the option by issuing new shares; the difference between the quoted market price of the shares at the date of the registration and the consideration received was recorded as a charge to the income statement and a corresponding increase in reserves.

Contingencies

The Company assesses uncertain future events based on their nature, the likelihood of their occurrence and their potential impact. If the likelihood is remote or the impact cannot be estimated, the contingency is disclosed in the accompanying notes to the financial statements.

Cash-flow

Material non-cash transactions have been eliminated from the accompanying consolidated cash flow statement prepared according to IAS.

6. Intangible Fixed Assets, Net

Intangible fixed assets consist of goodwill deriving from the acquisition of Unterland A.G. in January 1999 and software. The goodwill is amortized over 5 years using the straight-line method in the accompanying financial statements.
The carrying amount of goodwill and the related amortization in 1999 are described as follows (amounts in HUF million):

Goodwill

Goodwill deriving from the acquisition of Unterland A.G. in January 1999	586
Amortization	-117
Net book value of goodwill as of 31 December 1999	469

7. Tangible Fixed Assets, Net

Tangible fixed assets consisted of the following as of 31 December 1998 and 1999:

	Land and buildings	Technical equipment and machinery	Other	Total
GROSS VALUE				
Closing balance as of 31 December 1998	14,549	31,405	19,076	65,030
ACCUMULATED DEPRECIATION				
Closing balance as of 31 December 1998	-2,112	-14,169	-3,754	-20,035
NET BOOK VALUE as of 31 December 1998	12,437	17,236	15,322	44,995
GROSS VALUE				
Closing balance as of 31 December 1999	31,107	73,959	27,860	132,926
ACCUMULATED DEPRECIATION				
Closing balance as of 31 December 1999	-5,867	-30,026	-5,474	-41,367
NET BOOK VALUE as of 31 December 1999	25,240	43,933	22,386	91,559

Fixed assets leased under finance leases are included in technical equipment and machinery. These assets relate to the polyethylene plant ("PE III"), the polypropylene plant ("PP III") and biafol clingfilm equipment and have a gross value of HUF 7.8 billion as of 31 December 1999.

In July 1999, the Company successfully completed the upgrade of Olefin plant and in August finished the test run of BOPP III plant. In December 1999, the Company put into operations the auxiliary facilities to plant PP IV which represent HUF 4 billion of construction and equipment.

Other fixed assets include construction-in-progress, capital spares and welfare assets. Capital spares included in other fixed assets are presented net of the related provision for obsolescence and excess items of HUF 436 million as of 31 December 1999.

As of 31 December 1999, no fixed assets of the Parent Company were pledged for loans.

8. Long-Term Investments

Long-term investments consisted of the following as of 31 December 1999 and 1998:

	Share	Net book value	
	(%)	1999	1998
Subsidiaries:			
TVK Ingatlankezelo Kft.	100.0	2,638	2,638
Ecomissió Kft.	100.0	734	734
Inno-Comp Kft.	69.0	566	566
TVK Remat Kft.	98.7	507	162
TVK Ecocenter Kft.	99.8	430	5
TVK Gépszerelo Kft.	100.0	300	300
TVK Automatika Kft.	51.0	178	178
TVK Pohárgyártó Kft.	96.2	156	310
TVK PlastTmk Kft.	99.6	144	234
TVK HIX Kft.	99.8	110	110
TVK Polisec Kft.	100.0	46	46
TVK MED Egészségügyi Kft.	100.0	18	18
ÖKO-PARK Kft.	71.6	14	14
TVK Austria Gmbh.	51.0	5	5
TVK-Polska Sp.Z.o.o.	52.5	4	4
Unterland A.G.	74.0	0*	5,895
TVK Univill Kft.	0	0	107
Kolonel TVK Kft.	0	0	82
TVK Gyárfenntartó Kft.	0	0	132
TVK VISZ Kft.	0	0	116
TVK Immobil Kft.	0	0	10
Other		126	87

	Share (%)	Net book value 1999	1998
Associated companies:			
Columbian Tiszai Carbon Kft.	40.0	776	776
Geo-Tipptex Kft.	25.1	298	208
Révész Trans Kft.	0	0	65
VIBA-TVK Kft.	40.0	53	53
TP BOX Kft.	47.0	23	23
Long-term securities:			
State bonds	180	180	180
Total		7,306	13,058

* Unterland A.G. is consolidated from 1 January 1999.

During 1999 the Parent Company continued the organizational restructuring through spinning off its service units. In setting up the new companies, TVK Rt.'s objective was to involve external and industry investors.

Subsidiaries

In May 1998, TVK Rt. established **TVK Ingatlankezelő Kft.** by contributing certain unutilized properties. The issued capital of the company as of 31 December 1998 is HUF 2,638 million and is comprised of HUF 2,134 million of contribution in kind and 504 million of cash contribution. The company is engaged in maintaining the buildings, and managing their utilization through subletting the properties or otherwise utilizing them.

TVK Égetőmű Kft. was established in 1996 with registered capital of HUF 423 million, which was raised by HUF 311 million by TVK Rt. in 1997. The company processes hazardous and other waste materials. In 1998, its name was changed to Ecomissió Kft.

In December 1998, TVK Rt. set up jointly with the Swiss-based PCG Polyconsult A.G., **INNO-COMP Kft.** with a capital of HUF 822 million. The company is seated in Tiszaújváros and will develop, produce and sell special thermoplastic compounds. TVK Rt. contributed in kind 266 million worth of assets and 300 million cash and obtained 69% ownership.

TVK Remat Kft. recycles waste and scrap materials resulting from TVK Rt.'s operations. TVK raised the capital of the company by HUF 121 million in 1998, and HUF 345 million in 1999. TVK Rt.'s ownership share increased to 98,71% due to these increases. The residence of the company is Tiszaújváros.

TVK Ecocenter Kft. was established by TVK Rt., Interservice Group Kft. and Zuter Kft. (40 %) and private individuals with initial issued capital of HUF 10 million. In April 1999, TVK purchased shares of ZUTER Kft. for HUF 35 million and increased its holding in this strategically important investment to 91%. In June 1999, TVK's Board decided to raise the capital of the company by HUF 540 million and TVK's share increased to 99.83%. During 1999, TVK devalued the investment by HUF 150 million and the net book value as of 31 December 1999 is HUF 430.1 million. The company is located in Tiszaújváros. Its main activities are recycling and utilization of waste materials.

TVK Gépszerelő Kft. was established by TVK Rt. with HUF 300 million capital, and a residence in Tiszaújváros. The company repairs and maintains special machinery of TVK Rt. and other Hungarian clients.

TVK Automatika Kft. was established by TVK Rt. (74%), EL&ME Kft. (26%) and private individuals, with a residence in Tiszaújváros. The establishment required HUF 350 million issued capital. TVK Rt. sold its stake of 45.5 million HUF to EL&ME Kft. in December 1997. TVK Rt.'s current share is 51%. The company repairs and maintains engineering equipment and produces metal structures.

TVK Pohárgyártó Kft. was established by the Company (83%), Neolog Bt. (16.9%) and a private individual on 15 April 1996. The Company raised the issued capital by HUF 250 million in 1997, increasing its share to 96%. In 1999, TVK devalued the investment by HUF 154 million and thus the net book value is HUF 155.5 million. The company trades and produces plastic products. Its raw materials are purchased from TVK Rt.

TVK PlastTmk Kft. was established by TVK Rt., with a residence in Tiszaújváros with HUF 234 million capital. In 1999, TVK devalued the investment by HUF 90 million and thus the net book value is HUF 144 million The company repairs and maintains plastics processing equipment TVK Rt. established TVK HIX Kft., formerly "Ellátási Üzem", as a separate entity to provide wholesale and retail trading activities, with a residence in Tiszaújváros.

TVK Polisec Kft. was formed, in 1996, by the Company and TVK Gépgyár Kft. to perform security services. In 1999, TVK bought out the other investor and acquired 100% ownership.

TVK MED Egészségügyi Kft. was founded to provide healthcare and medical services to TVK employees. The capital consists of cash contribution and contribution in kind.

ÖKO-PARK Kft. performs gardening and park maintenance services.

In December 1998, together with ITRACO GmbH, TVK Rt. set up **TVK-Austria GmbH** with a capital of ATS 500.000. TVK Rt. holds 51% of the company seated in Wiener Neustadt. The company will distribute TVK Rt. products in Austria.

In 1998, TVK Rt. acquired 52.5% share in **TVK-Polska Sp. Z.o.o.** from BritChem Trading Ltd. The company will distribute in Poland, TVK Rt. polymers and plastics products.

Kolonel TVK Kft. was established by TVK Rt., with a residence in Tiszaújváros. The issued capital of the company is HUF 82 million. The company is being winded up and TVK wrote off the investment in full in 1999.

Associated companies:
Columbian Chemicals Co. and TVK Rt. established **Columbian Tiszai Carbon Kft.** in 1992, with a residence in Tiszaújváros. The company's capital is HUF 1,940 million. The company produces black carbon used in the rubber industry from a by-product (quench oil) of TVK Rt.

In 1996, the Company spun-off the geotextile production as a separate entity, **Geo-Tipptex Kft.,** producing and selling geotextile. The company purchases its raw materials mainly from TVK Rt.'s share in the company is 25% and the remaining 75% share is owned by Acquest Invest BV.

VIBA-TVK Kft. is a company formed in 1993 with VIBA-Italy for the purpose of producing polymer dye, with a residence in Tiszaújváros. The raw materials are delivered by TVK Rt.

TP BOX Kft. produces and sells metal cans and boxes. The owners are TVK Rt. (47%) and Picopack Rt.
Transactions with investee companies are carried out at market prices with terms comparable to transactions with unrelated parties.

Investment in long-term securities
State bonds are due in June 2013 and bear a floating interest equal to 3 and 6 months discount treasury bills plus 1.5%. TVK Rt. has committed to contribute the interest on the bonds to foundations.

9. Treasury Stock

There were two transactions related to treasury stock in 1999, as follows:
In December 1999, the Company sold 2,350,664 treasury over the counter at HUF 4,150 per share. The historical book value of treasury stocks was HUF 1,647 per share. The gain resulting from the sale of treasury shares (HUF 5,884 million) is not recognized under IAS. Amerwind B.V., the 100% owned subsidiary of TVK Rt. has purchased the treasury shares in December, 1999. In 1999, the historical book value of the treasury shares is reclassified as a decrease in share capital (to the extent of nominal value) and share premium according to IAS. As of 31 December 1998, treasury shares were presented as an asset in the balance sheet.
As of 31 December 1999, the Company holds 103,737 of employee shares purchased back at nominal value, which comprises 0.4% of the total shares. Employee shares are classified as a decrease in the issued capital according to IAS.

10. Cash

Cash consisted of the following as of 31 December 1999 and 1998:

	1999	1998
Current accounts	2,875	2,053
Petty-cash	542	437
Short-term bank deposits	2	4,015
Total	**3,419**	**6,505**

11. Receivables, Net

Current receivables consisted of the following as of 31 December 1999 and 1998:

	1999	1998
Foreign trade receivables	21,668	10,785
Domestic trade receivables	2,053	1,313
	23,721	12,098
Less: Allowance for doubtful receivables	-1,367	-1,123
Total	**22,354**	**10,975**

In evaluating the adequacy of the allowance for doubtful accounts, the management estimated the amount of potential risk of loss for significant customers having liquidity problems. Historical bad debt write-offs and the estimated effects of current economic conditions are also considered. In the opinion of management, the level of allowance for doubtful accounts as of 31 December 1999 is adequate to cover expected losses.
Foreign trade receivables are denominated primarily in DEM, USD and ATS and are recorded at the exchange rate as of 31 December 1999. The resulting gain or loss is included in Other Income (see Note 24.) or Other Expenses (see Note 25.) in the accompanying consolidated statements of income.

12. Inventories

Inventories consisted of the following as of 31 December 1999 and 1998:

	1999	1998
Finished goods	11,115	5,429
Raw materials	6,570	2,636
	17,685	**8,065**
Less: allowance for obsolete and slow-moving inventories	-104	-88
Total	**17,581**	**7,977**

Management believes that the level of allowance as of 31 December 1999 is sufficient to absorb potential future losses.
As of 31 December 1999, no inventory owned by the Parent Company was pledged for loans.

13. Prepayments and Other Current Assets, Net

Prepayments and other current assets consisted of the following as of 31 December 1999 and 1998:

	1999	1998
Refundable income tax ***	1,999	67
Prepayments to suppliers *	1,986	4,577
VAT and other taxes recoverable	1,352	1,536
Receivable for investment with Quantum Broker Rt.**	633	1,063
Interest and dividend receivable	374	2,108
Quantity discount, Unterland A.G.	401	0
Loans to other entities	242	228
Import VAT reclaimable	218	1,098
Deferred tax	98	142
Other	615	400
	7,918	11,219
Less: Provision for receivable from Quantum Broker Rt.**	-633	-658
Total	**7,285**	**10,561**

* In 1998 and 1999, the balance includes prepayments for construction work related to the upgrade of the Olefin plant, the new Polypropylene plant and other projects.
** In 1999, the balances represent receivable for 633 million cash transferred to Quantum Broker Rt. for investment in discount treasury bills and the related provision. (See Note 27.5.)
*** The Company has fulfilled the conditions for company income tax holiday and qualified for a tax allowance of 95.7% for 1999. (See Note 29.)

14. Current Investments

Current investments consisted of the following as of 31 December 1999 and 1998:

	1999	1998
State Bonds*	1,693	3,853
Discount Treasury Bills*	1,110	3,662
CIB Bonds	500	0
Civis Hotel Share	65	65
Budapest Bank Investment Fund	22	474
MNB Bonds*	0	5,805
Creditanstalt Bond	0	1,304
Hunnia Investment Fund	0	1,268
ING Bank Bond	0	491
Aranypolgár Investment Fund	0	427
KVH Rt. Bonds	0	33
Other	15	86
Total	**3,405**	**17,468**

* Investments guaranteed by the State of Hungary.

15. Accounts Payable

Accounts payable consisted of the following as of 31 December 1999 and 1998 :

	1999	1998
Foreign trade creditors	7,833	2,255
Domestic trade creditors	6,936	2,219
Construction creditors	627	3,192
Total	**15,396**	**7,666**

16. Short-Term Debt

Short-term debt consisted of the following as of 31 December 1999:

Bank and Description	Balance	Interest rate	Repayment Date
Bank Austria - Unterland A.G. (ATS 108,669 thousand)	2,013	floating interest	Overdraft
Erste Bank- Unterland A.G.(ATS 78,763 thousand)	1,459	floating interest	Overdraft
Creditanstalt- Unterland A.G.(ATS 74,775 thousand)	1,385	floating interest	Overdraft
Creditanstalt - TVK UK (GBP 2.4 million)	988	floating interest	Overdraft
MKB Rt. overdraft	736	floating interest	25/Jan/2000*
TVK Italia overdraft (ITL 4,342 million)	571	floating interest	Overdraft
Volksbank - Unterland A.G. (ATS 30.2 million)	560	4.125 %	28/April/2000.
RZB Österreich- Unterland A.G. (ATS 24.7 million)	458	floating interest	Overdraft
ABN- AMRO overdraft	272	floating interest	27/June/2000.
Metallbank GmbH loan to InterChemol (DEM 1.5 million)	195	4.40 %	16/March/2000
Creditanstalt Budapest (DEM 992 thousand) - InterChemol	129	3.84 %	31/March/2000
Tiszatextil Kft	114	3 months BUBOR +1.5%	Overdraft
CIB overdraft	59	floating interest	15/May/2000.
Unicbank Rt. overdraft	28	floating interest	30/June/2000
Other	971		
	9,938		

*The overdraft facility with MKB Rt. has been extended until 31 March 2000.

Short-term debt consisted of the following as of 31 December 1998:

Bank and Description	Balance	Interest rate	Repayment date
MKB Rt. (HUF) overdraft	2,845	floating interest	25/Jan/99
Creditanstalt loan to TVK UK Ltd. (GBP 1.3 million)	476	LIBOR+0.625%	Overdraft
Unicbank (DEM 3 million)	388	LIBOR+0.2%	31/Oct/99
Metallbank GmbH loan to InterChemol (DEM 1.5 million)	206	floating interest	16/Marc/99
TVK Italia overdrafts (ITL 1,512 million)	200	floating interest	Overdraft
Creditanstalt (DEM 984 thousand) loan to InterChemol	128	floating interest	Overdraft
Metallgesellschaft (DEM 691 thousand)	90	LIBOR+0.87%	Overdraft
Commerzbank A.G. Frankfurt (DEM 643 thousand), InterChemol	84	floating interest	Overdraft
Other	160		
Total	**4,577**		

17. Long-Term Debt

Long-term debt consisted of the following as of 31 December 1999:

Bank and Description	Balance	Interest rate	Repayment date
Foreign currency loan (DEM 255 million)*	33,381	Libor+0.5%	31/July/2005.
Bank Austria - Unterland A.G.** (ATS 280 million)	5,188	floating interest	Export financing credit facility with indefinite maturity.
Creditanstalt- Unterland A.G.(ATS 50 million)	926	4.07%	31/March/2006
Erste Bank- Unterland A.G.(ATS 18 million)	334	4%	30/Sept./2003
JEXIM Bank loan to Tiszatextil Kft.(HUF)	134	75% of MNB interest +2%	20/Nov./2007
Other	515		
	40,478		

* The Company signed a DEM 260 million loan agreement with a consortium led by OTP Rt. in July 1998. The loan has floating interest and the interest is LIBOR + 0.5%. The loan will be drawn and repaid in several installments. The amount drawn in 1999 was DEM 255 million. The loan was used for financing the construction of the new Polypropylene Plant and the upgrading of the Olefin Plant.

** The balance of the credit includes HUF 3,335 million (ATS 180 million) of rolling export credit, which does not have a definite expiration period. Management believes that the credit facility will be available for indefinite period.

Long-term debt consisted of the following as of 31 December 1998:

Bank and Description	Balance	Interest rate	Repayment date
Foreign currency loan (DEM 120 million)	15,561	LIBOR+0.5%	31/July/2005
CIB foreign currency loan (DEM 17 million)	2,198	LIBOR+0.2%	12/Dec/2000
Starlinger GmbH loan to TiszaTextil Kft. (HUF)	191	floating interest	Dec/2001
JEXIM Bank loan to TiszaTextil Kft. (HUF)	182	16.5%	Nov/2007
Total	**18,132**		

18. Other Current Liabilities

Other current liabilities consisted of the following as of 31 December 1999 and 1998:

	1999	1998
Accrued expenses	1,604	548
Provision for liabilities	1,522	0
Accrual for environment clean-up costs (see Note 27.6.)**	273	690
Dividend payable*	4,506	5,521
Payroll and related taxes	457	394
Liability to the Customs Authority	205	763
Recycling cost of waste materials, Unterland A.G.	211	0
Liability related to the acquisition of Unterland A.G. (See Note 8.)	0	3,981
Other	1,179	805
Total	**9,957**	**12,702**

* Dividend payable includes the amount of dividend for 1999 approved by the Annual General Meeting of TVK Rt. on 28 April 2000 and the portion of dividend for prior years, which has not yet been paid (see Note 20.).
** In 1999, the long-term portion of environmental accrual amounted to HUF 664 million is included in other long-term liabilities.

19. Share Capital

Share capital consisted of the following as of 31 December 1999:

Owner	Number of Shares in thousands	Nominal Value (HUF)	Total Value (HUF million)	Ownership percentage
International institutional investors	12,506	1,010	12,630	55.9
Domestic institutional investors	5,477	1,010	5,532	4.5
Domestic private investors	1,290	1,010	1,303	5.8
Employees (employee shares)	502	1,000	502	2.2
International private investors	4	1,010	4	-
Unregistered investors *	2,608	1,010	2,634	11.6
Total	**22,387**		**22,605**	**100.00**

* Shareholders who have not been registered in the Share Register as of 31 December 1999.

Details of issued capital by types of shares is as follows:

Type of share	Number of shares	Issued capital (HUF thousand)
Ordinary shares representing equal and equivalent rights of members (face value of one share is HUF 1,010)	21,884,179	22,103,020
Employee shares representing rights equal to ordinary shares* (face value of one share is HUF 1,000)	502,735	502,735
Total	**22,386,914**	**22,605,755**

* In 1999, the Company has purchased 103,737 of employee shares at nominal value from the total 606,472 employee shares issued.(See Note 9.)

20. Retained Earnings

Distributable earnings of the Company are limited to the profits before dividends and retained earnings determined by the audited statutory standalone financial statements prepared under Hungarian Accounting Standards as of 31 December 1999.

For 1999 the Annual General Meeting approved HUF 175 dividend per share amounting to HUF 3,915 million.
The previous Annual General Meeting approved a dividend of HUF 240 per share for 1998, which amounted to HUF 5,322 million, and has been almost completely paid in 1999.

21. Sales, Cost Of Sales and Gross Profit

Sales, cost of sales and gross profit consisted of the following for the years ended 31 December 1998 and 1998:

	1999	1998
Export sales	81,501	50,331
Domestic sales	40,859	35,708
Total	**122,360**	**86,039**
Cost of Sales	-95,479	-58,373
Gross Profit	**26,881**	**27,666**

Sales, cost of sales and gross profit per operational segments for the year ended 1999 are as follows:

Division	Sales	Cost of sales	Gross profit
HDPE	25,955	18,088	7,867
LDPE	15,221	10,681	4,540
Plastics	40,762	36,863	3,899
Polypropylene	15,980	12,189	3,791
Olefin	16,543	14,161	2,382
Other	7,899	3,497	4,402
Total	**122,360**	**95,479**	**26,881**

The gross book value of tangible fixed assets and accumulated depreciation per operational segments as of 31 December 1999 are as follows:

Division	Gross book value	Accumulated depreciation	Net book value
Plastics	53,146	20,111	33,035
Polypropylene	26,965	3,386	23,579
Olefin	22,703	6,618	16,085
Polyethylene	12,604	6,733	5,871
Other	17,508	4,519	12,989
Total	**132,926**	**41,367**	**91,559**

Sales, current assets and the net book value of tangibles and intangibles as of 31 December 1999 and 1998 per geographical segments are as follows:

	Hungary		Austria		Romania		Other foreign		Total	
	1999	1998	1999	1998	1999	1998	1999	1998	1999	1998
Sales	86,918	80,967	29,723	-	427	299	5,292	4,773	122,360	86,039
Current assets	39,829	52,140	10,940	-	199	209	3,076	5,651	54,044	58,000
Tangible and intangible, net	71,791	44,432	18,862	-	1,698	704	349	160	92,700	45,296

22. Discontinuing Operations

On 16 December 1999, the Board of Directors announced a plan to dispose of the plastic producing entities (Unterland A.G., Plastico S.A., Tiszatextil Kft., Pohárgyártó Kft.) and divisions (Biafol, Flexofol, Helioplast, Formplast). The disposal is consistent with the Company's long-term strategy to focus its activity in the area of petrochemical production and distribution, and to divest unrelated activities. The Company is actively seeking a buyer for the plastic divisions and hopes to complete the sale by the end of 2000.

Key financial figures of the plastics segment in 1999 were as follows:

	1999
Balance sheet items:	
Long-term assets	33,684
Current assets	16,206
Total assets	49,890
Income statement items:	
Sales	40,762
Cost of sales	36,863
Selling, general and administrative expenses	5,753
Operating income	-1,854
Other income	329
Other expense	697
Net loss	-2,222

23. Selling, General and Administrative Expenses

Selling, general and administrative expenses consisted of the following for the years ended 31 December 1999 and 1998:

	1999	1998
Selling, general and administrative expenses*	19,269	10,465
Research and development	398	426
Bad debt expense	47	761
Other	1,137	590
Total	**20,851**	**12,242**

* The balance includes expenses of HUF 596 million related to the shares issued in connection with the management share purchase option in 1998. (See Note 27.4.)

24. Other Income

Other income consisted of the following for the years ended 31 December 1999 and 1998:

	1999	1998
Foreign exchange gains	1,362	2,092
Maintenance and other services	991	866
Gain in equity of investments	603	195
Dividend income	327	1,025
Result of indexing of Plastico S.A.'s financials	270	0
Gain on the sale of tangible assets	175	0
Revenue from catering and retail sales	90	307
Customs duties reclaimed	69	122
Rental fee (Unterland A.G.)	56	0
Reversal of prior year's provision (Unterland A.G.)	46	0
Income from damages (Unterland A.G.)	36	0
Other	614	544
Total	**4,639**	**5,151**

25. Other Expense

Other expenses consisted of the following for the years ended 31 December 1999 and 1998:

	1999	1998
Foreign exchange losses	931	1,529
Expenses of maintenance and other services	863	696
Local trading tax	813	980
Loss on securities investments*	746	696
Cost of catering and retail operations	456	573
Environmental expenses	282	187
Loss on disposals of fixed assets	200	347
Loss on hedging	0	2,342
Other	1,097	812
Total	**5,388**	**8,162**

*In 1998, loss on securities investment is comprised of a loss of HUF 340 million incurred on the portfolio handling contract with Budacash Broker Rt. (see Note 27.5.) and a related loss of HUF 356 million on the investment funds managed portfolios (see Note 4.)

26. Payroll Costs

Payroll related expenditures at the Parent Company for the years ended 31 December 1999 and 1998 are as follows:

	1999	1998
Payroll cost	5,071	4,712
Social insurance cost born by employer	1,804	1,706
Other payroll related costs	536	398
Total	**7,411**	**6,816**

The 1998 payroll cost includes HUF 596 million of costs related to the management share purchase option. The corresponding costs in 1999 were immaterial as the option was called at a price close to the net book value of treasury shares.

27. Commitments and Contingencies

27.1. Planned and launched construction projects

The capitalization related to the new PP-IV plant amounted to HUF 22.5 billion until 31 December 1999, of which HUF 4 billion relates to auxiliary facilities already part into use. HUF 911 million interest paid of construction loan has been capitalized as part of the direct cost of construction. In the year 2000, HUF 1.4 billion additional capital outlays are expected for the new PP-IV plant.

27.2. Employee shares and related legal dispute

The Company was obligated to issue employee shares for a portion of the proceeds received from ÁPV Rt. in connection with the privatization of the Company. The Annual General Meeting held on 28 April 1998 approved the issuance of employee shares. Accordingly, shares with a face value of HUF 606 million were issued, thereby increasing the issued capital. Since the employee shares were issued free of charge and the amount received from ÁPV Rt. as proceeds from privatization was recorded by the Company as a capital reserve in 1997, the nominal value of the issued shares decreased the Company’s reserves in 1998.
Stakeholders disputed the amount of employee shares issued and demanded further issue of shares in the amount of HUF 2.3 billion. In September 1998, the court of first instance rejected the claim of the members of the Supervisory Board nominated by the employees. The stakeholders appealed the ruling to a higher court. In January 1999, the Borsod-Abaúj-Zemplén county court confirmed that the employee shares have been issued according to the respective laws and the decision of the court of first instance is effective and enforceable.
Based on the court ruling, the Company has not set up any related provision in the accompanying financial statements.
The court decision rejected the claim of the plaintiff.

27.3. Employee shares held by TVK Rt.

In accordance with the respective laws and the Company Deed of Association, TVK Rt. purchased 103,737 employee shares at nominal value. If the shareholders’ meeting in April 2000 approves the proposal of the Board, these shares will be cancelled in 2000.
The employee shares purchased in 1999 have been classified as a decrease in equity (See Note 9, 19).

27.4. Management Share Purchase Option

The Company adopted the Management Share Purchase Option Scheme (the "Old Scheme"), which included options for 1,200,000 shares of the Company’s share capital. According to the Old Scheme, the Company’s top managers were eligible to participate from 1997 through 1999. Each year, upon the anniversary of the closing of the Hungarian Retail Offering, options were to be granted for up to 400,000 shares at the HUF equivalent of the US dollar offer price (USD 8.81 per share).

In 1997, management purchased 341,567 treasury shares in accordance with the Management Share Purchase Option.

Due to changes in the tax regulations effective in 1998, the difference between the quoted price of a share and the purchase price is treated as a taxable benefit. Consequently, the Corporate by-laws was modified by the Extraordinary General Meeting on 10 June 1998, and based on that, the Board of Directors authorized the settlement of the Management Share Purchase Option through issuing new shares. The increase of issued capital (234,843 new shares were issued) needed for the implementation of the New Management Share Purchase Option Scheme (the "New Scheme") was carried out together with the changing of the nominal value of all existing shares (the nominal value was changed from HUF 1,000 to HUF 1,010). The change in the nominal value of the shares was required by the Company Law, which stipulates that every shareholder must benefit from the increase of the registered capital.

The 1998 options callable under the New Scheme have been recorded as an expense in Selling, General and Administrative Expenses based on the market value of the shares when the decision was approved by the court with a corresponding increase in the share capital and share premium. The change in nominal value of all existing shares resulted in an increase in the share capital and a corresponding decrease in the retained earnings.

The final portion of the share purchase option due in 1999 was exercised as authorized by the shareholders meeting and the Deed of Foundation, and 373,634 treasury shares were sold at HUF 2,162 per share. The gain on treasury shares sold in the framework of management share purchase option has been recorded to equity.

The shareholders' meeting did not make a decision about a new company shares based incentive program.

27.5. Disputes over investments

In 1998, a former executive of the Company misused her authority and instructed a brokerage firm (Quantum Broker Rt.) to invest HUF 1,063 million in an equity portfolio and financial instruments instead of treasury bills as approved by TVK Rt. management. The Company disputes the proper authorization of the transaction and believes 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 due to TVK Rt. The value of this portfolio is about 39% of the initial investment based on the market value of the shares as of the beginning of 1999. The Company upholds its initial claim against the broker firm, but has set up a provision of HUF 633 million based on the currently foreseeable recovery (see Note 13).

In 1998, the Company entered into a portfolio management contract for the amount of HUF 500 million, with BudaCash Brókerház Rt. The contract included a yield guarantee. In October 1998, when the contract expired, BudaCash did not pay back the principle and the guaranteed yield and interpreted the contact in a way suggesting that the risk of the portfolio lies with the investor and the guarantee refers only to the yield. TVK Rt. has started legal proceedings. The Company has collected HUF 160 million of the principle and HUF 34 million of the yield in 1998. TVK Rt. has written off the remaining part of the initial investment (HUF 340 million) in 1998 and upholds its claim against the broker firm.
Both claims were rejected by the court, and TVK is currently appealing the decision.

27.6. Environmental protection
Before the privatization of TVK Rt., an environmental audit of the Company was carried out. Based on the findings of the audit, the clean up of the contaminated soil in the area of Olefin plant was started, for which the Company contracted with Elgoscar Kft. until the year 2000. Moreover, the clean up work on the area of AKZO-NOBEL Rt. continued, and the related contract was extended. The Company invested HUF 1.2 billion in construction of the hazardous waste incinerator in 1996. Ecomissió Kft. received the licenses necessary for its operation and is expected to be able to process a significant part of the contaminated soil. Management assessed the environmental status of the Company and considered what projects are necessary to meet relevant requirements and recorded a liability for the total expected charges.
The estimated expenses to clean up existing pollution of HUF 937 million were reflected in the 1999 financial statements.

27.7. Legal dispute with ItalChemol S.R.L.
In 1993, TVK Rt. signed a three-year distribution contract for Italy with a local trading company - ItalChemol. In February 1994, the contract was amended to include a clause permitting the parties to unilaterally cancel the contract with a specified notice period. In September 1994, TVK Rt. advised the trading company that they will terminate the contract. Since the termination of the contract, ItalChemol has not made any payments to TVK Rt. for prior deliveries. In April 1996, TVK Rt. filed at the court a legal claim for the amount of its deliveries and interest amounting to ITL 1,143 million (approximately HUF 120 million). In January 1997, ItalChemol filed with the court a claim for damages resulting from missed deliveries over the initial three year period amounting to ITL 3,639 million (approximately HUF 380 million). ItalChemol disputes the validity of the amendment permitting early cancellation of the contract.

During 1997, the Arbitration Court decided the dispute in favour of TVK Rt. and the majority of TVK Rt.'s claim was considered justified, whereas the claim of ItalChemol exceeding ITL 30 million was rejected. ItalChemol has appealed against the court ruling.

In December 1998, the Supreme Court approved the decision of the Arbitration Court and ruled that the legal successor of ItalChemol (Sochital S.R.L.) should comply with that decision. Currently the court decision is being enforced in Italy.

TVK Rt. has set up a 100% provision for its receivable from Sochital.

27.8. Legal dispute with DEBO EURO-CHEMICAL Kft.
DEBO EURO-CHEMICAL Kft. (seated in Kunszentmiklos) filed a legal claim with Borsod-Abaúj-Zemplén county court against TVK Rt. for HUF 93 million for damages due to non-compliance with contractual obligation and interest thereon. The county court confirmed that TVK Rt. has caused damage as the Company did not deliver packaging for washing powder according to the contractual agreement, but did not issue a ruling regarding the valid amount of the claim. The entire amount of the claim is based on lost profit of the plaintiff.

TVK Rt. appealed against the decision at the Highest Court, which, however, rejected the appeal. Currently the parties are disputing the amount of the incurred damage at the Borsod-Abaúj-Zemplén county court.

The Company has not set up a provision for this contingency in the accompanying consolidated financial statements.

27.9. Contract for ethylene supply to BorsodChem
TVK Rt. signed a long-term ethylene supply agreement with BorsodChem, a PVC-producing company. According to the contract, TVK Rt. is obliged to deliver a minimum of 66 Kt of ethylene annually until 2003. As ethylene produced by TVK Rt. is fully used in the polyolefin production, the Company procured varying quantities of ethylene in the past from Oriana in order to meet its obligation to supply BorsodChem. In 1999, Oriana delivered 31 Kt of ethylene, therefore, the Company supplied 35 Kt of ethylene from its own production to meet its obligation to BorsodChem. The Company has not yet signed an annual contract for 2000 ethylene purchases from Oriana and has conservatively budgeted for 29.7 Kt of purchased ethylene.
With regard to the long-term strategic plan, the Company started negotiations with BorsodChem Rt. about future ethylene needs and delivery terms.

27.10. Raw material contract with MOL Rt.
Based on the existing contract between the Company and MOL valid until 2003, MOL in 2000 will deliver approximately 930 Kt of raw material (naphtha and gasoline) and will repurchase 260 Kt of TVK's by-product.

Within the long-term contract framework, the parties had to agree about quantities of gasoline and hydrogen (180 Kt and 23 million cubic meters, respectively)

In order to meet the increased need for propylene due to the new PP IV plant, which can not be met from TVK's own production, the parties signed a contract for deliveries of propylene for 2000-2002. In the three-year period, MOL will deliver 150 Kt of propylene. The 65 Kt due in 2001 cover a significant portion of the needs of the polypropylene production facilities (280 Kt).

With regard to the strategic investment plan, the Company started negotiations with MOL about a long term delivery contract for raw material supply (naphtha and gasoline).

27.11. Sale of plastic producing operations

According to the decision of the Board, the plastic producing entities (Unterland A.G., Plastico S.A., Tiszatextil Kft., Pohárgyártó Kft.) and divisions (Biafol, Flexofol, Helioplast, Formplast) will be sold in 2000. As part of the plan, the Company will spin off the plastics divisions currently within TVK Rt. as 100% owned subsidiaries effective 1 April 2000. The potential impact of the sale of plastic operations to the Company's income statement can not be forecasted. It is uncertain if the Company will be able to recover the net book value of the plastic investments in a future sale. However, there is no binding agreement for sale or reliable estimate of such potential loss, and, accordingly, no impairment is recorded in the accompanying financial statements.

27.12. Tax authorities review

In 1999, the tax authorities performed a full scope review of 1996 and 1997 tax returns. Based on preliminary discussions with the authorities, the expected tax shortage and penalties will amount to HUF 179 million for which the Company made a provision. The final minutes of the tax authorities review are yet to be issued.

27.13. Cost reduction program

The Company assessed corporate functions with the help of external advisors and prepared a cost reduction program. The program was approved by the Board on 26 January 2000, and management is authorized to implement it.

The Company expects to achieve a HUF 500-700 million operational cost reduction after implementing the program.

28. Earnings Per Share (EPS)

The Group's basic earnings per share calculated on the basis of the net income as of 31 December 1999 and 1998 is as follows:

	1999	1998
Net income, IAS	7,196	11,840
Weighted average of shares outstanding in the period	22,263,617	21,527,950
Basic EPS for issued shares (nominal value is HUF 1,010)	323 HUF	550 HUF

The number of ordinary shares is determined by the weighted average method. Employee shares are part of the calculation, because employee shares are entitled to dividends in 1999.

The diluted earnings per share is as follows:

	1999	1998
Net income, IAS	7,196	11,840
Weighted average of shares outstanding in the period	22,263,617	21,627,759
Diluted EPS for issued shares (nominal value is HUF 1,010)	323 HUF	547 HUF

Dilution is calculated based on the number of shares issued or expected to be issued below market value.

29. Income Taxes

In 1999 and 1998, the normal corporate profit tax rate was 18%, but TVK Rt. is entitled 95.7% tax holiday for 1999. In addition, as discussed in Note 3, in 1999 TVK Rt. obtained approval for a 50% tax holiday for 1998.
TVK Rt. acquired machinery and equipment for production purposes over the period 1997-1998 in excess of HUF 3 billion. The Company operates in an area classified as underdeveloped from social and economic perspective and, according to 21. § 7. point of Company income tax law, it is entitled to a 100% tax holiday in respect of revenue related to products manufactured by TVK Rt. The above mentioned assets have been put in operation in accordance with the requirement of the laws. The Company also met the requirement regarding the increase in revenues as follows:
The 1999 revenue exceeded 1996 revenue by HUF 24 billion and 1998 revenue by HUF 5 billion. The revenue growth necessary to qualify for the holiday was respectively HUF 225 million as compared to 1996 and HUF 190 million as compared to 1998.

Based on the above, the Company met all necessary conditions and for tax holiday in respect of production related construction and is entitled to a 95.7% holiday.

In 1999, the net deferred tax asset balance in the balance sheets of the Company consists of the following items, analyzed by the basis for deferred tax differences (HUF million):

	1999
Provision for bad debt	1,438
Environmental accrual	664
Unrealized foreign exchange gain on account receivables	-593
Provision for severance and other obligations	579
Other	-265
Total deferred tax base	1,823
Tax rate	5.4
Deferred tax asset	98
Deferred tax asset in 1998	142
Change in deferred tax asset in 1999	-44

Deferred tax has been computed at 30% of the normal 18% rate for 1999, as the Company expects to qualify for a 70% tax allowance in the foreseeable future. Deferred taxes have been provided for all significant temporary differences and no deferred tax has been provided for permanent differences.

In 1999, the net deferred tax liability balance in the consolidated balance sheets is related to Unterland A.G. and consists of the following items, analyzed by the basis for deferred tax differences:

	1999
Net book value of tangible fixed assets	9,369
Tax loss carry forward	-4,033
Other	-418
Total deferred tax base	4,918
Tax rate (%)	34
Deferred tax liability	1,673
Deferred tax liability in 1998	1,998
Change in Deferred tax liability in 1999	-326

The following summarizes the impact on the tax charge of tax base adjusting items for both TVK standalone and consolidated financials in 1999, based on the applicable tax charge 0.77% (4.3% of the normal 18% tax rate) and the accumulated tax impacts of the subsidiaries (permanent differences):

	1999 Profit effect	Tax effect
IAS accounting profit before tax of TVK Rt.	7,030	54
Gain on treasury stocks sold	6,076	47
Accounting for finance leases	688	5
Change in deferred tax asset of TVK Rt.		44
Business profit tax of TVK Rt. in 1999		150
Change in deferred tax liability of Unterland A.G.		-326
Accumulated tax impacts of subsidiaries		126
Group income tax in 1999		-50