TVK Plc.
MEMBER OF THE MOL GROUP

TISZA CHEMICAL GROUP COMPANY LIMITED BY SHARES

ANNUAL REPORT 2005

TABLE OF CONTENTS

TVK at a Glance 2
Chairman's Letter 4
Economic Environment 6
Macroeconomic Processes 6
Petrochemical Trends 6
Major Strategic Goals 7
TVK as a member of the MOL-group 7
Petrochemical Development Project 7
Events of the Petrochemical Development Project in 2005 8
Corporate Overview 11
Production 11
Olefin Production 11
Polymer Production 12
Sales 13
Changes in the Group of Consolidated Companies 14
Consolidated Companies 14
Corporate Values 14
Commitment to Staff 14
Social Commitment 15
Commitment to Health and Safety, Security 15
Labour Safety 15
Improving Accident Statistics 15
The "Stay Healthy" Program 15
Fire Protection 15
Environmental Protection 16
Protecting the Environment 16
Managing Past Environmental Liability 16
Quality Approach 17
Management Report on the Economic and Financial Processes of 2005 18
Financial Highlights 18
Operating Environment 19
Sales Income, Operating Costs, Operating Profit 19
Profit/Loss on Financial Operations 20
Taxation 21
Profit After Tax 21
Net Asset Position 21
Financial Position 21
Owner's Equity, Registered Capital, Capital Reserves and Retained Earnings 21
Cash flow 22
Risk Management 22
Capital Expenditure 22
Organizational and Personnel Changes, Employees 23
Changes in Employment 23
Ownership Structure 23
Financial Report 25
Summary Financial Data 26
Corporate Governance 27
The General Meeting 27
The Board of Directors 27
Shareholder Relations 27
The Operation of the Board of Directors 27
The Report by the Board of Directors on its Activities in 2005 28
Relationship between the Board of Directors and the Management 28
Board of Directors 31
Top Management 33
Supervisory Board Members 35
Report by the Supervisory Board 36
Organisation Structure 38
General Information 39
Corporate Information 41
STATEMENT OF RESPONSIBLITY 42

TVK at a Glance

TVK – the leader in polyethylene and polypropylene markets in the Central and Eastern European region

TVK is the leader in the CEE polyethylene and polypropylene markets, and Hungary's key integrated petrochemical company. The company is active in the following core lines of business:
- Olefin production (the production and wholesale distribution of ethylene, propylene monomers and olefin-production co-products)
- Polymer production (the production and wholesale distribution of low, medium and high density polyethylene (LDPE, MDPE, HDPE) and polypropylene (PP copolymer and homogeneous polymer)

Tisza Chemical Group Company Limited by Shares (TVK), the flagship of the petrochemical sector in Hungary and the region, supplies feedstock to several Hungarian, Central European, Western and Eastern European small and medium sized plastic processing operations. Its products are present in more than 40 countries. TVK shares are traded on the Budapest Stock Exchange and on the International Order Book of the London Stock Exchange.

Major Goals:
We aim to boost shareholder value by enhancing competitiveness through operating efficiently, leveraging MOL Group synergies, making best use of market opportunities and further strengthening market positions. To improve profitability, we have adopted a dynamic development strategy that places equal emphasis on the proactive response to challenges, carefully planned capacity increases and the continuous exploration of measures aimed at improving internal efficiency.

Key Corporate Data, 2004-2005

IFRS, consolidated, audited	**2004**	**2005**	**2004**	**2005**
	(HUF million)	(HUF million)	(EUR 000)	(EUR 000)
Sales	175,883	249,693	715,175	987,983
Operating profit (EBIT)	12,153	13,136	49,417	51,976
Depreciation	6,925	9,723	28,158	38,472
Net profit	8,947	6,409	36,380	25,359
Capital expenditure	42,553	6,981	173,029	27,622
Total assets	202,326	227,714	822,698	901,017
Shareholders' equity	111,282	117,718	452,495	465,786
Registered capital	24,495	24,492	99,602	96,910
Major ratios				
EPS – Earnings per share (HUF/share; Euro/share)	369	264	1.50	1.04
ROE – Return on owner's equity (%)	8.04	5.44	8.04	5.44
ROA – Return on assets (%)	4.42	2.81	4.42	2.81
Closing price of TVK shares on the Budapest Stock Exchange (HUF and EURO):				
- Highest	5.375	5.890	21.86	23.31
- Lowest	3.400	4.605	13.83	18.22
- On December 31	5.060	5.240	20.57	20.73
Capitalisation (on December 31 closing price, million)	122.628	126.990	498.63	502.47

Other Data	**2004**	**2005**
Average headcount	1.724	1.545
Number of shares	24.423.843	24.423.843
- Ordinary shares	24.234.843	24.234.843
- Employee stock	189.000	189.000
Number of consolidated companies	7	8

Note:

The EUR/HUF mid FX rate quoted by the National Bank of Hungary for December 31, 2004 was: 245.93
The EUR/HUF mid FX rate quoted by the National Bank of Hungary for December 31, 2005 was: 252.73

Vision

TVK aims to play a leading role in the petrochemical business by way of a mutually beneficial system of partnerships designed to secure a key position for the company in Central Europe by implementing corporate developments and through other opportunities, as well as by strengthening TVK's role as an independent supplier in the integrated market of the European Union.

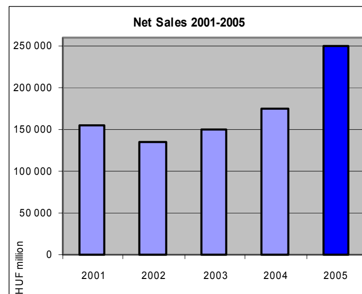
Mission

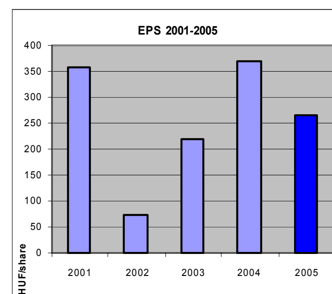
For our customers to associate TVK with quality and reliability.
For our employees to be proud of being part of a dynamic development in a distinguished environment.
To keep increasing the value of the company and maintain the trust of our shareholders.

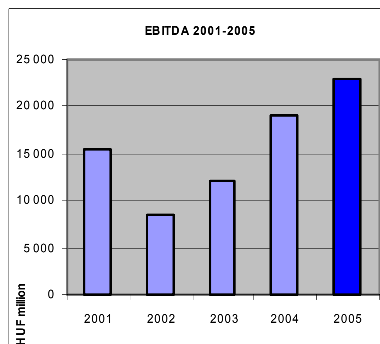
Core Values

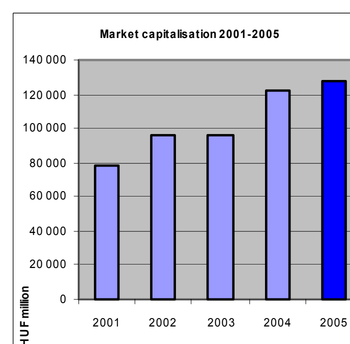
The core values that make our mission attainable are:

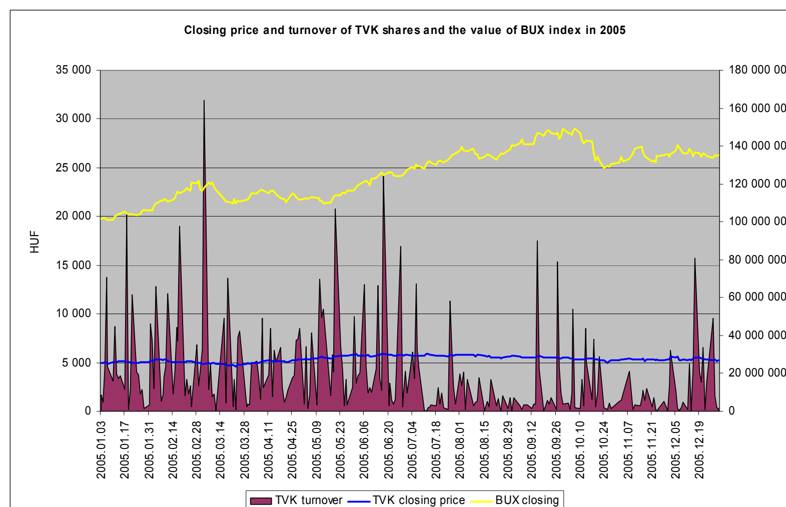
- Highly qualified, creative and motivated employees.
- Commitment through a sense of responsibility for health, safety and the natural environment.
- Business relations based on mutual benefit.
- Focus on quality that envelopes the company's operation.











Letter from the Chairman

Dear Shareholders,

I am proud to report another memorable year for TVK. It was a year of a successful closing of the Petrochemical Development Project, which was a major achievement in the history of the Hungarian industry. In addition, we commissioned the new Olefin Plant after close to ten months of successful trial operation. The inauguration ceremony of the new plants was held on October 18, 2005. The new products were successfully introduced in Hungary and in international markets, which helped TVK break yet another historical record in 2005: the Group sales revenues rose to an unprecedented level of almost HUF 250 billion. These results were achieved in a difficult market environment in 2005. Raw material and feedstock prices continued to rise throughout the year, except in the last quarter, and exchange rate trend also influenced the financial results unfavourably. Nevertheless, we can still give account of over HUF 6 billion of net consolidated earnings.

Before summarizing the events of the year, I would like to outline the background to our financial results. Despite the difficult environment mentioned above, we managed to improve our operating profit by close to 7 percent year on year. Although, our net consolidated earnings of over HUF 6 billion were substantially lower than in 2004, there is a direct relationship between the lower earnings level and the domestic economic environment: financial expenditure rose almost threefold including first of all the unrealised exchange loss on loans denominated in foreign currency and the increase in interest expenses.

Analysing the events of the year, I would like to highlight the successful implementation and completion of the Petrochemical Development Project (PDP). Both new plants have fulfilled expectations, and the upswing in market demand justifies our right decision to embark on the project. The PDP, the opportunities presented by the MOL Group and the joint market presence with Slovnaft have laid solid foundations for our strategy of becoming one of the leading companies in the petrochemical market of Central and Eastern Europe. I would also like to mention another capital expenditure project which was overshadowed by PDP, but was implemented simultaneously: the TVK Power Plant project. A new, economical power plant that can meet even the most stringent environmental requirements was needed to supply the steam needed by the new operating facilities. The power plant was also expected to generate electricity. Commissioning the plant was another successful achievement of the past year.

Although we cannot expect another jump in sales income comparable to the 42 percent increase triggered by the successful capital expenditure project in 2005, we are busy forging our future and have taken the first steps to introduce Advanced Process Control in the new HDPE-2 and the Olefin-2 plant. The same APC system is operated successfully in 4 other plants. These systems can only be implemented after we accumulate sufficient experience during the trial period. Applying customised solutions to the selected plants will allow us to surpass nameplate levels of productivity, which we will need in light of intensifying competition.

Activities associated with protecting health, safety engineering and environmental protection were given high priority. As part of these efforts, TVK also joined a project called “Safe jobs”, which MOL launched at its own sites for a period of three years. The consulting firm, Deloitte, recognised the company’s environmental efforts by awarding TVK the “Green Frog” certificate. Another certificate awarded by AmCham (the American-Hungarian Chamber of Commerce) to TVK recognizes the steps taken to improve health conditions in the work environment. The tasks related to implementing our Integrated Management System (IMS), envisaged to replace the formerly separate component systems including Environmentally Oriented Management System (EOMS), Labour Health and Safety Management System (LHSMS) and the corporate level Quality Management System (QMS), had started in 2004 and culminated in successful certification in April, 2005, only to prove that the company stands ready to accommodate to changing requirements in this area as well.

These recognitions of merit demonstrate that TVK’s positive results are underpinned by the strenuous effort and individual achievements of its staff. Our aim is to combine the knowledge and experience of our professionals with individual ambitions in line with corporate values, and with competencies and the desire to learn, to become a truly useful resource. In the world today, the chance of survival is greatest for companies with capacity to learn, reinvent themselves and, if necessary, to start a new

life; and the same requirements are also valid for the employees. The results of the past year also show that TVK and its staff demonstrate exemplary cooperation and development to Hungarian business participants in this respect.

That reiterates our core values in employee relationships: we ensure appropriate working conditions for creating value and guarantee an atmosphere of innovation that integrates the potential for both development and recognition.

I would like to take this opportunity to thank all the fellow members of our staff for the consistent, accurate and effective work that they performed, with the interest of our partners and shareholder in mind.

György Mosonyi
Chairman of the Board

Economic Environment

As in earlier years, internal performance combined with the global and national macroeconomic environment and the changes in industry specific trends had a significant influence on the profitability of TVK in 2005. The effect of the external factors, which were in constant ferment throughout the year, was both favourable and adverse.

Macroeconomic Processes

As in 2004, the Hungarian GDP growth was close to 4% in 2005. This represents growth of more than 2 percentage points above the European Union average. Favourable European economic conditions and the expectations of domestic businesses and consumers started to improve from the second half of 2005. The relative strength of the Euro to the Dollar, and the persistently high price of oil remained the major factor influencing European economic growth.

The rate of inflation receded in Hungary throughout the year; consumer prices were 3.6 percent higher in 2005 than a year earlier.

Employment levels stagnated all through the year. The average annual unemployment rate was 7.2%, representing a year on year increase of 1.1 percent over the 6.1% rate in 2004.

The public finance deficit was 6.1% of the GDP.

The central bank rate dropped from 9.5% on January 1, 2005 to 6% at the end of the year following several interim reductions.

In 2005, the HUF-EUR rate fluctuated within a relatively narrow band between HUF/EUR 241 and 256 at the high end of the intervention band. The USD/HUF exchange rate moved parallel with the EUR/USD rate fluctuating between USD/HUF 180 and 218. On average, the EUR/HUF rate dropped by 1%, whilst the USD/HUF rate decreased by almost 2% compared to the average of the previous year. In 2005, the EUR/USD cross rate was 1.245, almost identical to that a year earlier. Compared to 2004, the exchange rate changes in 2005 had an overall negative impact on the profitability of the TVK Group.

Petrochemical Trends

The price level of feedstock for monomer production kept climbing higher in the first three quarters of 2005, and only the fourth quarter showed a downturn. The average quoted (FOB med) price of naphtha (448 USD/t) showed a year on year increase of 27%, whilst the average quoted (CIF med) price of atmospheric gas oil (AGO 0.2) (517 USD/t) was 42% higher than a year earlier.

The prices quoted in European markets for the polymer products produced by TVK (ICIS' fd nwe low spot, EUR/t) tended to decrease in the first half of the year. This early reduction was followed by a rise and another downturn in December. The annual average of the quoted price of polyethylene and polypropylene, respectively, was 11-14% and 16-17% higher than in 2004. For the year as a whole, the average quoted price of LDPE was 1,012 EUR/t, with that of blown type HDPE at 901 EUR/t, whilst PP types were 960-1,010 EUR/t.

Influenced by the quoted prices of feedstock for monomer production, the quoted prices of polymer and changing exchange rates, the integrated petrochemical margin rose by 1% yoy in HUF terms and by 2% yoy if measured in EUR.

Major Strategic Goals

By implementing the Petrochemical Development Project successfully, TVK became a modern, well balanced olefin monomer and polyolefin producing company which is competitive in terms of size. TVK's goal is to improve corporate efficiency and profitability, and maintain its leading regional position in the petrochemical business by exploiting the growth in regional demand for polymer.

TVK as a member of the MOL Group

The strategic goal of TVK - as a member of the MOL Group, with integrated operations with the petrochemical business segment of Slovnaft - is to achieve regional market leadership. To achieve that, the operations and the sales activities of the two companies were harmonized through optimising services and developing the product portfolio, which culminated in major new synergies and efficiency benefits.

<u>United to Offer a New and More Varied Portfolio</u>
Both TVK and Slovnaft have a long history as sole producers of polymer feedstock in Hungary and Slovakia, respectively. Relying on its capacity and strategic considerations, TVK developed its own sales network covering several European countries some years ago. It opened offices in Austria, Germany, France, Italy, the UK, Poland and Russia. This network has been used for the distribution of both Slovnaft's and TVK's polymers since 2004. The market position of TVK and Slovnaft is strong, both domestically and in other countries of Central and Eastern Europe. A common aim is delivery of top quality and excellent service to customers in these new markets and the establishment of direct relationships with plastic processing operations in those markets.

The optimization of operations and sales helped both TVK and Slovnaft modernize their product portfolios so that both partners can enjoy competitive advantages in their own markets. The joint product portfolio includes LDPE, uni-modal and bimodal HDPE, PP homopolymer, PP blokk and random copolymer types. The capital expenditure projects of recent years have increased the annual polymer production capacity of the two companies to 1,200 kt.

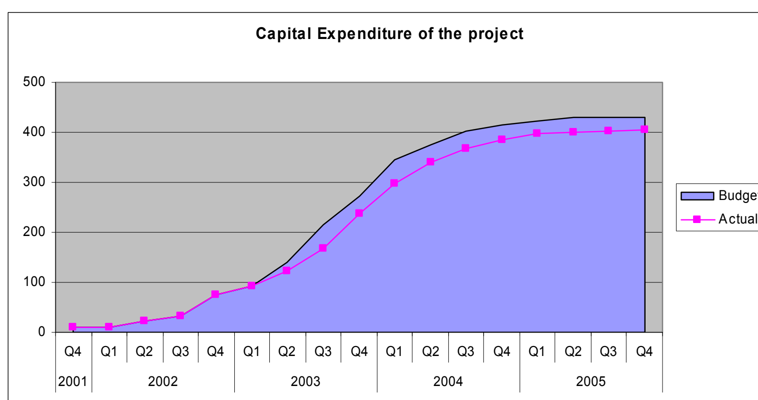
Petrochemical Development Project

The company held the commissioning ceremony of the facilities of the Petrochemical Development Project on October 18, 2005. The development is classified as a milestone in domestic industrial history in terms of both size and effect. The CAPEX project helped the company reach the economies of scale that will enable it to retain its leading position in the region of Central Europe and to strengthen its presence in the European Union.

Worth EUR 430 million (almost HUF 110 billion), the Petrochemical Development Project of TVK has been implemented in record time, even in international comparison, and in line with the schedules and budget approved by the Board of Directors. TVK implemented three major capacity expansion programs as part of the development project between 2002 and 2005. The capacity to produce ethylene almost doubled (to reach 620 kt) thanks to the new olefin plant; the capacity of producing high-density polyethylene doubled (and is now 400 kt) and polypropylene capacity also grew following a plant upgrade.

By orchestrating its Petrochemical Development Project to harmonise with other developments across the Group, TVK has responded well to the challenges of competing in the petrochemical business by focusing on marketing and sales and creating a competitive product portfolio, as well as implementing developments earlier than other companies in the region. Both plants constructed during the project were put into operation in 2005. The capacity expansion contributed to strengthening the market positions of the Company.

To finance the project, TVK signed a credit agreement for EUR 280 million in 2002 and used its own funds to cover the remaining CAPEX requirement. The company repaid all of the funds it had drawn down under the credit agreement before maturity in December 2004. To refinance the early repayment, TVK signed a loan agreement with MOL Rt. for EUR 280 million in December 2004. TVK had drawn down EUR 220 million and prepaid EUR 10 million from the parent company loan. The total cost of implementing the project had come to EUR 406 million by December 31, 2005.



Component Projects of the Petrochemical Development Program (PDP) by Product Group

Plant	Capacity (kt/year)		Technology	Year commissioned	Budgeted CAPEX (EUR million)
	Before PDP	After PDP			
Olefin-1*	370	370	Linde	1975	-
Olefin-2*	**-**	**250**	**Linde**	**2004**	**238**
Ethylene total	**370**	**620**			
LDPE-1	55	55	ICI	1970	-
LDPE-2	65	65	BASF	1991	-
LDPE total	**120**	**120**			
HDPE	200	200	Phillips	1986	-
HDPE-2	**-**	**200**	**Mitsui**	**2004**	**129**
HDPE total	**200**	**400**			
PP-2**	50	0	Sumitomo	1983	-
PP-3	100	100	Himont	1989	-
PP-4	**140**	**180**	**Himont**	**1999**	**13**
PP total	**290**	**280**			
Polymer total	**610**	**800**			
Off battery facilities	**-**	**-**	**-**	**2004**	**50**
Total CAPEX					**430**

* Production capacity calculated for ethylene
** The plant was shut down in 2002.

Petrochemical Development Project in 2005

The implementation of the Petrochemical Development Project has been completed and each unit is on-line and operational. The HDPE-2 Plant and the off-battery service facilities were capitalized in late 2004, and the Olefin-2 Plant followed suit on September 30, 2005. The major events of each component project are described below.

Olefin-2 Project: The plant produced unbudgeted volumes of commercial quality ethylene in 2005. On September 30, 2005, the facility was fully commissioned and capitalized. The BT fraction failed to meet a single quality requirement and required the transformation of the petrol hydrogenation system. Linde made commitments to introduce the changes and the construction work was completed without bringing the plant down. The transformation resolved former problems, but sulphur-dioxide appeared temporarily in the BT fraction, which the company managed to remove by replacing the catalyst.

Polyethylene-4 Project: The plant output surpassed the budget in 2005. The Company agreed a program of eliminating high frequency vibration of the centrifuge during the warranty period with Mitsui. Conversion work was completed in the Spring of 2005 and the problem was successfully resolved as the vibration level of the centrifuge remained low. The newly fitted compensators did not prove to be airtight, but the plant can remain on-line as they are replaced with temporary units. However, the production of certain types caused sedimentation that led to temporary increases in vibration. MES installed elements that prevent sedimentation and replaced the compensator units in late November to eliminate the problem. Operating experience gathered so far suggests that the problem of centrifuge vibration has been solved.

Off-battery project: The ethylene storage system operated without interruption and reliably throughout the year, but the ethylene pumps failed in January during the mechanical warranty period. The technical investigation of the reasons has not been completed yet, but the Company notified Uhde of its claim to have the supplier finance the repair costs.
The trial operation of the upgraded sewer plant started in January and was brought on-line after the trial run completed in June.

Changes in the Group of Consolidated Companies

The strategy of TVK calls for focus on the core business of producing olefins and poly-olefins as fundamental targets. This strategy helps regroup resources to core areas that produce higher value added. This strategy triggered further modifications in the group of consolidated companies in 2005:

Starting in 2005, TVK Erőmű Kft. has been fully consolidated instead of the former pro-rata system. In December 2005, TVK Polska Sp z o. o. was retrospectively fully consolidated for the whole year. In January 2006, TVK Ukraina tov, was established as a 100% subsidiary. The operation is headquartered in Kiev and its equity capital is Hrivnya 36,996 (EUR 5,770). TVK Austria Kunststoff Vertriebs GmbH, a TVK affiliate, was brought under final settlement to wind down the operation. The business was transferred to MOL Austria GmbH. Chemopetrol Kft. and TVK Polisec Kft., both TVK affiliates, were brought under final settlement in 2005. The final settlement procedure of Chemopetrol Kft. was completed in 2005. The reason for the final settlement of both companies was TVK's intention to take full control and to improve the efficiency of both activities.

Consolidated Companies

	TVK Italia S.r.l.	TVK UK Ltd.	TVK Inter-Chemol GmbH	TVK-France S.a.r.l.	TVK Polska Sp. z o. o.	TVK-Austria GmbH.*	TVK Ingatlankezelő Kft.	TVK Erőmű Kft.
Line of Business	Sell TVK products in Italy	Sell TVK products in the United Kingdom	Sell TVK Products In Germany	Sell TVK products in France	Sell TVK products in Poland	Sell TVK products in Austria	Lease and management of real estates	Power production and distribution
Year of Incorporation	1994	1996	1997	1997	1998	1998	1998	2001
Premises	Milan	London	Frankfurt am Main	Paris	Warsaw	Wiener Neustadt	Tiszaújváros	Tiszaújváros
Equity capital	EUR 100,000	GBP 200,000	EURO 615,000	EUR 76,225	PLN 109,000	EUR 36,336	HUF 2,970 million	HUF 3,298 million
TVK stake	100%	100%	100%	100%	100%	51%	100%	26%
Co-owner	-	-	-	-	-	ITRACO GmbH	-	ÉMÁSZ Rt.
2005 Financial Figures (unconsolidated, HUF million)								
Owner's equity	57	120	294	73	86	87	2,932	4,675
Sales income	353	688	2,392	182	335	2	452	7,925
Net profit (loss)	(8)	29	137	51	59	(1)	(38)	1,367

* Final settlement started in 2005 to wind up the company.

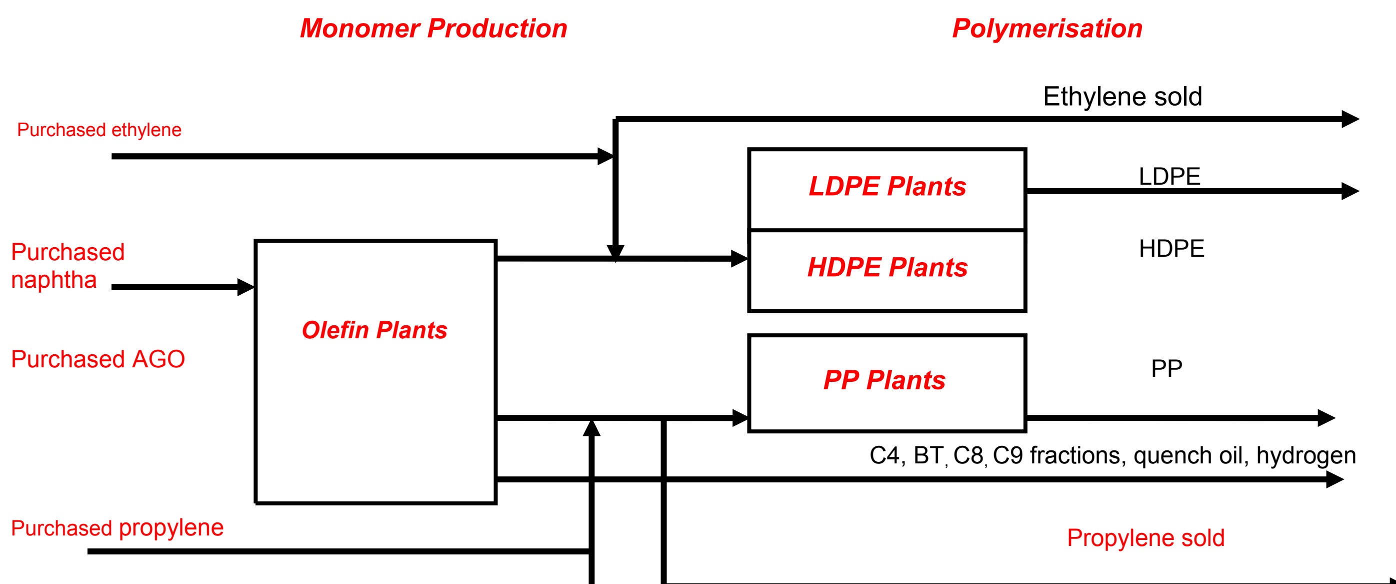
Expanding Capacities

Production and Sales

In 2004, we brought our plants on line as part of the Petrochemical Development Project, which added 68% and 33%, respectively, to 2005 ethylene and propylene production capacities compared to a year earlier. Our main target for 2005 was aimed at improving the capacity utilisation, fine-tuning the operation of the new production plants (Olefin-2, HDPE-2 plants) so as to achieve higher production volumes and improved efficiencies. The market introduction of our new polymer products was completed successfully during the year.

TVK utilises its vertically integrated structure of production to produce raw materials for plastics processing from a variety of hydrocarbons. The production process includes two major stages: making monomers and polymerisation.

Figure: Major Processes of Vertically Integrated Production at TVK



Olefin Production

In 2005, the sales income of olefin production increased by 83%, output doubled and capacity utilisation calculated for ethylene was 90%. The trial operation of the Olefin-2 Plant was successfully completed in 2005, which added 250 kt to the ethylene production capacity of the company.

The Olefin-1 Plant was put into operation in 1975 and Olefin-2 came on line at the TVK site in 2004. Both utilise Linde technology. The annual ethylene capacity of the two plants is 620 kt.

The olefin plants convert naphtha, gas oil and liquefied gases purchased from the MOL Group into ethylene and propylene to be processed into polyethylene and polypropylene in TVK's own polymer plants. The MOL Group uses the co-products cracking, such as isobutylene, benzene-toluene, C8 and C9 fractions to make MTBE and benzene or as components in blended gasoline. Quench oil is utilised as feedstock for making carbon black by Tiszai Columbian Koromgyártó Kft., located at the TVK industrial complex.

TVK, as the sole producer of ethylene in Hungary, is a strategic supplier of BorsodChem Rt., and the bulk of the feedstock it provides is made in-house, totalling 117 kt in 2005. However, TVK also procured small volumes of ethylene (2kt) and propylene (1.4 kt) from import sources to reach full utilisation of the available polymer production capacity.

Diagram: Sales Income and Volume Sold by the Olefin Business Unit, 2001 - 2005

Description	**2001**	**2002**	**2003**	**2004**	**2005**
Sales income (HUF million)	34,950	29,035	31,354	38,757	70,851
Volume sold (kilotons)	437	419	408	406	586

Capacity utilisation (%)	97.1	94.5	91.4	96.0	90.1

* Capacity utilisation calculated for ethylene

Polymer Production

2005 recorded a year on year increase in polymer production volumes and a higher rate of effective capacity utilisation. Total annual polymer output in 2005 was 755 kt, showing a significant increase thanks to the new HDPE-2 plant. Production units managed to maintain the extremely high level of around 90% capacity utilisation, which had been typical of previous years. The sales income of polymer products jumped by 43%, including 66% realized in export markets. The domestic market share of individual products also grew.

Low-Density Polyethylene (LDPE) Product Group

TVK laid the foundations of petrochemical production in 1970, when its polyethylene plant using the ICI technology (LDPE-1) came on line. The capacity to produce low-density polyethylene and the product range expanded substantially with a new plant (LDPE-2) using the BASF technology 1991. The joint annual capacity of the two plants is 120 kt. The low-density polyethylene product known as the TIPOLEN brand is utilised in:

- foils,
- blown hollow objects, and
- mould products.

Diagram: Sales Income and Volume Sold by the LDPE Product Group, 2001 - 2005

Description	2001	2002	2003	2004	2005
Sales income (HUF million)	21,117	19,121	19,767	24,087	27,059
Volume sold (kilotons)	107	112	111	111	111
Capacity utilisation (%)	89.5	94.3	88.5	89.4	91.2

The volume sold by the LDPE Product Group rose by 12% in 2005 mostly as a result of higher European exports. Domestic market share was 56% in 2005.

High-Density Polyethylene (LDPE) Product Group

Utilising PHILLIPS process technology to produce high-density polyethylene, the HDPE Plant was constructed in 1986 and has 200 kt of capacity. A new HDPE plant utilising the Mitsui process came on line in 2004. The joint annual capacity of the two plants is 400 kt.

HDPE serves as a raw material for multiple applications. Accordingly, products marketed by the brand name TIPELIN include polyethylene types for:

- foil,
- blown hollow objects of a variety of sizes,
- split fibre, and
- gas and water pipes.

Diagram: Sales Income and Volume Sold by the HDPE Product Group, 2001-2005

Description	2001	2002	2003	2004	2005
Sales income (HUF million)	36,336	31,872	31,167	40,377	77,969
Volume sold (kilotons)	187	197	187	205	352
Capacity utilisation (%)	92.2	96.9	89.6	89.0	89.6

* The capacity utilisation of the HDPE-1 Plant

In 2005, the sales income of the HDPE product group was up 93%, and domestic market share rose to 41%.

Polypropylene (PP) Product Group

In addition to the PP plant that came on line in 1989 using the HIMONT (now Basell) technology, a cutting edge PP plant utilising the MONTELL (now Basell) process has been available since spring 2000 to produce TVK's PP products under the brand name TIPPLEN, including homogeneous

polymers, a heterogeneous phase copolymers and random copolymers. The total annual capacity of the two plants is 280 kt.

The array of applications is fairly wide:

- mould products,
- pipes and profiles,
- cast and blown foil, and
- bi-axially oriented foil.

Diagram: Sales Income and Volume Sold by the PP Product Group, 2001 - 2005

Description	2001	2002	2003	2004	2005
Sales income (HUF million)	47,785	49,842	50,226	55,317	66,094
Volume sold (kilotons)	266	288	276	285	291
Capacity utilisation (%)	89.8	92.2	93.2	96.7	99.5

In 2005, the sales income of the PP product group was up 20% due to the increase in European exports, whilst domestic market share was at 56%.

<u>Outlook</u>

Our goal for 2006 is to operate efficiently and to maximise the utilisation of the capacities, and as a result to improve production volume and efficiency.

Sales

The main objectives for 2005 called for increasing the volume of polymer products sold and boosting sales income, coupled with the successful market introduction of the new HDPE products and the expansion of the customer base.

We managed to increase both the sales volume of and the sales income on polymer products in 2005. TVK managed to strengthen its leading position in the domestic market. Sales in the markets of Central and Eastern Europe moved in line with domestic sales as revenues grew faster than the market as a whole, which helped the company strengthen its position in the region. The market introduction of the new bimodal HDPE products was a success in both Hungary and among foreign plastic processing operations. Sales efficiency continued to rise as a result of the optimisation of our product portfolio and sales channels in 2005.

Net polymer sales amounted to HUF 171 billion in 2005, representing a year on year increase of HUF 51 billion, realized mostly through higher volumes sold as a result of the new Olefin-2 and HDPE-2 plants coming on-line. The sales volume of polymers reached 755 kt in 2005. 66% of the products were sold in export markets, 141 kt more than in 2004. The growth is a result, first of all, of selling the products made in the new HDPE-2 plant in export markets. Domestic sales volume grew somewhat to surpass that of the previous year by a mere 11 kt, which was the outcome of the growth of polypropylene product sales in the domestic market.

In 2005, export sales focused first of all on European markets. Accordingly, 93% of the revenues from exports were realized there. The achievement was supported by TVK's proprietary sales network, which covers several European countries and has operated successfully for several years. In Europe, the company opened offices in Austria, the United Kingdom, France, Poland, Germany, Italy and Russia, and in turn, in the Ukraine. TVK Ukraina tov. was incorporated as a 100% subsidiary of TVK in January. The objective of incorporating the business was to ensure direct presence in the strategic Ukrainian market. Foreign trading subsidiaries are responsible for selling both TVK and Slovnaft products.

<u>Outlook</u>

Our goal for 2006 is to maintain our strong market positions in both our domestic market and in other countries of Central and Eastern Europe. As the market of polyolefins is likely to grow faster in Central and Eastern Europe than in Western Europe in the years to come, we seek first of all to deliver top quality and excellent service to customers in these markets. Considering the above, we opened a new sales office in the Ukraine to improve services and establish direct relations with the plastic processing companies active in these markets.

Corporate Values

TVK place high priority on the commitment to its employees, social responsibility, creating safe working conditions, environmental commitments and to quality awareness.

Commitment to Staff

The focal points of the HR activities of TVK involved improving efficiency, which entailed the philanthropic implementation of staff efficiency measures, the upgrading of our HR partnership system and our “Stay Healthy” program.

Staff Efficiency Measures
Seeking to achieve efficiency benefits, TVK completed a project to convert several units in the organization. As a result, the responsibilities and processes of the units were modified and headcount was also rationalized. The measures were implemented in line with the rules governing group redundancy. With the strategic projects completed, the Petrochemical Technology and Project Development organization was set up. As in previous years, the resources were made available on the basis of analysing the processes of the units of the organization and the creation of the conditions necessary for integrated operation. The philanthropic implementation of the staff efficiency measures envisaged by the cost efficiency program and the development of the system of HR partnerships were identified as major goals.

Figure:

TVK Rt.	2004	2005
Average headcount	1,686	1,542
Closing headcount	1,571	1,454

TVK Group	2004	2005
Average headcount	1,724	1,571
Closing headcount	1,602	1,488

Improving the HR Partnership System
The internal advisory role of the HR organisation continued to improve. Upgrading the partnership system strengthened the business cooperation with our customers, i.e. with the heads of units in the organisation, employees, trade unions and management. 5% of the total wages for the year were set aside to finance our performance management system, which promoted successful accommodation to a rapidly changing economic environment. A career planning system was launched for managers and professional staff. The system seeks to prepare staff consciously for succession and provides training and challenging carrier opportunities to the people involved.
The trade unions active in the company operated in regulated circumstances in 2005. A new Collective Negotiation Agreement was concluded for an indefinite term on December 21, 2005.

Wage Policy Measures
In addition to raising basic wages, the wage policy measures of TVK involved individual instances of wage increases determined in response to job evaluation, and the financial recognition of superior performance by the members of the capital expenditure project team. The performance evaluation systems of managers and sales staff were modified to place increased emphasis on the financial and efficiency indicators of the company. As a result of these measures, the per capita monthly wage of the employees of the company averaged at HUF 298,333. The annual budget for Optional Benefits came to HUF 372,000/employee with 5% complemented by the annual basic wages covered out of pension fund subsidies.

Training, HR Development Program
Ensuring the availability of highly trained workforce has remained the strategic objective for training. Accordingly, institutional training and individual development courses are gradually supplemented by organisation development sessions offering on-the-job training and team development. A total of 908 employees participated in HR development programs. Training time was close to 67 thousand hours and the total training expenditure came to HUF 53 million.

Social Commitment

TVK has traditionally placed high priority on educating future generations and promoting healthy living, commitment to our natural and social environment, sciences and the arts. The Company is proud to represent these values and puts all effort into sharing resources with people who are capable of exceptional individual or team achievements based on professional work, expertise and excellence.

To ensure the availability of highly skilled professionals, TVK maintains a variety of close contacts with secondary and tertiary training institutions, supporting their teaching efforts and research with significant funds. Three universities and five vocational schools received altogether HUF 40 million worth of development support charged to vocational contribution account of the Company.

The Foundation for the Future of Tiszaújváros united forces with the local government to support outstanding programs and personalities that determine the life and reputation of the town. TVK's Foundation for the Development of the Southern Borsod Sub-region aims to close the sub-region's fundamental gap with respect to social, training and health issues.

Commitment to Health and Safety, Security

Labour Safety

TVK places high priority on preventing accidents on the job and occupational hazards and has committed itself to creating a healthy and safe working environment. The Company is convinced that all hazards can be confined reasonably and each of the employees can be expected to do their jobs safely without jeopardising their health. Motivated by the above, TVK joined a project called "Safe jobs", which MOL launched at its own sites for a period of three years. AmCham (the American-Hungarian Chamber of Commerce) awarded a certificate to TVK to recognize the steps taken to improve health conditions of the work environment.

Improving Accident Statistics

The number of accidents on the job has not increased as compared to the previous year, despite the risks arising from the substantial strategic project. The total number of accidents showed a significant reduction year on year owing first of all to the downturn by 40% of incidents without lost days of work. There was a 33% fall in accidents subject to mandatory reporting (accidents that give rise to over three lost days). We also managed to reduce the severity of incidents and could therefore cut the number of lost days by 34%. The company recorded no fatal accidents in 2005. Furthermore, our accident frequency statistics (number of accidents per blue collar staff: 4.58) are superior to both the national average and that recorded in the chemical sector. The number of high level exposures has dropped by half since last year. In autumn 2005, the company set up a labour safety body on a parity basis with employees and employers, represented by three members each.

The "Stay Healthy" Program

TVK continued to place high priority on the health and safety conditions of its labour force in 2005. It operated a biological monitoring system in addition to delivering the mandatory health and safety services. Furthermore, various programs designed to protect health were launched, such as a "kick the habit" program for smokers and oral cavity screening. As in previous years, the company took out a group life and accident policy covering each employee.

Fire Protection

There were 5 fires during the year. The consequences of the fires render the cases insignificant, despite the fact that the construction of the new facilities (Olefin-2 plant, HDPE-2 plant, Ethylene storage tank) in effect doubled the area with high level exposure to fire and explosion hazard. The fires involved no physical injury and the material damage was low at HUF 2.2 million. No days were lost.

Environmental Protection

We continued to dismantle the lime slurry storage sites constructed in connection with former activities pursued at the TVK site. More than 120 thousand tons of lime slurry have been put to industrial use so far. The initial steps for acquiring a regulatory permit for liquidating the emergency storage bays of the former paint operation and the olefin plant has started. We are planning to liquidate the bays (along with the lime slurry storage sites) by late 2007. These efforts are part of the long term program developed for the integrated management of the past environmental liability of the TIFO-TVK industrial complex. The Technical Intervention Plan, which details the operational tasks of implementing the program, is expected to ensure that past environmental liabilities are liquidated proactively and in line with clear priorities. It is also expected to ensure that we do not only incur expenses to meet any current fines imposed by regulators or regulatory decisions, but also to address real human, health and environmental exposures. The licensing of our former plants (Olefin-1, LDPE-1, LDPE-2, HDPE-1, PP-3), which are subject to Integrated Pollution Prevention and Control (IPPC) has either been completed (Olefin-1, HDPE-1, LDPE-2, PP-3) or the IPPC licence is pending (LDPE-1).

Protecting the Environment

Air emissions are monitored. Emission measurements carried out in 2005 found that plant process air emissions complied with permitted emission control limits with just one case of non-compliance. The company has drown up an action plan to address the problem, which form the basis of a regulatory decision requiring the termination of harmful air pollution. The contract to be concluded for implementing the technology selected for solving the problem is being negotiated and commissioning is expected to occur in Autumn 2006. The waste management activities of the company also complied with regulations in 2005. The quality of waste water discharged by TVK did not deteriorate compared to 2004, despite the larger volumes emitted following the strategic project. Waste water audits conducted by the authorities during the year found no instances of pollutant concentration in the purified sewage waters discharged into the Tisza River above control levels.

Managing Past Environmental Liability

In 2005, we gave priority to ongoing waste management jobs, soil and ground water decontamination tasks and the follow up of closed rehabilitation projects.

The rehabilitation of former lime slurry storage sites continued and coupled with draining and separating the emergency sewage tanks of the olefin plant and the paint operation.

Soil and ground water rehabilitation projects were conducted near the olefin plant tank farm and emergency storage site, in the area between TIFO and TVK and at the rail load-unload site. Localizing the contamination of ground water was given top priority so that we can prevent the pollution from leaving the site. We employed an independent expert who worked with us on developing a risk based strategic concept for the uniform management of the environmental liabilities of the TVK-TIFO industrial complex. We also submitted the required Itinerary and Technical Intervention Plan to the authorities. In addition, we submitted the closing document, which records the present status of rehabilitating the rail load-unload site.

We performed the jobs identified in the contract for the follow up of closed rehabilitation projects. Such follow up jobs were performed around the new water demineralization unit, at the AKZO-Nobel Rt., Geo-Tipptex Kft., and Tiszatextil sites and around the Fuelling Station.

Corporate Level Environmental Expenditure, 2001-2005 (HUF million).

	2001	**2002**	**2003**	**2004**	**2005**
Environmental capital expenditure	304	147	12	78	79
Treatment of polluted water	246	231	235	251	276
Management of hazardous wastes	158	115	74	94	124
Rehabilitation of polluted sites	218	314	556	516	525
TOTAL	**926**	**807**	**877**	**939**	**1004**

The international adjudication board nominated by Deloitte, the founder of the “Green Frog Award”, recognized TVK’s recent efforts targeted at sustainable development with a certificate. Central and Eastern European companies that produce the best annual environmental of sustainability reports and motivate employers to keep improving environmental performance are eligible for the award.

Quality Approach

The equality approach is one of the most important fundamental values in the corporate strategy of TVK.

In 2005, the procedures associated with our integrated management system (to cover quality management, environmentally oriented management, and the management of health and safety systems) were upgraded and work started on the development of a new system of process driven controls. This conversion and transition project is still in progress.

The audit of the integrated management system operated by the company was completed successfully in April, 2005 by SGS Hungária Kft. The audit by the new certification body of the systems which we have operated for over ten years proved effective.

TVK has been consciously measuring customer satisfaction for years. As part of this effort, the company contacted close to 400 partners in late 2005. The objectives of the survey involved exploring the strengths and weaknesses of the company and keeping track of development. After analyzing the information collected, the company took measures to improve processes. TVK's ongoing strategy is aimed at establishing and maintaining good partner relations and for coordinating our development ideas. In doing so, TVK relies on observations, opinions and proposals expressed by its customers and suppliers.

Due to the enlarged scope, the regulatory audit of the Central Laboratory under MSZ EN ISO/IEC 17025:2001, and the audit of the Technical Testing Laboratory of the Safety Unit were major assignments, which were completed successfully.

The integrated management system and the operation and development of our accredited laboratories in line with standard requirements were tested on an ongoing basis by internal integrated systems audits. The actions identified for improving revealed discrepancies and for developing the system have been implemented. Great emphasis was given to training and professional development of staff participating in internal reviews. Operating efficient external and internal communications was another high priority target.

We have been using the EFQM model for evaluating ourselves since 1996. The 1998 National Quality Award and the grant of the "*Excellence in Europe*" title in the European Quality Award competition in 2001 have been superior achievements of the quality function of the company. In 2005, we embarked on a self-evaluation project of the Petrochemical Division as part of the MOL Group Chairman's Quality Award (for Business Excellence 2008) project.

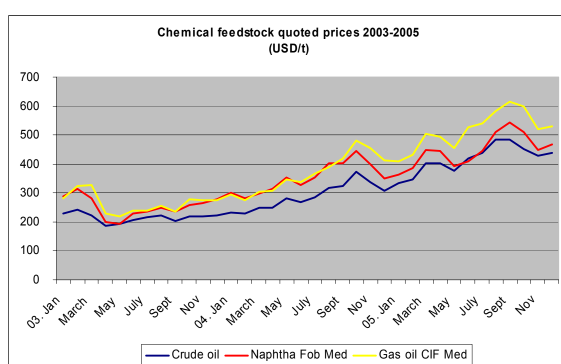
EFFICIENCY IMPROVEMENTS

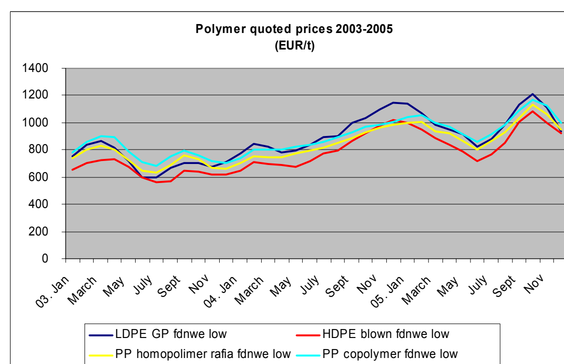
Management Report on the Economic and Financial Processes of 2005

EFFECTIVE OPERATION IN AN UNFAVOURABLE INDUSTRY ENVIRONMENT

The figures presented in the 2005 Annual Report of Tisza Chemical Group Company Limited by Shares (TVK) are audited and final. For the purposes of the Annual Report, the term "TVK Group level data" refers to the data of TVK and the subsidiaries under its control consolidated in line with international financial reporting standards (IFRS). As required by law, the data disclosed in the Annual Report are true and fair and the Annual Report does not withhold any facts that the issuer – to the best of its knowledge – considers to be of material importance in term of evaluating the issuer's position. The issuer is liable for indemnifying proven damages, if any, arising from its failure to make regular and extraordinary disclosures or from any misstatements therein.

In 2005, the TVK Group managed to outperform its 2004 results. Profit growth was fuelled first of all by increasing production at the new facilities and by internal efficiency improvements. As the company increased its size by completing the strategic project, it managed to strengthen its market positions, which contributed to counterbalancing the extremely unfavourable external effects, particularly the steep rise in feedstock prices during 2005.





Financial Highlights

- **Consolidated sales were up 42% due to the increased sales volume resulting from the output of new capacities coming online and the higher price of polymer and olefin products.**
- **Group level EBITDA was up 20% as a result of an 8% increase in consolidated operating profit and a 40% rise in depreciation.**
- **The integrated petrochemical margin, indicating the margin environment, was up 1%. The improvement in profitability was achieved primarily through the introduction of new production capacities and improved internal efficiency.**
- **Net profit amounted to HUF 6,409 million, whilst operating costs rose by 45%.**
- **The sales volume of polymer products made in-house increased by 156 kt complemented by a simultaneous increase by 291 kt of the sales volume of olefin products made in-house. The rise was mainly due to the new Olefin-2 and HDPE-2 plants coming online.**
- **Operating cash flow amounted to HUF 10,918 million in 2005, besides building up working capital required for the normal operation of the new capacities.**
- **Despite ensuring the staff needed during the trial operation of the new plants, the closing headcount of the TVK Group was 114 lower on December 31, 2005 than a year earlier owing to efficient headcount rationalization and internal labour organization efforts.**
- **In December, 2005, TVK Polska Sp. z o.o. was fully consolidated retrospectively for the whole year with an operating profit contribution of HUF 67 million.**

Financial Overview

TVK Group results (IFRS)	2004		2005		Variance %	
	HUF m	M EUR	HUF m	M EUR	HUF	EUR
Sales	175,883	715.2	249,693	988.0	41.97	38.15
EBITDA	19,078	77.6	22,859	90.4	19.82	16.59
Operating profit	**12,153**	**49.4**	**13,136**	**52.0**	**8.09**	**5.18**
Gain/loss of financial operations	(164)	(0.7)	(5,007)	(19.8)	-	-
Corporate tax	2,943	12.0	1,677	6.6	(43.02)	(44.55)
Net profit	**8,947**	**36.4**	**6,409**	**25.4**	**(28.37)**	**(30.29)**
Operating cash flow	**15,595**	**63.4**	**10,918**	**43.2**	**(30.00)**	**(31.87)**

Note: Calculated using FX mid-rate quoted for the end of the period by the National Bank of Hungary

Operating Environment

The price level of the feedstock for monomer production kept rising in the first three quarters of 2005 and only the fourth quarter brought a downturn. The average quoted price of naphtha (FOB med) (448 USD/t) rose by 27% along with a 42% increase in the quoted price of atmospheric gas oil (AGO 0,2 CIF med) (517 USD/t) year on year.

The prices quoted in European markets for the polymer products produced by TVK (ICIS' fd nwe low spot, EUR/t) tended to decrease in the first half of the year. This early reduction was followed by a rise and another downturn in December. The annual average of the quoted price of polyethylene and polypropylene, respectively, was 11-14% and 16-17% higher than in 2004. For the year as a whole, the average quoted price of LDPE was 1,012 EUR/t, the price of blown type HDPE came to 901 EUR/t, whilst PP types cost 960-1,010 EUR/t.

On average, the EUR/HUF rate dropped by 1% in 2005, whilst the USD/HUF rate decreased by almost 2% compared to the average of the previous year. In 2005, the EUR/USD exchange rate was 1.245, which is almost identical to that a year earlier. Compared to 2004, the exchange rate changes in 2005 had an overall negative impact on the profitability of the TVK Group.

Influenced by the quoted prices of feedstock for monomer production, the quoted prices of polymer and changing exchange rates, the integrated petrochemical margin rose by 1% yoy in HUF terms and by 2% yoy if measured in EUR.

Sales Income, Operating Costs, Operating Profit

In 2005, the sales income of TVK came to HUF 250,095 million with group level consolidated revenues at HUF 249,693 million, representing an increase of 53% and 42%, respectively, over sales in 2004 despite the removal of the polymer sales sourced from Slovnaft from the figures of commercial subsidiaries since last year.

Figure: Sales income 2001-2005 (HUF million)

	2001	2002	2003	2004	2005
TVK	145,165	130,297	133,646	163,587	250,095
TVK Group	155,131	135,124	150,284	175,883	249,693

The increase in group level sales income is due to the higher sale volume realised by the parent company and the increase in the price of polymer and olefin products. Group level income essentially involves revenues realised by the parent. In 2005, the unconsolidated sales income of TVK rose by HUF 86,508 million year on year, including a rise of HUF 52,767 million in sales income from polymer products and a simultaneous rise of HUF 32,094 million on olefin products. The volume increase on polymer sales is mainly a result of the output of the new HDPE-2 plant. Higher sales volume was the driver behind 88% of the rise in olefin product sales income.

TVK realized 48% of its 2005 sales income from exports, representing a year on year increase of 4% over 2004. The increase is the outcome of products delivered from the new HDPE-2 plant. The countries representing the biggest share in exports included Germany (19%), Italy (15%), Poland (13%), the UK (5%), France (5%) and Austria (3%).

The total operating income of the Group reached HUF 251,411 million in 2005, representing an increase of 42% over 2004, including other operating income at HUF 1,718 million, which corresponds to an increase of 112% yoy. Foreign exchange gains on accounts payable, receivable at HUF 704

million represent the bulk of the variance of other income, but the increase is also due to the rise of penalties, late charges, compensation and penalty interest received by HUF 135 million.

Figure: TVK Group costs, 2001-2005 (HUF million)

	2001	2002	2003	2004	2005
Material related expenditure	120,266	110,880	125,010	144,954	213,952
Staff related expenditure	10,700	9,478	10,263	11,138	10,121
Depreciation and impairment	8,593	8,111	7,797	6,925	9,723
Other operating costs	7,101	8,573	4,655	6,771	6,734
Total	**146,660**	**137,042**	**147,725**	**169,788**	**240,530**

TVK Group incurred HUF 196,989 million in material costs in 2005. The HUF 80,154 million (69%) increase in this cost item is due to the increased spending on purchased feedstock and higher energy costs. The higher feedstock prices were a result of the rise of the quoted price of feedstock and the higher volume used. Both effects were compensated partially by exchange rate changes. The feedstock utilization of the new Olefin-2 plant explains the volume rise of feedstock necessary for producing monomers. The rise in energy costs reflects both a price hike and the additional consumption as a result of new operations.

Material-related services were up HUF 4,209 million (49%) due to the rise in transportation costs of exported goods, agency commissions and maintenance service costs, each of which related to the operation of the new processes.

COGS was down by HUF 15,340 million (82%) because the sale of polymers produced by Slovnaft is no longer included in the accounts of the TVK Group due to the modification of the sales arrangements of the commercial subsidiaries in June, 2004.

The value of staff-related expenditure within the TVK Group dropped by HUF 1,017 million (by 9%). The provisions of HUF 1.3 billion set aside in 2004 for severance payments to be incurred in 2005 covered the expenditure.

The higher value of depreciation originates from the depreciation charged to the new plants. At the same time, the useful life of technologies commissioned earlier was reviewed and extended under IAS 16. As a result, we reversed the depreciation recognized earlier and wrote off the spare parts associated with these technologies. The combined effect of the two modifications was the reversal of depreciation charges of HUF 0.9 billion.

The increase in in-house inventories amounted to HUF 1,701 million including both volume increase and stock appreciation, as a result of the higher cost of feedstock.

The capitalized value of assets produced in house came to HUF 554 million, representing a year on year reduction of HUF 3,884 million. The figures for 2004 include the costs capitalized during the implementation of the Petrochemical Development Project.

The consolidated income of the operations of the TVK Group (EBIT) reached HUF 13,136 million in 2005 as opposed to HUF 12,153 million a year earlier. Although EBIT rose by HUF 983 million, the contribution of the parent company to the higher EBIT of 2005 was HUF 866 million lower than a year earlier. The subsidiaries' contribution to group level EBIT in 2005 amounted to HUF 2,502 million including the contribution of TVK-Erőmű Kft. at HUF 2,050 million. TVK Polska Sp z o.o. was fully consolidated in December 2005, and contributed HUF 67 million to the group level profit.

In 2005, the group level EBITDA of TVK rose by 20% to HUF 22,859 million as a result of an increase in consolidated operating profit at 8% and a 40% rise in depreciation.

Figure: EBITDA, 2001-2005 (HUF million)

	2001	2002	2003	2004	2005
TVK	14,691	7,927	10,754	18,236	19,567
TVK Group	15,526	8,554	11,974	19,078	22,859

Profit/Loss on Financial Operations

The net financial loss of the Group was HUF 5,007 in 2005 as opposed to the loss figure of HUF 164 million a year earlier. The Group level income of financial operations decreased by HUF 828 million in

2005, primarily because of the lower level of interest received on the smaller amount of unused cash and cash equivalents. The 303% increase in financial costs is a result of. first of all, the unrealized exchange loss on foreign exchange denominated loans and from the higher value of interest paid. The interest incurred in 2004 on loans taken out to cover the capital expenditure project designed to expand the capacity of the company was accounted for as capital expenditure a year ago as opposed to it being recognized as financial cost in 2005. The pro rata portion of the yield due to the majority shareholder of TVK Erőmű Kft. for 2005 is also included in the interest expenditure account.

Taxation

In 2005, TVK Group level earnings before taxation, extraordinary items and minority interest amounted to HUF 8,085 million. This year's Group financial statements show corporate tax liabilities of HUF 166 million, due to the earnings of the subsidiaries. TVK Rt. was entitled to a 100% tax holiday for its taxable profit of the year 2004 as a result of capitalization of assets under strategic projects, but despite of the positive profit after tax, the Company could not utilize the tax holiday as tax loss arose due to the cumulated correction items. The tax loss carried forward from 2005 (amounting to a total of HUF 2,410 million at TVK Rt. and TVK Power Plant Ltd.) is available indefinitely for offset against future taxable profits. The value of deferred taxation liability amounted to HUF 1,511 million.

Profit After Tax

Consolidated net profit dropped by 29% to HUF 6,408 million. A charge of HUF 2,538 million brought the net consolidated earnings of TVK to HUF 6,409 million. The decrease is mainly a result of the HUF 3,193 million reduction in the profit after tax.

Figure: Profit After Tax (net of dividends), 2001-2005 (HUF million)

	2001	2002	2003	2004	2005
TVK	8,228	2,087	5,161	8,879	5,686
TVK Group	8,693	1,819	5,278	8,947	6,409

Net Asset Position

The consolidated balance sheet total amounted to HUF 228 billion, which represents an increase of HUF 26 billion over the previous year's figure, and includes the balance sheet of TVK at HUF 213 billion and the cumulative contribution of other TVK Group members at HUF 15 billion.

The 13% increase in the consolidated balance sheet total was coupled with a simultaneous rise in invested assets (4%) and current assets (41%).
Invested assets were up HUF 5,525 million. The net value of tangible assets rose by HUF 6,522 million. The higher value is due to capital expenditure items associated with the Petrochemical Development Project completed by TVK. Included in other invested assets, the advances paid for capital expenditure projects dropped by HUF 1,214 million.
Current assets increased from HUF 48,416 million to HUF 68,279 million. Most of the changes are due to the rise in trade accounts receivable by 45%, which is explained by the higher sales volume and the increase in sales prices. There were simultaneous increases in cash and bank (40%), inventories (28%) and other current assets (36%).

Financial Position

Long term liabilities increased by 16% to HUF 72,257 million. Most of the increase derives from a 15% rise in long term loans. The value of this account was HUF 65,403 million at the end of the year. The higher value is primarily due to the full consolidation of TVK Erőmű Kft. The value of balance sheet gearing was 32.7%

The value of short term liabilities rose by 31% to HUF 37,739 million, including a 37% increase in trade accounts payable and other liabilities, the value of which reached HUF 36,137 million at the end of the year. The change is a consequence of the bigger volume of feedstock used and the higher prices charged for the same. The provisions set aside for future liabilities contracted by 57% and represented HUF 960 million. The reduction is due to the disbursement in 2005 of the severance payments from the amount provisioned for the purpose.

Shareholders' Equity, Registered Capital, Capital Reserves and Retained Earnings

The shareholders' equity of the TVK Group amounted to HUF 117,718 million, representing a year on year increase of 6%. The change in owner's equity originates from the withdrawal of employee shares

(HUF 3 million). (Redeemed employee shares are classified as capital decrease under IFRS.) The increase in retained earnings of HUF 8,953 million includes the net earnings of the parent company and its consolidated subsidiaries. The retained earnings account showed HUF 71,721 million at the end of the year. Balance sheet profit dropped by HUF 2,538 million to HUF 6,409 million.

Cash flow

The 2005 annual cash flow statement of the TVK Group shows an increase of HUF 1,331 million in cash, in contrast with the reduction of HUF 8,435 million in the 2004 statement. The increase in 2005 is a result of a combined effect of conflicting factors as the cash from operations increased whilst the net cash from financial operations and investments reduced cash flow.

Operating cash flow amounted to HUF 10,918 million in 2005, over and besides building up working capital required for the normal operation of the business given its increased capacity. EBITDA added HUF 22,859 million to cash flow. The change in working capital (the total of inventories, trade accounts receivable and payable, other accounts receivable and payable) reduced cash flow by HUF 10,433 million. The major factors causing the reduction included the changes in trade accounts receivable and payable. The reduction of HUF 13,486 million in trade accounts receivable reflects higher product prices and increased sales volume. The HUF 5,977 million growth in trade accounts payable was driven mainly by the higher volume of feedstock consumption and price increases.

Investments drove cash flow down by HUF 4,101 million. Capital expenditure reduced the value of investment cash flow by HUF 4,916 million compared to a reduction of HUF 43,253 million a year earlier. Cash generated by selling tangible assets increased cash flow by HUF 528 million, whilst interest received an other financial income added HUF 273 million to the value of investment cash flow.

Cash from financial operations weighed down cash flow by HUF 5,486 million in 2005 and included an increase in interest paid and other financial expenditure at HUF 2,803 million and the repayment of long term loans at HUF 2,459 million.

Risk Management

The Risk Management Policy of the company places high priority on all risks arising from TVK's operations. Using its risk management guidelines, TVK has identified its risks and has taken ongoing measures to manage identified exposures. Some of these risks are retained, others are transferred to a partner and the remainder are covered by an insurance cover. The aim of the risk management function of TVK is to reduce the risk exposure of the business as much as possible. The guidelines cover, for instance, the management of currency exchange and world market price risks and the exposures to asset risk, business interruption risk, business risk, liability risk, customer, technical, safety engineering, environmental risks, etc. Starting in 2006, the Enterprise Risk Management Project will address risks at MOL Group level.

The prices of the most important raw materials used by the company and of the olefin and polymer products produced by TVK are pegged to the global prices of these products. Sales income is substantially influenced by the EUR/HUF rate, whilst purchases have a close relationship with the USD/HUF rate. TVK engaged in a relatively limited number of forward transactions, but was not a party to any swap deals, option and other derivative transactions for the purposes of hedging its exchange rate risk. The loans of the company were denominated in EUR to mitigate the exchange rate risk.

The company had no open positions in foreign exchange futures on December 31, 2005.

With the aim of reducing liquidity risk, the company takes out credit insurance to cover its trade accounts receivable. It also performs a thorough analysis of the conditions of its potential customers and evaluates whether or not the requirements to maintain payments continuously are met before signing a new contract.

Capital Expenditure

The value of capital expenditure incurred by the TVK Group in 2005 totalled HUF 6,981 million, including the loss of HUF 324 million incurred by the trial operation of the Olefin-2 plant in 2005. The amount charged to strategic projects in 2005 involves the effect of projects implemented during the previous year. The implementation of the Petrochemical Development Project was completed and

each unit is operational. The HDPE-2 plant and the off-battery facilities were capitalized at the end of 2004 and the capitalization of the Olefin-2 plant occurred on September 30, 2005.

The company spent HUF 2,672 million in capital expenditures designated to maintaining and modernizing its assets. Of the total, HUF 1,684 million was incurred by the parent company including capital expenditure worth HUF 770 million designated to supporting operations and production, HUF 218 million devoted to safety engineering and HUF 246 million spent on IT upgrades. The expenditure incurred by the subsidiaries is dominated by amounts related to the consolidation of TVK Erőmű Kft.

Figure: TVK Capital Expenditure Less Advance Payments, 2001-2005 (HUF million)

	2001	2002	2003	2004	2005
Strategic developments	2,398	14,692	52,034	36,880	4,308
Upkeep and renewal	4,090	3,041	2,931	2,033	1,684
Total	**6,488**	**17,733**	**54,965**	**38,913**	**5,992**

Organizational and Personnel Changes, Employees

The structure of the company did not change substantially in 2005.

The changes in senior officers in 2005 included the following:

The following persons resigned from their position on or membership of the Board of Directors as of the date of the Annual General Meeting of TVK Rt. in 2005: Zoltán ÁLDOTT, Zalán BÁCS, Michel-Marc DELCOMMUNE, Zoltán HORVÁTH, József MOLNÁR and Árpád OLVASÓ; dr. Ilona BÁNHEGYI and József SIMOLA resigned from the Supervisory Board at the same time.

The Annual General Meeting held on April 28, 2005 elected the following persons as members of the Board of Directors for a term of 2 years starting on the date of the AGM: Vratko KASSOVIC, József SIMOLA, Árpád OLVASÓ, Michel-Marc DELCOMMUNE, and József MOLNÁR. The AGM elected the following persons as members of the Supervisory Board for a term of 5 years starting on the date of the AGM: Ildikó KEMÉNYNÉ ÚJVÁRI, dr. Ilona BÁNHEGYI and Krisztina DOROGHÁZI.

The size of the Board of Directors dropped from 7 members to 6 members in the fouth quarter of 2005, because the November 3, 2005 mandate termination of Mr. Fred Faiz, who was elected to the Board of Directors on November 3, 2000.

Changes in Employment

The closing headcount of full time employees in the companies consolidated in the TVK Group stood at 1,488 on December 31, 2005, representing a reduction of 114 persons from the closing headcount of 2004 despite the employment of staff needed to operate the new facilities. The reduction is fundamentally the outcome of headcount rationalization measures taken at the parent company.

Figure: TVK headcount

Full time employees	**31.12.2004**	**31.12.2005**
Corporate level	1,571	1,454
Group level	1,602	1,488

Ownership Structure

There were no major changes in the ownership structure of the company in 2005. Hungarian institutional investors held 45% and foreign institutional investors held 35% of the holdings during the year. There was a single change in ownership structure during the second quarter when shareholder identification was carried out prior to the Annual General Meeting. As a result, the percentage share of Hungarian institutional investors dropped from 45.10% to 44.34%, along with an increase in the holdings of foreign institutional investors from 34.79% to 39.48%. In addition, the percentage of unidentified shareholders dropped from 18.36% to 15.40%. The number of private investors was insignificant during the year. TVK held no Treasury shares in 2005.

Figure: Changes in Ownership Structure

Ownership structure by equity capital	December 31, 2004		December 31, 2005	
	%	No. of shares	%	No. of shares
Hungarian institutional/corporate	45.10	11,013,985	44.34	10,830,252
Foreign institutional/corporate	34.79	8,495,832	39.48	9,642,266
Hungarian private investors	0.96	235,378	0.01	3,200

Foreign private investors	0.02	5,067	0.00	0
Employees, senior officers	0	0	0	0
Treasury shares	0	0	0	0
TVK Rt. employee shares	0.77	189,000	0.77	189,000
Unidentified holders of equity shares	18.36	4,484,581	15.40	3,759,125
TOTAL	**100**	**24,423,843**	**100**	**24,423,843**

The share register records of shareholders with interest of over 5% shows the following changes: the holdings of MOL Hungarian Oil and Gas Public Limited Company (MOL), the largest shareholder of TVK remained unchanged at 44.31%. On January 4, 2005, the interest held by Hermész Mérnöki Tanácsadó és Nagykereskedelmi Kft., a MOL subsidiary, dropped from 8.02% to 0%. This block of shares was transferred to Slovnaft, a.s., another MOL subsidiary. As a result, the direct and indirect holdings of MOL in TVK also remained unchanged at 52.33%. The holdings of CE Oil & Gas Beteiligung und Verwaltung AG, another major shareholder, rose from 15.99% to 31.39% on March 2, 2005.

Shareholders With More Than 5% Interest in the Equity Capital Total on December 31, 2005

Shareholder	No. of shares	Holdings (%)	Voting rights (%)	Remark
MOL Hungarian Oil and Gas Public Limited Company	10,821,029	44.31	44.31	strategic investor
CE Oil & Gas Beteiligung und Verwaltung AG	7,666,850	31.39	31.39	n.a.
Slovnaft, a.s.	1,958,743	8.02	8.02	strategic investor

N.B.: Share registers kept in Hungary do not fully reflect the structure of ownership, because the registration of share ownership is not mandatory

Tiszai Vegyi Kombinát Rt. and Subsidiaries

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

31 December 2005

Independent Auditors' Report

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

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

On 7 March 2005 we issued an unqualified opinion on the Company's consolidated annual financial statements prepared in accordance with the Hungarian accounting law and on the Company's consolidated annual financial statements prepared in accordance with the International Financial Reporting Standards as at 31 December 2004.

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

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

Without qualifying our opinion, we draw the attention to note 25 to the consolidated financial statements that describes the environmental aspects of the Company's operations and highlights the risk of potential significant decontamination expenses that might incur in relation to past environmental damage as may be identified by future environmental surveys, if any.

Budapest, 22 March 2006

Szilágyi Judit
Registered Auditor
Chamber membership No.: 001368

Ernst & Young Kft.
Registration No. 001165

INDEPENDENT AUDITORS' REPORT

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

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

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

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

Without qualifying our opinion, we draw the attention to note 25 to the consolidated financial statements that describes the environmental aspects of the Company's operations and highlights the risk of potential significant decontamination expenses that might incur in relation to past environmental damage as may be identified by future environmental surveys, if any.

Ernst & Young Kft.
Budapest, Hungary
22 March 2006

Tiszai Vegyi Kombinát Rt. and Subsidiaries

Consolidated financial statements
prepared in accordance with International Financial Reporting Standards

31 December 2005

Tiszaújváros, 22 March 2006

Árpád Olvasó
Chief Executive Officer

Consolidated balance sheet

31 December 2005

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

The notes are an integral part of these consolidated financial statements

Consolidated income statement

31 December 2005

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

The notes are an integral part of these consolidated financial statements

Consolidated statement of changes in equity

31 December 2005

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

The notes are an integral part of these consolidated financial statements

Consolidated statement of cash-flows

31 December 2005

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

The notes are an integral part of these consolidated financial statements

1. Presentation of The Group Structure

Background to the consolidated companies

Tiszai Vegyi Kombinát Rt.

Tiszavidéki Vegyi Kombinát, TVK's legal predecessor was founded in 1953. In 1961 it was transformed into a state-owned company called Tiszai Vegyi Kombinát (the "state-owned company"). Prior to its privatisation, the state-owned company was incorporated as a public limited liability company on 31 December 1991 (the "Company"). In accordance with the law on the transformation of unincorporated state-owned enterprises, the assets and liabilities of TVK were revalued as at that date.

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

In 1996, the Company was privatised through an offering of shares owned by ÁPV Rt. to foreign and domestic institutional and private investors. Following this privatisation, shares of the Company were listed on the Budapest Stock Exchange and Global Depository Receipts ("GDRs") representing the shares were listed on the London Stock Exchange. As of 31 December 2005, MOL Group holds the majority of the shares.

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

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

Consolidated subsidiaries

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

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

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

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

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

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

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

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

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

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

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

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

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

2. Basis of Preparation

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

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

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

The financial year is the same as the calendar year.

i) Statement of compliance

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

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

ii) Principles of Consolidation

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

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

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

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

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

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

2.1 Changes in Accounting Policies

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

IFRS 2 –Share-based Payment

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

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

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

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

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

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

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

Other International Financial Reporting Standards

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

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

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

Issued but not yet effective International Financial Reporting Standards

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

- *IAS 1 (amended 2005) Presentation of Financial Statements*

- *IAS 19 (amended 2004) Employee Benefits*

- *IAS 21 (amended 2005) The Effects of Changes in Foreign Exchange Rates*

- *IAS 39 (amended 2005) Financial Instruments: Recognition and Measurement – The Fair Value Option*

- *IAS 39 (amended 2005) Financial Instruments: Recognition and Measurement – Cash Flow Hedge Accounting of Forecast Intragroup Transactions*

- *IFRS 4 Insurance Contracts*

- *IFRS 7 Financial Instruments: Disclosures*

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

- *IFRIC 5 Right to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds*

- *IFRIC 6 Liabilities arising from Participating in a Specific Market—Waste Electrical and Electronic Equipment*

- *IFRIC 7 Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies*

- *IFRIC 8 Scope of IFRS 2*

- *IFRIC 9 Reassessment of Embedded Derivatives*

2.2 Summary of significant accounting policies

i) Presentation Currency

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

ii) Goodwill

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

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

iii) Cash and Cash Equivalents

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

iv) Trade receivables

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

v) Investments

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

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

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

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

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

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

vi) Financial Instruments

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

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

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

vii) Derivative Financial Instruments

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

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

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

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

- the economic characteristics and the risks of the embedded derivative are not closely related to the economic characteristics of the host contract,

- a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and

- a hybrid (combined) instrument is not measured at fair value with changes in fair value reported in current year net profit.

viii) Hedging

For the purpose of hedge accounting, hedges are classified as

- fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability;

- cash flow hedges when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a forecast transaction; or

- hedges of a net investment in a foreign operation.

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

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

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

Fair value hedges

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

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

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

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

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

Cash-flow hedges

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

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

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

Hedges of a net investment

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

ix) Inventories

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

x) Property, Plant and Equipment

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

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

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

xi) Intangible Assets

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

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

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

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

xii) Depreciation, Depletion and Amortization

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

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

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

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

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

xiii) Impairment of Assets

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

xiv) Interest-bearing loans and borrowings

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

xv) Provisions

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

Provision for Redundancy

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

Provision for Environmental Expenditures

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

Provision for Retirement Benefits

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

xvi) Leases

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

xvii) Government grants

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

xviii) Reserves

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

Translation reserves

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

Hedging reserves

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

xix) Treasury Shares

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

xx) Dividends

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

xxi) Revenue Recognition

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

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

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

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

xxii) Borrowing Costs

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

xxiii) Income Taxes

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

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

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

xxiv) Foreign Currency Transactions

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

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

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

xxv) Earnings Per Share

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

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

- the net profit for the period attributable to ordinary shares is increased by the after-tax amount of dividends and interest recognised in the period in respect of the dilutive potential ordinary shares and adjusted for any other changes in income or expense that would result from the conversion of the dilutive potential ordinary shares.

- the weighted average number of ordinary shares outstanding is increased by the weighted average number of additional ordinary shares which would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

xxvi) Segmental Disclosure

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

xxvii) Contingencies

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

2.3 Significant accounting judgments and estimates

Critical judgments in applying the accounting policies

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

- Scope of environmental provision

- Tax holidays in forthcoming years and the availability of taxable income against which deferred tax assets can be recognized

- Actuarial judgments applied for calculation of retirement benefit obligations

- Degree of control over TVK Erőmű

Sources of estimate uncertainty

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

- Calculation the fair values of financial instruments

- Determination of useful lives of property, plant and equipment and intangibles

- Quantification and timing of environmental liabilities

- Impairment of tangible assets and intangibles

3. Intangible assets

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

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

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:

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

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

4. Property, plant and equipment

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

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

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

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

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

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

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

Leased assets

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

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

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

5. Investment in associated companies and other investments

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

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

* TVK-Polska was fully consolidated from 2005.

Unconsolidated subsidiaries:

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

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

TVK Ukraina tov was founded by the Company with a registered capital of 33,995.89 Hryvnia (5,770 EUR). Cash consideration was paid on 23 November 2005. It sells the polymers produced by TVK Rt. and Slovnaft a.s. in Ukraine as an agent. The establishment of the subsidiary aimed the direct presence on the strategically determining Ukrainian market. The company was registered on 17 January 2006.

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

Summarized financial information on subsidiaries that are not consolidated

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

Associates

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

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

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

Financial information on associates

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

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

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

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

6. Other non-current assets

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

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

*In 2002, TVK Rt. sold its investment in Plastico S.A. Due to the company's solvency problems, the recoverable amount decreased to HUF 197 million as at 31 December 2004, and as a result an impairment loss of HUF 353 million was recognized. Short-term part of loan receivable (HUF 77 million) and the related impairment (HUF 49 million) are reclassified to other current assets at the end of 2005. The recoverable amount of outstanding loan receivables were re-assessed as at 31 December 2005 and it decreased to HUF 205 million. Impairment recorded is based on expert's estimation of the pledged assets under the contract, less expected expenses of compulsory disposal of the property. (See Note 9.)

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

7. Inventories

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

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

The Group believes that the level of provision as of 31 December 2005 is sufficient to cover potential future losses.
As of 31 December 2005 and 2004, no inventory owned by TVK Rt. was pledged as collateral.
The total amount of impairment was HUF 272 million and HUF 255 million as of 31 December 2005 and 2004, respectively.

Inventories are regularly reviewed for impairment.

8. Trade receivables

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

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

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

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

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

9. Other current assets

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

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

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

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

10. Cash and cash equivalents

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

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

11. Share capital

Share capital as of 31 December 2005 was as follows:

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

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

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

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

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

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

*The total number of shares of 24,250,193 does not include 173,650 treasury shares redeemed from employees in 2005.
In accordance with IFRS, face value of redeemed employee shares is deducted from share capital.

Share capital as of 31 December 2004 was as follows:

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

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

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

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

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

*The total number of shares of 24,252,337 does not include 171,506 treasury shares redeemed from employees in 2004.
In accordance with IFRS, face value of redeemed employee shares is deducted from share capital.

12. Reserves

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

13. Long-term debt, net of current portion

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

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

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

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

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

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

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

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

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

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

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

14. Provision for liabilities and charges

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

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

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

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

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

15. Trade and other payables

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

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

16. Short-term debts

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

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

17. Net sales by geographical area

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

18. Other operating income

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

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

19. Personnel expenses

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

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

20. Other operating expenses

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

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

21. Financial (income) / expense

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

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

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

22. Income taxes

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

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

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

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

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

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

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

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

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

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

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

23. Earnings per share (EPS)

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

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

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

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

24. Financial instruments

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

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

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

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

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

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

Financial risk management

Foreign exchange and commodity price risks

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

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

Credit risk

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

Liquidity risk

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

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

25. Commitments and contingency liabilities

Legal disputes over investments in securities

In 1998, a former executive of the Company misused her authority and instructed stockbrokers Quantum Bróker Rt to invest HUF 1,000 million in an equity portfolio and financial instruments instead of treasury bills as approved by TVK Rt's management. The Company disputed the proper authorisation of the transaction and believed that the broker firm did not perform its duty with proper professional care and stewardship, and the Company reported the case to the police in October 1998. The police took custody of the portfolio of shares and delivered them to TVK Rt.
In the lawsuit against Quantum Bróker, the Supreme Court rejected TVK's appeal, therefore the Company wrote off its receivable amounting to HUF 569 million from Quantum Bróker in 2001.

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

Operating leases

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

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

Capital and contractual commitments

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

Gas Purchase Obligation, Take or Pay Contract

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

Environmental protection

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

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

The management of the company regularly assessed the measures and/or investments necessary in order to meet new Hungarian environmental requirements issued based on applicable EU directives.
In connection with this, an assessment of underground pollution of areas under decontamination began in the second half of 2002. Further to the findings of an environmental review carried out by an external consultant, HUF 2,101 million additional environmental provisions were created for expected extra restoration costs in 2002. The amount of provisions covers only those expenses that could be assessed and properly quantified at the time of reporting.

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

The environmental authority requested further additions to the closing document. All the requested additions were prepared by TVK Rt and have been submitted to the authority. Based on the documentation submitted, the North-Hungary Authority for the Environment, Nature and Water issued a note to TVK Rt to prepare and submit a technical action plan by 30 September 2005.
In 2005 the Company was focusing on the localization of underground pollution within the TVK Rt site, to avoid further pollution on the southern part of the plant.
In 2005 HUF 79 million was spent on this action. Resulted from the complexity and the measure of the polluted areas, beside this project there was also initiated the common risk based concept strategy approach of recognizing environmental liability at TVK-TIFO plant participating by contracted external consultants.
Milestones of the environment liabilities treatment process:

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

The Company continuously analyses the progress of the clean-up process and has made significant financial and intellectual efforts in order to comply with relevant legal requirements by eliminating environmental problems inherited from the past. These potentially substantial future financial expenses will be reliably quantifiable only once the results of further surveys are known as currently available information is not adequate to identify either the extent of the pollution or the suitable restoration technology.
The Company recognized environmental provision based on the currently available quantifiable future financial expenses and it is totaled to HUF 3,983 million as of 31 December 2005.
Based on the existing contracts and on all the information available to us the Company has estimated environmental costs for the next 13 years.

26. Segmental information

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

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

* Includes the revenues of consolidated companies.

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

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

*Also contains construction in progress.

** Includes the fixed assets of consolidated companies.

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

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

27. Related party transactions

Transactions with associated companies in the normal course of business

MOL Group has been TVK Rt's main raw material supplier and buyer of TVK products ever since the Company was established. Deliveries are based on a long-term contract signed in 1993 and valid until 2003. In 2001, the Company signed a long-term contract with MOLTRADE-Mineralimpex Rt. on supplying raw materials for the period between 2004 and 2013.

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

General Incentive Schemes for management

The incentive aim involves company and organizational level financial and operational targets, evaluation of the contribution to the strategic goals of the company and determined individual tasks in the System of Performance Management (TMR), and competencies. From the settled incentive scheme based on evaluation of indicators and qualification of individual tasks and competencies, 60% will be paid after the evaluation and 40% will be paid after a two years waiting period. The ratio of the incentive may change according to the individual agreements. Evaluation of the contribution relating to the performance provided during 2005 will be held in 2006, and based on this that part which is due within one year will be paid in May 2006, while deferred part will be settled in 2008.

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

Key management compensation

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

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

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

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

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

:

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

		Share capital HUF millions	Reserves HUF millions	Net income HUF millions	Minority interests HUF millions	Shareholders' equity HUF millions
31 December 2004 – HAS		**24,666**	**79,219**	**10,634**	**-**	**114,519**
Effect of IFRS consolidation		-	(101)	107	-	6
Shareholding of external shareholders according to IFRS		-	-	(39)	43	4
<u>IFRS adjustments</u>						
- Redeemed employee shares	1	(171)	-	-	-	(171)
- Deferred tax	2	-	(269)	(1,676)	-	(1,945)
- Capitalised technical equipment	3	-	7,668	0	-	7,668
- Depreciation of technical equipment	3	-	(7,258)	(45)	-	(7,303)
- Capitalisation of borrowing costs	3	-	(63)	63	-	-
- Accrued unrealised quantity discount	5	-	(1,766)	79	-	(1,687)
- Revaluation difference on investments	6	-	530	(210)	-	320
- Management incentives	8	-	-	(139)	-	(139)
- Other		-	(163)	173	-	10
31 December 2004 – IFRS Group		**24,495**	**77,797**	**8,947**	**43**	**111,282**

1. Redeemed employee shares

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

2. Deferred tax

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

3. Capitalisation of borrowing costs

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

4. Periodic maintenance cost

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

5. Accrued unrealised quantity discount

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

6. Accounting for investments

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

7. Reversal of Goodwill amortisation

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

8. Management incentives

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

Summary Financial Data

KEY CORPORATE DATA, 2001-2005

IFRS, consolidated, audited	**2001**	**2002**	**2003**	**2004**	**2005**	**2001**	**2002**	**2003**	**2004**	**2005**
	(HUF million)	(HUF million)	(HUF million)	(HUF million)	(HUF million)	(EUR 000)	(EUR 000)	(EUR 000)	(EUR 000)	(EUR 000)
Sales	155,131	135,124	150,284	175,883	249,693	629,769	572,802	573,100	715,175	987,983
Operating Profit (EBIT)	6,933	443	4,177	12,153	13,136	28,145	1,878	15,929	49,417	51,976
Depreciation	8,593	8,111	7,797	6,925	9,723	34,884	34,383	29,733	28,158	38,472
Net profit	8,693	1,819	5,278	8,947	6,409	35,290	7,711	20,127	36,380	25,359
Capital expenditure	6,971	20,132	55,420	42,553	6,981	28,299	85,341	211,341	173,029	27,622
Total assets	137,644	134,274	182,082	202,326	227,714	558,779	569,199	694,360	822,698	901,017
Shareholders' equity	95,376	97,112	102,363	111,282	117,718	387,188	411,666	390,356	452,495	465,786
Registered capital	24,623	24,510	24,501	24,495	24,492	99,959	103,900	93,433	99,602	96,910
Major ratios										
EPS – Earnings per share (HUF/share; EUR/share)	356	75	218	369	264	1.45	0.32	0.83	1.50	1.04
ROE – Return on equity (%)	9.11	1.87	5.16	8.04	5.44	9.11	1.87	5.16	8.04	5.44
ROA – Return on assets (%)	6.32	1.35	2.90	4.42	2.81	6.32	1.35	2.90	4.42	2.81
Closing price of TVK shares on the Budapest Stock Exchange (HUF and EURO):										
- Highest	4 990	4 800	4 550	5 375	5 890	20.26	20.35	17.35	21.86	23.31
- Lowest	1 990	2 800	3 250	3 400	4 605	8.08	11.87	12.39	13.83	18.22
- On December 31	3 250	3 940	3 955	5 060	5 240	13.19	16.70	15.08	20.57	20.73
Capitalisation (on December 31 closing price, million)	78 763	95 485	95 849	122 628	126 990	319.75	404.77	365.52	498.63	502.47

Other Data	**2001**	**2002**	**2003**	**2004**	**2005**
Average headcount	2,686	2,205	2,091	1,724	1,545
Number of shares	24,423,843	24,423,843	24,423,843	24,423,843	24,423,843
- Ordinary shares	24,234,843	24,234,843	24,234,843	24,234,843	24,234,843
- Employee stock	189,000	189,000	189,000	189,000	189,000
Number of consolidated companies	11	7	6	7	8

Note:

The EUR/HUF mid FX rate quoted by the NBH for December 31, 2001 was: 246.33

The EUR/HUF mid FX rate quoted by the NBH for December 31, 2002 was: 235.90

The EUR/HUF mid FX rate quoted by the NBH for December 31, 2003 was: 262.23

The EUR/HUF mid FX rate quoted by the NBH for December 31, 2004 was: 245.93

The EUR/HUF mid FX rate quoted by the NBH for December 31, 2005 was: 252.73

Corporate Governance

Corporate Governance

TVK places high priority on applying a corporate governance system that meets the highest expectations. Accordingly, in response to the Guidelines of Responsible Corporate Governance issued by the Budapest Stock Exchange, TVK disclosed its corporate governance practices in a Declaration in 2005. The Board of Directors accepts and does its best to observe the Guidelines in the course of running the Company and its operations.

The corporate governance of TVK Rt. complies with the requirements of the Budapest Stock Exchange, the guidelines of the Hungarian Financial Supervisory Authority and in effect the capital market regulations. Furthermore, TVK Rt. regularly reviews the principles it applies in order to adhere to the international best practice in this area of the business. The TVK website (www.tvk.hu) has a separate section which deals with corporate governance issues. This is where the company discloses its corporate governance principles and Ethical Code.

The General Meeting

TVK Rt. – as the controlling entity of the TVK Group – operates as a company limited by shares and its supreme decision making body is the General Meeting of its shareholders. An Annual Ordinary General Meeting must be convened at least once a year, within 120 days after the closing date of the business year. Each shareholder may take part in, request information from and make remarks to the General Meeting. Shareholders may make motions and holders of voting shares may vote thereat.

The Board of Directors

The governing body of TVK Rt. is the Board of Directors, which is collectively responsible for all corporate actions.

As the governing body of TVK Rt. with collective responsibility, the Board of Directors seeks to increase shareholder value, improve effectiveness and efficiency, ensure transparency of operations, manage risks, protect the environment and guarantee safe working conditions as top priorities.

TVK Rt. and its subsidiaries form an integrated entity, which is why the Board of Directors considers the enforcement of the aforementioned principles and goals, and the Group level rollout of the culture of TVK its primary responsibility and obligation.

Shareholder Relations

The Board of Directors is aware that, as a body, it is responsible for the results and performance of the TVK Group and all of its operations. It is aware of shareholder expectations and puts every effort into aligning corporate operations with those expectations. The Board monitors and evaluates the operating environment and the performance of the Group companies to ensure shareholder expectations are met.

The official channels of shareholder relations include the Annual Report and Accounts, the quarterly reports published through the Budapest Stock Exchange and other announcements. Furthermore, shareholders are kept informed of business administration, company results and strategy at Ordinary and Extraordinary Annual Meetings. Investors are free to contact TVK on an interim basis with their queries and the AGM is happy to answer their questions and take on board their recommendations. The company notifies shareholders of corporate events (AGM, share conversion, dividend distribution, and other business) and of share register data.

The person in charge of shareholder relations at TVK is responsible for co-ordinating the activities listed above and for the daily contact with shareholders (see contact information in the chapter on “Shareholder Information” at the end of the Annual Report). For further information, please visit the TVK website at www.tvk.hu where a separate chapter is devoted to discussing issues affecting shareholders and the financial community.

The Operation of the Board of Directors

The Board of Directors operates and passes resolutions collectively.

The Board of Directors regulated its business in a set of bylaws adopted upon incorporation of the Company (December 31, 1999), which are continually updated in line with the best practice.

The bylaws cover:
- the role and competencies of the Board of Directors;
- the scope of information needed by the Board of Directors and the frequency of reporting;
- the major responsibilities of the Chair and the Deputy Chair;
- the order of business at and the preparation of board meetings with permanent agenda items;
- the mechanism of decision making and of controlling the execution of resolutions.

Remuneration of the Board:
A resolution of the Annual Ordinary General Meeting at April 28, 2004 states that starting in the 2004 business year:
- a non-resident foreign exchange alien member of the Board of Directors shall be entitled to a fee of USD 1,500 for each Board meeting held with the member of the Board in attendance, provided that the annual total of such fees does not exceed USD 22,500;
- resident Board members shall not be entitled to remuneration;
- the company shall reimburse the expenses incurred by a member of the Board for travel to and accommodation at the venue where the Board meetings take place.

The Report by the Board of Directors on its Activities in 2005
In 2005, the Board of Directors met 5 times with average participation rate at 100%. In addition to regular agenda items, such as the reports by committee chair persons on business activities since the previous meeting and the review of capital market processes, the Board of Directors reviews the performance of each business segment separately.

Board Committees:
The Board of Directors delegated certain responsibilities to permanent committees set up for the purpose. The committees are authorised to propose preliminary resolutions in matters specified in a Matrix of Decision Making Competencies.

Finance and Audit Committee: (5 members, 1 executive, 4 non-executive) is responsible for promoting the efficiency of the Board regarding issues related to finance, risk management and financial audit, as well as for matters delegated to it by the Board. The Finance and Audit Committee met 5 times in 2005. The average rate of participation was 90%.

The responsibilities of the Corporate Governance Committee (4 members, 1 executive, 3 non-executive). The Corporate Governance Committee held no meetings in 2005.

The Project Steering Committee: (9 members, 4 executive, 5 non-executive) is responsible for supervising the process of implementing strategic projects at TVK, controlling and evaluating the efforts of the Project Implementation Team, securing resources for efficient project management operations and for completing facilities at an optimum technical standard, by the set deadline and within budget. Additionally, the Project Steering Committee is responsible for assisting the efforts and for supporting the resolutions of the Board of Directors. The Project Steering Committee is not authorised to take direct measures and may not engage in activities of this nature, as it is responsible for operational control over the strategic project. Operational project management is the responsibility of the director of co-ordination of the strategic project and the CEO. The Project Steering Committee met 9 times in 2005. The rate of member participation was 100%.

Relationship between the Board of Directors and the Management
The Matrix of Decision Making Competencies specifies the powers and competencies delegated by the Board to the Management in an attempt to ensure the most efficient running of the business, the implementation of HSEQ, ethics, risk management and internal control policies specified by the Board. The objective of the Matrix of Decision Making Competencies is to maximise the shareholder value of the company and to capture unambiguously the decision-making powers and competencies so as to maintain operational and financial excellence.

In principle, the Matrix of Decision Making Competencies should:
- ensure that the interests of shareholders are efficiently served by the Board of Directors;
- support and promote efficient and uniform corporate decision-making at TVK;

- ensure proper balance between the freedom of management to make decisions and the requirements of the strict internal system of governance and performance evaluation;
- guarantee that decision-making competencies are assigned to levels of the organisation where the largest amount of information is available to support a decision;
- guarantee proper follow-up and control;
- guarantee governance by function and business matrix at both TVK Rt. and subsidiary level.

The system is designed to prevent the company from performing erroneously the policies and strategy set by the Board of Directors.

Guidelines for Evaluating Management Performance and Remuneration

The Board evaluates the performance of the management, individually and at a corporate level, and sets the responsibilities and the related targets for the given period in line with the incentivisation system.
Operating a compensation system and adopting practical solutions in line with company strategy is a guideline for developing the structure of performance evaluation and remuneration in a way that it may be used efficiently for attaining the objectives of the company whilst giving priority to motivating key employees.

Supervisory Board

Commissioned by the shareholders, the Supervisory Board exercises control over the management of the company and reports to the General Meeting.
The Articles of Association of TVK state that the Supervisory Board of the company should have at least three, but no more than fifteen members. As stated in the Company Act, 1/3 of the members of this body should be employee representatives, hence two members of the Supervisory Board of TVK represent employees and there are three non-executive members appointed by the shareholders. In 2005, the Supervisory Board met 5 times with an average participation rate at 95.5%.

The remuneration of Supervisory Board members:
The Ordinary General Meeting held on April 28, 2004 decided that starting in the 2004 business year:

- employees or senior officers of the MOL Group (other than employee representatives) shall not be remunerated for acting on the Supervisory Board regardless of their function.
- the monthly fee paid to each remunerated member of the Supervisory Board shall be HUF 200,000 and HUF 250,000, paid as a monthly fee to the member acting as chairperson.
- the company covers the costs of travel and accommodation incurred by Supervisory Board members for attending the meetings.

Auditors

The auditor is elected by the General Meeting of TVK.

Arthur Andersen acted as the auditor of TVK between 1999 and 2002, followed by Ernst & Young Könyvvizsgáló Kft. in the same role in 2003. The Ordinary General Meeting held on April 28, 2005 selected Ernst & Young Könyvvizsgáló Kft. as the company auditor and an agreement was signed for the auditing of the annual reports for the business year of 2005. The agreement remains in force until the Ordinary Annual General Meeting to be held in 2006 to approve of the 2005 annual reports.

The audit agreement states that Ernst & Young Kft. should audit the consolidated and non-consolidated annual reports drawn up under the Accounting Act and the consolidated and non-consolidated annual reports drawn up under International Financial Reporting Standards (IFRS, formerly IAS). The aforementioned financial statements have been audited as required by National Audit Standards, International Standards of Auditing and the provisions of the Accounting Act and any other acts and laws on auditing. The auditors ensure the continuous nature of performing the audit assignment by working on site and by participating at the meetings of key TVK bodies as well as through other forms of consultation.

Furthermore, auditors review the quarterly stock exchange flash report but issue no auditor's statement, as the flash reports are not fully audited.

Ernst & Young Kft. also performed other services for TVK.

Fees paid to auditors, 2004-2005 (HUF million)

	2004	2005
Fee for the audit of TVK Rt.	31.0	31.0
Other audit related services	7.8	14.6
Tax advisory services	6.3	11.6
Total	**45.1**	**57.2**

The Board of Directors do not think that any of the services rendered by Ernst & Young Kft. under the aforementioned titles jeopardise its independence as auditor.

Board of Directors

MOSONYI György (57)
Chairman of the Board since April 26, 2002
CEO of MOL Group
Fully Qualified Chemical Engineer

Mr. Mosonyi graduated from the Faculty of Chemical Engineering of University of Veszprém in 1972. Starting in 1974, he worked for the Hungarian representation of Shell International Petroleum Co. (SIPC), where he was appointed Commercial Director in 1986. In 1991, he worked at the London head office of Shell. Between 1992 and 1993, he was the Managing Director of Shell Interag Kft. Between 1994-1999, he was President-Chief Executive Officer of Shell Hungary Rt. During the same period, he became the Chairman of Shell's Central and Eastern European Region and also, in 1998, the Chief Executive Officer of Shell Czech Republic. He acts as Chairman of the BoD of TVK Rt. and AEGON Hungary Általános Biztosító Rt., as member of the Supervisory Board of INA d.d., as president of the Joint Venture Association and as Board member of AmCham.

OLVASÓ, Árpád (47)
Deputy Chairman of the Board since April 26, 2002; Member of the Board since August 29, 2000
CEO of TVK Rt.
Qualified Chemical Engineer, MBA

Mr. Olvasó qualified as a chemical engineer at the Chemical University of Veszprém in 1983 and was awarded a Diploma in Management Studies from the Buckinghamshire College – SZÁMALK in 1992. He received a post-graduate degree from the College of Petroleum and Energy Studies in 1993 and an MBA degree from Brunel University – SZÁMALK in 1995. He worked for Dunai Kõolajipari Vállalat as plant engineer, operator, shift manager and as deputy plant manager between 1983 and 1992 to move on to the positions of plant manager and later project manager at the Danube Refinery of MOL Rt. between 1992 and 1995. He acted as first consultant and project manager for Oracle Hungary from 1995 to 1997. Starting in 1997, he worked as manager for partner relations at MOL Group DS until his appointment as Head of the Chemical Division in 1999, and in turn as Director of Chemical Portfolio Management in 2001. Since 1997, Mr. Olvasó has been a member of the Presidium of the Hungarian Chemical Industry Association where he has acted as President since December 15, 2004.

DELCOMMUNE, Michel-Marc (58)
Member of the Board since November 3, 2000
Director of Strategy, MOL Group since September 2, 2004
Qualified Chemical Engineer, MBA

MOL Group Deputy Chief Financial Officer since 11 October 1999, Director of Strategy, MOL Group since September 2, 2004 and member of the Board of Directors of MOL Group since 28 April 2000. Earned a degree in Chemical Engineering from the University of Liege, Belgium and holds an MBA from Cornell University, New York. Mr Delcommune joined the PetroFina Group in 1972. From 1990 onwards he was primarily responsible for corporate finance and insurance matters as Deputy CEO and Chief Financial Officer. From 1999, he also served as Human Resources Director and handled the successful merger of Fina and Total. He is a member of the International Advisory Board of Cornell University Business School and also a member of the Board of Directors of TVK. He is a Belgian citizen.

FAIZ, Fred (52)
Member of the Board between November 3, 2000 and November 3, 2005
Managing director of Privatisation Strategy Consultants
Chartered Accountant

Mr. Faiz graduated from the University of Southampton in 1975 with a degree in mathematics and qualified as a chartered accountant in 1978. He joined KPMG (London office) in 1975 and held a variety of management positions with the firm until 1990; his accomplishments over this period included acting as business adviser to the UK Department of Energy in connection with the privatisation of British Gas and project managing a multi-disciplinary team advising the UK Department

of Environment on restructuring the ten water authorities in England and Wales in connection with their privatisation. Since 1990, he has been the Managing Director of Privatisation Strategy Consultants, engaged in the provision of privatisation project management and advisory services, including acting (between 1990 and 1998) as adviser to the Hungarian State on its privatisation programme and on the development of the Budapest Stock Exchange. British Citizen

MOLNÁR, József (50)
Member of the Board since April 20, 2001
CFO, MOL Group
Qualified Economist

Mr Molnár graduated in 1978 and held various middle tier management positions at Borsodi Vegyi Kombinát, the legal predecessor of BorsodChem Rt. He participated in the reorganisation of BorsodChem Rt. and the preparation for listing its shares in the capacity of CFO in 1991. He was responsible for finance, accounting, controlling, IT, acquisitions and divestment jobs as well as for controlling subsidiaries at the company and in turn at BorsodChem Group until April 18, 2001. He acted as CEO of TVK Rt. until April 23, 2001 until his appointment as Director of Planning and Controlling at MOL Group on July 1, 2003. He moved on to the position of CFO on September 2, 2004.

Dr. SIMOLA, József (40)
Member of the Board since April 28, 2005
Director of HR and Staff of MOL Rt.
Qualified Engineer, MBA

Dr. Simola graduated as an engineer from the Technical University of Budapest in 1991. He participated in an MBA program of the French INSEAD in 1995. H eworked for General Electric – Tungsram as a SAP specialist from 1991 to 1992 to join Arthur Andersen as an advisor between 1992 and 1994. He moved on to Boston Consulting Group in 1996 and filled management positions in Hungary, Germany and Australia. He has been a Director of Staff at MOL Rt. since 2003 and also a Director of HR since September 2, 2004. Dr. Simola is a member of the BoD of Slovnaft A.S. and acted as a member of the TVK Supervisory Board between April 29, 2004 and April 27, 2005.

KASSOVIC, Vratko (62)
Member of the Board since April 28, 2005
CEO, Slovnaft a.s. until March 6, 2006
Qualified Chemical Engineer

Mr. Kassovic graduated as a chemical engineer from the technical university of Bratislava in 1967. He joined Slovnaft in 1969 and filled several positions until his appointment as CEO in January 2002. Mr. Kassovic has been the director of the Petrochemical Division of the MOL Group since October 2003. On March 6, 2006, Mr. Kassovic retired.

Top Management

OLVASÓ, Árpád (47)
Deputy Chairman of the Board since April 26, 2002; Member of the Board since April 29, 2000
Chief Executive Officer
Qualified Chemical Engineer, MBA

See CV in the section on the Board of Directors

VÁLYI NAGY, Tivadar (50)
Deputy CEO, Management and Finance
Qualified Chemical Engineer

Mr. Vályi Nagy graduated as a chemical engineer from the Mineral Oil and Coal Technology faculty of the University of Chemical Engineering in Veszprém in 1982. He joined TVK in 1978 and worked as plant engineer in various polymerisation plants of the Company before 1994. He acted as project manager in the implementation jobs of the ERP application to move on to managing a business unit starting in 1995. Later on he was in charge of planning an analysis in the Petrochemical Division. Mr Vályi Nagy has been Chief Controller of the Company since 2000. He was appointed Deputy CEO, Management and Finance on January 1, 2005.

PIRY, László (39)
Deputy CEO, Polymer Marketing and Sales
Mechanical engineer, DMS

Mr. Piry graduated from the Budapest Technical University as a mechanical engineer in 1991 and obtained a diploma in management studies from Eurocontact Business School in 1998. He worked for Dow Chemicals as an engineer and sales executive to move on to regional sales and marketing positions after 1991. He was appointed director responsible for sales of the Diversey Lever Division of Unilever in 1998. He acted as Managing Director at the same company starting 2001. In 2002, he took over the position of Managing Director at the Slovak subsidiary of Unilever and was in charge of the Croatian market starting in 2003. Me. Piry was appointed deputy CEO responsible for Polymer Marketing and Sales at TVK Rt. on June 7, 2004.

DEÁK Árpád (58)
Director for Coordination, Strategic Project
Chemical engineer

Mr Deák joined Dunai Kőolajipari Vállalat to work at its production units as chemical technician and held several positions. He graduated as a chemical engineer with top honours from the Petrochemical Faculty of the University of Veszprém in 1977. He worked as FCC plant manager from 1983 and was in charge of the complex tests and commissioning of several new plants. He was then made responsible for the co-ordination of development at the Strategic and Business Planning Department of the newly formed MOL Petroleum and Natural Gas Division between 1992 and 1996 to move on to the post of Deputy Technical Director for Kőolajtároló Rt. starting in 1996. Mr. Deák has been employed by TVK since 2001 and has acted as the coordinator of the strategic project before July 2005 and as Director of Petrochemical Technology and Product Development.

SEBESTYÉN László (56)
Director, Production
Qualified Chemist

Mr Sebestyén studied at the Faculty of Natural Sciences of Kossuth Lajos University in Debrecen, where he graduated as a chemist in 1975. He joined TVK Rt. on September 1, 1975 to work as a product engineer in the Olefin Plant. He acted as Plant Manager of the Olefin Plant between 1993 and 1995 after a variety of positions. He worked as chief reconstruction engineer from 1995 to 1997 and was in charge of the Olefin Business Unit between December 1, 1997 and December 31, 2003. He has been working for TVK Rt. as Direction of Production since January 1, 2004.

PÉNZES, Tamás (35)
Human Resources Manager
Psychologist

Mr. Pénzes graduated from the faculty of psychology of the University of Debrecen as a psychologist specializing in labour and organization psychology and mathematical modelling. During his academic years, he researched corporate cultures, performed statistical analyses and worked for an HR consulting company as a specialist for recruitment and selection. He has been a member of the TVK HR team since 2002 and was appointed HR manager in July, 2004. Mr. Pénzes teaches at the psychology department of the University of Debrecen and attends an MBA training course at the SZÁMALK - Open Business School/Durham University.

Supervisory Board Members

Dr. BÁNHEGYI, Ilona (37)
Chairperson of the Supervisory Board since September 15, 2000
Member of the Supervisory Board since August 29, 2000
Chief Legal Officer of MOL Group
Lawyer

She worked for the Legal Department of Magyar Hitelbank from 1991, for the law firm Gárdos Benke Mosonyi Tomori from 1992 to 1993, for the law firm Shearman & Sterling from 1994 to 1996, for the law firm Bruckhaus Westrick Heller Löber registered in Frankfurt a.M. (D) and in Budapest from 1996 to 1999. Ms. Bánhegyi has acted as Chief Legal Officer for MOL Group since 2000.

Dr. HUSZÁR, András (41)
Deputy Chair of the Supervisory Board since April 29, 2004
Treasury Director of MOL Group
Qualified Economist, doctorate degree and CFA

Dr. Huszár majored in planned economy and graduated from the University of Economics in Budapest in 1988, got his doctorate degree in 1993 and his CFA title in 1999. He chaired the Index Committee of the BSE after 1997 and has acted as Treasury Director for MOL Group since 2001. Previous jobs: SZÁMALK (1988-1990), head of department, Budapest Stock Exchange (1991-1994), Director, Capital Markets, Investel Rt. (1994-1998), Director, Capital Markets, Matáv Rt. (1999) and later Treasurer (2000-2001). Dr. Huszár has been member of the Supervisory Board since April 24, 2003, and Deputy Chairman of the same body since April 29, 2004.

DOROGHÁZI, Krisztina (34)
Member of the Supervisory Board since April 28, 2005
Director of Accounting and Tax of MOL Group
certified auditor

Ms. Dorogházi worked as certified auditor for Arthur Andersen and as senior manager for Ernst and Young from 1993 to 2002. She is member of the Hungarian Chamber of Auditors. She joined MOL Group as Director of Accounting and Tax in May 2003. She is responsible for the Group's accounting and tax related matters under IFRS standards, annual and quarterly stock exchange reports and optimization of tax payments. In 2004, she was awarded a prize for being the "Young Manager of the Year". Ms. Dorogházi acts on the Supervisory Boards of TVK Rt. and Slovnaft a.s.

MAGYAR, Tamás (37)
Deputy Chair of the Supervisory Board between August 29, 2000 and November 18, 2003
Member of the Supervisory Board after March 13, 1998
Service Technologist at TVK Rt. Energy Supply
Electric Product Engineer

Mr. Magyar graduated as an electric product engineer from Kandó Kálmán Technical College for the Electric Industry in 1989. He worked for TVK Rt. at the Electricity Division and at the Electric Network Plant between 1989 and 1993 to move on to the post of Product Engineer at the Technical Department where he worked between 1993 and 1994 and to service manager at the High Voltage Unit between 1994 and May 1997. He acted as head of the Electric Maintenance Unit of the Energy Supply Division between 1997 and 2000. Mr. Magyar has been service manager and service technologist at the Electricians Service Unit since 2000.

KEMÉNYNÉ ÚJVÁRI Ildikó (53)
Member of the Supervisory Board since October 10, 1999
Head of TVK Rt. Polymer Production and Logistics Group
Chemical engineer

Mrs. Kemény graduated as chemical engineer from the University of Light Industrial Technology in Kiev 1976. She joined the Pigment Plant of TVK Rt. in 1976. Worked at the LDPE plant between 1986 and 1995 and as senior quality controller in the QC department of the HDPE Business Unit starting 1995. She acted as engineer and unit manager at the PE laboratory of the Polymer Business Unit between 2001 and 2003. Mrs. Kemény has been working as laboratory engineer in the Quality Control Department of the Polymer Production since 2003.

Report of the Supervisory Board

REPORT OF THE SUPERVISORY BOARD TO THE APRIL 20th 2006 ORDINARY ANNUAL GENERAL MEETING OF TVK RT.

The Supervisory Board of TVK Rt. has operated by frequent committee sessions in the business year of 2005 as well. The Supervisory Board proposes the current report to the Annual General Meeting in concern to the aforementioned business year based on the report of the Board of Directors, the review of the independent financial auditor and the frequent reviews conducted in concern to the operation of the Company within the year.

TVK Rt. has closed its business year of 2005 with good results compared to the industrial sector, although unfavorable economical conditions were present then those expected. The stability of the company management provided proper basis for the fiscal and investor discretion of TVK Rt. as well as the strategy targets and primarily the operation of the olefin and polyethylene plants launched in 2004 and being constant in 2005.

As the member of the MOL Group, TVK Rt. has been participating successfully in the project being performed by the group members to exploit synergies. The integration within MOL Group assured plenty of opportunities to TVK, *inter alia* stable raw material supply and by-product deposit as well as the optimal operation of the polymer trade channels.

The task of the management controlling the Petrochemical Division integrated on January 1, 2004 is to coordinate the chemical production and trade operations of TVK and Slovnaft. These two companies have preserved their independent legal entities under the control of MOL Rt. and the target of their professional cooperation has been designated to optimize supply and to set up a product portfolio adjusted to the market demands.

The discretion of the Supervisory Board has been that the operation of as well as other actions taken by the Board of Directors last year complied with the legal provisions and the Articles of Association and the internal protocol of TVK Rt. The informatics systems as well as said internal protocol maintain the pure transparency and the constant control of the Company’s operation. The Company rendered equal treatment to all of its shareholders as requested by the laws in effect in the course of its operation.

The Board of Directors continuously informed the Supervisory Board via the chief executive officer on the operation of the Company and the actions taken to realize its strategy. The discretion of the Supervisory Board has been that the Board of Directors performed efficiently last year.

The Supervisory Board reviewed each agreement concluded with those shareholders having a stake exceeding 10% in the course of 2005 and has found that such agreements are in full conformity with the legal provisions and the Company’s interests.

The Supervisory Board hereby proposes the Annual General Meeting to approve the Annual Report of TVK Rt. for 2005 completed in accordance with the provisions set out in the Hungarian Accounting Standards that includes a balance sheet total of 212.946 million HUF and a profit or loss after tax of 5.558 million HUF as well as the consolidated report of the TVK Group for 2005 completed in accordance with the International Accounting Standards that includes a balance sheet total of 227.714 million HUF and a balance-sheet profit or loss figure of 6.409 million HUF. The Supervisory Board hereby proposes to approve the proposal of the Board of Directors in concern to the use of the after tax profit or loss of 2005.

The Supervisory Board also supports to appoint Ernst & Young Könyvvizsgáló Kft. as the official auditor and its remuneration for the year of 2006.

The Supervisory Board further reviewed and proposes the Annual General Meeting to approve the proposals of the Board of Directors to amend the Articles of Association and the withdrawal and conversion of employee shares.

The Supervisory Board further supports the approval of the resolution proposal to designate the remuneration of the Board of Directors.

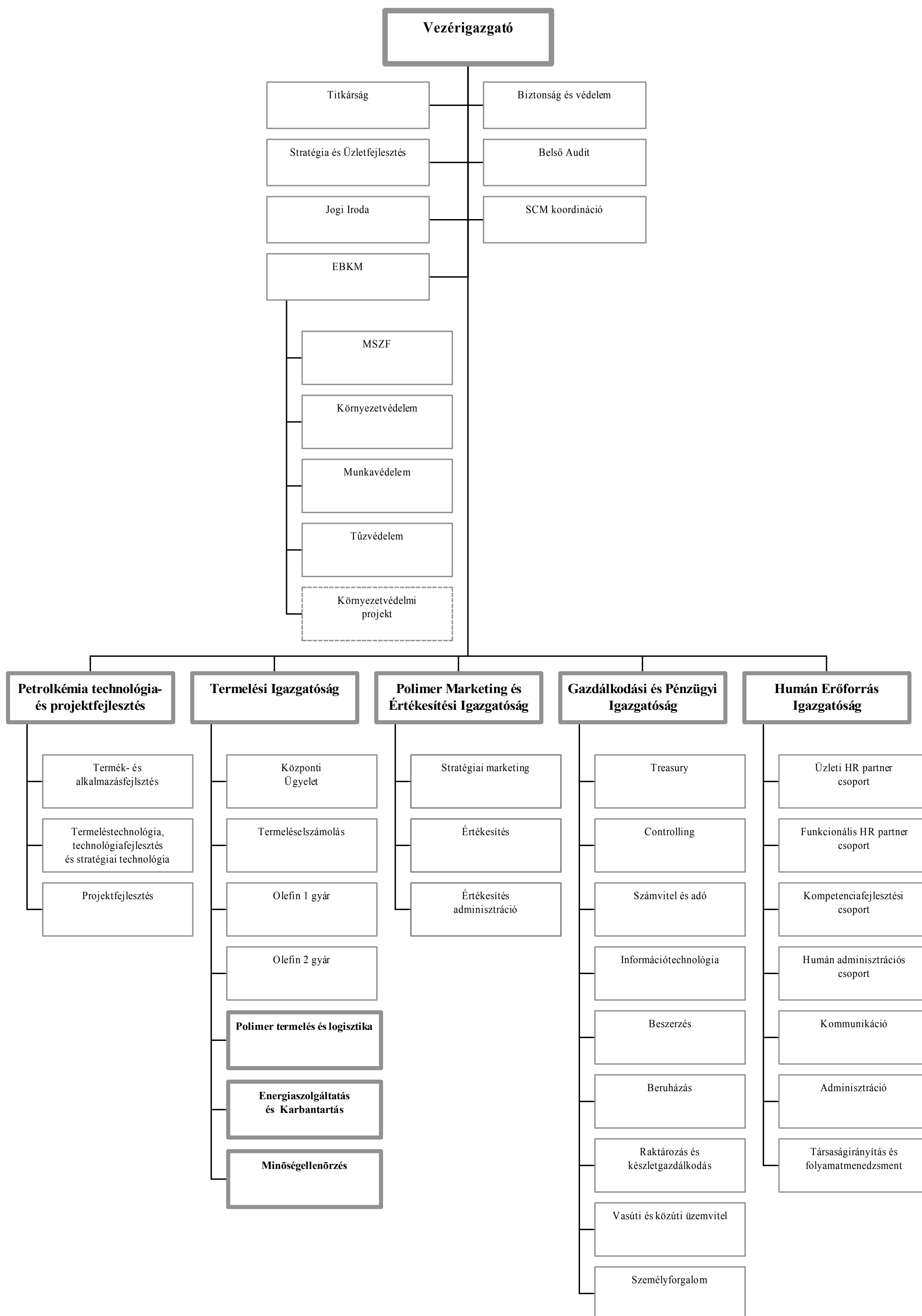
Dr. Ilona Bánhegyi
Chairman of the Supervisory Board

Elected Officers and Top Management and Treasury Shares Held on December 31 2005

Type [1]	Name	Position	Date of Appointment	Term, Date of Termination	Treasury shares held
BOD	Mosonyi, György	Chairman of the Board	April 26, 2002	April 26, 2007	0
BOD	Olvasó, Árpád	Deputy Chairman of the Board	Aug. 29, 2000	April 28, 2007	0
BOD	Delcommune, Michel-Marc	Member of the Board	Nov. 03, 2000	April 28, 2007	0
BOD	Faiz, Fred	Member of the Board	Nov. 03, 2000	Nov. 03, 2005	0
BOD	Molnár, József	Member of the Board	Apr. 20. 2001	April 28, 2007	0
BOD	Simola, József	Member of the Board	Apr. 28, 2005	April 28, 2007	0
BOD	Kassovic, Vratko	Member of the Board	Apr. 28, 2005	April 28, 2007	0
SB	Dr. Bánhegyi, Ilona	Chair, Supervisory Board	Aug. 29, 2000	April 28, 2010	0
SB	Dr. Huszár, András	Deputy Chair, Supervisory Board	Apr. 24, 2003	April 24, 2008	0
SB	Keményné Újvári, Ildikó	Member, Supervisory Board, Employee Representative	Apr. 28, 2000	April 28, 2010	0
SB	Magyar, Tamás	Member, Supervisory Board, Employee Representative	Apr. 20. 2001	April 20, 2006	0
SB	Dorogházi, Krisztina	Member, Supervisory Board	Apr. 28. 2005	April 28, 2010	0
SP	Olvasó, Árpád	CEO	July 01, 2003	indefinite	0
SP	Vályi Nagy, Tivadar	Deputy CEO, Management and Finance	Jan. 01, 2005	indefinite	0
ESP	Piry, László	Deputy CEO, Polymer Marketing and Sales	June 07, 2004	indefinite	0
ESP	Deák, Árpád	Director of Petrochemical Technology and Project Development	June 01, 2001.	indefinite	0
ESP	Pénzes, Tamás	Human Resources Manager	July 01, 2004	indefinite	0
ESP	Sebestyén, László	Director of Operations	Jan. 01, 2004	indefinite	0

* Employee in strategic position (ESP), Board member (BOD), Supervisory Board member (SB)

Organisation Structure



General Information

Date of incorporation of TVK.: December 31, 1991. Registered by the Borsod-Abaúj-Zemplén County Court of Justice acting as Court of Registration on 23 March 1992. with effect as of 31 December 1991. (Date of charter: December 31, 1991., initial date of operation: January 1, 1992)
Legal predecessor: Tiszai Vegyi Kombinát
Registration number: Cg. 05-10-000065

The Annual Ordinary General Meeting modified the effective Articles of Association on April 28, 2005. The Articles are available for inspection and may be ordered at the head office of the company and is available for downloading at the company web site (www.tvk.hu).

Capital issued: As of December 31, 2004 the capital of the company included 24,234,843 ordinary shares with a face value of HUF 1,010, each and 189,000 employee shares with a face value of HUF 1,000, each. The registered capital of the company amounted to HUF 24,666,191,430.

THE REGISTRAR OF THE COMPANY

The Board of Directors of the company keeps the Share Register of registered shares and their holders. Issues related to TVK shares are handled by the Legal Department of TVK, located at TVK's registered office in Tiszaújváros.

Tiszai Vegyi Kombinát Részvénytársaság, Legal department
H-3581 Tiszaújváros, TVK Industrial Site, Gyári street., Hungary
Mailing Address: H-3581 Tiszaújváros, P.O.Box 20., Hungary
Phone: +36 (49) 522-844
Fax: +36 (49) 521-266
E-mail: reszvenyiroda@tvk.hu

The securities of the Company are traded in the following foreign markets

Market type	City	Date of listing	Category
OTC organised	London	August, 1996	International Order Book
OTC not organised	New York	August, 1996	PORTAL
OTC not organised	Frankfurt	August, 1996	Freiverkehr

Ownership structure as per the Share Register

Shareholder	Stake at December 31, 2004 (%)	Stake at December 31, 2005 (%)
Hungarian institutional investors	45.10%	44.34%
Foreign institutional investors	34.79%	39.48%
Hungarian private investors	0.96%	0.01%
Foreign private investors	0.02%	0.00%
Employees	0.77%	0.77%
Unidentified holders	18.36%	15.40%
TOTAL	**100%**	**100%**
Number of shares	**24,423,843**	**24,423,843**

TVK Rt. has no treasury shares.

Shareholders with more than 5% interest as shown in the Share Register on December 31, 2005

Shareholder	Stake (%)
Magyar Olaj és Gázipari Rt.	44.31
CE Oil & Gas Beteiligung und Verwaltung AG.	31.39
Slovnaft a.s.	8.02

Most important particulars of the TVK stock, 2001-2005

	2001	2002	2003	2004	2005
Number of shares (on December 31)	24,423,843	24,423,843	24,423,843	24,423,843	24,423,843
Closing price of the TVK share on the Budapest Stock Exchange:					
Highest (HUF)	4,990	4,800	4,550	5,375	5,890
Lowest (HUF)	1,990	2,800	3,250	3,400	4,605
On December 31 (HUF)	3,250	3,940	3,955	5,060	5,240
Other information					
Capitalisation (HUF million) (on December 31)	78,763	95,485	95,849	122,628	126,990
Annual turnover (HUF million)	23,300	20,901	6,696	5,432	4,758
Average daily turnover during the year (HUF million)	95	84	27	52	19
Dividend per share (HUF)	-	-	-	-	n. a.

Corporate Information

Head Office

Tisza Chemical Group Company Limited by Shares (TVK)
TVK's head office: H-3581 Tiszaújváros, TVK Industrial Site, Gyári street, Hungary
Mailing address: H-3581 Tiszaújváros, P.O.Box 20, Hungary
Central phone: +36 49/522-222
Central fax: +36 49/521-322
E-mail: tvkinfo@tvk.hu
Web-site: www.tvk.hu

Investor Relations

For disclosures to investors, Annual Reports, flash reports, financial figures contact:
Tisza Chemical Group Company Limited by Shares, Treasury
Address: H-3581 Tiszaújváros, P.O.Box 20, Hungary
Phone: +36 49/522-377
Fax: +36 49/521-903
E-mail: bki@tvk.hu

Legal office, share registry

For information on shares, the administration of shares, keeping the share register contact:
Tisza Chemical Group Company Limited by Shares, Legal Department
Address: H-3581 Tiszaújváros, P.O.Box 20, Hungary
Phone: +36 49/522-844, 522-022
Fax: +36 49/521-266
E-mail: reszvenyiroda@tvk.hu

For information on trading the shares, contact:

Budapest Stock Exchange Ltd.
H-1052 Budapest, Deák Ferenc u. 5., Hungary
Phone: +36 1/429-6636
Fax: +36 1/429-6654

GDR Information

The Bank of New York
Depositary Receipts Division
101 Barclay Street, 22nd floor
New York, NY 10286, USA
Phone: +1 212-815-2293
Fax: +1 212-571-3050

Place of publishing announcements

The company discloses its announcements at the locations specified for the purpose in the exchange regulations and in §34 of Act CXX of 2001 on the Capital Market (the daily paper Magyar Tõkepiac, the website of TVK Rt. at www.tvk.hu, the website of the Budapest Stock Exchange at www.bet.hu and a the website of the London Stock Exchange at www.londonstockexchange.com). The company also publishes its announcements as specified under law in the national daily paper Napi Gazdaság.

STATEMENT OF RESPONSIBLITY

To be attached to the 2005 Annual Report of Tisza Chemical Group Company Limited by Shares

We the undersigned representatives of the issuer, Tisza Chemical Group Company Limited by Shares (TVK) of TVK equity shares (ISIN: HU0000073119) hereby declare in our capacity as fully authorized persons to sign for and on behalf of TVK that Tisza Chemical Group Company Limited by Shares assumes unlimited liability under the provisions set forth in 53 § (1)-(2) of Act CXX of 2001 on the Capital Market that the data disclosed in the 2005 Annual Report as published are true and fair and the Annual Report does not withhold any facts – to the best of its knowledge – considers to be of material importance in terms of evaluating the issuer's position.

Furthermore, Tisza Chemical Group Company Limited by Shares is liable for indemnifying proven damages, if any, arising from its failure to make regular and extraordinary disclosures or from any misstatements therein.

Tiszaújváros, April 20, 2006

OLVASÓ, Árpád
Chief Executive Officer

VÁLYI NAGY, Tivadar
Deputy CEO
Chief Financial Officer