INVITATION

The Board of Directors of **BorsodChem Rt.** (3702 Kazincbarcika, Bolyai tér 1., hereinafter referred to as the "Company") convenes the
Annual General Meeting of the Company in 2006 at 9:00 a.m. on April 28, 2006

Venue of the General Meeting: **Hotel Marriott, Elizabeth Room**
Apáczai Csere János utca 4, Budapest

In case a quorum has not been reached at the General Meeting, the repeated General Meeting will be held at the same place with the same agenda **at 9:30 a.m. on April 28, 2006.**

Agenda of the General Meeting:

1. Report on the business year of 2005, closing of the business year of 2005.
   a. Report of the Board of Directors on the business activity of the Company in 2005 in respect of both the annual reports of BorsodChem Rt. and the consolidated annual reports of BorsodChem Group.
   b. Proposal of the Board of Directors for the use of after-tax profit and the calculation of dividends.
   c. Report of the Supervisory Board on annual reports and on the review of proposal for the use of after-tax profit.
   d. Auditing report on annual reports and on the review of proposal for the use of after-tax profit.
2. Approval of annual reports of the Company for 2005 and that of consolidated annual reports of BorsodChem Group, decision on the use of after-tax profit.
3. Approval of the Board of Directors report related to its Corporate Governance Recommendations activity.
4. Presentation on the Company's achievables of the last 10 years
5. Future strategy and vision 2015
6. Modification of the Articles of Association.
7. Recall of Board Member(s).
8. Election of new Board Member(s).
9. Recall of Supervisory Board Member(s).
10. Election of new Supervisory Board Member(s).
11. Determining the remuneration of the Members of the Board of Directors for 2006.
12. Determining the remuneration of the Supervisory Board Members for 2006.
13. Appointing the auditor of the Company.
14. Determining the remuneration of the Company's registered Auditor for 2006.

The Board of Directors proposals and all other documents relating to items on the agenda can be inspected at the registered seat of the Company (3702 Kazincbarcika, Bolyai tér 1.) and at the Budapest Branch Office of the Company (Budapest, Szabadság tér 7., Bank Center) on working days from 8:00 a.m. to 3 p.m. from April 18 to 27, 2006 as well as from 9:00 a.m. on April 18, 2006 on the websites of the Budapest, London and Warsaw Stock Exchanges, respectively and BorsodChem Rt. (www.borsodchem.hu).

Only shareholders who are duly registered in the Share Register of the Company prior to the General Meeting will be entitled to participate and vote at the General Meeting.

Shareholders can exercise their rights of participation and vote at the General Meeting either in person or through a duly authorized proxy.

At the venue and on the day of the General Meeting between 8:00 a.m. and 8:45 a.m. the shareholder (by verifying his right for representation) or his/her authorized proxy after verifying his/her identity and concurrently with signing the attendance sheet may call for the voting cards or voting device, which will entitle him/her to attend and vote at the General Meeting.
In the case of proxies, the authorization shall be included in an official document or a private document of full probative effect and it – inclusive of documents required for identification – shall be handed over not later than the time of registration. The authorization will also be valid for the repeated General Meeting in case a quorum was not achieved and for the continued General Meeting.

The formality of the official document issued outside Hungary or the authorization included in a private document of full probative effect shall comply with the laws related to the legalisation and super-legalisation of documents issued abroad.

Conditions for the attendance at the repeated General Meeting in case a quorum was not achieved will be the same as the conditions for the original General Meeting. The repeated General Meeting will have a quorum on the issues of the original agenda regardless of the number of shares with voting rights represented at the General Meeting.

We recommend to our honoured shareholders to discuss with their investment service provider keeping their securities accounts the tasks and deadlines required for participating in the identification of shareholders to be arranged by KELER Rt. if they wish to attend the General Meeting.

Kazincbarcika, March 27, 2006

Board of BorsodChem Rt.

Proposals by the Board of Directors for the Annual General Meeting of BorsodChem Rt. to be held on 28 April 2006

ITEMS 1 AND 2 ON THE AGENDA OF THE GENERAL MEETING
Approval of the annual reports of the Company for the year 2005 and the consolidated annual reports of BorsodChem Group; decision on the use of after-tax profit.

Board Resolution No 14 /2006

The Board of Directors approves the audited balance sheet figures of the Company and proposes the following draft resolution to the General Meeting:

Resolution of the General Meeting No. […]/2006 (draft)

The General Meeting – on the basis of the reports of the Board of Directors, the Supervisory Board and the Auditor – approves the audited annual reports of the Company with the following main figures:

- **Annual reports for the year 2005 consolidated in accordance with IFRS representing HUF 237,941 million balance sheet total and HUF 14,457 million net profit.**

- **Annual reports for the year 2005 in accordance with Hungarian Accounting Rules representing HUF 195,873 million balance sheet total and HUF 13,413 million profit after tax.**

Following the business year of 2005, the General Meeting resolves that a dividend of HUF 50.35 per share shall be payable. The General Meeting authorizes the Board of Directors to organize the payment of dividends. Dividend payment after the 2005 business year will take place on June 08, 2006. Considering the proposed dividend:

- **Net profit indicated in the annual report for the year 2005 consolidated in accordance with IFRS is HUF 14,457 million.**

- **The profit for the year indicated in the annual report for the year 2005 in accordance with Hungarian Accounting Rules is HUF 9,257 million.**

AGENDA ITEM 6 OF THE GENERAL MEETING

Modification of the Articles of Association

Draft resolution No. 1 to Item 6 of the Agenda

Board Resolution No. 18/2006
The Board of Directors proposes to the General Meeting to approve the following Draft Resolution of the General Meeting:

Resolution of the General Meeting No. […]/2006 (draft)
As per the last paragraph of 8.§ 35) of the Articles of Association, the General Meeting approves to make a decision in the course of the current General Meeting on certain proposals of the modification of the Articles of Association with separate resolutions.

Draft resolution No. 2 to Item 6 of the Agenda

Board Resolution No. 19/2006
The Board of Directors proposes to the General Meeting to amend and restate 1.§ 1) of the Articles of Association as follows:

Resolution of the General Meeting No. […]/2006 (draft)
The General Meeting amends 1.§ 1) of the Articles of Association as follows:
"1.§ 1) Company name: BorsodChem Nyilvánosan Működő Részvénytársaság*
Abbreviated company name: BorsodChem Nyrt."**

*** BorsodChem Public Limited Company**
****BorsodChem PLC**

Draft resolution No. 3 to Item 6 of the Agenda

Board Resolution No. 20/2006
The Board of Directors proposes that the General Meeting should amend and restate 1. § 2) of the Articles of Association as follows:

Resolution of the General Meeting No. […]/2006 (draft)
The General Meeting hereby amends 1.§ 2) of the Articles of Association as follows:
"1.§ 2) Head office: 3700 Kazincbarcika, Bolyai tér 1."

Draft resolution No. 4 to Item 6 of the Agenda

Board Resolution No. 21/2006
The Board of Directors proposes that the General Meeting should amend and restate 1. § 3) of the Articles of Association as follows:

Resolution of the General Meeting No. […]/2006 (draft)
The General Meeting hereby deletes the branch establishment under "H-1051 Budapest, Váci u. 55. szám" from 1. § 3) of the Articles of Association and accordingly the restated text of 1. § 3) of the Articles of Association shall read as follows:
„1.§ 3) The establishments of the Company are as follows:
H-1054 Budapest, Szabadság tér 7., Bank Center,
H-4200 Hajdúszoboszló, Wesselényi út 36. szám,
H-3519 Miskolc-Tapolca, Váradi út 5. szám,
Berente, külterület, hrsz. 4050,
Múcsony, külterület, hrsz. 095/2,
123242 Moscow, Krasznaja Presznya Street 7, Russian Confederation"

Draft resolution No. 5 to Item 6 of the Agenda

Board Resolution No. 22/2006
The Board of Directors proposes to the General Meeting to amend and restate 15.§ of the Articles of Association as follows:

Resolution of the General Meeting No. […]/2006 (draft)
The General Meeting deletes the daily paper Világgazdaság from the official announcement papers as determined in 15.§ of the Articles of Association – as well as the passage "furthermore – after listing the Company's shares on the stock exchange **–" and amends and restates 15.§ as follows:**

"The Company publishes its announcements in the paper entitled Magyar Tőkepiac. In cases stipulated by the law, the given announcement shall also be published in the Company Bulletin. Providing statutes and/or the regulations of the Budapest Stock Exchange render possible, the Company can publish its announcement electronically on the Internet as well."

Agenda points 3., 7 – 14.

On the basis of subsequently or verbal proposals of the Board of Directors

Deloitte.

Deloitte Auditing and Consulting Ltd.
H-1068 Budapest, Dózsa György út 84/C., Hungary
H-1438 Budapest, P.O.Box 471, Hungary

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English translation of the Annual Report is not available. We have issued the following report to the Annual Report prepared in Hungarian language.

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of BorsodChem Rt.

We have audited the accompanying balance sheet of BorsodChem Rt. (the "Company") as at December 31, 2005, which shows total assets of 195.873 mHUF and a retained profit for the year of 9.257 mHUF, the related profit and loss account for the year then ended and the supplement (hereinafter the balance sheet, the profit and loss account and the supplement, collectively "the financial statements") included in the Company's 2005 Annual Report. The Annual Report, comprising the financial statements and a Business Report, is the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements based on our audit. In addition, it is our responsibility to assess whether the accounting information in the Business Report is consistent with that contained in the financial statements.

The previous year was audited by another auditor, who issued an unqualified auditor's report on March 11, 2005.

We conducted our audit in accordance with Hungarian Standards on Auditing and applicable laws and regulations in Hungary. Those principles 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 statements' presentation. Our work with respect to the Business Report was limited to checking it within the aforementioned scope, and did not include a review of any information other than that drawn from the audited accounting records of the Company.

These financial statements have been prepared for the consideration of shareholders at the forthcoming General Meeting and do not reflect the effects, if any, of resolutions that might be adopted at that meeting. The company disclosed a dividend of 4,156 mHUF in the financial statements, the final amount of which will be approved by the shareholders at the forthcoming General Meeting.

Registered by the Budapest Court of Registration
Company Reg. No.: 01-09-071057

Clause
We have audited BorsodChem Rt.'s financial statements, including its sections and items and the supporting accounting records and certificates thereof in accordance with the applicable Hungarian Standards on Auditing and have obtained reasonable assurance that - except for the effects on the financial statements of the resolutions to be adopted at the forthcoming General Meeting, if any - the financial statements have been prepared pursuant to the Accounting Act and generally accepted accounting principles.

In our opinion, the financial statements give a true and fair view of the financial position of BorsodChem Rt. as at December 31, 2005 and of the results of its operations for the year then ended. The Business Report corresponds to the figures included in the financial statements.

Budapest, February 24, 2006

(The Hungarian original has been signed)

....	....
Jack Bell	Attila Horváth
Deloitte Auditing and Consulting Ltd.	registered auditor
000083	005173

Deloitte.

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EU VAT ID / Közösségi adószám: HU10443785

INDEPENDENT AUDITOR'S REPORT

To the Shareholders and Board of Directors of BorsodChem Rt.

We have audited the accompanying consolidated financial statements of BorsodChem Rt. and subsidiaries, which comprise the consolidated balance sheet as of December 31, 2005, and the related consolidated statements of income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the consolidated financial statements based on our audit.

The previous year was audited by another auditor, who issued an unqualified auditor's report on March 29, 2005.

We conducted our audit in accordance with the International Standards on Auditing issued by the International Federation of Accountants. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatements. 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.

In our opinion, the consolidated financial statements present fairly, in all material respects the financial position of BorsodChem Rt. and subsidiaries as of December 31, 2005 and the result of their operations, changes in equity and their cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Budapest, February 24, 2006

Jack Bell	Attila Horváth
Deloitte	Registered Auditor
Auditing and Consulting Ltd.	005173
000083	

Regulatory announcement by BorsodChem Rt. prior to the Annual General Meeting

In compliance with it's obligation to provide information concerning it's Annual General Meeting on April 28, 2006, BorsodChem Rt. hereby informs it's shareholders that the Company's Board of Directors has reviewed and accepted BorsodChem's financial statements for the year 2005 with the following data.

With the proposal by the Board of Directors the unconsolidated audited statement according to HAS comprises a dividend of HUF 50.35 per share. In accordance with the relevant section of the Articles of Association, dividend on treasury shares shall be distributed proportionately among shareholders. Therefore, considering the adjustment due to treasury shares, the proposal above corresponds to an actual dividend distribution of expectedly HUF 51.00 per share.

Balance Sheet

Audited according to HAS, (non consolidated)

in HUF million

	Previous year 31 Dec. 2004	**Subject year 31 Dec. 2005**
A. Fixed assets	**112,911**	**149,318**
I. Intangible assets	2,344	2,530
II. Tangible assets	100,274	135,712
III. Long-term financial assets	10,293	11,076
B. Current assets	**56,739**	**46,375**
I. Stocks	11.951	12.344
II. Receivables	20,757	31,015
III. Securities	9,619	2,210
IV. Liquid assets	14,412	806
C. Prepaid expenses and accrued income	**730**	**180**
D. Amounts falling due within one year	**34,150**	**44,791**
E. Accrued expenses and deferred income	**782**	**949**
H. Amounts falling due and payable after more than one year	**21,558**	**26,916**
I. Provisions	**596**	**667**
J. Shareholders' equity	**113,294**	**122,550**
I. Issued capital	16,670	16,670
III. Capital reserve	29,243	29,243
IV. Retained earnings/(losses)	50,987	64,878
V. Allocated reserves	2,917	2,502
VII. Profit or loss for the year	**13,477**	**9,257**

Profit and Loss Statement

Audited according to HAS (non consolidated)

in HUF million

		Previous year 31 Dec. 2004	Subject year 31 Dec. 2005
I.	Net sales income	115,534	139,883
II.	Direct costs of sales	88,197	107,345
IV.	Indirect costs of sales	17,713	18,439
V.	Other income	1,132	2,880
VI.	Other expenditures	2,189	4,140
A.	Operating profit	8,567	12,839
VII.	Financial revenues	12,135	4,631
VIII.	Financial expenditure	3,104	3,761
B.	Financial profit or loss	9,031	870
C.	Profit or loss of ordinary activities	17,598	13,709
D.	Extraordinary profit or loss	(291)	(124)
E.	Profit before tax	17,307	13,585
XII.	Tax payable	173	172
F.	Profit after tax	17,134	13,413
G.	**Profit or loss for the year**	**13,477**	**9,257**

Balance Sheet

IFRS consolidated, audited

in HUF million

	Previous year 31 Dec. 2004	Subject year 31 Dec. 2005
ASSETS		
Fixed assets		
Property, plant and equipment	129,237	171,146
Intangible assets	2,619	2,764
Negative goodwill	(389)	0
Investments accounted for under the equity method	251	169
Other investments	41	265
Total fixed assets	**131,759**	**174,344**
Current assets		
Inventories	16,209	15,350
Trade and other receivables	34,788	43,297
Financial instruments	7,420	190
Other current assets	971	855
Cash and cash equivalents	16,914	3,905
Total current assets	**76,302**	**63,597**
TOTAL ASSETS	**208,061**	**237,941**
LIABILITIES AND SHAREHOLDERS' EQUITY		
Equity attributable to equity holders of the parent		
Share capital	15,388	15,388
Employee shares	1,282	1,282
Share premium	29,034	29,034
Treasury stock	(2,690)	(2,209)
Retained earnings	79,566	90,687
Cumulative translation adjustment	1,078	2,093

Total equity attributable to equity holders of the parent	**123,658**	**136,275**
Minority interest	3,193	2,740
Total equity	**126,851**	**139,015**
Long-term liabilities		
Long term debt	27,829	33,475
Deferred tax	764	1,580
Other non-current liabilities	143	0
Provision	452	446
Total non-current liabilities	**29,188**	**35,501**
Current liabilities		
Trade accounts payable	22,072	24,959
Other liabilities and accruals	3,939	4,677
Short term borrowings	13,693	21,221
Short term portion of long term borrowings	11,718	12,046
Taxation	208	38
Financial liabilities	17	41
Provision	375	443
Total current liabilities	**52,022**	**63,425**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**208,061**	**237,941**

Profit and Loss Statement

IFRS consolidated, audited

in HUF million

	Previous year 31 Dec. 2004	Subject year 31 Dec. 2005
Net sales	147,673	172,966
Cost of sales	(107,849)	(125,488)
Gross profit	**39,824**	**47.478**
Distribution cost	(12,373)	(14,747)
General and administrative expenses	(14,206)	(15,480)
Other operating expense	(1,972)	(1,186)
Operating income	**11,273**	**16,065**
Interest income	2,066	744
Interest costs	(1,488)	(1,298)
Income from associated parties	24	(14)
Gain from the sale of investment securities	376	762
Net gains/(losses) on derivatives	4,000	130
Foreign currency (losses) / gains	2,238	(796)
Income before income taxes and minority interest	**18,489**	**15,593**
Taxation	(638)	(1,136)
Profit for the period	**17,851**	**14,457**
Equity holders of the parent	**17,147**	**14,113**
Minority interest	704	344

Kazincbarcika, March 27, 2006

The Board of Directors
of BorsodChem Rt.

REPORT OF THE BOARD OF DIRECTORS

In its report below The Board of Directors of BorsodChem Rt. gives an overview of the milestones of the Company's 2005 business activities, developments and achievements.

Sustainable growth strategy

BorsodChem Group's net sales revenues have shown a dynamic growth annually since 1996 when the Company's shares were listed and traded on the stock exchange. Consequently, economies of scale continuously improved, thus providing a favourable ground for significant expansion in operating profit, EBITDA and net profit.

2005 was the year of carrying out the organic growth strategy that had been announced in 2003. The capital expenditure projects of vertically and horizontally integrated Hungarian chemical plants had to be executed according to a thoroughly planned schedule so that the smooth build-up of consecutive capacities be secured.

The cost efficiency and quality of expansion are indicated by the fact that the development, conceptual planning and execution of PVC, VCM MDI as well as TDI capacity expansions are based on the work of BorsodChem's engineers.

As a result of smart engineering solutions applied in technology developments, the implementation cost of TDI capacity expansion was only a quarter of that of a green field investment, whereas the 35,000 tpa PVC capacity addition was realised from half of capital expenditures used in a green field PVC project.

The new facilities activated according to IFRS at the end of March 2006, coupled with the environment friendly and energy effective chlorine plant coming on stream in May 2006, serve as the pledge of BorsodChem Group's continuous and sustainable growth between 2006 and 2009.

Parallel to realizing the strategy, those who founded the achievable growth between 2006 and 2009 and have been implementing it, shall also arrange that the growth be secured for 2009 and 2013 as well. This workshop takes place in one of the bodies of the Board of Directors, the Strategy Committee, which is led by the Company's Chief Executive Officer.

In addition to preparation of organic growth, the constant valuation of opportunity type acquisition transactions within the chemical industry also belong to the spirit and essence of sustainable growth strategy. Responsible decision-making also denotes that if only advantages of economies of scale are identified, but strategic fit and proper sector synergies are lacking, the Company shall be able to say no. On that basis did BorsodChem decline the acquisition of Zachem S.A. in 2005 and decided to purchase Petrochemia Blachownia.

In the future course of continued privatization and restructuring of the chemical industry in Central Eastern Europe the Company intends to proceed by the same principles when examining potential targets.

Corporate Governance

In 2004 the Budapest Stock Exchange (BSE) published its "Corporate Governance Recommendations" to lay down best practice guidelines and useful suggestions for listed issuers.

BorsodChem Rt. was one of the first companies who declared its consent and acceptance of the aforementioned "Recommendations" prior to the official deadline. The Company disclosed its corporate governance structure. By passing Board Resolution No. 58/2006, it issued a renewed declaration for 2005 as well.

The organizational bodies as well as the Management of the Company continuously strive to meet the BSE expectation to comply with best practices in their daily work, as it is also reflected in the Company's operation on the whole.

Being a public limited company, BorsodChem Rt. finds its observing and ensuring transparency as exceptionally important requirement in all areas.

In order to promptly and correctly inform investors as well as to comply with all relevant legal regulations, the Company's home page is actively maintained and continuously updated. In 2005 the Company published 29 extraordinary and 13 other announcements on Corporate events. By holding analysts and press conferences on a regular basis, the Company established the opportunities for interactive communication.

The internal control system functions very efficiently, such assisting in the elimination and prevention of risk factors. Similarly, in line with operative requirements, the various Committees effectively carry out their activities and support the Company on ad hoc basis. In particular, the active role of the Strategy Committee and its preparing and analysing projects in cooperation with the Management, are outstandingly significant, and are the pillars of the further successes of the dynamically developing Company.

Full enforcement of, and compliance with, the standards stipulated in the Company's Code of Conduct are essential requirement.

As the basic principle of responsibility towards its shareholders and potential investors, the Company has adopted the external corporate governance expectations into its internal set of standards and intends to act similarly in the future.

Investor Relations

After a good while 2005 was the first full year when BorsodChem's shares were again traded on the capital market with high free float. We can consider year 2005 successful in terms of investor relations as well, since the Company achieved the economic targets that had been communicated to investors during the secondary issue of shares in autumn 2004 and then laid down in its business budget of 2005.

Consequently, investor interest in BorsodChem has been keen. The Company hosted numerous institutional investor and analyst meetings both in Budapest and on its

Kazincbarcika site, and participated in international conferences and road shows regularly. The large number of investor meetings yielded its fruits from both management and investors aspects, as the management gained a better understanding on Benchmark based investor expectations, while investors obtained an exact picture of BorsodChem's short and long-term goals and operating environment.
The intense investor and analyst relations were also necessary since the sector economic environment – for example oil price volatility, increasing natural gas prices, weak points of electricity-liberalization, hectic movements of oil derivates, effects of natural disasters on supply-demand – has been exercising enormous impact on the business activity of chemical companies year in year out, which can only be communicated to investors through tight analyst relations. BorsodChem's management has made every effort to bring the sometimes overheated analyst expectations within an always realistic and attainable range.

It is BorsodChem's pride that while only a handful of investment bank analysts had covered our Company before 2004, more than 10 top tier international and local institutions analyzed and followed our Company's economic development at the end of 2005.

BorsodChem continuously updates the information on its website in order to fully meet the information needs of the investor community. The Company considers this communication channel to be indispensable in informing the investor community in a timely manner through its promptness and up-to-date status.

Overall, based on the Company's economical indexes, the demand for the Company's securities is in line with the demand for shares of global chemical companies. Those investing in BorsodChem shares could book a 26% return on their investments in 2005, which exceeds the average return attained on a portfolio of chemical companies, a Peer Group applied by BorsodChem as benchmark.

Volatile economic environment

The following factors characterized BorsodChem Group's operational and economic environment in 2005:

Purchase and sales prices

The industrial environment of chemical enterprises was basically unfavourable for the steady and balanced profit generating ability. The increasing trend in crude oil prices that prevailed throughout the year kept the price of crude oil derivate feedstock (ethylene, benzene, and toluene) at high levels. Although with some time lag it also increased the purchase prices of energy resources, namely electricity and natural gas.

The success of chemical companies was partly determined by the energy intensity of their product portfolio as well as their ability to pass through input shocks, as determined primarily by the product structure.

Additionally, stepping up crude oil prices also generated unusual trends in the market for PVC resins, one of BorsodChem Group's determining product groups.

Due to high crude oil prices the acetylene-based vinyl-chloride and PVC production, representing the technological standards of the 60s, became strongly competitive against the ethylene-based PVC production. By restarting its previously closed down acetylene-based vinyl-chloride plants, China had a substantial impact on the world's PVC market trade. This negative effect appeared especially in Q2 and Q3 of the year causing PVC oversupply in Europe. Diminishing prices resulted in loss-making operations for average PVC producers for several months. Price correction in September 2005, coupled with declining inventories and increasing demand, improved attainable profit margins and PVC production re-entered a modestly profitable range.

Stable and high price levels characterized the caustic soda market throughout the year, which significantly contributed to the cost-competitiveness of integrated PVC producers.

In H1 2005 MDI market was dominated by excess demand ensuring high profit levels for producers. In H2 this trend reversed pushing the market towards balanced supply and demand and the signs of slow price erosion appeared. Still, an above average profit margin could be realized on the product and MDI was an outstanding profit contributor of the Group in 2005.

The TDI market was characterized by opposite tendencies that hat of MDI. In H1 2005 the prices were continuously falling and reached their rock bottom in Q3. In September, in line with booming seasonal demand as well as weakening supply, an intensely positive price correction emerged on the market. In Q4 2005 profit margin attainable on TDI again surpassed the Company's average.

Exchange rates

It is observable, that the 2005 Forint exchange rates were much more stable than in the previous years. The average Forint exchange rate strengthened by 1.5% compared to the base thus slightly mitigating the operating profit of large exporters. Simultaneously, the markets saw a considerable weakening of year-end closing foreign exchange rates against EUR and USD (near 3% and over 18%, respectively), The above changes exercised their impact on profit and loss statement through the revaluation of some balance sheet items at year-end (financial items).

Maintenance and capacity expansion

In 2005 BorsodChem Rt. did not shut down its production plants for general maintenance purposes. Pursuant thereto quarterly profit generation was much more balanced as compared to 2004. Since in 2005, as part of the three-year capital expenditure program, new capacities (VCM, MDI) commenced their trial runs, which markedly enhance the Company's operational safety, a simultaneous general maintenance concerning all plants is expected to take place only rarely in the future. The existence of parallel and simultaneous capacities plays a stabilizing role in the production output of the integrated site.

Operating profit growth surpassing the dynamics of sales revenues

Of the Company's consolidated profit and loss statement the following details are worth highlighting:

- HUF 173 billion sales revenues, which is 17.1% higher compared to the base.
- Operating profit exceeded HUF 16 billion representing a 42.5% increase year on year.
- HUF 27 billion EBITDA, 31.7% higher than a year ago.
- The proportion of EBITDA compared to sales revenues is above 15%, which considerably exceeds the chemical sector average.
- Net profit is HUF 14 billion, down by 17.7% from the base due to the fact that the outstanding gains on derivative hedge contracts of the base year could not be repeated.

Sales revenues and results (HUF million)	**2004**	**2005**	**Change (%)**
Sales revenues	147,673	172,966	17.1
Gross profit	39,824	47,478	19.2
Gross profit as % of sales revenues	27.0	27.4	1.5
Operating profit + depreciation	20,477	26,974	31.7
Operating profit	11,273	16,065	42.5
Operating profit as % of sales revenues	7.6	9.3	22.4
Financial profit	7,216	-472	
Profit before taxation and minority interest	18,489	15,593	-15.7
Net profit	17,147	14,113	-17.7
Net profit as % of sales revenues	11.6	8.2	-29.3
Earnings per share	226	188	-16.8

Revenues

In 2005 BorsodChem Group managed to increase its sales revenues by 17.1% compared to the base. The increase in domestic sales revenues and export sales was 12.3% and 18.1%, respectively.

The volume effect due to capacity growth as well as the change and increase in sales prices are the two main sources of this growth. Out of the HUF 25.3 billion sales revenues growth the impact of changes in volumes is HUF 12 billion, whereas the growth of sales prices amounted to HUF 13.3 billion compared to the base. The influence of the change in exchange rates is HUF 2.1 billion.

Of the total sales revenues the share of PVC resin is 27.7%, slightly declined in spite of the fact that sales revenues of the product grew in absolute value by HUF 5.7 billion compared to the previous year. Sales revenues growth was generated by the increase in volume.

Sales revenues of MDI products rose by 33.9% nearing HUF 30 billion in 2005, the primary source thereof was the significant increase in sales prices. The HUF 26.6 billion sales revenues of TDI exceeded the base by 12.5%.

Due to extremely favourable caustic soda sales prices, the sales revenues of the product are nearly 80% higher than the value of the previous year. This increase in sales revenues is primarily attributable to the favourable tendency of market prices.

The sales revenues of aniline grew dynamically by 22.5% mainly due to volume effect.

Export

Export related sales revenues accounted for 83.9% of the total. This proportion reflects a 0.7% rise relative to the base period, which also denotes that export continues to be the driving force of group level top line growth. In 2005 the geographical breakdown of sales is as follows.

Domestic and Central Eastern Europe together	44,6%
Western Europe	48,6%
Other	6,8%

Overhead costs

Distribution costs of HUF 14.7 billion indicate a 19.2% increase compared to 2004. The growth is almost completely caused by variable cost elements, but it was also influenced by the increasing transport costs arising from changing sales parities.

Overhead and administrative costs increased by 9% against the base. In 2005 besides inflationary effects, an accrued cost item of executive bonus based on "Total Shareholder Return" was determining.

Operating profit

In 2005 the Company achieved an operating profit of HUF 16.1 billion exceeding the base by 42.5%. Main factors resulting in an increased profit level were as follows:

- Spectacular improvement of MDI and caustic soda products margin.
- The influence of surplus sales due to capacity expansion on PVC, TDI and aniline products.
- In line with the two-year maintenance period the Company did not shut down its production plants for general maintenance in 2005.

In 2005 BorsodChem Group was able to significantly increase its operating profit despite the fact that purchase prices, in particular those of energy resources, remarkably grew and put a large pressure on operating profit margins. The relative stability of exchange rates failed to support the operating profit performance of the export oriented company. On an annual average the Forint was 1.5% stronger than the EURO and USD compared to the base, which slightly decreased the operating profit.

Financial revenues and expenses

The Company had a net interest expense of HUF 554 million in 2005, while the base period was characterized by a net interest income of HUF 578 million. The change in the balance is naturally caused by cash flows, most notably the financing of capital expenditures, during the year. The HUF 4 billion gain in 2005, partly cash, partly unrealized, on derivative hedge contracts could not be repeated and the revaluation due to year-end exchange rates also had a negative impact on the financial profit through currency loans. Although the sale of BC-Handels's business share boosted the financial profit by HUF 762 million, financial items altogether consumed operating profit by some HUF 500 million as opposed to the base period, when a record-level net profit was generated as a result of the HUF 7.2 billion financial gains.

Net profit

Profit before taxation and minority interest was HUF 15,593 million in 2005 falling short of HUF 18,489 million in the base period by 15.7%. As BorsodChem Rt. qualified with all the conditions of the 100% corporate income tax allowance in 2005 as well, the Group's tax liability amounted to HUF 1,136 million, including deferred tax items.

The net profit before minority interest is HUF 14,457 million, out of which minority interest (Dynea Austria GmbH, ÉMÁSZ Rt.) has a share of HUF 344 million. BorsodChem's net profit totalled HUF 14,113 million in 2005, 82.3% of the base period value. This net profit level yields HUF 188 of EPS in 2005, which is 83.2% of the basic value.

Sales revenues and profits quarterly 2004 (HUF million)	**Q1**	**Q2**	**Q3**	**Q4**	**Total**
Sales revenues	35,257	37,308	34,165	40,943	147,673
Operating profit	3,549	3,219	1,249	3,256	11,273
Financial profit	2,891	1,473	1,683	1,169	7,216
Profit before taxation and minority interest	6,440	4,692	2,932	4,425	18,489
Net profit	5,828	4,421	2,637	4,261	17,147
Earnings per share	**77**	**58**	**35**	**56**	**226**
Sales revenues and profits quarterly 2005 (HUF million)	**Q1**	**Q2**	**Q3**	**Q4**	**Total**
Sales revenues	41,933	44,795	41,688	44,550	172,966
Operating profit	5,681	3,707	3,175	3,502	16,065
Financial profit	-118	-341	-508	495	-472
Profit before taxation and minority interest	5,563	3,366	2,667	3,997	15,593
Net profit	5,135	3,093	2,179	3,706	14,113
Earnings per share	**68**	**41**	**29**	**49**	**188**

Strong and balanced balance sheet

Analyzing the Company's consolidated balance sheet the following details must be highlighted:

- 14.4% dynamic growth in total assets.
- 32.3% well above average growth in fixed assets due to intense capital expenditure activity.
- The rate of indebtedness at Group level is still in the conservative range: gross debt/shareholders' equity value is 0.49, net debt/shareholders' equity value is 0.46.
- The rate of shareholders' equity within liabilities continues to be prevailing, near 60%.
- BorsodChem Group's assets and liabilities structure is strong and stable. Its assets of HUF 238 billion and the dynamics thereof clearly indicate the Group's intense development and expansion.

Assets (HUF million)	**2004**	**%**	**2005**	**%**
Cash and cash equivalents	16,914	8.1	3,905	1.6
Accounts receivable	34,788	16.7	43,297	18.2
Inventory	16,209	7.8	15,350	6.5
Other current assets	8,391	4.0	1,045	0.4
Total current assets	76,302	36.7	63,597	26.7
Land and buildings, plant and machinery	129,237	62.1	171,146	71.9
Intangible assets	2,619	1.3	2,764	1.2
Long-term investments	292	0.1	434	0.2
Negative goodwill	-389	-0.2	0	0
Total fixed assets	131,759	63.3	174,344	73.3
Total assets	**208,061**	**100**	**237,941**	**100**

Liabilities and shareholders' equity (HUF million)	**2004**	**%**	**2005**	**%**
Accounts payable	22,072	10.6	24,959	10.5
Other liabilities - accrued expenses and deferred income	4,539	2.2	5,199	2.2
Short-term credits	25,411	12.2	33,267	14
Total short-term liabilities	52,022	25.0	63,425	26.7
Long-term credits	27,829	13.4	33,475	14.1
Other long-term liabilities	1,359	0.6	2,026	0.9
Total long-term liabilities	29,188	14.0	35,501	14.9
Minority interest	3,193	1.5	2,740	1.2
Registered capital				
- listed shares	15,388	7.4	15,388	6.5
- non-listed shares	1,282	0.6	1,282	0.5
Share premium	29,034	14.0	29,034	12.2
Treasury stock	-2,690	-1.3	-2,209	-0.9
Reserves from retained earnings	79,566	38.2	90,687	38.1
Accumulated conversion difference	1,078	0.5	2,093	0.9

Total shareholders' equity	123,658	59.4	136,275	57.3
Total liabilities and shareholders' equity	**208,061**	**100**	**237,941**	**100**

Assets

Within total assets, an increase of HUF 41.9 billion in tangible assets was determining due to the high level of capital expenditure performance (HUF 49 billion). The level of current assets is 16.7% lower than the base value related to adversary effects. Within current assets the value of accounts receivable grew considerably, by nearly 25%, which was partly due to growth in turnover and to a significant increase in other claims. Latter is a result of the accounting treatment of the amount deposited for the Polish acquisition. Cash and cash equivalents saw a considerable decline of approximately HUF 13 billion compared to 2004, which trend is a natural consequence of the large-scale capital expenditure project. Inventories went down by HUF 859 million from the base indicating that the efficiency of the Group's inventory management is still at high standards and thorough.

Liabilities and Shareholders' Equity

Within liabilities both long and short-term items increased significantly with a similar relative change (21.6% and 21.9%). The increase was determined by short and long-term credits, the development of which is in line with the financial needs of the expansion of tangible assets. Despite the growth in the credit portfolio, BorsodChem Group's leverage indicators remain in the conservative range.

	2004	2005
Debt/shareholders' equity	0.43	0.49
Net debt/shareholders equity	0.23	0.46

The Company's shareholders' equity rose by nearly 10% compared to 2004 further maintaining a stable net debt to shareholders' equity ratio.

The Company's registered capital was HUF 16,670 million on December 31, 2004. This consisted of two elements: (i) The ordinary shares listed on the stock exchange with a total face value of HUF 15,388 million and (ii) the non-listed employee shares with a total face value of HUF 1,282 million.
The analysis of BorsodChem's balance sheet structure shows that it is strong, well structured and is able to firmly support BorsodChem Group's growth strategy.

High-level cash flow

Characteristic trends in the Company's cash flow in 2005 are as follows:

- High-level cash provided by operating activities, exceeding HUF 29 billion.
- Outstandingly dynamic growth in line with investment related asset purchases, as the Company is closing the three-year capital expenditure cycle.

- Intense movements in loan repayments and borrowings, the consequence of which is a net cash flow of HUF + 8.8 billion from financing activities.
- Closing balance of cash on hand dropped considerably, as cash provided the source for the record-level capital expenditure activity.

Cash flow statement **HUF million**

	2004	2005
Net profit	17,851	14,457
Depreciation	9,204	10,909
Other adjustments	-7,089	3,743
Net cash provided by operating activities	**19,966**	**29,109**
Acquisitions of tangible and intangible assets	-31,484	-51,859
Income from the disposal of long-term investments and tangible assets	20,953	251
Net value of other investments	-6,735	664
Net cash used in investment activities	**-17,266**	**-50,944**
Loan repayment	-14,144	-24,841
Borrowings	15,344	37,044
Capital reduction (minority interest)	-	-112
EMRP	-	442
Dividend paid	-3,689	-3,747
Net cash for treasury stock repurchased	-2,690	30
Net cash generated (used in)/by financing activities	**-5,179**	**8,816**
Influence of exchange-rate changes on liquid assets	-14	10
Total net decrease/increase in cash	**-2,493**	**-13,009**
Cash at the beginning of the period	**19,407**	**16,914**
Cash at the end of the period	**16,914**	**3,905**

Net cash provided by operating activities

Net cash income from operating activities exceeded HUF 29 billion and was more than HUF 9 billion higher than in 2004. Depreciation levered the HUF 14.5 billion net profit by HUF 10.9 billion and other effective cash management corrections also augmented cash from operating activities by approximately HUF 3.7 billion.

Net cash used in investment activities

The HUF 50.9 billion net cash outflow reflects an extremely intensive capital expenditure activity. The acquisition of tangible and intangible assets amounted to HUF 51.9 billion and the effect of the Polish Petrochemia Blachownia acquisition also elevated expenses by HUF 6.6 billion. Decline of short-term investments in the form of selling Treasury bonds diminished investment related expenses by HUF 6.9 billion; still, cash outflow was nearly threefold compared to 2004.

Net cash from financing activities

Analyse of net cash flow generated by financial activities clearly shows that the Group's more intense banking relations generated higher cash flow. The net of all borrowings and repayments amounted to HUF 12.2 billion cash inflow, which certainly appeared in the increase of year-end credit portfolio as well. This cash inflow supplemented the Company's own resources such co-financing the capacity expansions. Dividend payment reduced net cash flow from financial transactions by HUF 3.7 billion. All in all net cash from financing eventually resulted in a positive balance of HUF 8.8 billion.

Considering all the cash flow elements, the Group's net liquid assets decreased by HUF 13 billion by the end of 2005. It must be emphasized that the beginning balance of HUF 17 billion reflected an unordinary status due to non-recurring impacts (capital increase, sale of TVK shares).

Segmental dominance of isocyanates chemistry

When generating segmental information the Company groups its business units and consolidated subsidiaries as follows.

- Chlorine-Vinyl Business Unit, PVC Business Unit, Compound Business Unit as a plastics base material production segment operating in the chlorine-vinyl chain.
- MDI Business Unit, TDI Business Unit, BC-MCHZ as a segment involved in isocyanates production.
- BC-Ablakprofilgyártó Kft., BC-Ongropack Kft., Panorama Kft. as a segment in plastics processing.
- Other companies and activities not listed above as an additional segment.

Based on the table on segmental information, the following main points are worth emphasizing.

The MDI/TDI/BC-MCHZ segment further enhanced its proportion in the external sales revenues nearing 50%. No considerable change occurred in the case of other segments with regards to proportions.

Out of the HUF 7.7 billion gross profit increase, HUF 6.3 billion growth is also contributed by the MDI/TDI/BC-MCHZ segment, as 56% of gross profit was generated here.

As for the Company's EBIT and EBITDA generation, the dominance of the isocyanates production segment displayed further increase against the base. Some deterioration in EBIT generation is seen in the PVC chain due to unfavourable output-input price ratios. Profit generation grew within the plastics production segment despite keen competition.

Designation (HUF million)	Chlorine-Vinyl/ PVC/ Compound	MDI/TDI/ BC-MCHZ	Plastics production	Others	Filtered/ Undistri buted	Total
Sales revenues for 2005						
External sales	63,441	83,733	13,403	12,389		172,966
Inter-segmental sales	6,677	2,948	494	33,641	-43,760	0
Sales total:	70,118	86,681	13,897	46,030	-43,760	172,966
Sales revenues for 2004						
External sales	55,612	67,842	13,363	10,856		147,673
Inter-segmental sales	11,599	2,133	1,027	18,412	-33,171	
Sales total:	67,211	69,975	14,390	29,268	-33,171	147,673
Sales revenue differences						
External sales	7,829	15,891	40	1,533		25,293
Inter-segmental sales	-4,922	815	-533	15,229	-10,589	
Sales total:	2,907	16,706	-493	16,762	-10,589	25,293
Gross profit for 2005	16,437	26,632	2,465	2,034	-90	47,478
Gross profit for 2004	16,500	20,374	2,116	1,011	-177	39,824
Difference	-63	6,258	349	1,023	87	7,654
EBIT 2005	5,929	14,639	345	951	-5,799	16,065
EBIT 2004	6,977	9,118	129	509	-5,460	11,273
Difference	-1,048	5,521	216	442	-339	4,792
Assets in 2005	67,480	98,612	8,331	30,739	-11,799	193,363
Assets in 2004	49,223	81,231	7,496	43,492	-8,453	172,989
Difference	18,257	17,381	835	-12,753	-3,346	20,374
Depreciation in 2005	2,960	4,579	638	737	1,995	10,909
Depreciation in 2004	1,910	4,000	693	1,692	909	9,204
Difference	1050	579	-55	-955	1,086	1,705
EBITDA for 2005	8,889	19,218	983	1,688	-3,804	26,974
EBITDA for 2004	8,887	13,118	822	2,201	-4,551	20,477
Difference	2	6,100	161	-513	747	6,497

Risk management

A major part of BorsodChem Group's sales revenues and costs are either generated or priced in foreign currencies. As a result, the going exchange rate has an influence on the Company's profit as well as on its cash flow.

Since the Company is aware of the related risks, foreign exchange exposure is assessed on a systematic basis and is actively managed in accordance with the risk management guidelines approved by the Board of Directors.

The main elements of the guidelines approved by the Board of Directors and implemented by the Management are:

- Foreign-exchange risk management is basically cash flow based, meaning that the subject of risk management is the net natural position from operations, investments and debt service.

- The maturity of the instruments used in risk management is a maximum of one year.
- The types of derivative financial instruments that can be used are specified in the guidelines.
- The Extent of hedging is allocated to various authority levels. Hedging up to 60% of the exposure is the authority of Management, above this level it is the authority of the Board of Directors.
- The Company may use derivative financial products exclusively for the purposes of risk management. The Company is not allowed to speculate.
- The Board of Directors receives monthly reports on the actual size of the natural position, financial hedging position, short term actions and views.

Ever since 2001, the year when the Hungarian Forint band was expanded, the BorsodChem Group has been using foreign-exchange risk management to mitigate the unpredictable impact of the exchange rate movements on the operating profit.

In 2005 the Company realised HUF 130 million on forward transactions, significantly less than the HUF 4,000 million of the base period. Basically, it is due to two reasons. On the one hand, in 2005 BorsodChem Group's natural position was considerably less than that of 2004, because the EUR based liabilities from capital expenditures expanded. Practically it meant that the corporate treasury had to manage smaller exposure. On the other hand, in 2005 the Company preferred using "zero cost collars", which, in comparison with forward contracts, are more conservative derivative instruments with less sensitivity to exchange rate movements. The low Forint volatility in 2005, the change in the applied methods as well as the smaller natural exposure jointly resulted in a significantly different profit on derivative transactions compared to that of 2004.

As the Company has a long position in EURO, i.e. the majority of its sales revenues are EURO-based, it prefers debt facilities denominated in EURO when borrowing. At the same time, the Company does not employ derivatives to manage its financial risks, neither foreign-exchange exposure in the Balance Sheet, nor interest-rate risks.

Naturally, in order to protect its production facilities, BorsodChem Group holds high-standard property insurance as it can be expected from a company the chemical sector, which covers these facilities at the group level and at their new value.

Closely connected with the above property insurance, security is further ensured by business interruption insurance, covering 24 months altogether. In case of any insurance incident, this policy offers the potential to maximally compensate for opportunity costs or overhead expenses incurred in such a period, including the costs of labour and related charges.

High-level capacity utilization and production

The utilization of major product output capacities and their comparison to base data are presented in the following table:

Product	2004	2005
	%	%
Caustic soda	90.5	94.0
Chlorine	90.5	94.0
VCM	80.5	96.5
PVC resin	91.4	89.7
Dry blend	49.8	40.7
Granules	60.5	57.5
MDI	99.2	89.9
TDI	98.3	98.5
Aniline	100.0	100.0
Cyclohexylamines	87.9	88.4
Formalin	100.0	100.0

The capacity utilization of caustic soda, chlorine, VCM, TDI and cyclohexylamines increased compared to the base. The lower capacity utilization of dry blends and granules is explained by market events. The utilization of higher PVC resin and MDI capacities due to capital expenditures is in the neighbourhood of 90 percent. Aniline and formalin producing capacities were utilized at 100 percent.

Trends in the production of major products	**Unit**	**2004 actual**	**2005 actual**	**Index %**	**Change**
Caustic soda III	t	134 923	143 382	106.3	8 459
Chlorine III	t	119 677	127 180	106.3	7 503
Recovered hydrochloric acid solution	t	59 832	50 819	84.9	-9 014
Technological hydrochloric acid solution	t	24 203	25 299	104.5	1 097
Hypo	t	38 341	35 331	92.1	-3 010
Dichloroethane	t	269 487	398 563	147.9	129 076
Vinyl chloride	t	166 411	246 710	148.3	80 299
PVC resin III	t	272 078	290 316	106.7	18 238
Polystyrene	t	6 523	2 620	40.2	-3 903
Dry blends	t	28 004	23 403	83.6	-4 601
Granules	t	17 475	17 011	97.3	-464
CPE 100%	t	4 412	4 908	111.2	496
MDI	t	57 558	62 934	109.3	5 376
Ammonia	t	19 928	23 154	116.2	3 226
TDI-80	t	64 903	73 842	113.8	8 939
Aniline	t	112 832	132 550	117.5	19 718
Cyclohexylamines	t	22 063	22 198	100.6	135

Formalin	t	64 495	65 017	100.8	522
Plastic finished products	t	30 241	28 162	93.1	-2 079
Ready-to-install doors and Windows	m^2	79 080	67 425	85.3	-11 655

When comparing 2005 production to the base period it must be noted that no general maintenance shutdown took place in the production facilities in 2005, thus more time was available for production than in the base period. Impacted by capital expenditure projects concluded in 2004/2005, vinyl chloride, PVC resin, MDI, TDI and aniline capacities stepped up. Due to capacity expansions, significantly higher volumes were manufactured of the aforementioned products compared to the base period. The output of caustic soda, chlorine and dichloroethane production also boosted.

Demand for plastic finished products, especially those of window profiles and ready-to-install doors and windows dwindled, leading to less dry blend production. The production of recovered hydrochloric acid solution declined because more hydrochloric acid gas, generated by MDI and TDI production, was recycled in vinyl chloride production due to the vinyl chloride capacity expansion.

Purchasing with the intention to diversify

BorsodChem Rt.'s purchasing activities were of crucial importance in maintaining and improving the Group's cost competitiveness in 2005 as well. The current year was unique with respect to the fact that the listing price level of crude oil derivative base materials (ethylene, benzene and toluene) reached historical highs due to the high price level of crude oil. In 2005 the Company purchased base materials, accessories and packaging materials in a value of approximately HUF 60 billion in order to ensure continuous production.

Key suppliers in 2005:

Supplier	**Materials supplied**
TVK	ethylene
BC-MCHZ	aniline, nitric acid
LUKOIL Neftechim/Grimpfy Capital	VCM
MOL Rt.	toluene
SALROM	industrial salt

The 184 kt rock salt used annually by the Company's electrolysis chain is purchased from its traditional Romanian partner based on a three-year supply contract.

The ethylene used in the vinyl-chloride production was completely purchased from domestic sources, namely TVK Rt. (117 kt). Ethylene supply was secured by commissioning the new ethylene cracker at TVK Rt. in December 2004.

Nearly 85% of VCM production, the primary base material for PVC production, was produced by the Company's own verticum, while the remaining 15% (43 kt) was purchased from Ukrainian sources pursuant to an annual supply agreement.

Nearly 50 kt of aniline used by the Company's MDI production as well as a significant portion of nitric acid used for TDI production were delivered to the Company's Kazincbarcika site by the Czech BC-MCHZ, BorsodChem Rt.'s subsidiary. Toluene, another important base material of TDI production, – 44 kt in 2005 – was supplied by MOL under a three-year contract valid until 2006.

The major portion of chlorine demand in the whole verticum was covered by in-house production, while the remaining chlorine quantity– about 78 kt in 2005– was purchased from an external, mainly Romanian source under a mid-term general agreement.

Carbon monoxide and hydrogen needed for isocyanates production was supplied by Linde Gáz Magyarország Rt. – situated on the Company's site – via a long-term agreement, while other industrial gases (oxygen, nitrogen) were also delivered by Air-Liquide Kft. also operating on the Kazincbarcika site.

The purchase of various energy types in 2005 was characterized by the following:

The aggregate value of energy resources purchased for BorsodChem Rt. and for companies operating on the Kazincbarcika site was HUF 34 billion in the current year.

The Company purchased two thirds of electricity demand (616 GWh) from Entrade Hungary Kft. on the free market, whereas the smaller portion (305 GWh) was provided by BC-Erőmű Kft. operating onsite.

Concerning steam supply BC-Erőmű Kft. remained the main supplier in 2005 (2,000 TJ), while the remaining volume was delivered by AES Borsodi Energetikai Kft (864 TJ).

In 2005 natural gas demand was completely fulfilled by MOL Földgázellátó Rt. (217 million m^3). In 2005 the technical arrangement of natural gas purchase was carried out by BC-Energiakereskedő Kft., BorsodChem Rt.'s 100% owned subsidiary under the tight professional control of the Purchasing Directorate.

2005 – The year of capital expenditures

The greatest challenge in 2005 was posed by the time-proportionate execution of all projects included in BorsodChem Rt.'s largest ever capital expenditure programme that was commenced in September 2003 with a projected expenditure of HUF 80 billion.

The performance value of the capital expenditure projects implemented in 2005 totalled HUF 48.9 billion. The performance value of major capital expenditure projects was HUF 37.6 billion, as shown in the following breakdown:

Core capital expenditures:	HUF million
Chlorine capacity expansion Phase I	13 070
VCM intensification Phase III	976
VCM intensification Phase IV	4 713
New MDI Plant	11 719
PVC capacity expansion	3 058

TDI capacity expansion	444
Installation of central utilities system	561
BC-MCHZ new hydrogen plant	1 913
BC-MCHZ new hydrogenation unit	1 145

In BorsodChem Rt.'s development strategy an essential role is attributed to the capacity expansion of isocyanate production. Regarding the MDI Business Unit, this meant the installation of a new plant with a 100 kt/year production capacity. Pursuant to the agreement with the original licensor MITSUI, BorsodChem Rt. constructed its new plant on the basis of in-house developed, patented technology, assisted by its own technical design team within the MDI Business Unit. Owing to the timely execution, the new Plant was ready to start trial run in the fourth quarter of 2005.

The expansion of PVC resin production capacity from 300 kt/year to 400 kt/year is achieved in three phases, along with further improving the environmental condition. In Phases I and II in 2004 and 2005, the capacity stepped up to 330 kt/year and 365 kt/year, respectively.

Phase IV of VCM intensification was completed involving the construction of a new 100 kt/year EDC cracker and a 140 kt/year VCM distillation block. As a result, in addition to a production capacity of 350 kt/year, the VCM Plant is able to process the hydrochloric acid generated after the expansion of the isocyanate plants.

Resulting from capacity expansions, the increased output volume of both isocyanate production facilities (MDI, TDI) and the VCM plant created additional demand for chlorine that the Company decided to cover by constructing a modern, environmental friendly membrane cell chlorine plant. Related preparatory work continued in every involved specific field alongside necessary design activities carried out in the PDMS system. Implementation is underway as scheduled, promising to start trial run in the second quarter of 2006.

The reliability of supply to capacity expansion capital expenditure projects being in progress, future developments as well as existing utilities at BC Rt. requires that the utilities systems are developed parallel to the development of technologies and adjusted to demands. Further to developments simultaneously related to technological improvements and projects, the three-year "Central Utilities Improvement" programme continued in 2005 and covered the central electric and steam-water-gas supply networks.

On May 30, 2005 the new hydrogen reforming plant and the aniline capacity expanding hydrogenation unit were commissioned at BC-MCHZ. Following the capacity expansion and de-bottlenecking, the hydrogenation line is able to produce 150 kt/year aniline in distillation instead of the former 110 kt/year.

Efficient research and development

BorsodChem Rt.'s Management addresses research and development within the Group on a strategic level, the main aim of which is that the Company move from a technology follower status to a technology developer. R&D activities play a key role in maintaining BorsodChem Group's competitive advantage.

Setting the main goals of research and development activities and determining the budget for costs in the area are generally set by the top management, but implementation is carried out in a decentralized way at the business units. Basic research activity within the Group is typical for the PVC Business Unit only, while applied research topics have priorities in the case of other business units, the directives thereof are as follows:

- production technology development,
- product development,
- improvement of product quality,
- development of new procedures.

Unprecedented in Hungary, the acknowledgement of BorsodChem Rt.'s development and innovation activities are marked by being awarded the Innovation Prize for the seventh consecutive times time in 2005 since 1998. As a result of several years of R&D activity the new 100 kt MDI Plant planned by in-house know-how successfully commenced its trial run in 2005 also justifying the efficiency of the Company's internal innovation and the reason for its existence.

Following the implementation, the aniline production procedure sold to Tosoh in Japan operates to the satisfaction of the Japanese partner.

At present BorsodChem Rt. is involved in the development of about 20-25 new products and in the past 5 years it applied for 4 patents in relation to new technological solutions at the Hungarian Patent Office.

Committed employees

In 2005 the primary challenge for Human Resources Management was to supply the new expansion projects with the required work force. The basis for the headcount required by new plant operations was mainly supplied from internal sources, but external applicants were also employed in justified cases.

Re-training gained special importance in 2005 due to the necessary replacement of employees transferred from existing plants to the new capital expenditure projects as well as the increasing number of retiring experts. In our experience the most efficient way to supply experts is through re-training courses, which provide practical knowledge of technologies operating at BorsodChem Rt. already in the course of training. In 2005 one laboratory assistant, as a new demand, and four chemical substance producer re-training courses were offered.

In order to provide a sufficient supply of experts and managers, and to have a larger proportion of younger personnel, BorsodChem Rt. has been continuously recruiting university graduates without previous job experience. As a result, the proportion of young professionals further improved at the Company.

In the area of training, the main emphasis was placed on manager training in 2005. A two-year manager training programme has been launched for middle managers, work managers and potential managers, aided by EU sources.

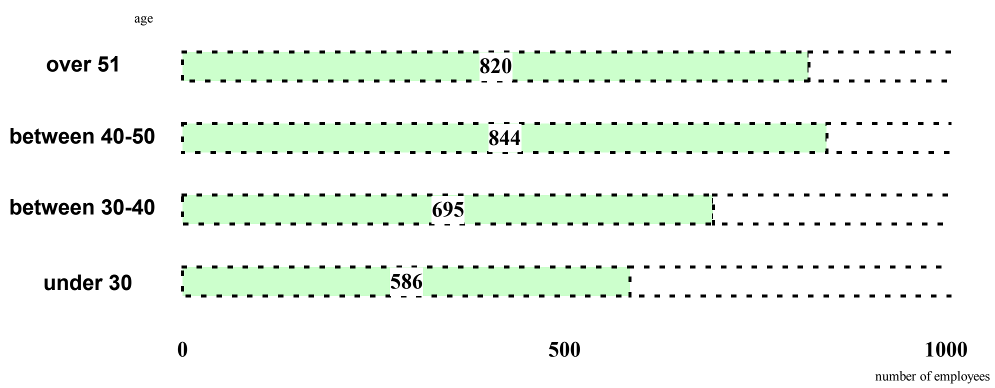
The headcount of the Company’s full time employees, alongside the commissioning of the new MDI Plant, increased only with 8 people during the year.

The opening headcount was 2 932 as at January 1, 2005 and the closing headcount 2 940 as at December 31, 2005. The consolidated headcount at year-end was 4 189.

As part of a three-year incentive programme, BorsodChem Rt. launched a tax-cutting Registered Employee Share Ownership Programme in November 2005, in which frame 2 814 employees were granted a total of 203 062 BorsodChem ordinary shares.

Following proper preparations, a new entry, working time registration and payroll system and HR supporting software started trial run in Q4 2005, having operated smoothly since January 2006.

The structure of the Company's employees as per age



Changes in registered capital and shares

As no changes occurred to the registered capital of the Company in 2005, it amounted to HUF 16,670 million on December 31, 2005. Decomposition is (i) ordinary shares (Class A shares) listed and traded on stock exchanges, amounting to HUF 15,388 million; and (ii) employee shares (Class B shares) not listed and not traded on any stock exchange, amounting to HUF 1,282 million.

Changes in ownership structure and company management

Organizational and personnel changes

- Organizational changes
    - BorsodChem’s partly completed and partly underway capacity expansions required the restructuring of the Chlorine-Vinyl Business Unit into Chlorine Business Unit and Vinyl Chloride Business Unit as of January 1, 2005.

  - On October 6, 2005 the Company signed a share purchase agreement with Ciech SA in order to acquire the 100% share package of Petrochemia Blachownia. The Polish Competition Office approved the transaction in early 2006, thus the transaction was closed legally on January 10, 2006.
  - On December 12, 2005 the Company sold its 100% stake in BC-Handelsgesellschaft mbH, Vienna to CE Oil & Gas Trading AG (CETAG, Austria).
  - On November 15, 2005 the Company signed a share purchase agreement with AliaChem a.s. in order to acquire the 2.4997% share in BorsodChem-MCHZ s.r.o. Accordingly, BorsodChem Rt. has become 100% owner of BorsodChem-MCHZ s.r.o.
- Personnel changes
  - The employment of Human Resources Director Gergely N. Gyurácz was terminated as at January 1, 2005 due to his retirement.
  - As of January 1, 2005 the former Director of the Chlorine-Vinyl Business Unit András Seres has been in the position of the Director of the Chlorine Business Unit. Overseeing of the newly set up Vinyl Chloride Business Unit has been entrusted to the former Director of the Compounds Business Unit Dr István Szakállas.
  - As of January 1, 2005 István Szilágyi has been acting as the Director of the Compounds Business Unit.
  - The General Meeting re-elected Ferenc Márton to the Board of Directors for a term of 3 years from April 29, 2005.
  - The General Meeting elected Kay Gugler to the Board of Directors for a term of 3 years from October 1, 2005.
  - The General Meeting re-elected Judit Bankó to the Supervisory Board for a term of 3 years from April 29, 2005.
  - The General Meeting assigned Deloitte Auditing and Consulting Ltd. (head office: 1051 Budapest, Nádor u. 21.) auditing firm for a term of two financial years from January 1, 2005 to December 31, 2006 to prepare and audit BorsodChem Rt.'s annual reports in accordance with HAS and IFRS.
  - Board Member Ferenc Márton resigned from the Board of Directors as at November 24, 2005.
  - The General Meeting elected Timur Rahimkulov to the Board of Directors for a term from November 25, 2005 to April 30, 2008.

Changes in ownership structure

Denomination of shareholders	Total equity						Listed series					
	At the beginning of current year (on January 1)			At period-end			At the beginning of current year (on January 1)			At period-end		
	%[1]	%[2]	Pcs	%[1]	%[2]	Pcs	%[1]	%[2]	Pcs	%[1]	%[2]	Pcs
Domestic institutions	4.27	4.33	3 516 973	6.90	6.99	5 691 201	4.62	4.69	3 516 973	7.47	7.57	5 691 201
Foreign institutions	76.79	78.00	63 375 824	76.76	77.76	63 352 188	83.19	84.61	63 375 824	83.16	84.32	63 352 188
Domestic private individuals[3]	1.89	1.92	1 559 270	2.26	2.30	1 873 264	2.04	2.08	1 559 270	2.45	2.49	1 873 264
Foreign private individuals	0.02	0.02	14 630	0.04	0.04	35 692	0.02	0.02	14 630	0.04	0.04	35 692
Employees, managing officials	0.03	0.03	21 040	0.18	0.18	144 935	0.03	0.03	21 040	0.19	0.19	144 935
Treasury stock	1.54	0.00	1 277 522	1.27	0.00	1 049 460	1.68	0.00	1 277 522	1.37	0.00	1 049 460
Shareholder as part of the state budget	0.00	0.00	0	0.00	0.00	0	0.00	0.00	0	0.00	0.00	0
International Development Institutions	0.00	0.00	0	0.00	0.00	0	0.00	0.00	0	0.00	0.00	0
RESOP[4]	0.00	0.00	0	0.25	0.25	203 062	0.00	0.00	0	0.27	0.27	203 062
Employee shares[5]	7.69	7.81	6 346 050	7.69	7.79	6 346 050	0.00	0.00	0	0.00	0.00	0
Other	7.77	7.89	6 414 541	4.66	4.70	3 829 998	8.42	8.57	6 414 541	5.03	5.10	3 829 998
Total:	100	100	82 525 850	100	100	82 525 850	100	100	76 179 800	100	100	76 179 800

[1] Stake
[2] Voting right providing the participation in the decision making process at the General Meeting of BorsodChem Rt.
[3] Excluding RESOP
[4] Registered Employee Share Ownership Program registered by the Hungarian Finance Ministry
[5] Based on tripartite agreement concluded with BorsodChem Rt. and employees of BorsodChem Rt. on 8 September 2004 (Annex of Resolution No. 20/2004 of the General Meeting), HSBC Bank plc. holds a right of usufruct over 6 346 050 dematerialised employee shares with a face value of HUF 202 each, carrying voting right and issued by BorsodChem Rt. HSBC Bank plc. thereby obtaining an unconditional direct controlling interest of 7.81% in BorsodChem Rt.

List of shareholders holding over 5% of shares as per their share in proportion to the registered capital

Denomination	Nationality[1]	Quantity (pcs)	Share (%)	Voting rate (%)	Note
VCP Industrie Beteiligungen AG	K	17 757 015	21.52	21.79	Financial investor
Firthlion Limited[2]	K	12 684 884	15.37	15.57	n.a.
FTIF Templeton Eastern E. Fund	K	4 223 500	5.12	5.18	n.a.
HSBC Bank plc.[3]	K	6 346 050	7.69	7.79	n.a.

[1] Domestic (B), Foreign (K)
[2] Based on the notification by Firthlion Limited as of February 13, 2006. Firthlion Limited held 8 268 096 shares as at December 31, 2005.
[3] Based on tripartite agreement concluded with BorsodChem Rt. and employees of BorsodChem Rt. on 8 September 2004 (Annex of Resolution No. 20/2004 of the General Meeting), HSBC Bank plc. holds a right of usufruct over 6 346 050 dematerialised employee shares with a face value of HUF 202 each, carrying voting right and issued by BorsodChem Rt. HSBC Bank plc. thereby obtaining an unconditional direct controlling interest of 7.81% in BorsodChem Rt.

Managing officials and employees in strategic position controlling share-issue operations with their respective shareholdings

Type[1]	Name	Position	Assignment started	Assignment ends	BC shares owned (pcs)	Employee shares (pcs)
BD	Dr Heinrich Georg Stahl	Chairman of the Board of Directors	24/1/2001	30/4/2006	0	0
BD	László F Kovács	Member of the Board	1/8/1991	30/4/2007	6 000	1 306 605
BD	Béla S Varga	Member of the Board	11/4/2002	30/4/2007	0	373 362
BD	Dr János Illéssy	Member of the Board	8/9/2004	30/4/2007	1 000	0
BD	Timur Rahimkulov	Member of the Board	25/11/2005	30/4/2006	126 295	0
BD	Heinrich Pecina	Member of the Board	8/9/2004	30/4/2007	0	0
BD	Ferenc Bartha	Member of the Board	30/4/2003	30/4/2007	0	0
BD	Kay Gugler	Member of the Board	1/10/2005	1/10/2008	0	0
SB	Dr Zoltán Varga	Chairman of the Supervisory Board	24/1/2001	30/4/2006	0	0
SB	Dr Christian Riener	Member of the Supervisory Board	30/4/2003	30/4/2006	0	0
SB	Dr Christoph Herbst	Member of the Supervisory Board	8/9/2004	30/4/2007	0	0
SB	Judit Bankó	Member of the Supervisory Board	11/4/2002	29/4/2008	0	0
SB	Attila Balázs	Member of the Supervisory Board	1/5/2003	30/4/2006	0	0
SB	Bertalan Fejes	Member of the Supervisory Board	1/5/2003	30/4/2006	0	0
SP	László F Kovács	Chief Executive Officer	15/4/1991	31/12/2008	6 000	1 306 605
SP	Dr János Illéssy	CFO, Deputy CEO	1/8/2004	Indefinite	1 000	0
SP	Dr Zoltán Gazdik	CCO, Deputy CEO	1/5/2001	31/12/2006	1 000	125 000
SP	Tamás Purzsa	CTO, Deputy CEO	1/2/2000	31/12/2007	1 600	548 304
SP	Gyula Gaál	Director of Business Unit	1/10/1999	31/12/2007	5 000	273 321
SP	Dr István Szakállas	Director of Business Unit	1/1/1998	31/12/2007	1 010	250 000
SP	András Seres	Director of Business Unit	1/4/1998	31/12/2007	525	314 983
SP	László Szentmiklóssy	Director of Business Unit	1/4/1998	31/12/2007	1 000	349 981
SP	Szilágyi István	Director of Business Unit	1/1/2005	31/12/2008	0	69 996
SP	Béla S Varga	Purchasing Director	1/9/1997	31/12/2007	0	373 362
SP	János Szabó	Director of Utilities and Investment	1/1/2003	31/12/2007	1 005	250 000
SP	László Kézdi	Isocyanate Commercial Director	1/5/2002	31/12/2006	500	116 660
Own stockholding (pieces) TOTAL:					**144 935**	**3 978 212**

[1]Employees in strategic position (SP), Member of the Board of Directors (BD), Member of the Supervisory Board (SB)

Short-term outlook

The Management expects 2006 to be the year of production and selling. After the three-year capital expenditure programme, 2006 will be the first year to witness the impacts of every capital expenditure project. Consequently, products ready for selling will significantly increase in each Business Unit, as our marketing analysis show surplus production can be placed successfully, generating consolidated sales revenues over USD 1 billion in 2006.

Since we do not expect any spectacular improvement in the industrial environment, namely in the prices of crude oil and its derivatives, as well as the significant recovery in prices of energy resources, a part of the margin increase due to surplus output will be consumed by input impacts. The continuously improving and healthier product portfolio however have additional impacts affecting profit growth.

Overall, BorsodChem Group expects to perform at a significantly higher level in 2006 compared to the base period, hence the Company makes headway on the development path of recent years.