Annual Report **2005**

greater
performance

BorsodChem Rt.

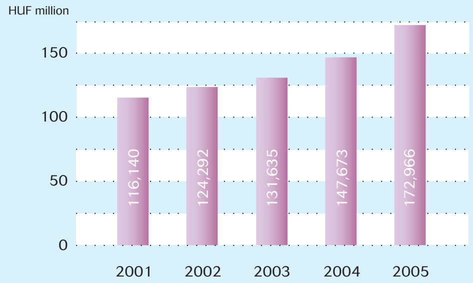
FINANCIAL HIGHLIGHTS

	2004 HUF (M)	2004 EUR (Ths)	2005 HUF (M)	2005 EUR (Ths)	Change in EUR (%)
Net sales, turnover	147,673	586,726	172,966	697,359	18.9
Operating profit	11,273	44,789	16,065	64,770	44.6
Profit before taxes and profit share	18,489	73,459	15,593	62,867	(14.4)
Net profit	17,147	68,127	14,113	56,900	(16.5)
Return on equity (ROE)	13.9%	13.9%	10.4%	10.4%	(25.5)
Earnings per share (HUF or EUR)	226	0.9	188	0.8	(15.8)
Dividend per share (HUF or EUR)	48	0.2	55	0.2	0.0

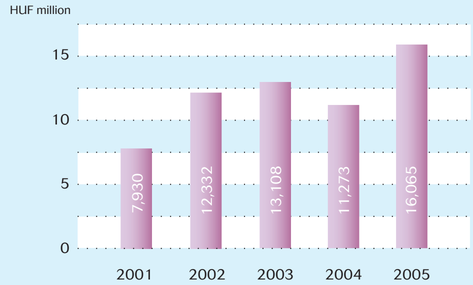
	2001	2002	2003	2004	2005
Net sales, turnover (HUF M)	116,140	124,292	131,635	147,673	172,966
Operating profit (HUF M)	7,930	12,332	13,108	11,273	16,065
Earnings per share (HUF)*	129	200	103	226	188
Dividend per share (HUF)*	30	24	44	52	48

* For comparability, figures are calculated based on the face value of share as at 2005

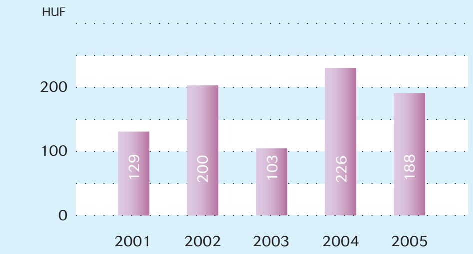
Net sales, turnover



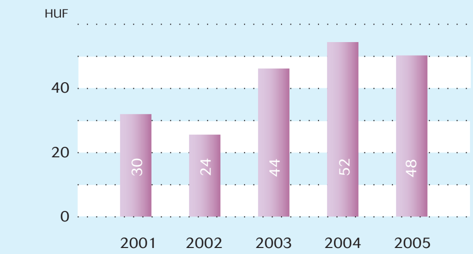
Operating profit



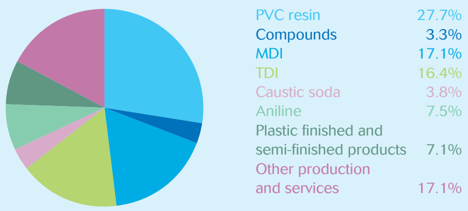
Earnings per share*



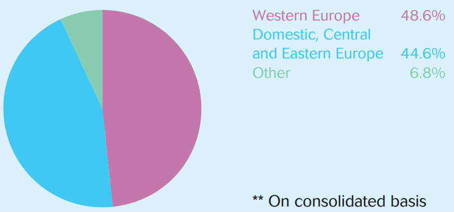
Dividend per share*



Composition of sales by product groups for 2005**



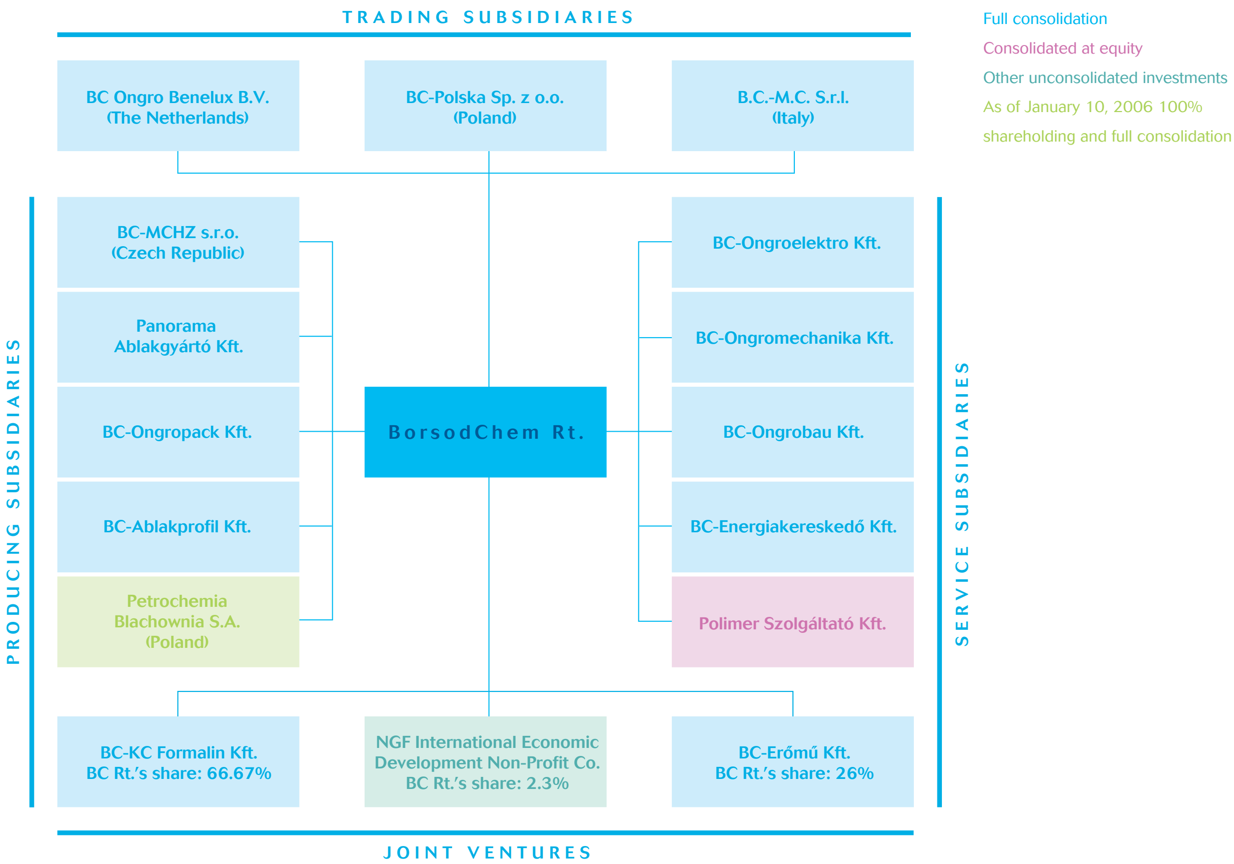
Net sales income by market relations in 2005**



** On consolidated basis

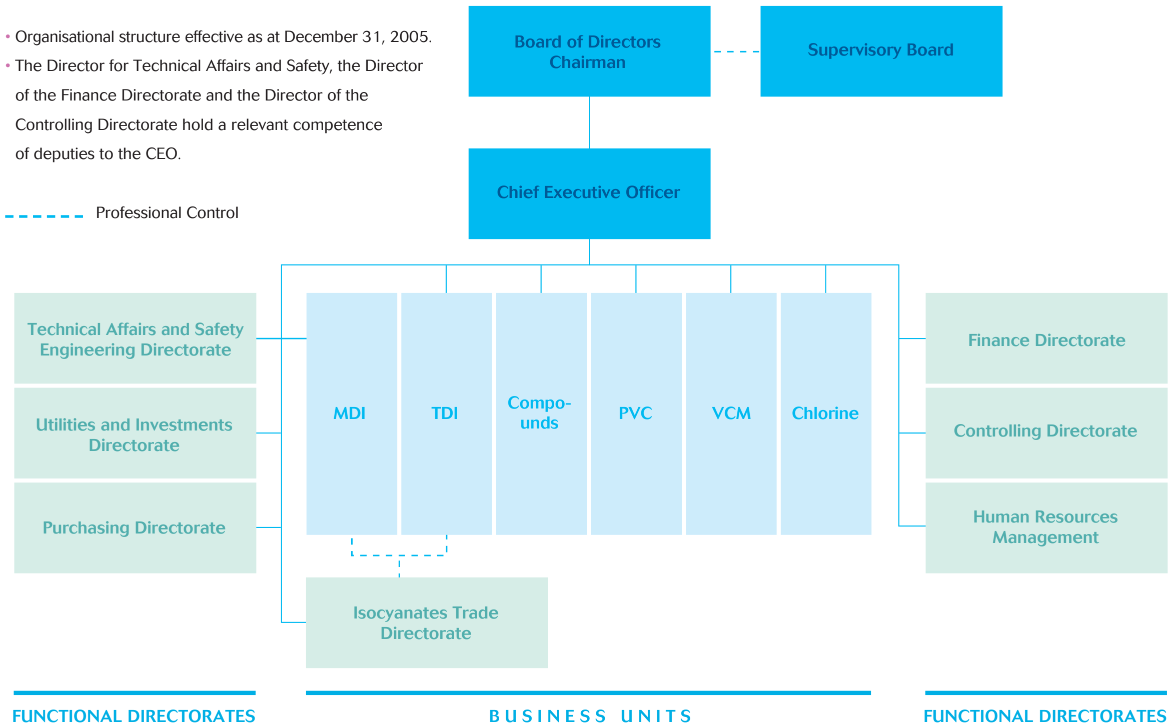
ORGANIZATIONAL STRUCTURE

BorsodChem Group



BorsodChem Rt.

- Organisational structure effective as at December 31, 2005.
- The Director for Technical Affairs and Safety, the Director of the Finance Directorate and the Director of the Controlling Directorate hold a relevant competence of deputies to the CEO.



PRODUCTS

CHLORINE BUSINESS UNIT

Liquefied chlorine
Chlorine gas
Hydrochloric acid (technical, pharmaceutical, industrial "A")
Hypochlorite
Caustic soda

VCM BUSINESS UNIT

Vinyl chloride monomer
EDC

PVC BUSINESS UNIT

ONGROVIL suspension PVC resins
- S-5064
- S-5067
- S-5070
- S-5167
- S-5258

ONGROVIL SH-600 PVC resin-based thermoplastic elastomers
ONGRONOX EHP 75D peroxide type initiator
ONGRONOX INP 75D peroxide type initiator
ONGROCLEAN anti-flowing additive

COMPOUNDS BUSINESS UNIT

ONGROLIT PVC granules
Plasticized granules for
- cable industry
- shoe industry
- food packaging
- tubes, profiles

Rigid granules for
- food packaging
- tubes, profiles and fittings

ONGROLIT CPE granules for
- cable industry (cross-linked cable coverings)

ONGROMIX PVC dry blends for
- food packaging
- cosmetics packaging
- technical (pipes, sheets, profiles, films)
- window profiles

ONGRO CPE (Chlorinated polyethylene)

MDI BUSINESS UNIT

ONGRONAT MDI isocyanates
- CR-30 crude MDI
- HS-44 pure MDI
- CL-27 modified MDI

Pre-polymers
Liquefied ammonia
Spirit of ammonia*

*Distributed only in domestic markets

TDI BUSINESS UNIT

ONGRONAT TDI isocyanates
- TDI 80/20
- TDI 65/35
- TDI 100

CONTENTS

Dr Heinrich Georg Stahl,
Chairman of the Board of Directors

A LETTER TO THE SHAREHOLDERS

Dear Shareholders,

Sustainable Growth

In 2005 BorsodChem worked hard to maintain stable and long-term profitability, strengthen operations and further improve corporate governance. As a result, the company posted sound income along with above average sales increase despite rising economic uncertainty worldwide and soaring energy prices towards the end of the year. Higher natural gas and electricity prices hit margins, but the effects were offset by tight cost control together with a production focus on specialty, higher added value chemicals in the product mix.

Despite the adverse business environment BorsodChem increased sales revenues to HUF 172,966 million (EUR 697,359 th), 17.1% up on the previous year, while the operating profit of HUF 16,065 million (EUR 64,770 th) was 42.5% higher. EBITDA of HUF 26,974 million (EUR 108,753 th) rose by 31.7% compared to 2004, while the rate of EBITDA to sales revenue topped 15.6% – a remarkable achievement in the chemical industry. 2005 was the year when most of the newly installed capacities began test runs following technical completion. By investing into state-of-the-art production facilities, intended to capitalise on economies of scale, BorsodChem increased its PVC polymerisation capacity from 330 to 365 kt/year and VCM capacity from 250 to 350 kt/year.

In an effort to improve the share of less cyclical and more added value products in the portfolio, we increased TDI capacity from 70 kt to 80 kt. The new, 100 kt/year capacity MDI Plant, based on BorsodChem's own technology, started trial runs in the fourth quarter of 2005. It came fully on line at the end of March 2006. The expanding chlorine-vinyl-PVC chain, which aims to enhance horizontal chemical synergies, along with ongoing capital expenditure in MDI and TDI production facilities provide the basis for sustainable, organic growth at double-digit rate at BorsodChem through to 2009.

In addition to organic growth, BorsodChem is actively seeking opportunities for developing its business further through acquisitions in central and eastern Europe. We have recently acquired Polish benzene-toluene producer Petrochemia Blachownia, which will add further advantages we enjoy from vertical integration and reduce our exposure to raw material price fluctuations.

We believe that the application of our management and manufacturing processes to the Polish producer will generate significant short-term and ongoing cost saving.

With a major mid-term investment programme coming to an end and strategic acquisitions complete, new directions for further growth are due. A Strategy Committee, composed of visionary members of the Board of Directors with in-depth knowledge of the industry, is now affirming and refining our company strategy which contains the active participation of BorsodChem in the consolidation of CEE chemical industry. We will be able to inform our shareholders of the management's views regarding the containment of industrial risks and maximizing returns in the near future.

Focus on Innovation

It is the company's aim to create an incentive working environment in which highly-skilled individuals can turn their ideas into operating projects and innovative solutions. BorsodChem's primary strength lies in its technologies, which are developed and operated by engineers who have a passion for technological innovation, productivity and technical advance.

Faced with difficulties in finding available licence know-how, BorsodChem developed its new 100 kt/year capacity MDI Plant from its own technology. BorsodChem engineers have truly excelled themselves in putting the new production facility on line.

In 2005 the Hungarian Association for Innovation once again recognised BorsodChem's cutting-edge R&D activities with an

László F. Kovács,
Chief Executive Officer

innovation award for the company's waste water treatment technology. The new technology offers an efficient, environmental friendly solution to dealing with industrial waste water which is generated in large volumes by the vinyl-chloride plant and also containing organic substances with high salt content. The processed water complies with the strictest European environmental standards.

Another good example of the company's efficient innovation activity is that we sold our unique aniline production process to Japan, where the plant has been commissioned and now operates to the licensee's fullest satisfaction.

Motivated Employees

BorsodChem can only achieve its business objectives by drawing on the knowledge, talent and commitment of its employees. Through careful planning and implementation of our human relations policy in recent years, BorsodChem has managed to maintain a healthy employee structure with several years of experience along with a healthy flow of newly recruited young workers and trainees.

The average age at the company is 41 years and out of the entire workforce of 2940 over 17% are college and university graduates.

As part of company policy we rarely place employees in key positions directly from the labour market. Instead, through careful career planning, we train people within our organisation to be able to respond quickly and effectively to the challenges of our volatile industry.

In order to further strengthen employee loyalty and commitment BorsodChem launched a three-year employee share allocation program in June 2005, whereby each company employee will become a shareholder of BorsodChem. The management and the Board of Directors extend their most sincere appreciation to all employees for their hard work, dedication and commitment to operational excellence.

Relevant Corporate Governance

In 2005 BorsodChem heightened awareness about the importance of adhering to the Corporate Governance recommendations of the Budapest Stock Exchange and maintained transparency in all relations with shareholders and investors. Committees operated by the Board of Directors enhance effective operation of the internal control system to eliminate and mitigate potential risk factors.

The company provided instruction and guidance to management teams in its subsidiaries and made every effort to ensure that BorsodChem enforces and complies with the standards stipulated in the Company's Code of Ethic. To this end BorsodChem will focus on further coordinating internal operations of its organisations in 2006 so that strategic planning and the strategy approved by the Board of Directors can be executed under strict control and in full accord with directions.

Trends from the market indicate that the growth in BorsodChem's business is going to continue in the foreseeable future. Our strong market position in the domestic market, with completed and expected acquisitions further strengthening that position, along with the rate of growth of our operations all provide a good foundation for boosting growth and stabilization of profitability during the new year despite further increasing energy prices. We predict that sales will be higher and profitability will be even better than in 2005. On this note, we would like to extend our thanks and appreciation to our shareholders for their continuing support.

Dr Heinrich Georg Stahl
Chairman of the Board of Directors

László F. Kovács
Chief Executive Officer

László F. Kovács CEO, signs the Petrochemia-Blachownia acquisition contract with Ciech S.A. President Ludwik Klinkosz

Accepting the Environmental Innovation Award in Parliament

MILESTONES 2005

First Quarter

New Quality and Environment Management Certifications

Audit expert SGS certifies BorsodChem's QMS/EMS in September 2004. The audit includes additional fields of activities, hence the Company obtains new certificates on the success of the review.

Organizational Change

The completed and ongoing capacity additions necessitate the separation of the former Chlorine-Vynil business unit into Chlorine and VCM business units.

Second Quarter

BorsodChem Rt. is Innovation Prize Winner

BorsodChem receives the Innovation Prize for the seventh time, an award granted by the Hungarian Foundation for Innovations annually. This time the Company has the honor to be awarded in the field of environment protection, namely the development and implication of its new membrane cell biotechnology. The stabile, new environment protection system with exceptionally high level of efficiency costs HUF 825 million, offers a four year payback and solves the treatment of BorsodChem's technological waste water with high content of salt and organic substance.

Corporate Governance Declaration for BSE

"Corporate Governance Recommendations", a document issued by the Budapest Stock Exchange in 2004, contains the requirements of securities issuers and supports the development of best practices along with suggestions.
BorsodChem Rt. well in advance of the official deadline is among the first issuers who declared its consent and acceptance of the stated guidelines. In a disclosure statement it allows further insights to the operations of the Company. Board Resolution No. 45/2005 reiterates the statement for the year of 2005.

Expansion of BC-MCHZ Aniline Capacity

On May 30 the Company opens its new Hydrogen and hydrogenation units that allow the expansion of the Aniline capacity. The 40 ktpa hydrogenation addition, along with some de-bottlenecking in distillation, make the increase of Aniline capacities from 110 ktpa to 150 ktpa possible. The plant uses its own technology for the expansion.

Corporate Governance Declaration for WSE

Based on the Warsaw Stock Exchange's 2002 Corporate Governance Recommendations, modified from 1 January 2005, all the issuers are required to send their updated, current disclosure statement to the WSE until 1 July each year. Through Resolution No. 67/2004 the Board of Directors provides the Warsaw Stock Exchange with its initial disclosure memorandum about the operations of the Company. Having reviewed, updated and reconciled the effective recommenda-

tions, the Board reiterates the disclosure statement in the name of the Company by its Resolution No. 58/2005.

Third Quarter

BorsodChem Credit Rating

The Standard & Poor's international rating agency reaffirms the initial "BB" rating of BorsodChem Rt. with a stable outlook.

Expandable Polystyrene Production Stops

The Company permanently ceases the production of Expandable Polystyrene with a capacity of 10 ktpa, according to the relevant resolution of the Board, in August 2005. The reasons for the termination are the low efficiency and unfavorable economies of scale.

PVC Capacity Expansion

Due to growing market demand and further development of the plant's engineering and technology level, the Company launches another capacity expansion project. The second phase saw the increase of the PVC capacity in September from 330 ktpa to 365 ktpa. The Company carries out the expansion by de-bottlenecking and application of new engineering solutions.

Fourth Quarter

Acquisition in Poland

BorsodChem Rt. agrees with Ciech S.A. about purchasing 100% ownership in Petrochemia-Blachownia S.A., a Polish Benzene and Toluene manufacturer. It is BorsodChem's long term intention to focus on the production of MDI and TDI for rigid and soft foams, respectively, which in turn demands Benzene and Toluene. The purchase of the Polish company and its output of both types of feedstock enhance BorsodChem Rt's vertical integration and increases the safety of supply in the MDI-TDI production chain. The legal closing draws over into 2006.

Successful Commissioning of the New MDI Plant

The Company informs its shareholders and participants of the capital markets that the new MDI Plant, its most significant expansion, started its successful trial run from 4 October and MDI of various types emerges in good quality and commercial quantity.

Share Transfer

The Company signs Share Purchase Agreement with AliaChem a.s., Prague, which results in a fact that BorsodChem is the 100%, sole owner of BorsodChem-MCHZ s.r.o.

Launch of the Registered Employee Share Ownership Program

Taking into account the greater profound interest of shareholders, the Board of Directors decides to implement an incentive system that is available for the comprehensive circle of employees. Due to the successful business performance the first share allocation takes place in 2005. The employees sign all the necessary contracts (current account agreement, depository agreement, individual share allocation agreement) in November and December 2005.

Sale of BC-HandelsGmbH

The Company sells its 100% ownership of BC Handelsgesellschaft mbH, Vienna, to CE Oil & Gas Trading AG (CETAG, Austria)

BOARD OF DIRECTORS

Dr Heinrich Georg Stahl

Chairman of the Board of Directors, his term of office as Chairman of the Board of Directors will expire on April 30, 2006. He is not an employee of the Company. He received his PhD in Law from the University of Vienna in 1970.

His work experience includes:

- 2003-present Heinzel, Bunzl Service GmbH, Director – CFO
- 2003-present Heinzel, Bunzl Immobilien GmbH, Director – CFO
- 2002-present TVK CE Holding AG, Director
- 2001-present CEE Oil & Gas Beteiligung und Verwaltung GmbH, Director
- 2000-present CE Oil & Gas Beteiligung und Verwaltung AG, Director
- 2000-present Heinzel Holding GesmbH, Director – CFO
- 1996–2000 OMV AG, CFO
- 1992–1995 Austria Metall AG, CFO
- 1989–1991 SCA Laakirchen AG, SCA Ortmann AG, CFO
- 1980–1988 Papierfabrik Laakirchen AG, CFO
- 1976–1988 Bunzel&Biach AG, CFO
- 1970–1975 Zellstoffabrik Frantschach AG, employee

László F. Kovács

CEO and Member of the Board of Directors. His term of office as Member of the Board of Directors will expire on April 30, 2007. He is employed by the Company based on a management contract, which will expire on December 31, 2008. He qualified as a chemical engineer from the Chemical University of Veszprém in 1967 and then gained further qualification in economics from the University of Economics, Budapest in 1988. In March 2005, he was awarded the Knight's Cross Order of Merit of the Republic of Hungary for developing Hungarian plastic raw material manufacturing, introducing environment friendly chemical technologies, motivating research and development activities at BorsodChem as well as for his outstanding professional, managerial and social activities performed as the CEO of BorsodChem Rt. For these same reasons achieved in his work, he was awarded the "Gábor Dénes Prize" in December 2005 by the professional board named after the Hungarian Nobel Prize winner Dénes Gábor.

His work experience includes:

- 2001-present Chief Executive Officer of the Company
- 1991–2001 Chief Executive Officer, Chairman of the Board of the Company
- 1981–1991 Borsodi Vegyi Kombinát, Trade Director
- 1971–1981 Borsodi Vegyi Kombinát, middle managerial positions in the areas of technology, development and investment
- 1968–1970 Leuna Works, Germany, Production Engineer
- 1967–1968 Hungarian Crude Oil and Natural Gas Research Institute, Research Engineer

Béla S. Varga

Member of the Board of Directors. His term of office as Member of the Board of Directors will expire on April 30, 2007. He is employed on the basis of an employment contract as the head of the Purchasing Directorate. He qualified as a mechanical engineer from the Technical University for Heavy Industry in Miskolc in 1984.

His work experience includes:
- 2003-present Purchasing Directorate, Director
- 1997–2003 Purchasing and Investment Directorate, Director
- 1993–1997 Purchasing Department of the Company, Manager
- 1992–1993 Purchasing Department of the Company, Technical-Economical Advisor
- 1990–1992 Department for Chemical Equipment Design of the Company, Group Leader
- 1986–1990 Department for Chemical Equipment Design of the Company, Designer

Ferenc Bartha

Member of the Board of Directors, his term of office as Member of the Board of Directors will expire on April 30, 2006.
He studied at the University of Economics, Budapest, within the Faculty of Foreign Trade in 1965 then at the Central European University in Nancy where he studied European integration between 1968 and 1969.

His work experience includes:
- 2003-present TriGránit Holding Rt., Chairman
- 2002-present Inter-Európa Bank Rt., Chairman of the Board of Directors
- 2001-present Bartha Pénzügyi Szolgáltató Rt., CEO
- 1999–2003 TriGránit Fejlesztési Rt., Chairman
- 1997–1998 Raiffeisen Unicbank Rt., Chairman of the Board of Directors
- 1997–1999 TriGránit Fejlesztési Rt., CEO
- 1996–1998 Granit Plus Befektetési és Fejlesztési Rt., CEO
- 1995–1998 Bartha Pénzügyi Szolgáltató Kft., Managing Director
- 1994–1995 ÁPV Rt., Government Commissioner for Privatization, ÁPV Rt. Chairman of the Board of Directors
- 1992–1994 Banque Indosuez Hungary, Chairman of the Board of Directors
- 1990–1992 Indosuez Finanzierungsberatungs GmbH, Managing Director, Vienna Indosuez Financial Services LLC, Managing Director
- 1988–1990 Hungarian National Bank, Chairman
- 1987–1988 Ministry of Trade, Secretary of State
- 1980–1987 Cabinet, Head of Secretariat for International Economic Relations
- 1970–1980 Ministry of Foreign Trade, Deputy Head of Department for Prices, Foreign Exchange and Finance
- 1965–1970 Hungarian Academy of Sciences, Economic Research Institute, Researcher

Dr János Illéssy

CFO and Member of the Board of Directors, his term of office as Member of the Board of Directors will expire on April 30, 2007.
He is employed by the Company based on an employment contract concluded for unspecified period. He holds an MSc in electrical engineering from the Technical University of Budapest (1987) and an MBA degree (1991) and a PhD degree in financial economics (1998), both from the University of Pittsburgh, USA (PhD studies between 1992 and 1996).

His work experience includes:

- 2004-present CFO and Member of the Board of Directors of the Company
- 2003–2004 Pannonplast, Chairman and CEO
- 2001–2003 BNP Paribas Hungária Bank, Managing Director
- 1996–2001 Pannonplast, CFO
- 1991–1992 Pannonplast, Controller, Senior Privatization Manager
- 1987–1991 Pannonplast, Project Engineer

Heinrich Pecina

Member of the Board of Directors, his term of office as Member of the Board of Directors will expire on April 30, 2007.
He holds the position of the Member of the Board of Directors based on the election by virtue of resolution of the General Meeting for three years' term; he does not hold this position based on any agreement with the Company. He graduated from the University of Economics, Vienna in 1974.

His work experience includes:

- 1998-present VCP Capital Partners AG, Founder and Chairman
- 1998 Union Bank of Switzerland, Business Strategy Advisor
- 1990–1997 Creditanstalt Investment Bank, Vienna, Austria, Member of the Board of Directors, Deputy Chairman
- 1979–1990 Girocentrale, Vienna, Austria, Director as of 1988
- 1977–1979 Industrial capital expenditures, Middle East (Saudi Arabia, Kuwait), Project Manager
- 1974–1976 Austrian Bank Association, University of Economics, Assistant Professor

Kay Gugler

Member of the Board of Directors, his term of office as Member of the Board of Directors will expire on October 1, 2008.
He has extensive knowledge of business administration and change management gained at chemical, material and processing private and public limited companies. He holds an MBA from the University of Frankfurt (1982).

His work experience includes:

- 2002-present Huntsman International, Vice-President – Polyurethane Specialties
- 1999–2002 Huntsman International, Vice-President – Intermediate Chemicals
- 1997–1999 ICI Polyurethanes (ex Atlas Europol) – European Operations, Director
- 1995–1997 ICI Polyurethanes, Global Business Manager – Elastomers
- 1991–1995 ICI Polyurethanes, European Business Manager – Elastomers
- 1987–1991 ICI Polyurethanes, International Planning Officer – Polyurethanes
- 1984–1987 Deutsche ICI GmbH, Sales Manager – Advanced Materials
- 1983–1984 Deutsche ICI GmbH, Customer Service – Films & Sheets
- 1982–1983 Thyssen AG, Trainee

Timur Rahimkulov

Member of the Board of Directors, his term of office as Member of the Board of Directors will expire on April 30, 2008.
An economist, he graduated from the University of Economics, Budapest. As a Russian citizen, he has a permanent residence status in Hungary, residing in Budapest.

Timur Rahimkulov is a minority shareholder and a general manager of Kafijat Trading and Consulting Ltd., a majority stakeholder of General Banking and Trust Co. Ltd., as well as he is an indirect owner and director of Firthlion Limited which has a direct shareholding of over 10% in BorsodChem Rt.

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.

REPORT OF THE BOARD OF DIRECTORS

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.

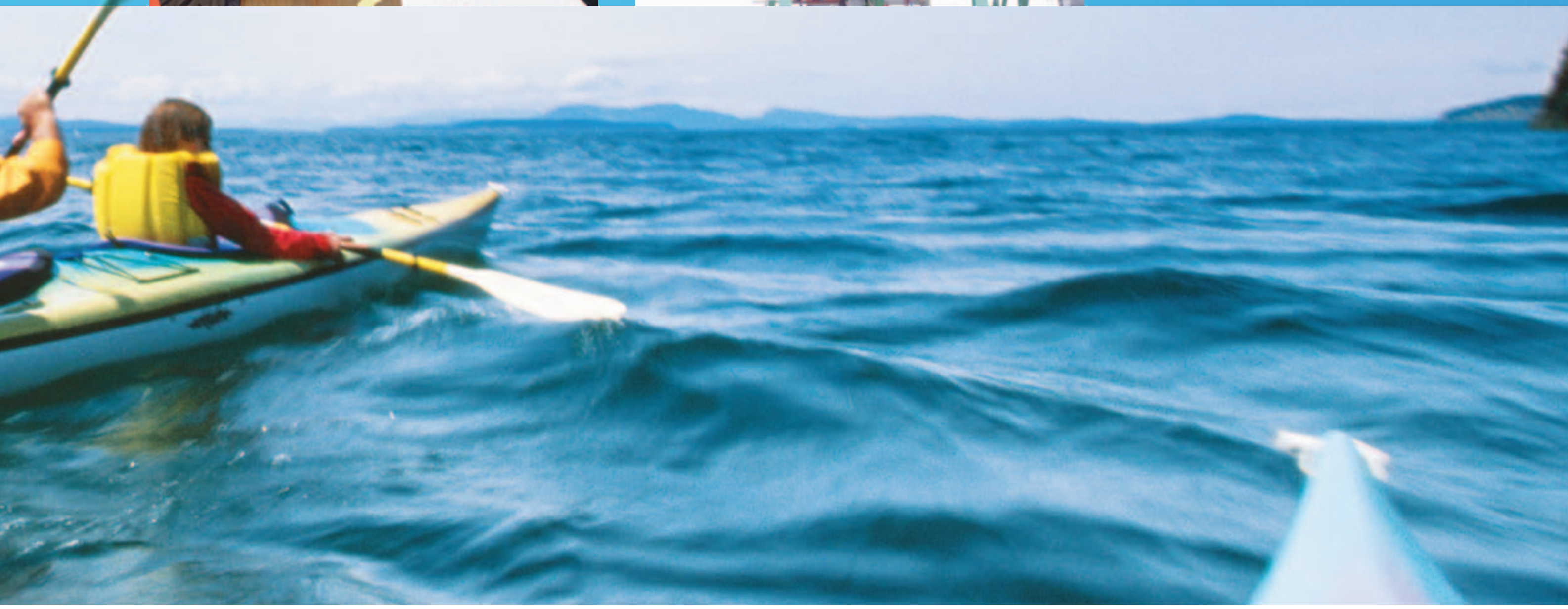
Corporate Governance

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

Employees signing contracts related to the Registered Employee Share Ownership Programme

Preparation of the new chlorine plant, May 2005



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.

Young professionals receive their BC Diploma upon finishing the one-year trainee programme at BorsodChem

Students from the Ostrava Technical School for Chemistry visit the TDI Plant

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 than that 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.

The Chairmanship of the Company's extraordinary general meeting in November (left to right: Dr Heinrich Georg Stahl, Mr László F. Kovács, Dr Pál Jalsovszky)

The new Hydrogen Plant at BC-MCHZ, commissioned in 2005

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.

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

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.

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**

Assets	2004		2005	
	HUF million	%	HUF million	%
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	2004		2005	
	HUF million	%	HUF million	%
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**

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 shareholder's 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.

A BC specialist starts up the new secondary storage device simultaneously serving various IT systems (SAP, Lotus Notes, MS SQL)

Profile extrusion in the plant hall of BC-Ablakprofil Kft.

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

Analysis 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 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).

New MDI Plant construction in progress (May 2005)

Hotel BorsodChem's restaurant

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.

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 guide-

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	1,050	579	(55)	(955)	1,086	1,705
EBITDA 2005	8,889	19,218	983	1,688	(3,804)	26,974
EBITDA 2004	8,887	13,118	822	2,201	(4,551)	20,477
Difference	2	6,100	161	(513)	747	6,497

lines 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 the 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 the BorsodChem Group's natural position was considerably less than that of 2004, because EURO-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, the BorsodChem Group holds high-standard property insurance as it can be expected from a company in 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.
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.
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.

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

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)

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 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.

Capital expenditure project of the new chlorine plant in progress in June 2005

An employee of BC-Ongromechanika Kft. welds a heat exchanger shell

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 debottlenecking, 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 the 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 of 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 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.

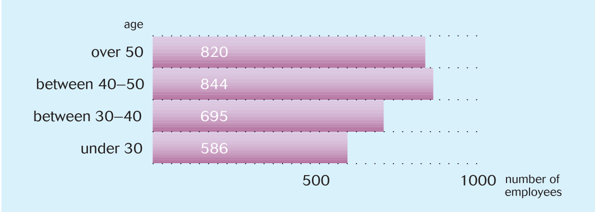
Committed Employees

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

An employee of BC-Ongroelektro Kft. fixes an electric distribution box

Water Plant Section – intensification water softening reactors

The structure of the Company's employees as per age



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.

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.

The plant's fire brigade exercises in the DNT Plant

TDI Plant – TDA block

Changes in Ownership Structure

Denomination of shareholders	TOTAL EQUITY					
	At the beginning of current year (on January 1)			At period-end		
	%[1]	%[2]	Pcs	%[1]	%[2]	Pcs
Domestic institutions	4.27	4.33	3,516,973	6.90	6.99	5,691,201
Foreign institutions	76.79	78.00	63,375,824	76.76	77.76	63,352,188
Domestic private individuals[3]	1.89	1.92	1,559,270	2.26	2.30	1,873,264
Foreign private individuals	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
Treasury stock	1.54	0.00	1,277,522	1.27	0.00	1,049,460
Shareholder as part of the state budget	0.00	0.00	0	0.00	0.00	0
International Development Institutions	0.00	0.00	0	0.00	0.00	0
RESOP[4]	0.00	0.00	0	0.25	0.25	203,062
Employee shares[5]	7.69	7.81	6,346,050	7.69	7.79	6,346,050
Other	7.77	7.89	6,414,541	4.66	4.70	3,829,998
Total:	100	100	82,525,850	100	100	82,525,850

Denomination of shareholders	LISTED SERIES					
	At the beginning of current year (on January 1)			At period-end		
	%[1]	%[2]	Pcs	%[1]	%[2]	Pcs
Domestic institutions	4.62	4.69	3,516,973	7.47	7.57	5,691,201
Foreign institutions	83.19	84.61	63,375,824	83.16	84.32	63,352,188
Domestic private individuals[3]	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
Employees. managing officials	0.03	0.03	21,040	0.19	0.19	144,935
Treasury stock	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
International Development Institutions	0.00	0.00	0	0.00	0.00	0
RESOP[4]	0.00	0.00	0	0.27	0.27	203,062
Employee shares[5]	0.00	0.00	0	0.00	0.00	0
Other	8.42	8.57	6,414,541	5.03	5.10	3,829,998
Total:	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	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.

VCM storage tank

Mr László F. Kovács (left) is awarded the Gábor Dénes Prize for his outstanding professional, managerial and social activities performed as the CEO of 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	01/24/2001	04/30/2006	0	0
BD	László Kovács F.	Member of the Board	08/01/1991	04/30/2007	6,000	1,306,605
BD	Béla S. Varga	Member of the Board	04/11/2002	04/30/2007	0	373,362
BD	Dr János Illéssy	Member of the Board	09/08/2004	04/30/2007	1,000	0
BD	Timur Rahimkulov	Member of the Board	11/25/2005	04/30/2008	126,295	0
BD	Heinrich Pecina	Member of the Board	09/08/2004	04/30/2007	0	0
BD	Ferenc Bartha	Member of the Board	04/30/2003	04/30/2006	0	0
BD	Kay Gugler	Member of the Board	10/01/2005	10/01/2008	0	0
SB	Dr Zoltán Varga	Chairman of the Supervisory Board	01/24/2001	04/30/2006	0	0
SB	Dr Christian Riener	Member of the Supervisory Board	04/30/2003	04/30/2006	0	0
SB	Dr Christoph Herbst	Member of the Supervisory Board	09/08/2004	04/30/2007	0	0
SB	Judit Bankó	Member of the Supervisory Board	04/11/2002	04/29/2008	0	0
SB	Attila Balázs	Member of the Supervisory Board	05/01/2003	04/30/2006	0	0
SB	Bertalan Fejes	Member of the Supervisory Board	05/01/2003	04/30/2006	0	0
SP	László F. Kovács	Chief Executive Officer	04/15/1991	12/31/2008	6,000	1,306,605
SP	Dr János Illéssy	CFO, Deputy CEO	08/01/2004	Indefinite	1,000	0
SP	Dr Zoltán Gazdik	CCO, Deputy CEO	05/01/2001	12/31/2006	1,000	125,000
SP	Tamás Purzsa	CTO, Deputy CEO	02/01/2000	12/31/2007	1,600	548,304
SP	Gyula Gaál	Director of Business Unit	10/01/1999	12/31/2007	5,000	273,321
SP	Dr István Szakállas	Director of Business Unit	01/01/1998	12/31/2007	1,010	250,000
SP	András Seres	Director of Business Unit	04/01/1998	12/31/2007	525	314,983
SP	László Szentmiklóssy	Director of Business Unit	04/01/1998	12/31/2007	1,000	349,981
SP	István Szilágyi	Director of Business Unit	01/01/2005	12/31/2008	0	69,996
SP	Béla S. Varga	Purchasing Director	09/01/1997	12/31/2007	0	373,362
SP	János Szabó	Director of Utilities and Investment	01/01/2003	12/31/2007	1,005	250,000
SP	László Kézdi	Isocyanate Commercial Director	05/01/2002	12/31/2006	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 shows 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.

Chlorine capacity expansion became necessary due to the increased chlorine demanded on site. Whereas the present plant is operated on the mercury-cathode technology in line with the technological standards of the 1970s, mercury free, membrane cell process is applied in the new plant for the production of chlorine and its co-product caustic soda solution.

CHLORINE BUSINESS UNIT

Activities of the Business Unit

BorsodChem Rt.'s production is based on chlorine chemistry. Chlorine which is required by VCM, MDI, TDI and CPE production is produced together with its co-product, caustic soda by the electrolysis of rock salt. The Company uses the hydrogen generated in the process for ammonia production.

Hydrochloric acid solutions of various grades and sodium hypochlorite (hypo) are primarily applied as the active agents for household cleansing products and disinfectants are produced by further processing the base products in the plant.

Production

Supply of raw material rock salt imported from Romania was constant and production was not restricted by any shortage of electricity. The Business Unit is responsible for the chlorine supply of the industrial site in Kazincbarcika. Due to the presently limited chlorine capacity in comparison to utilization, chlorine imports were significant in 2005. Due to efficient supplier relations, chlorine supply to the site did not impede the high level production of the plants' utilization of chlorine.

Capital Expenditure

The Company's chlorine demand significantly surpasses its own production capacity. The Business Unit secures the shortfalls by purchasing liquefied chlorine. In order to reduce trading, transport and safety risks a considerable chlorine capacity expansion commenced on the Kazincbarcika site at the end of 2003. Besides supplying chlorine to the related plants, coordinating the investment was also a core task in 2005.

The capital expenditure is implemented in three phases. In Q2 of 2006 an 80,000 tonnes/year chlorine capacity plant will come on-stream, then in Q3 of 2006 capacity will increase up to 120,000 tonnes. Following the implementation of Phase III, production will reach 160,000 tonnes/year. After the planning phase and contracting in 2004, implementation of the new membrane cell chlorine plant entered an intense stage in 2005. Detailed engineering, building and construction work together with the installation of equipment have been completed. Implementation of pipe fittings, electrical and instrumental jobs commenced.

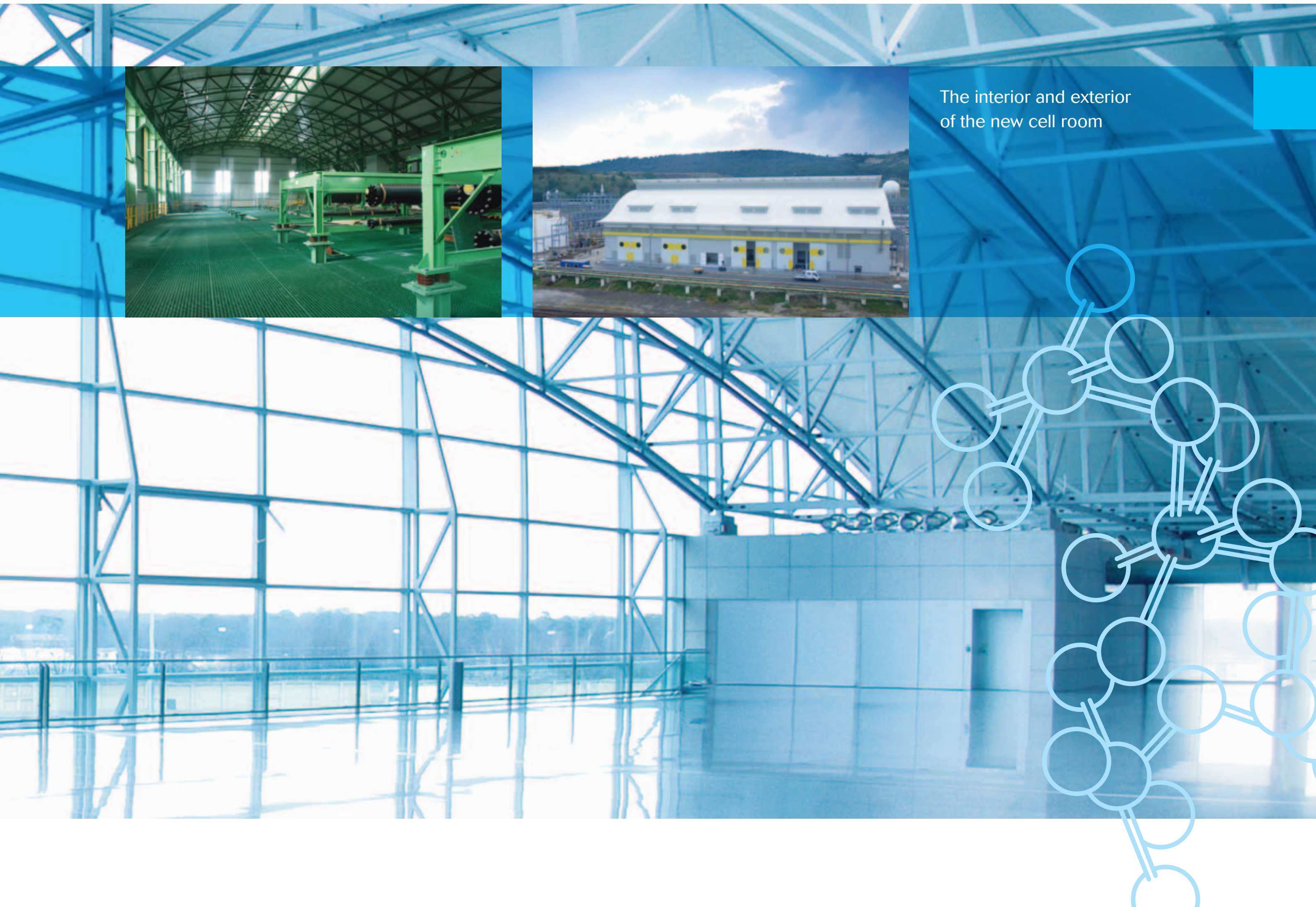
In the course of project implementation, and beyond environmental load issues, they treated chlorine related operational safety as a central issue and therefore expanded the hypo-system capacity for chlorine absorption.

Environmental Protection

In order to reduce the amount of solid waste in the chlorine plant, a new technology was put on line, through which powdered sodium carbonate utilization and packaging material (waste paper bag) collection and treatment have been discontinued as well as the amount of brine filtration sludge treated as a hazardous waste was also reduced. This technology will be applied in the new plant, as well.

In the course of brine purification in the new plant, instead of the existing barium carbonate based sulphate removal, a marketable product is generated (sodium sulphate) by a new nano-filtering process and subsequent re-crystallization. Additionally, it has significantly less environmental load.

The economic and environmental advantage of the membrane



The interior and exterior of the new cell room

cell process is that its specific electricity consumption is 25-30% less than in the case of mercury cathode process. Although a part of caustic lye shall be concentrated by steam, total energy consumption is 15-20% less.

Sales

The majority of chlorine produced, nearly 95% is utilized by the plants on the Kazincbarcika site; a smaller volume is sold to chemical companies and waterworks. Sodium hypochlorite (hypo), caustic soda and hydrochloric acid solutions are market products traded in large volumes. In 2005 chlorine producers could be satisfied with the market for caustic soda solution, since product sales greatly contributed to the profitability of the chlorine vinyl product chain.

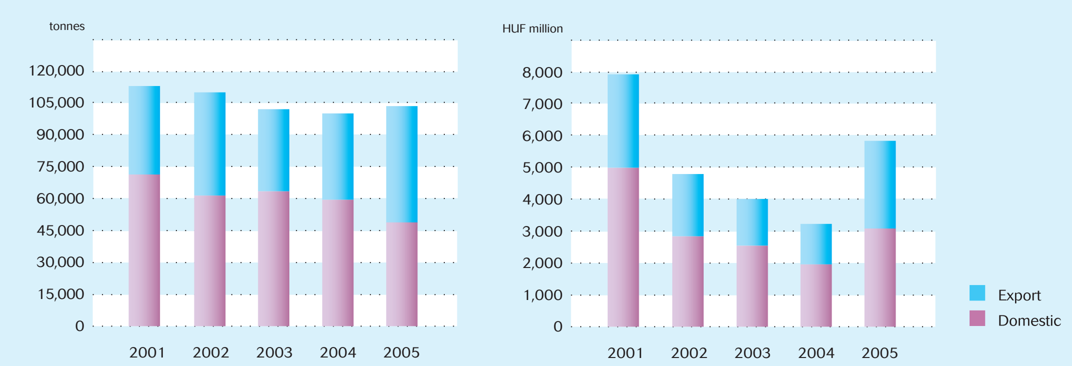
There were no signs seen of oversupply in the Central European caustic soda solution markets, since Romanian producers sold the majority of their products in other markets making use of their harbour capacities. The year 2006 is full of challenges, since annually approximately 100 kt additional caustic soda solution is to be sold in the Central European markets from the second quarter. There were no changes in the proportion of export and domestic sales volumes in 2005.

The sale of hydrochloric acid solution was well-balanced, isocyanate plants production was stable and only a minimal amount of by-product hydrochloric acid solution was sold. Domestic sodium hypochlorite (hypo) sales were adjusted to local demand.

High-Priority Tasks for the Future

The high-priority task for 2006 will be to commission the new membrane cell chlorine plant in a safe manner in the second quarter. Following the start-up, chlorine imports will be lower and thereby safety hazard related to on-site chlorine handling will decline. The decreased chlorine import simultaneously reduces the safety risks connected with railway transportation.

Sales of caustic soda



In the last 10 years capital expenditure activities of the VCM Business Unit the year 2005 bears a great significance. 1995 saw the launch of a series of developments involving the total reconstruction of the plant as well as several capacity expansion phases and as a result VCM capacity increased to annual 350 000 tonnes.

VCM BUSINESS UNIT

Activities of the Business Unit

The VCM Business Unit was created on January 1, 2005 by separating the Chlorine-Vinyl Business Unit into the Chlorine and VCM Business Units. This organisational move was encouraged by the significant capital expenditure projects carried out by both the Chlorine and VCM Business Units in 2005. Along with ongoing production, capital expenditure activities were continuously performed and supervised more effectively under the lead of the wider management circle, and as a result of the restructuring focused on the underway developments at both Business Units.
The task of the newly independent VCM Business Unit involves producing vinyl chloride monomer for PVC manufacturing through ethylene dichloride (EDC) interim product. EDC is generated based on ethylene and partly by direct chlorination, utilising chlorine gas from the chlorine plant and partly by oxychlorination. The vinyl chloride monomer is generated by the thermal cracking of EDC, along with hydrochloric acid gas discharge, which is also utilised in the process of oxyhydrochlorination for EDC production simultaneously with hydrochloric acid gases originating from isocyanates technologies as a by-product.
The VCM Plant plays a crucial role in the Company's activities; it not only supplies a large volume of monomer required for PVC production, but also processes hydrochloric acid gas which is generated as a by-product in MDI and TDI production, therefore relieving these plants from the additional activity of by-product treatment. Through the double utilisation of chlorine used in the isocyanates production, the Business Unit improves the Company's cost competitiveness in total.
The Business Unit sells minor quantities of ethylene dichloride and vinyl chloride as well as hydrochloric acid solution generated by the incineration of its own by-products.

Production

In 2005, the Business Unit produced a total of 247,000 tonnes high quality vinyl chloride monomer by using 117,000 tonnes of ethylene, which covered approximately 85 percent of the raw material demanded by PVC resin production.
The full amount of ethylene used in production is delivered via pipeline; liquefied ethylene is no longer transported on road as of the first quarter of 2005.
The waste hydrochloric acid gas generated by MDI and TDI production is fully utilised by the Business Unit, supported by the new oxychlorination reactor commissioned in late 2004, which in addition to expanding the oxychlorination capacity, markedly boosted operational flexibility and safety.

Capital Expenditure

1995 saw the launch of a series of developments involving the total reconstruction of the plant as well as several capacity expansion phases. The trial run of Phase 3 successfully concluded in the first quarter of 2005, which resulted in the commissioning of the second oxychlorination, a new EDC purification and a by-product incineration unit. The plant's annual VCM production capacity increased from 180,000 tonnes to 250,000 tonnes and complied with both Hungarian and EU environmental regulations.

The two new plant units in front

Dichloroethane cracking furnaces

continuous **expansion**

The objective of the intensification of Phase 4 was to attain an annual 350,000 tonnes VCM capacity by installing a new cracker and a new VCM purification unit. After installing the equipment as scheduled, a successful 3-month trial run started in November. By accomplishing Phase 4, the production line capacities were synchronised, providing for more flexible and safer operation, thereby VCM production complements the Company's integrated production system.

Environment Protection

An important element of capital expenditure projects aimed at capacity expansion was to comply with the increasingly stringent environmental regulations. In parallel, actions were taken to improve the existing production units with a view to protecting the environment. The Company was awarded the environmental Innovation Prize in 2005, for further developing the reverse-osmosis technology to treat high salt content technological water in the VCM Plant.

In November 2005 the VCM Plant was granted the Integrated Pollution and Prevention Control (IPPC) effective through October 31, 2015, certifying the compliance of the vinyl chloride monomer production process with all the relevant environmental regulations and best available technology.

High-Priority Tasks for the Future

As the VCM Business Unit does not expect to carry out any further considerable capital expenditures in 2006, the time-consuming task of fine-tuning the production units, optimal alignment of capacities and technological connections can take place, along with researching and creating (material and energy saving) conditions for a more economical production process

Polymer II Plant

PVC suspension stripping system

PVC BUSINESS UNIT

PVC – a Widely Used Plastic in the Modern World

The PVC Business Unit produces and sells various types of PVC resins and special polymerization additives.

The most important product is the manufactured suspension type of PVC resin, which has been in production since 1963. The production capacity of the PVC line increased to 365 kt/year in 2005. Under the trademark ONGROVIL, PVC resins are used in rigid and plasticized processing, primarily in the production of films, sheets, pipes and profiles. Several consumer goods are also produced from them and today our modern life cannot be imagined without them.

Affected by the unfavourable market conditions, expandable polystyrene production had to be restricted in the first half of the year and at the beginning of the second half of the year EPS production was terminated as per the decision of the Board of Directors.

Similarly to previous years, the Business Unit carried out the production and sale of special products – including peroxide-type initiators and anti-foaming agents – all at high-level standards.

In 2005, the plant produced approximately 290,000 tonnes of PVC resin, which exceeded the PVC resin production in the previous year by 20,000 tonnes even in spite of the temporarily lower production level due to capital expenditure activities.

Sales Trend

The Business Unit – partly through its direct customer relations and partly by the support of the Company's foreign trading subsidiaries – sold approximately 75% of its products in export markets.

The Business Unit retained its significant market position in the logistically advantageous Central Eastern European region, of which the destination amounted to some 40% of export sales in 2005. The most significant volumes were delivered to Poland, the Czech Republic, Slovakia, Serbia-Montenegro, the Ukraine, Austria and Romania.

In 2005, the Company distributed considerable volumes of PVC resin to Western Europe, mainly in the markets of Italy, Germany and the Benelux States.

As in previous years, the Business Unit directed a part of its export sales to markets outside Europe. Turkey proved to be the single largest market, though significant volumes were sold to other countries in the Middle East region as well.

A crucial trading challenge is to preserve and reinforce the Business Unit's positions gained in the logistically advantageous Central Eastern European markets. Therefore, it intends to pay key attention to product quality and the improvement of its marketing and customer relations activities.

Capital Expenditures

Phase II of the three-year PVC capacity expansion program was concluded in September 2005 through which PVC resin production capacity increased from 330,000 tonnes/year to 365,000 tonnes/year. A "short polymerization-time technology" was implemented in this phase and debottlenecking took place as required in order to realize the additional 35,000 tonnes/year polymerization capacity.

Within the framework of the capital expenditure program, the Business Unit expanded vinyl-chloride degassing and recovery systems and installed a new higher capacity stripper and drier

In order to satisfy a growing market demand and further develop the technical standards of the PVC Plant, the Company launched a 3-year capacity expansion project in 2003. The capital expenditure program is expected to be completed in 2006, when plant capacity will be expanded to 400,000 tonnes/year in subsequent phases. This capacity level in international terms is considered to be of significant scale on one site.

line together with the accessory equipment, preparing for the annual 400,000 tonnes production capacity of PVC suspension processing.

In coordination with the PVC production capacity expansion, the designs of two new initiator production lines used during PVC resin production were completed in the VPI Plant.

Quality Assurance

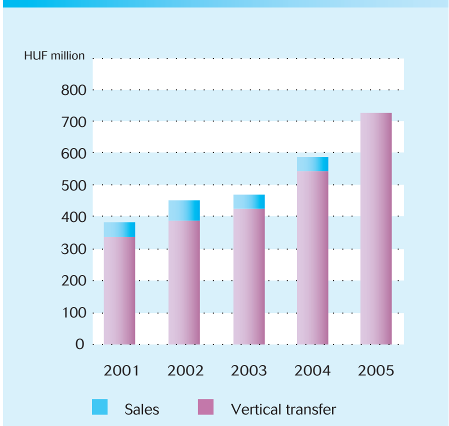
Similarly to previous years, the Business Unit provided regular technical assistance to its customers. The finely tuned quality control system, the high-standard customer service as well as professionally organized customer meetings and visits all contributed to the satisfaction of its business partners. 2005 further proved the fact that the number of customer complaints and comments in regards to products was below the minimal level of previous years.

Environment Protection and Development

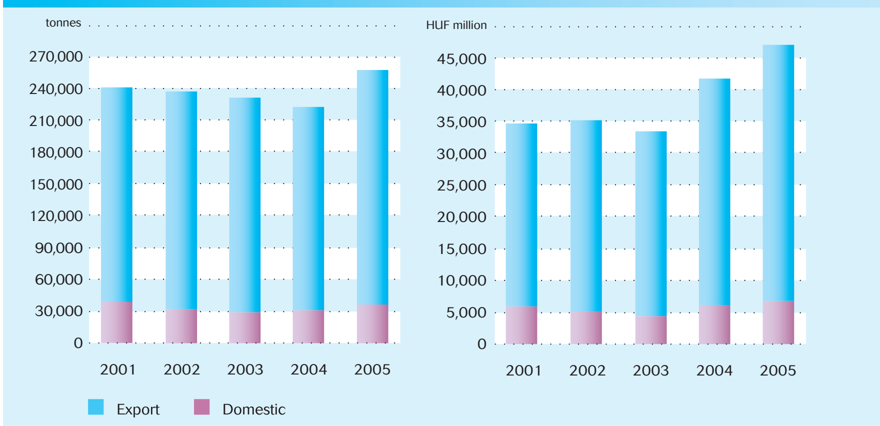
BorsodChem’s PVC resin production technology complies with stringent environmental regulations required by the industry due to continuous developments. In the preparatory period prior to the European Union accession, the Company also implemented considerable environmental and safety investments in the area of PVC resin production. One of the most significant projects in the field of environmental investments was the implementation of the “closed reactor technology” by which the Business Unit could meet BAT (Best Available Technology) requirements.

In order to further improve the environmental and safety conditions of the Business Unit, experts studied the application potentials of several environmentally friendly additives and continued the development activity aimed at establishing the water dispersion of peroxide-type initiators produced in-house and used in PVC resin production.

Sales of initiators



Sales of PVC resin



COMPOUNDS BUSINESS UNIT

PVC Compounds in Our Daily Life

The Compounds Business Unit produces and sells various types of PVC compounds (granules and dry blends) and chlorinated polyethylene (CPE).

The majority, i.e. over 95% of dry blends generated in the Mixing Plant is utilized by BorsodChem Rt.'s own subsidiaries to produce films, sheets and profiles used in the building and packaging industries.

The plasticized and rigid granules produced in the Granulating Plant are typically applied in the production of cable coverings, moulded products as well as profiles used in the building industry.

Chlorinated polyethylene continues to be a significant product of the Business Unit. Besides the traditional and impact resistance improving type, the individual elastomer type has become a prevailing product, which gains ground in more and more areas of application.

Sales in a Volatile Market Environment

In its 2005 budgeted plan, the Business Unit aimed for outstandingly high sales volume thereby forecasting the continuation of the growth path of previous years.

In line with previous tradition a significant portion of demand was due to purchases of BorsodChem's in-house plastics-processing enterprises as well as the Business Unit focused on available market potentials in the Central Eastern European region.

In 2005 the Business Unit sold nearly 40.5 kt compounds and 4.9 kt CPE.

Based on the experiences of the past two years, it can be established that due to consistently high oil prices, the raw materials for PVC became more expensive and production costs – along with energy costs continuously on the rise – continued to increase. This mainly deteriorated the situation of small enterprises, which represent – as for their numbers – the determining part of the customer circle for the Business Unit.

In order to enhance the presence of the Business Unit in the market, the focus was on capital expenditures of Central Eastern European compound users within a close geographical range and the increasing demands of existing partners. Therefore, new partner relations developed where promising sales potentials emerge after the forwarded samples were tested in process.

Essential Products

The ONGROMIX dry blend supply within the Group is important in terms of Business Unit production and sales, making up over 50% of the total output.

Granules under the trademark of ONGROLIT continue to constitute the majority of sales to external markets.

Environment friendly, lead-free granules have also been introduced for large cable factory customers. A development process has been completed and as a result – in line with demands – a wide spectrum of compounds is available for customers in the cable, automotive and building industries.

In the case of chlorinated polyethylene which is distributed under the ONGRO CPE trademark, it was not unprecedented to prove the outstanding growth potential of the product – considerably outrunning the average annual growth pace of plastics –, since sales volume increased by 8.8% year-on-year.

Granule production extruder

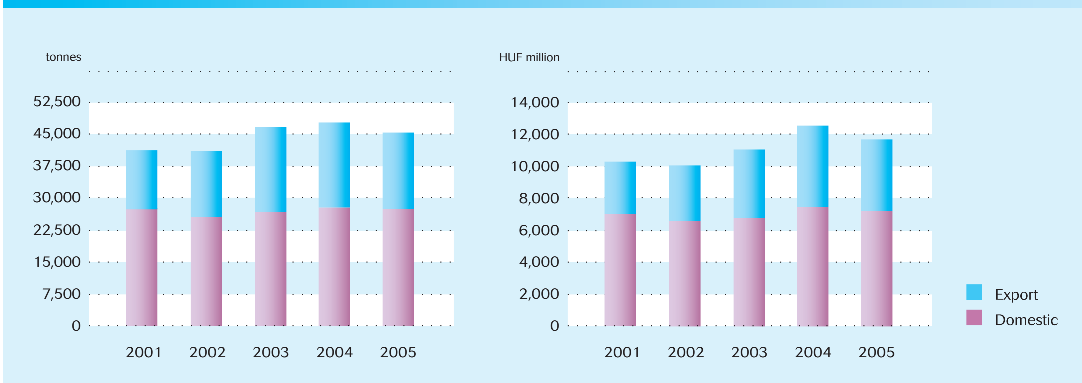
CPE Plant

As a new element of marketing activity, experts of the Business Unit outlined the advantageous features of the product for their partners at presentations and professional consultations held in the frame of customer meetings.

Future Tasks of the Business Unit, Capital Expenditures

At BC-Ongropack Kft., being one of BorsodChem's plastic processing subsidiaries, production was expanded by installing a new PVC sheet production line. Therefore the Compounds Business Unit will install a pneumatic supply system for the dry blends production lines.
In the first half of 2006 a silo dry blend storage system will be developed to fill silo cars, enabling the Mixing Plant to secure steady raw material supply.
Expanding customer portfolio is the most significant trading challenge in 2006.
In addition to supplying in-house plastic-processing subsidiaries, the Business Unit makes every effort to expand the external range of customers in order to create conditions for the steadily growing sales despite the constantly volatile compounds market.
Alongside its high quality compounds, the Business Unit intends to actively participate in meeting the increasing demands of markets located to the east of Hungary.

Sales of compounds



Waste water evaporator and crystallizer plant section

The new plant under construction

unfolding
prospects

MDI BUSINESS UNIT

Activity of the Business Unit

As the determining raw materials of polyurethanes, the various types of MDI products – crude, pure and modified MDI as well as pre-polymers – constitute the main product group of BorsodChem Rt.'s MDI Business Unit.

Nearly 63,000 tonnes of MDI base products and MDI-based variants were produced in 2005. The production volume – including that was produced in the new plant commissioned at the end of the year – signifies an incremental increase of 5,000 tonnes compared to the previous year.

The Ammonia Plant of the Business Unit produced 23,000 tonnes of ammonia, the volume of which was determined by the currently available hydrogen. Expansion plans of the Ammonia Plant are currently underway in order to process the surplus hydrogen which is to be generated after the new Electrolysis Plant is commissioned.

The high-standard of the salt waste water evaporator unit generated more than 28,000 tonnes of vacuum salt from the highly salty technological water, which was recycled by the Chlorine Plant.

The second evaporator line with a processing capacity of 40t/h salt waste water was successfully commissioned. The new salt waste water evaporator unit processes the highly salty technological waste waters of the MDI, TDI, VCM and the new MDI Plants. Heat energy required for waste water evaporation is supplied by waste heat generated in the new MDI Plant, which results in the minimization of operating costs.

The implementation of various environmental and waste minimization programs as well as the further improvement of occupational health conditions were significant activities.

Sales

In Q1 2005, MDI product prices were on the increase and then stabilized at high levels due to the ongoing sellers market. In the middle of the year a considerable change affected the supply-utilisation balance due to new capacities and alternative goods gained ground against polyurethanes, impacting the demand for MDI. From this point on MDI prices gradually started to decline until year-end.

In 2005, along with the continuous sales of produced MDI volume, market position was maintained against the products of peer producers and – in preparation to market products produced by the additional MDI capacity expected by year-end – new potential buyers were also contacted.

By early December 2005, the newly efficient operating plant sold two thousand tonnes of product which was considered to be an instant response of the new production capacity.

The Capital Expenditure of the New MDI Plant in Focus

More than five years ago BorsodChem Rt. decided to markedly increase its MDI production capacity to 150 kt/year, which is more than double of the previous capacity.

The construction of the new 100 kt/year capacity plant, which commenced in 2004, entered into the trial run phase in October 2005. The plant was established on BorsodChem Rt.'s own proprietary technological process under the management

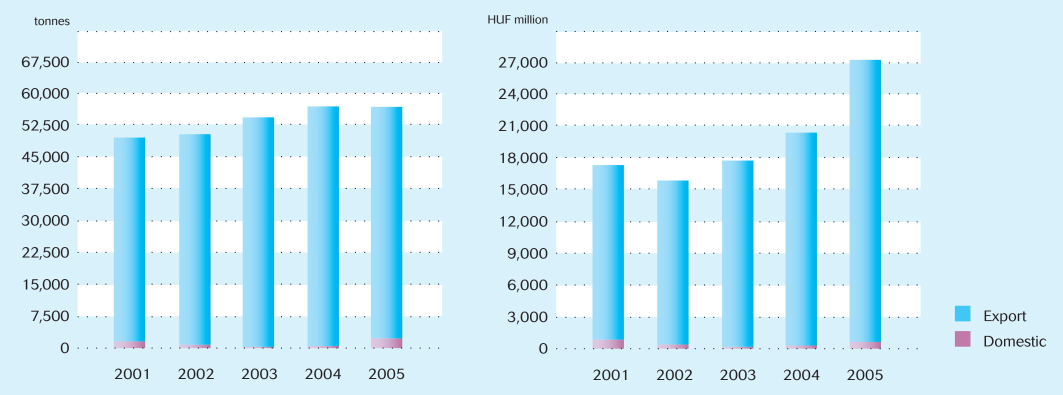
The objectives set for 2005 were the full utilisation of production capacity, enhancing production flexibility, ensuring continued quality and attainment of more than doubling that of the previous MDI production capacity to 160,000 tonnes.

of the engineering office, which was implemented for this purpose. The applied procedure required the installation of fewer rotating machines, therefore the operational safety of the entire system considerably improved against that of the old plant. The various types of MDI products are available in good trading volume and quality, a sizable volume of which was already sold in 2005.

Objectives for 2006

The objectives of the Business Unit for 2006 are the full utilisation of available capacity, fine-tuning of MDI production technology, production of suitable MDI products of continued quality as well as development and production of new MDI variants. Specific energy consumption has declined in the plant, which complies with environmental and safety requirements.

Sales of MDI



TDI BUSINESS UNIT

The Successful and Universal Plastic

Similarly to MDI, TDI is a core product of the isocyanates product group, produced in the TDI Business Unit facility which was commissioned by the Company on December 12, 2001.
The TDI production facility signifies an important progress for the Company as both isocyanate products (MDI, TDI) have become more prevalent compared to the Company's other products since 2002. This means decreasing the cyclic nature of the Company's sales revenues and increasing profit generation both in terms of sales revenues and profits.
TDI, similarly to MDI belongs to the family of plastics raw materials in the global market, which can be utilized universally and successfully.
Soft foams produced from TDI are mainly used in the automotive and furniture industries.

Production Aligned with Quality

During the year a plant shut down occurred exclusively for the purpose of carrying out urgent tasks to promote operational safety. Following the capacity expansion in 2004, the Company plans to carry out another capacity expansion project in 2006, in which TDI production will increase to 90,000 tonnes.

Sales

In the first nine months of 2005 prices declined reaching a historical bottom as a result of oversupply and stagnating consumption. In October, a remarkable change took place in the supply demand balance when over 200,000 tonnes/year capacity shut-down exited from the North American market, thereby consolidating the TDI market. The reduced supply resulted in an impact on the world's total TDI supply, entailing a steep rise in prices in the last quarter of the year.
In this exceedingly volatile market situation, BorsodChem placed an additional 9,000 tonnes of TDI on the market in 2005, over the same period in 2004, thus strengthening its market weight in the TDI markets of Central Eastern Europe.
The market balance of the twin products T 65 – T 100 has altered due to the increasing special demand for soft foam and decreasing demands in the paint industry. Despite the above, 13% more isomer products were sold in 2005

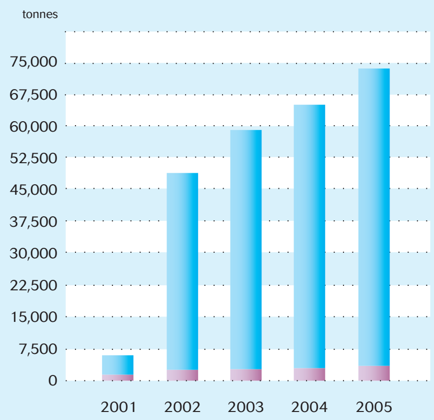
Declining Environmental Load

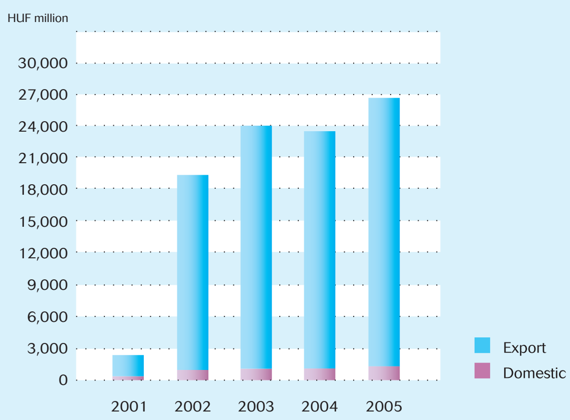
BorsodChem Rt. and the TDI Business Unit places special emphasis on environmental protection. The output capacity expansion executed in 2004 also accounted for the expansion of the waste water pre-treatment unit. Parallel to the existing system a new pre-treatment unit was constructed, its construction and trial run concluded in 2005.
Based on in-house R&D activity, the establishment of the so-called red water pre-treatment unit was also a considerable capital expenditure on the waste water line, which significantly reduces the organic substance content of the generated waste water.
In the interest of air quality protection – with considerable expense – an on-line flue gas analysing system was installed in the incineration-heat recovery unit. By this means, the operation of the unit can be better controlled and measurement data can be used for authority data service as well.

By-product incinerator and heat recovery unit

TDA distillation system

Sales of TDI





Intranet site, process descriptions

Quality Management Certificate

QUALITY MANAGEMENT

The Company is continuously committed to developing and improving quality, safety and environmental protection.

- By means of internal audits the Company regularly reviews the operations of its integrated management system, introduced in line with the recommendations of quality management standards ISO 9001 and ISO 14001. SGS Hungária Kft. audited the activities of BorsodChem twice in 2005 and operations qualified successfully on both occasions. In September the environment management system was certified in accordance with the new ISO 14001:2004 standard.

- In order to rationalize the operation of the integrated management system, the Company increasingly relies on up-to-date facilities ensured by computers, promoting fast information flow with less paperwork. The action corresponds to BorsodChem's environment conscious approach.

- In order to advance continuous improvement, fault analysis and problem solving techniques as well as their applications in practice were particularly important in employee training.

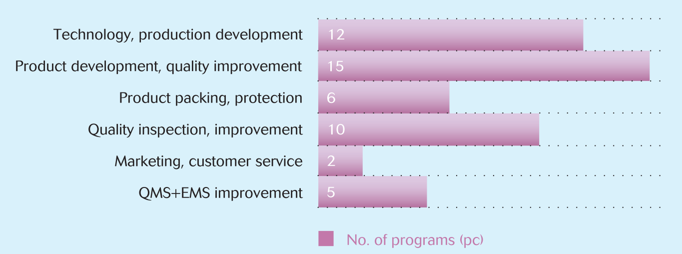
- BorsodChem regularly evaluates its activity based on the EFQM model since 1996. Customer and employee satisfaction is measured as part of the Company's self-evaluation. Results are evaluated and actions are taken to advance further development. In 2005 tasks were set in the field of human resources management.

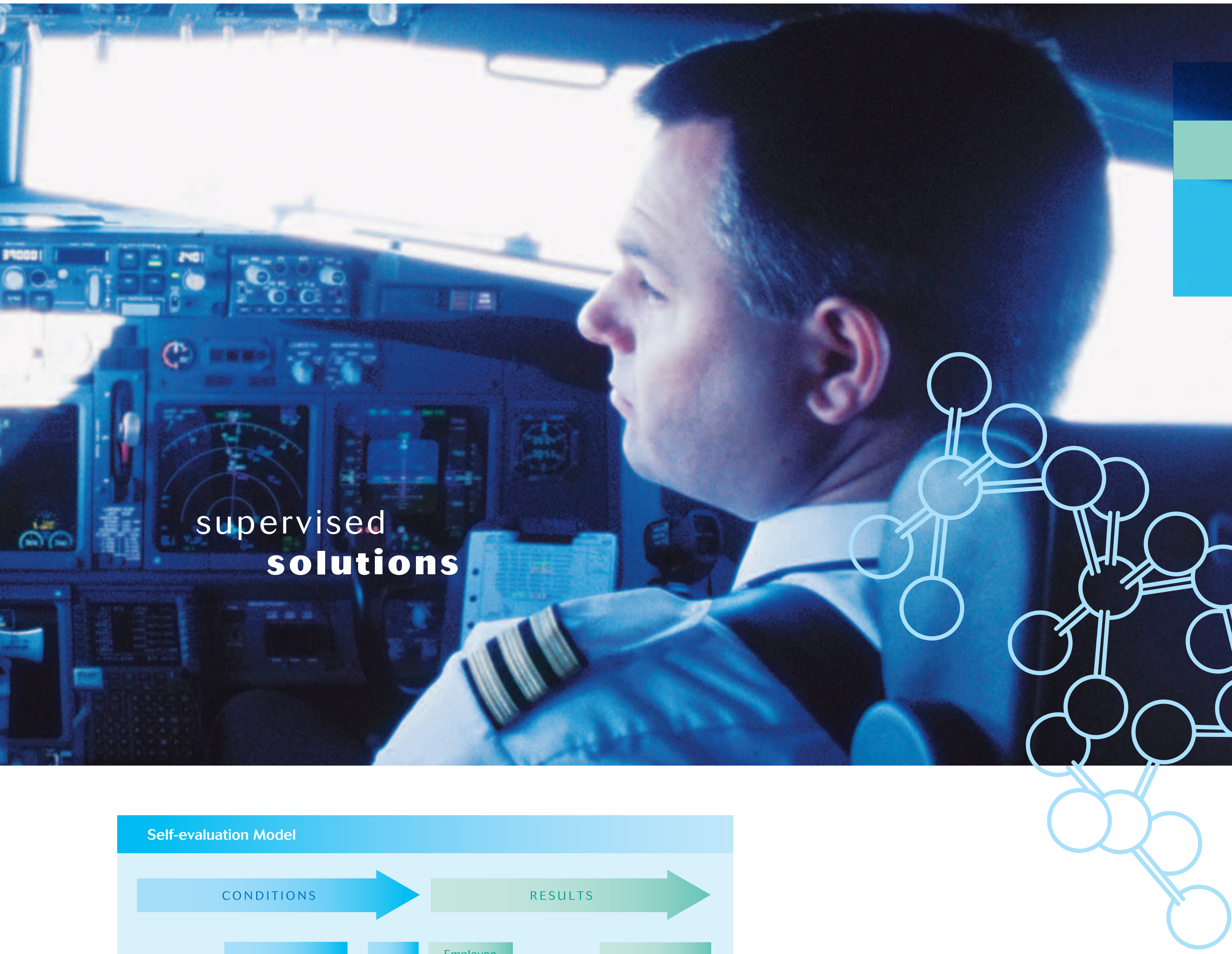
- The integrated EMS/QMS system has been extended to the new MDI Plant.

- The Company annually secures significant financial sources for fulfilling its quality targets. In 2005, 50 such programmes were planned for and the budgeted implementation cost approximately HUF 1.172 billion.

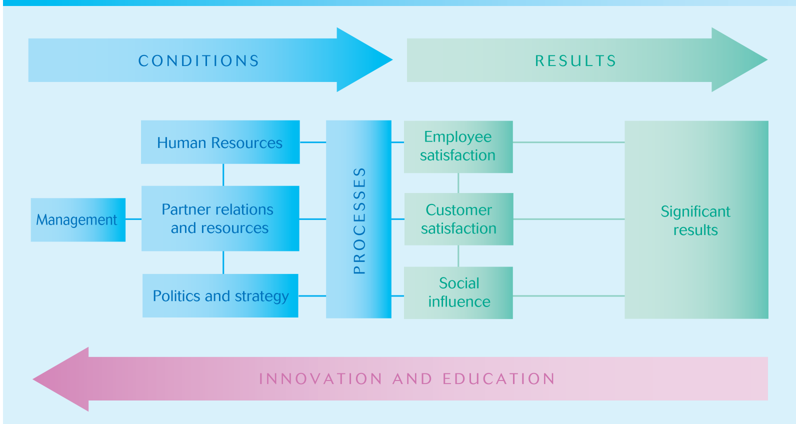
- The Quality Inspection Laboratory further extended the range of inspections under the accredited operation. Its operation was successfully certified again in 2005 by the National Board of Accreditation as per MSZ EN ISO / IEC 17025 standard.

Quality Management Action Plan 2005

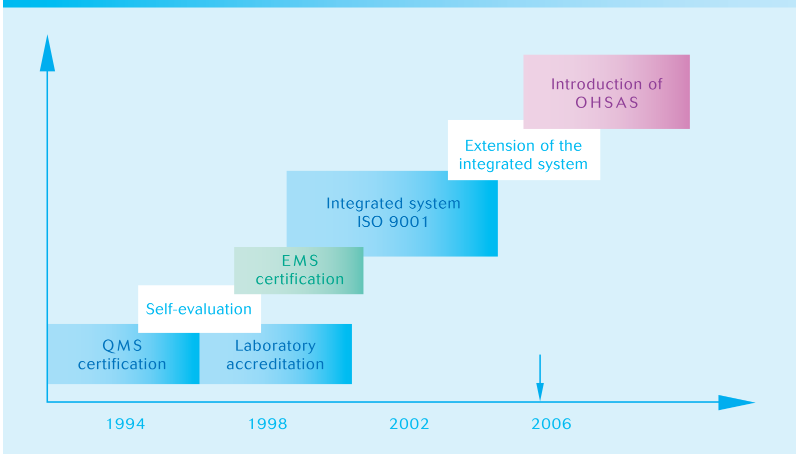




Self-evaluation Model



System Development



The plant's fire brigade during exercise

Up-to-date emergency shower

attainable **heights**

SAFETY

Everyday Safety

BorsodChem Management is committed to maintaining and improving safety requirements on a continued basis. Area managers actively participate in creating conditions for a safer working environment as well as risk minimisation. In achieving these objectives the conduct of safety-conscious employees also plays a key role. The assuming responsibility is core in the Company's safety-related communication. Excellent safety results can only be expected if employees take responsibility for both themselves and their co-workers.

The three most important objectives for the 2005 year were to (i) obtain permits from relevant authorities necessary for capital expenditure projects and commissioning, (ii) avoid all severe accidents, incidents by subcontractors and (iii) improve the Company's fire protection standard, particularly that of the new facilities, by installing stable fire protection equipment.

The safety performance of the Group has featured outstanding statistics for a long time. The number of accidents per 1 million working hours of the Group has been better than that of other leading chemical companies in Europe.

Responsible Care

Trust in the Company on the part of communities in the vicinity and business partners may be maintained by consciously assuming responsibility. This trust is the basis for BorsodChem's excellent results which is recognised by its employees, partners and neighbouring communities.

In order to formulate a fair opinion on the Company's activities, parties concerned need to be informed regularly and accurately about both positive and possibly negative operational effects. In order to maintain excellent relations, the Company organises site visits and consultation sessions.

The standard of the Company's responsible activities is distinguished by the fact that BorsodChem Rt. accepted the Responsible Care Programme of the European Association of Chemical Industry (CEFIC) and that of the Hungarian Association of Chemical Industry (MAVESZ), and recognised it as a binding set of rules.

The Company provides regularly updated safety data sheets (SDS) offering sufficient information on the chemical substances distributed by the Company to all users.

Work Safety, Health Protection

Company specialists continuously analyse job hazards. Safety risks and hazardous shortcomings are eliminated by technical safety actions. The quality of the employees' knowledge on safety issues is constantly in focus and of close attention. Trainings and tests in this area are frequently regulated as well as training sessions on breakdowns and emergencies are regularly held.

In regards to health protection, the Company's focus is on prevention. The applied health protection programme prescribes regular medical control for all employees, the frequency of which depends on the risks typical of the respective job. Thereby, by the early discovery of abnormalities, the occurrence of health impairments and occupational diseases may be prevented. In 2005, no diseases related causes by chemical substances nor intoxication occurred at the companies belonging to BorsodChem.

Subcontractor Safety

Only contractors and subcontractors may operate on the Company's site that have reported their knowledge of safety and occupational health and whose professional preparedness has been certified and qualified. Subcontractor activities and the observance of safety regulations are closely monitored. In 2005 the number of injuries among subcontractors dropped and no serious accidents were reported.

Safe Transport of Hazardous Substances

BorsodChem regularly trains all drivers, including those of transport companies that transport hazardous substances. The Company pays increased attention to all phases in the transport of hazardous goods, including safe loading and unloading, charging and discharging, handling of goods, proper documentation and labelling. The above activities are monitored by hazardous substance transport advisors in line with ADR regulations. Personal and material conditions in preventing any emergency situations in the course of transport are readily available. BorsodChem is a founding member of the Alarm Information Centre for the Chemical Industry, established for the fast elimination of the consequences in transport accidents.

On-Site Fire Department

BorsodChem Rt. and BC-MCHZ employ full-time fire fighters in order to reduce fire hazards. In 2005 considerable fire protection improvements took place related to the MDI and VCM capacity expansion projects. Remote controlled water guns, stable water screen generating equipment and semi-stable foam fire extinguisher systems were established.

The halon fire gas of the extinguisher system in the Electric III plant section was replaced by environment-friendly argon gas.

Equipment and Production Safety

The Company applies the best available technology in designing and manufacturing equipment. When selecting designers and manufacturers, primary aspects are technical reliability and high-quality work, a basis for safe systems. Besides statutory by-laws on quality control procedures, Company specialists also monitor and strictly supervise the manufacturing and assembling of equipment to be installed.

Existing process equipment is under periodic safety control. Diagnostic methods are also applied as part of such examinations, aided by up-to-date instruments.

In order to improve operational safety and safety standards, special eddy-current testing equipment was purchased in 2005.

Accident Statistics

ENVIRONMENT PROTECTION

In recent years society has become increasingly interested in environment protection and related information. Meeting this demand also appears as an obligation prompted by EU directives in Hungarian laws. Therefore those living in our environment can exercise, via available forums, an increasingly greater impact on environmental emitters and their activities.

BorsodChem endeavours to nurture public confidence in the Company by regular and accurate communication and believes that potential problems and conflicts can be resolved by means of such appropriate communication. In line with the Company's environmental policy, it is committed to continuously develop its environmental activity as well as reduce and prevent environmental load. In order to achieve the above, the Company implemented several environmental projects throughout the year.

Surface Waters

The operation of the Waste Water Treatment Plant has a central role in protecting surface waters. There has been no penalty imposed on treated waste water discharge since 2001 due to the reconstruction efforts in previous years and the higher quality of treated waste water released into the river Sajó. Since the beginning of the year, besides quality of the treated waste water, new regules have stipulated technological limit values regarding the industrial waste water release of two production technologies. Compliance with regulations is checked in the frame of self-controlled procedure as provided by the law. Based on measurement results, no penalty for treated waste water is expected for the year 2005, either.

For the year 2005 the Company spent nearly HUF 40 million on reconstruction of structural and technical equipment in the Waste Water Treatment Plant. 1,800 meters of worn-out large diameter pressure pipes were replaced at a cost of approximately HUF 95 million.

On-site maintenance and reconstruction of the canal networks are continuously underway. In 2005 it was feasible to replace and repair a 650 meter section of large diameter canals, costing over HUF 40 million.

The establishment and operation of waste water pre-treatment units are also connected to the protection of surface waters. In 2005 two important related developments were concluded, both concerning the TDI production unit. The first was aimed at reducing the polluting content of waste water in the DNT plant. The developed technological modification required a cost input of HUF 168 million. The other one was the expansion and development of the pre-treatment unit, which had been established for treating industrial waste water in the DNT and TDI Plants. The HUF 190 million capital expenditure increases operational safety and reduces the probability of potential damages to water quality. Additionally, it also ensures the proper pre-treatment of surplus waste water which arises from the production capacity expansion.

The generation of salty waste waters is one of BorsodChem's special environmental concerns. In addition to the existing salt water evaporator and crystallizer a new evaporator commenced trial run in 2005. The capacity expansion was partly due to the capacity expansion of MDI production, but in order to determine the evaporator capacity, the salty water acceptance by the VCM Plant also had to be considered. The "end

Waste Water Treatment Plant – biological purification lines and homogenization basins

Work in progress in the central hazardous waste storage

product" from the HUF 1.2 billion capital expenditure is the crystallized sodium chloride, which can be used as the raw material for chlorine production.

The aforementioned salty water from the VCM Plant needs to undergo considerable treatment prior to evaporation. The biological salty water treatment technology installed last year was awarded the environmental special prize by the Ministry of Environment and Water Management (KvVM) this year at the Innovation Competition as well as the "Environmental Masterpiece" title at the ECO 2005 Innovation for Environmental Competition. Experts taking part in the implementation were awarded the title of "Master of Environmental Protection".

Air Quality Protection

With regards to air quality protection, the launch of the MDI capacity expansion and the related technological modification facilitated the expected termination of carbon monoxide emission at one of the emission sources of the old production line. The VCM Plant took a significant step ahead regarding the emission of ozone damaging substances: "heavy freon" applied earlier was replaced by "green freon" in the frame of the retrofit program. As a refrigerant, freon cools the compressor; switching over to "green freon," due to the diverse properties could only be implemented by replacing the compressor. Consequently, the total cost of the project for replacing "heavy freon" and the purchase of a new compressor amounted to HUF 310 million.

Within BorsodChem Rt.'s investment program and development plans, environmental protection is of major importance. Further, the Company lays great emphasis on complying with increasingly stringent regulations. As of October 31, 2007 certain activities may be performed exclusively under the Integrated Pollution and Prevention Control (IPPC) as per EU and national regulations. Six activities of BorsodChem are affected by this regulation; the licensing procedure is in progress as scheduled. In addition to the former licence issued for TDI production, this year the Company obtained the IPPC licence for the VCM production as well. Moreover, the licensing procedure pertaining to the production of inorganic chemical raw materials also commenced. The issued licences certify and ensure the high standard implementation of BAT (Best Available Technology) principles in BorsodChem's production technologies.

The hydrogenation unit of BC-MCHZ s.r.o., commissioned in 2005

Hungary's ambassador to the Czech Republic, István Szabó inaugurates BC-MCHZ's hydrogen plant and new hydrogenation unit

SUBSIDIARIES

BC-MCHZ s.r.o.

Stable Business Management – Dynamic Development

BC-MCHZ again produced record volumes in 2005 by manufacturing products which fit into the production structure of the BorsodChem Group. The company produced 132.6 kt of aniline, the raw material for MDI, this represents an 18% increase year-on-year and 90.1 kt of nitric acid used in the TDI production, representing a 6% increase year-on-year.

In addition to products integrated in the isocyanate product chain, the company stabilized the profitable business line of special amines. In this field it continuously shifted over from availability via inventories to "just in time" customer service. This market-oriented re-organisation of manufacturing various products made it possible to produce and sell approximately 30% more goods.

BC-MCHZ produced 5,700 tonnes of oxalic acid, 6% increase from the previous year. The company continues to be a market leader in Europe in the production of high purity oxalic acid. Its cyclohexylamine production saw an increase surpassing 20 kt whereas 2 kt dicyclohexylamine was produced.

The majority of BC-MCHZ's products were distributed in the company's traditional markets. Trade relations established with BorsodChem is a determining factor and it further attained turnover increases in Slovakia, Germany, Belgium and Switzerland. It further succeeded in retaining and expanding the valuable markets in the Far East even in the face of keen competition.

Of the HUF 32,800 million sales revenues, 97% were destined for export, and of this Hungary accounted for a 35% share.

The Year of Growth

The year 2005 was marked as the year of growth. With the capital expenditure on the new hydrogenation line, the aniline production capacity increased by 36% to 150 kt/year.

The sale of the technological licence and basic engineering of aniline production to Japan was successfully closed. Today, the company can boast that 10% of all aniline produced worldwide is based on BC-MCHZ technology.

The systematic plant reconstruction program continued that was set out two years ago, BorsodChem Rt.'s experts were also involved in determining the critical locations.

The objective to develop the quality assurance and environment protection systems was realized; in 2005 BC-MCHZ was awarded the certification for integrated management system.

It has proven in compliance with ISO 9001:2000 and ISO 14001:2004 standards in every phase of its business processes as well as on every stage of utilising and developing production, trade, management and human resources, this brought the Company the nationally honourable title of "Safe Company".

The development fund spent on ensuring a healthy environment and safe working conditions increased 28% compared to the previous year.

Introduction of the OHSAS 18001:1999 standard regulations has commenced in the areas of production, maintenance and investment.

In 2005, BC-MCHZ average headcount was 588 employees.

In 2005, BorsodChem purchased the 2.5% minority interest stake from Aliachem thereby becoming the 100% owner of BC-MCHZ.

BC-MCHZ s.r.o.

Ownership	BorsodChem Rt. 100%
Share capital	CZK 865.1 million
Net assets	HUF 13,785 million
Sales revenues	HUF 36,131 million
Closing headcount	583 persons

Activities

Production and sales of aniline, cyclohexylamine, dycyclohexylamine, nitrobenzene, oxalic acid, nitric acid, nitrogen-monoxide and special amines

Ethyl-benzene plant,
Petrochemia Blachownia

Benzene distillation plant

Petrochemia-Blachownia A.S.*

Background

Petrochemia-Blachownia was established in 1998 after the restructuring of the former Blachownia Chemical Complex in Kędzierzyn-Koźle. It started its operations as a limited liability company in the same year and then in July 1999 the majority of the shares were transferred to CIECH S.A. capital group. The CIECH S.A. group became the exclusive owner of the company in late 1999.

Petrochemia-Blachownia A.S. runs an integrated management system, including the quality assurance system certified as per ISO 9001:2000, the environment management system in accordance with ISO 14001:1996 as well as the occupational health and safety management system consistent with OHSAS 18001:1999 and PN-N-18001:1999.

Petrochemia-Blachownia joined the joint European programme for "Responsible Care" of the European Chemical Chambers gathering companies that care especially about the living world and environment protection.

For its technological, business and ecological successes the company has been awarded several prizes. Among others, the company was recognised with the Recommendable Technology award for the "Environment's Friend" contest, organized under the auspices of the President of Poland, the Golden Orbital award for the excellent quality of their ethyl-benzene product, the Safe Labour Provider award issued under the trusteeship of the Inspector General of the National Labour Protection Organisation, the Lions & Eagles title of the Czech-Polish Chamber of Commerce as well as the Polish Ecology Hall of Fame award.

* As of January 10, 2006 100% shareholding and full consolidation

Business Activities

Petrochemia-Blachownia S.A., its head office located in Kędzierzyn-Koźle, manufactures coal and petrochemical type products, which are applied in the organic chemistry.

A marked area of the company's production activity is processing crude benzene generated by coke production into aromatic hydrocarbons. During the process benzene, toluene, xylenes, organic solvents, hydrocarbon based resins and fuel oil fractions are manufactured. The other plants of the company are concerned with ethyl-benzene production, ethanol dehydration and propane-butane gas distribution.

The technology development carried out in 2000/2004 resulted in significant product quality improvements, leading to a wider application area of the products.

Well-equipped with a top-line analytical background, the company also performs laboratory experiments ordered by external companies such as classic coal and petrochemical analyses, chromatograph and other special tests.

Capital Expenditures

Since it was established, Petrochemia-Blachownia S.A. has endeavoured to continuously strengthen its market position. Relevant objectives are implemented through capacity expansions, quality improving actions and the introduction of new technologies. Through a number of capital expenditures including both the upgrading of existing production facilities and installation of new production units, the company has achieved considerable efficiency improvements. By implementing the above capital expenditures, the company has significantly reduced environmental impacts thus complying with all relevant legal regulations.

The Installation of Distillation Extraction (IDE) has been launched, which is the largest ever capital expenditure in the company's history.

Sheet production line, BC-Ongropack Kft.

View of the formaldehyde plant

Plastic Processing Subsidiaries

BC-Ablakprofil Kft.

Although keen price competition characterised the markets of the subsidiary in 2005, it sold 8,900 tonnes window profile. Thanks to capital expenditures and actions implemented in previous years providing more stable quality and better customer service, the subsidiary has reinforced its market positions.

Panorama PVC window profile system is penetrating an increasing number of Central and Eastern European countries. The volume of export sales was continuously on the increase and reached 45 percent of total sales.

Panorama profile system was successfully certified as per EU standard EN 12608, which proves the high quality level of the product.

On the top of PVC window profiles, PVC pipe sales amounted to approximately 2,300 tonnes in 2005. The subsidiary spent nearly HUF 170 million on capital expenditures and developments.

Panorama Ablakgyártó és Forgalmazó Kft.

The 2005 sales revenues of the subsidiary amounting to HUF 1,621.5 million were approximately HUF 240 million less year-on-year, explained by the decline in the number of new apartments sold in 2005. Simultaneously, the subsidiary's export sales revenues were up 12 percent in one year. Target countries included Switzerland, Germany, Austria, Croatia and Denmark. The annual plastic profile consumption amounted to nearly 800 tonnes, requiring the production of 67.4 thousand square meters windows and doors. With this quantity Panorama Kft. continues to be a determining player in the domestic market.

BC-Ongropack Kft.

The subsidiary is a leading rigid film and sheet manufacturing enterprise in Central Europe. It outperformed both its performance and sales target in the financial year 2005, primarily due to the stretch film and sheet product groups, as it sold a total volume of 8,612 tonnes of film products in addition to 8,193 tonnes of sheet products. The share of export sales slightly rose, surpassing 80 percent in 2005. As a result of significantly increased sales to Eastern Europe, the subsidiary succeeded in preserving its former market position in the Central Eastern European region. The key strategic objective is to further strengthen the proportion of the sheet product group, a target efficiently supported by the capacity expansion under way.

BC-KC Formalin Kft.

The subsidiary is a joint venture of BorsodChem Rt. and Dynea. It produced 65 thousand tonnes formaldehyde in 2005, slightly surpassing the production level of 2004. 83 percent of the total output was utilised either by Dynea Hungary Kft. or by BorsodChem Rt.'s MDI Plant. The remaining 17 percent was sold in other domestic and export markets. Outstanding quality, high level of safety and low environmental load characterised production in 2005. In order to supply the total formaldehyde demand of BorsodChem Rt.'s new MDI Plant, the subsidiary built a new formaldehyde plant in 2005.

	BC-Ablakprofilgyártó és Forgalmazó Kft.	Panorama Kft.	BC-Ongropack Kft.	BC-KC Formalin Kft.
Ownership	BorsodChem Rt. 100%	BorsodChem Rt. 100%	BorsodChem Rt. 100%	BorsodChem Rt. 66.67% Dynea Austria GmbH 33.33%
Share capital	HUF 190 million	HUF 88.2 million	HUF 935 million	HUF 338.1 million
Net assets	HUF 1,839.5 million	HUF 446.1 million	HUF 2,595.5 million	HUF 570.4 million
Sales revenues	HUF 5,171.2 million	HUF 1,621.5 million	HUF 6,930.8 million	HUF 2,141.2 million
Closing headcount	126 persons	93 persons	127 persons	18 persons

Activities	
BC-Ablakprofilgyártó és Forgalmazó Kft.	Production of PVC window profiles and pipes
Panorama Kft.	Production of plastic doors and windows with thermal insulation
BC-Ongropack Kft.	Production of rigid and stretch PVC films as well as plain, framed and corrugated sheets
BC-KC Formalin Kft.	Formaldehyde production

An employee
of BC-Ongromechanika Kft.
adjusts a safety valve

BC-Ongrobau Kft. builds a
scaffold around a tank in the
VCM Plant

Service-provider Subsidiaries

BC-Ongromechanika Kft.

The subsidiary surpassed its target by realising HUF 1,180.6 million sales revenues in 2005. It largely contributed to the parent company's capacity construction and maintenance activities again in 2005. The various projects consumed a total amount of 24,400 meters steel pipes, 2,000 meters plastic pipes and 196 tonnes of steel. The pressure equipment manufactured by the subsidiary comply with the PED regulations of the European Union. The subsidiary's quality control system in accordance with ISO 9001:2000 was successfully audited by TÜV Rheinland InterCert Kft.

BC-Ongroelektro Kft.

The subsidiary closed the most successful year ever in its operational history with sales revenues totalling HUF 1,800 million. In addition to significant external orders, its main activities encompassed specific construction and maintenance orders placed by BorsodChem Rt. and its subsidiaries. The subsidiary's quality control system was successfully audited in accordance with ISO 9001:2000 in 2005. Further, based on the resolution by the International Council for Accreditation, the subsidiary runs an accredited calibration laboratory with twenty-four calibration procedures. Holding a special permit, the subsidiary performed "Danfoss Drives Global Service" activities in 2005.

BC-Ongrobau Kft.

The subsidiary has been playing a role in construction and maintenance projects on BorsodChem Rt.'s site with building and execution jobs for ten years. It realised sales revenues amounting to HUF 1,070 million in 2005, thereby surpassing both that of the base period and the budget. In 2005, the subsidiary carried out its projects in accordance with ISO 9001:2000 and obtained the EMS certification as per ISO-14001.

BC-Energiakereskedő Kft.

The subsidiary realised sales revenues amounting to HUF 10.6 billion in the first full financial year after its 2004 establishment. It purchased natural gas from open market wholesaler MOL Földgázellátó Rt. and sold it to consumers on BorsodChem Rt.'s site. The service quality and availability met contracted liabilities and no complaints occurred in 2005.

BC-Erőmű Kft.

The subsidiary commenced to supply thermo energy and electricity to BorsodChem Rt. four and a half years ago. The 304.6 GWh electricity generated in 2005 is the second highest in the subsidiary's history and the so-called "annual non-supplied thermo energy" (technological loss) was the lowest ever at 4.4 tonnes. The price of supplied steam was affected rather negatively by the 50 percent price rise of natural gas during the year.

Polimer Szolgáltató Kft.

The subsidiary's six years old three-star facility, Hotel BorsodChem performed repeatedly at high standards in 2005. The hotel's representative conference hall, satisfying all technical demand, as well as the various meeting rooms hosted numerous conferences, business meetings and press conferences. Hotel BorsodChem welcomed visitors with popular wellness facilities and an air-conditioned restaurant. Further to the demand from BorsodChem Rt., its most significant business partner, the utilisation by national tourism also expanded.

	BC-Ongro-mechanika Kft.	BC-Ongro-elektro Kft.	BC-Ongro-bau Kft.	BC-Energia-kereskedő Kft.	BC-Erőmű Kft.	Polimer Szolgáltató Kft.
Ownership	BorsodChem Rt. 100%	BorsodChem Rt. 100%	BorsodChem Rt. 100%	BorsodChem Rt. 100%	BorsodChem Rt. 26% ÉMÁSZ Rt. 74%	BorsodChem Rt. 100%
Share capital	HUF 157.1 million	HUF 77 million	HUF 60 million	HUF 50 million	HUF 2,698.6 million	HUF 72.5 million
Net assets	HUF 240.2 million	HUF 219 million	HUF 176.2 million	HUF 68.7 million	HUF 3,348.4 million	HUF 62 million
Sales revenues	HUF 1,180.6 million	HUF 1,882.2 million	HUF 1,069.8 million	HUF 10,633 million	HUF 8,400.9 million	HUF 489.3 million
Closing headcount	82 persons	107 persons	93 persons	1 person	3 persons	138 persons

Activities	
BC-Ongromechanika Kft.	Design, manufacture as well as maintenance of chemical apparatuses, pipe lines, machine parts and specific structures
BC-Ongroelektro Kft.	Implementation and maintenance of electric and control engineering systems; repair of electric motors and electric heaters; design, implementation and maintenance of controls and transformer generator systems; maintenance of temperature and pressure gauges, transmitters and gas-detection apparatuses
BC-Ongrobau Kft.	Performance of construction, reconditioning, and implementation type tasks; maintenance; corrosion prevention
BC-Energiakereskedő Kft.	Trading with natural gas as an energy source
BC-Erőmű Kft.	Steam and electricity generation
Polimer Szolgáltató Kft.	Catering, restaurant and hotel services, operating canteens for students and BC employees

Employees of
BC-Polska Sp. Z o.o.

Natural gas receiver station,
BC-Erőmű Kft.

Trading Subsidiaries

BC Ongro Benelux B.V.

The subsidiary recorded a historical best-ever performance in 2005 with sales revenues of EUR 51.7 million. With unchanged headcount, it sold more than 10 ktonnes of PVC resin and MDI each and over 5 ktonnes TDI traditionally in the Benelux, British and German markets, traditional markets of BorsodChem Rt.

BC Polska Sp. z o. o.

The subsidiary realised PLN 163.2 million sales revenues in 2005, 3.2 percent less year-on-year. The two core products PVC resin and TDI still represent a significant share in the subsidiary's sales. Further, the subsidiary sold other products of the parent company and its plastic processing subsidiaries (namely MDI, PVC dry blends, PVC granules, CPE, plastic window profiles and films) in the Polish market.

B.C.-M.C. s.r.l.

The subsidiary closed year 2005 with record high sales revenues amounting to EUR 83.5 million. It sold more than 80 thousand tonnes of goods in the Italian market. Isocyanates (MDI, TDI) contribute with increasingly large part in the sales structure, however PVC resin selling still enjoys a decisive share.

BorsodChem Handelsgessellschaft m.b.H.

The company's business activities, based on agreement between BorsodChem HandelsgmbH. and CE Oil and Gas Trading AG, were taken over by CETAG. On December 12, 2005 BorsodChem Rt. sold the 100 percent share of its Austrian subsidiary to CETAG. Accordingly, BC HandelsgmbH. was taken out of the circle of consolidated subsidiaries.

	BC Ongro Benelux B.V.	BC Polska Sp. z o. o.	B.C.-M.C. s.r.l.
Ownership	BorsodChem Rt. 100%	BorsodChem Rt. 100%	BorsodChem Rt. 100%
Share capital	EUR 199.66 thousand	PLN 2.0 million	EUR 200 thousand
Net assets	HUF 245.5 million	HUF 201.5 million	HUF 213.9 million
Sales revenues	HUF 12,840.4 million	HUF 10,078.7 million	HUF 20,754.6 million
Closing headcount	4 persons	6 persons	6 persons

Activities	
BC Ongro Benelux B.V.	Sales of chemical and plastic raw materials, semi-finished and finished products in the markets of the Benelux countries, Scandinavia, North Germany and Great Britain
BC Polska Sp. z o. o.	Sales of chemical and plastic raw materials, semi-finished and finished products in Poland
B.C.-M.C. s.r.l.	Sales of chemical raw materials in Italy

CONSOLIDATED FINANCIAL STATEMENTS ACCORDING TO IFRS

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
Deloitte
Auditing and Consulting Ltd.
000083

Attila Horváth
Registered Auditor
005173

Consolidated Balance Sheet as at 31 December 2005 (All amounts in HUF million)	Notes	Year Ended 31 December 2005	Year Ended 31 December 2004
ASSETS			
Fixed assets			
Property, plant and equipment	3	171,146	129,237
Intangible assets	4	2,764	2,619
Negative goodwill	5	0	(389)
Investments accounted for under the equity method	6	169	251
Other investments	7,25	265	41
Total fixed assets		**174,344**	**131,759**
Current assets			
Inventories	8	15,350	16,209
Trade and other receivables	9	43,297	34,788
Financial instruments	10	190	7,420
Other current assets	11	855	971
Cash and cash equivalents	12	3,905	16,914
Total current assets		**63,597**	**76,302**
TOTAL ASSETS		**237,941**	**208,061**
LIABILITIES AND SHAREHOLDERS' EQUITY			
Equity attributable to equity holders of the parent			
Share capital	13	15,388	15,388
Employee shares	13	1,282	1,282
Share premium	13	29,034	29,034
Treasury stock	13	(2,209)	(2,690)
Retained earnings	14	90,687	79,566
Cumulative translation adjustment		2,093	1,078
Total equity attributable to equity holders of the parent		136,275	123,658
Minority interest		2,740	3,193
Total equity		**139,015**	**126,851**
Long-term liabilities			
Long term debt	15	33,475	27,829
Deferred tax	16	1,580	764
Other non-current liabilities	13	0	143
Provision	20, 29.2	446	452
Total non-current liabilities		**35,501**	**29,188**
Current liabilities			
Trade accounts payable	17	24,959	22,072
Other liabilities and accruals	18	4,677	3,939
Short term borrowings	19	21,221	13,693
Short term portion of long term borrowings	15	12,046	11,718
Taxation	18	38	208
Financial liabilities	10	41	17
Provision	20	443	375
Total current liabilities		**63,425**	**52,022**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**237,941**	**208,061**

The accompanying notes form an integral part of these consolidated financial statements.

Consolidated Statement of Income for the Year Ended 31 December 2005 (All amounts in HUF million)	Notes	31 December 2005	31 December 2004
Net sales	21	172,966	147,673
Cost of sales		(125,488)	(107,849)
Gross profit		**47,478**	**39,824**
Distribution cost		(14,747)	(12,373)
General and administrative expenses		(15,480)	(14,206)
Other operating expense	22	(1,186)	(1,972)
Operating income		**16,065**	**11,273**
Interest income		744	2,066
Interest costs		(1,298)	(1,488)
Income from associated parties		(14)	24
Gain from the sale of investment securities	7, 25	762	376
Net gains/(losses) on derivatives	23	130	4,000
Foreign currency (losses) / gains		(796)	2,238
Income before income taxes and minority interest		**15,593**	**18,489**
Taxation	16	(1,136)	(638)
Profit for the period		**14,457**	**17,851**
Attributable to:			
Equity holders of the parent		**14,113**	**17,147**
Minority interest		344	704
Earnings per share:			
Basic (HUF per share)	24	188	226
Fully diluted (HUF per share)	24	188	226

Consolidated Statement of Changes in Equity for the Year Ended 31 December 2005	Ordinary shares	Employee shares	Share Premium	Treasury stock	Retained earnings	Translation adjustment	Shareholders' equity attributable to the parent company	Minority interest	Subtotal
1 January 2004	15,388	-	30,316	-	65,589	1,049	112,342	3,008	115,350
Net income 2004	-	-	-	-	17,147	-	17,147	704	17,851
Dividend after 2003	-	-	-	-	(3,170)	-	(3,170)	-	(3,170)
Dividend of subsidiaries	-	-	-	-	-	-	-	(519)	(519)
Capital Increase	-	1,282	(1,282)	-	-	-	-	-	-
Treasury stock (repurchase) / sale	-	-	-	(2,690)	-	-	(2,690)	-	(2,690)
Translation adjustment	-	-	-	-	-	29	29	-	29
Balance 31.12.2004	**15,388**	**1,282**	**29,034**	**(2,690)**	**79,566**	**1,078**	**123,658**	**3,193**	**126,851**
Net income 2005	-	-	-	-	14,113	-	14,113	344	14,457
Dividend after 2004	-	-	-	-	(3,372)	-	(3,372)	-	(3,372)
Dividend of subsidiaries	-	-	-	-	-	-	-	(375)	(375)
Purchase of minority interest	-	-	-	-	-	-	-	(310)	(310)
Capital Increase	-	-	-	-	-	-	0		
Divestment	-	-	-	-	-	-	-	(112)	(112)
Treasury stock (repurchase) / sale	-	-	-	53	(23)	-	30	-	30
Negative goodwill	-	-	-	-	389	-	389	-	389
RESOP	-	-	-	428	14	-	442	-	442
Translation adjustment	-	-	-	-	-	1,015	1,015	-	1,015
Balance 31.12.2005	**15,388**	**1,282**	**29,034**	**(2,209)**	**90,687**	**2,093**	**136,275**	**2,740**	**139,015**

The accompanying notes form an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flow for the Year Ended 31 December 2005	31 December 2005	31 December 2004
Cash flows relating to operating activities		
Net income	14,457	17,851
Adjustment for items not affecting cash		
Depreciation charge	10,909	9,204
Increase/(decrease) in provision for accounts receivable and inventory	87	254
Gain (loss) on fixed assets sold	(99)	(86)
Gain (loss) on investments sold	(710)	(376)
Interest in income of associates	14	(24)
Release of environmental provision	(6)	(7)
Change in provisions	113	(4)
Unrealised (gains)/losses on derivatives	317	(1,494)
Unrealised foreign exchange (gains)/losses	1,299	(1,762)
Increase/(decrease) in deferred corporate income tax liabilities	777	327
Negative goodwill	(160)	(73)
Other non-cash (gains)/charges net	(345)	51
	26,653	**23,861**
Changes in current assets and current liabilities		
(Increase)/decrease in accounts receivable	(1,820)	(7,504)
(Increase)/decrease in inventories	695	(1,999)
(Increase)/decrease of other assets	116	(104)
Increase in accounts payable and accrued liabilities	3,465	5,712
	2,456	**(3,895)**
Net cash provided by operating activities	**29,109**	**19,966**
Cash flows from investing activities		
Purchase of fixed assets and intangible assets	(51,859)	(31,484)
Dividend from associates	71	
Purchase of minority interest	(150)	3
Amount deposited for the acquisition of the subsidiary	(6,644)	
Sale of subsidiary	450	
(Increase)/decrease in short term investments	6,937	(6,738)
Proceeds from the sale of tangible assets and long term investments	251	20,953
Net cash used in investing activities	**(50,944)**	**(17,266)**
Cash flows from financing activities		
Repayment of borrowings	(24,841)	(14,144)
Proceeds from borrowings	37,044	15,344
Net cash received/paid for treasury stock repurchased	30	(2,690)
Capital decrease (external party)	(112)	-
RESOP	442	-
Dividends paid	(3,372)	(3,170)
Dividends paid to minority interest	(375)	(519)
Net cash generated (used in)/by financing activities	**8,816**	**(5,179)**
Effect of exchange rates changes on cash and cash equivalents	10	(14)
Net (decrease)/increase in cash	(13,009)	(2,493)
Cash at the beginning of the year	16,914	19,407
Cash at the end of the year	**3,905**	**16,914**
Supplementary information:		
Cash paid for interest – financing	1,739	1,658
Cash paid for income taxes – operating	313	364
Cash from interest received – investing	1,124	1,269

The accompanying notes form an integral part of these consolidated financial statements.

1. General

BorsodChem Rt. ("BorsodChem Rt. ("the Company") is a public limited liability company incorporated under the laws of the Republic of Hungary. The registered office of the Company is located at Bólyai tér 1. Kazincbarcika, H-3702 Hungary.
The Company's sites:
- Berente, outskirts
- Budapest, Szabadság tér 7.
- Miskolc-Tapolca, Váradi út 5.
- Hajdúszoboszló, Wesselényi út 36.
- Múcsony, outskirts
- Moscow, Krasznaja Presznya Str 1-7.

The Company is primarily engaged in the production and further processing of PVC, MDI and TDI products.
Prior to 1 August 1991, the Company was legally organised as two companies; a State owned holding entity, Borsodi Vegyi Kombinát (BVK) and an operating company 99.8% owned by the holding company, Borsodi Vegyi Kombinát Rt. (BVK Rt.). On 1 August 1991, the holding company was transformed into a public shareholding company named BorsodChem Rt. and all assets and liabilities of the BVK subsidiary were transferred to BorsodChem Rt. at book value. In March 1996, the Company finalised its privatization and initial public offering of shares (traded domestically and via global depository receipts in London and the United States). In 2004 the Company's shares were also listed at the Warsaw Stock Exchange.

The shareholders of the Company who according to the company share register hold a 10% or greater interest in the Company's share capital at 31 December 2005 are as follows:

- VCP Industrie Beteiligungen AG 21.52%
- Firthlion Limited 10.02%

BorsodChem Rt. The Consolidated financial statements for the year ended 31 December 2005 were authorised for issue in accordance with a resolution of the Board of Directors on 17 March 2006.

2. Significant accounting policies

2.1 The basis of accounting

The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS"), which comprise standards and interpretations approved by the EU Commission and issued by the International Accounting Standards Board ("IASB"), and International Accounting Standards ("IAS") issued by the International Accounting Standards Committee ("IASC"). Furthermore they comprise the International Financial Reporting Interpretations Committee ("IFRIC") and Standing Interpretations Committee interpretations ("SIC") approved by the EU Commission.
The accompanying financial statements are prepared under the historical cost convention except for the measurement at fair value of derivative financial instruments.
The accounts of the Group are presented in millions of Hungarian Forints (HUF million). The accounts of the individual companies, which have been included in the consolidation, are maintained in the currencies as indicated and converted into Hungarian Forints using the policy as described in Note 2.22.
On the basis of the Company's activity, business events and conditions, the Hungarian forint (HUF) was denominated as the currency of accounting.

2.2 Application of new and revised International Financial Reporting Standards

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (the "EU"). IFRS as adopted by the EU do not currently differ from IFRS as issued by the International Accounting Standards Board (IASB). In line with the new and revised standards, the Company's accounting policy, and the structure of the balance sheet and the income statement have been modified. The amended accounting policy only influenced the annual financial statements with respect to negative goodwill, i.e. where the net assets, liabilities and contingent liabilities of the acquired entity, fairly valued, exceed the cost of acquisition. The impact of the amended Accounting policy is described in Note 5.

Notes to the Consolidated Financial Statements (All amounts in HUF million unless otherwise noted)

2.3 Basis of consolidation

BorsodChem Group companies are those companies in which the Company has a controlling financial interest through direct and indirect ownership of a majority voting interest or effective managerial and contractual control. The accompanying consolidated financial statements include the accounts of all of the companies comprising the BorsodChem Group except certain subsidiaries, which are immaterial individually and in the aggregate. All material intercompany accounts and transactions have been eliminated on consolidation. The equity and net income attributable to minority interests are shown as separate items in the consolidated financial statements.

The consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances.

The Company has consolidated the following investments for which it has effective managerial and contractual control and/or a controlling financial interest through direct and indirect ownership of a majority ownership and voting interest at 31 December. In all cases ownership interest is equal with voting interest.

	Principle activities	Ownership (%) in 2005	Ownership (%) in 2004
BC-Ongropack Kft.	Production and sale of rigid and stretch PVC films and sheets	100.0	100.0
BC-Ongromechanika Kft.	Planning, manufacture and maintenance of chemical devices, pipelines, machine parts, tools and steel structures	100.0	100.0
BC Ongro Benelux B. V. (The Netherlands)	Trading of Group products	100.0	100.0
BC-Ongrobau Kft.	Maintenance, renovation and building-construction works	100.0	100.0
BC-Ongroelektro Kft.	Manufacture and maintenance of electric and process control equipments	100.0	100.0
Panorama Kft.	Production and sale of insulated plastic frontal doors and windows	100.0	100.0
BC Ablakprofil Kft.	Production and sale of PVC window profiles and PVC pipes	100.0	100.0
BC Handelsgesellschaft G.m.b.H. (Austria) (Note 25)	Trading of Group products	0	100.0
BC Polska Sp. z o.o. (Poland)	Trading of Group products	100.0	100.0
BC-KC Formalin Kft.	Production and sale of formaldehyde	66.7	66.7
BC-MCHZ s.r.o. (Czech Republic) (Note 26)	Production and sale of aniline, cyclohexylamine, dycyclohexyl-amine and nitrobenzene	100.0	97.5
BC-Erőmű Kft.	Power supply	26.0	26.0
BC-Energiakereskedő Kft.	Agency wholesale of raw materials and fuels	100.0	100.0
BC-MC S.r.l. (Italy)	Trading of Group products	100.0	100.0

BC-Erőmű Kft. is consolidated because the Company exercises effective managerial and contractual control over BC-Erőmű Kft's operations as defined by IFRS and the investment meets the criteria for classification as a special purpose entity requiring consolidation according to SIC 12.

On 12 December 2005 the Company sold its 100% stake in BC-Handelsgesellschaft GmbH, Vienna to CE Oil & Gas Trading AG (CETAG, Austria).

On 15 November 2005 the Company signed a sale and purchase agreement with AliaChem a.s. (Prague) with respect to the sale of a 2.4997% stake in BorsodChem-MCHZ s.r.o. (Ostrava) for a purchase price of USD 712,328 (HUF 150 million). As a result, the Company is 100% sole owner of BorsodChem-MCHZ s.r.o. The transaction took place by exercising the option included in the agreement signed by the Parties on 27 April 2000.

Notes to the Consolidated Financial Statements (All amounts in HUF million unless otherwise noted)

2.4 Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand, short-term deposits and short-term highly liquid investments readily convertible to known amounts of cash and subject to insignificant risk of changes in value with an original maturity of three months or less.

2.5 Receivables

Trade and other receivables are stated at amortised cost, after making provision for any losses, which, in the opinion of management, may be sustained on realisation.

2.6 Inventories

Inventories are valued at the lower of cost, as determined by the weighted average cost method, or net realisable value after making allowance for any obsolete or slow moving items. Inventory costs include direct material, direct labour and an appropriate allocation of manufacturing fixed and variable overhead. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

2.7 Investments in associates and joint ventures

Long term equity investments in which the Company has greater than 20% ownership but less than 50%, and/or over which the Company exercises significant influence ("associates"), are accounted for under the equity method, unless the Company exercises control over the entity's operations in which case it is consolidated as a subsidiary.

The Company's share of the associates' profit or loss for the year is recognised in the income statement. The Company's interest in the associate is carried in the balance sheet at an amount that reflects its share of the net assets of the associate and includes goodwill on acquisition.

Joint venture investments in which the Company shares equal control with third-parties are accounted for using the equity method.

2.8 Property, plant and equipment

Property, plant and equipment are stated at purchase price or production cost less accumulated depreciation. Production costs for self-constructed assets include the cost of materials, direct labour and an appropriate proportion of production overheads and borrowing costs.
Freehold land is not depreciated. Depreciation is provided using the straight-line method at rates calculated to write off the cost of the asset over its expected economic useful life. The rates used are as follows:

• Buildings	2–5%
• Machinery and other equipment	5–15%
• Vehicles	15–20%
• Computers	33%
• Power plant equipment	5%

The cost of properties retired or otherwise disposed of, together with the accumulated depreciation provided thereon, is eliminated from the accounts. The net gain or loss is recognised as other operating income or expense.

Replacements and improvements, which prolong the useful life or significantly improve the condition of the asset are capitalised. Maintenance and repairs are recognised as an expense in the period in which they are incurred.

2.9 Borrowing costs

Borrowing costs that are directly attributable to the construction of a qualifying asset are included in the cost of that asset. Borrowing costs include interest, costs incurred in connection with the arrangement of specific facilities and exchange differences to the extent that they are regarded as an adjustment to interest costs. Such borrowing costs are capitalised as part of the cost of the asset when it is probable that they will result in future economic benefits to the enterprise and the costs can be measured reliably. Other borrowing costs are recognised as an expense in the period in which they are incurred.

2.10 Intangible assets

Intangible assets consist primarily of licence fees paid for the acquisition of specialised production technology and know-how, which is amortised over the estimated expected useful life of the technology of an average 10 years using the straight line method.

2.11 Non-current assets held for sale and discontinued operations

Non-current assets or disposal groups qualify as held for sale if their book value is primarily expected to be realised in a sale transaction rather than through continuous use. With a view to the above, the asset or disposal groups in their current state should be available for immediate (within one year) trading under customary conditions, and the sale transaction should be highly probable to take place.

A discontinued operation is a part of the Company that was either alienated or classified as held for trading and that (a) represents a separate, more significant business line or geographical location of the operations, (b) that is part of a coordinated plan aimed at the alienation of a separate, more significant business line or geographical location of the operations, or (c) that is a subsidiary acquired exclusively for resale purposes.
Investments held for trading and discontinued operations are shown in the balance sheet at the lower of book value or fair value less the costs of disposal. Effects on the profit resulting from reclassification are recognised in the income statement.

2.12 Investments

All investments are initially recognised at cost, being the fair value of the consideration given and including acquisition charges associated with the investment.

After initial recognition, investments which are classified as fair value through profit and loss and "available for sale" are measured at fair value, with unrealised gains or losses recognised in equity for assets held for sale.

Other long-term investments, which are intended to be held to maturity, such as bonds, are subsequently measured at amortised cost. Amortised cost is calculated by taking into account any discount or premium on acquisition, over the period to maturity. For investments carried at amortised cost, any gain or loss is recognised in income when the investment is derecognised or impaired, as well as through the amortisation process.
For investments actively traded in organised financial markets fair value is determined by reference to the market price. For investments where there is no market price or the market price is considered to be an unreliable indicator, fair value is estimated on the basis of the market price of comparable investments or by reference to the expected future cash flows. Where fair value cannot be reliably measured for certain investments, such investments are measured at cost, provision for impairment.

2.13 Derecognition of financial instruments

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.

2.14 Derivative financial instruments

The Company uses forward foreign exchange contracts, option and interest rate swap contracts to hedge its risk associated primarily with foreign currency fluctuations relating to foreign currency loans and receivables, payables and collections from/to foreign customers/suppliers respectively. The Company's option contracts concluded after 1 October 2005 are recognised as cash flow hedge transactions under IAS 39, i.e. the effective part of the gain or loss from the hedge transaction is directly recorded in equity, while the non-effective part is recorded in the profit. In the case of transactions that do not qualify as hedge transactions, any gains and losses are recognised in the profit or loss for the period. The fair value of forward exchange contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles. The fair value of options is calculated by applying option pricing models. The fair value of interest rate swap contracts is determined by reference to market values for similar instruments.

2.15 Business combinations

The acquisition of subsidiaries/associates is accounted for by applying the purchase method. The acquirer shall measure the cost of a business combination as the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the acquirer, in exchange for control of the acquiree; plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that satisfy the recognition criteria in IFRS 3 are recognised at their fair values at that date, except for non-current assets (disposal groups) that are classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations, which shall be recognised at fair value less costs to sell.

2.16 Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary/associate at the date of acquisition. Goodwill is annually tested for impairment. Goodwill arising from previous acquisitions was fully amortised on 31 December 2004.

Negative goodwill represents the excess of the fair value of the Group's share of the net assets of the acquired subsidiary/associate over the cost of the acquisition and is directly recognised in the profit. Negative goodwill relating to business combinations before 31 March 2004 was derecognised against retained earnings as of 1 January 2005.

Goodwill and fair value adjustments arising from the acquisition of a foreign entity are treated as assets and liabilities of the acquiring company and are recorded at the exchange rate at the date of the transaction.

2.17 Pensions

The Company, in the normal course of business, makes fixed contributions into the Hungarian State and private pension funds on behalf of its employees. The Company does not operate any other pension scheme or post retirement benefit plan, and consequently, has no legal or constructive obligation to make further contributions if the funds do not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

2.18 Taxation

Income taxes are computed on the basis of reported income in the statutory financial statements, adjusted as required by tax regulations. BorsodChem Rt. is entitled in 2005 to a tax allowance against substantially all its income as explained in Note 16.

The Company uses the balance sheet liability method in accounting for income taxes. Deferred tax assets and liabilities are determined using the effective tax rate for the periods in which the timing differences to which these deferred tax assets and liabilities relate are expected to reverse. A deferred tax liability is recognised for all taxable temporary differences, unless they relate to goodwill or the initial recognition of an asset or they relate to taxable temporary differences associated with investments in subsidiaries, associates and joint-ventures when the timing of the reversal of the temporary difference is controlled by the group and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets are only recognised when it is probable that taxable profits will be available against which the deferred tax asset can be utilised.

2.19 Treasury stock

Treasury stock represents the cost of shares of the Company repurchased and is displayed as a reduction of shareholders' equity. Premiums and discounts on repurchase and subsequent disposal are credited and debited respectively directly to retained earnings. According to Hungarian regulations, any premiums arising are available for distribution.

2.20 Share based payments

In the case of capital based payments, goods and services received and the relating increase of equity are calculated on the basis of the fair value of the goods and services received, at the time of the provision of the benefit. In the case of capital based payments to employees, or, if the fair value of goods and services received may not be reliably calculated, the value of goods or services received is determined on the basis of the fair value of the capital instrument.
In the case of share based payments to be settled in cash, the transaction is recognised at the fair value of the liability. The fair value of the liability is determined at each reporting date.

2.21 Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at cost, being the fair value of the consideration received net of issue costs associated with the borrowings.
After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate 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 the statement of income when the liabilities are derecognised or impaired, as well as through the amortisation process.

2.22 Foreign currency

Transactions

Transactions arising in foreign currency are translated into Hungarian Forint at the rate of exchange prevailing at the date of the transaction. Assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the rate of exchange prevailing at the balance sheet date. The resulting gains and losses are recognised in the statement of income.

Translation of financial statements

The Group uses the closing rate method for translating the financial statements of subsidiaries whose transactions are recorded in foreign currencies. Under this method, on consolidation, assets and liabilities are translated at the exchange rates prevailing at the balance sheet date. Income and expense items are translated using average exchange rates, which approximate to those prevailing during the period. Exchange differences arising on the translation of the financial statements of foreign subsidiaries are taken to the cumulative translation adjustment account within shareholders' equity.

2.23 Revenue recognition

Revenue is recognised when it is probable that the economic benefit associated with a transaction will flow to the enterprise and the amount of the revenue can be measured reliably. Revenue from the sale of products is recognised upon passage of title to the customer and represents sales at invoiced amounts net of value added tax and discounts.

2.24 Earnings per share

Basic earnings per share data is calculated based on the weighted average number of shares outstanding during the period excluding treasury held by the Company and employee shares. Fully diluted earnings per share is calculated based on the weighted average number of shares outstanding as calculated for basic earnings per share and as adjusted for giving effect to the assumed issuance of all potentially dilutive securities. Net income is adjusted in the fully diluted earnings per share calculation for any income or expense associated with the potentially dilutive securities. At 31 December 2004 and 2005 there were no significant potentially dilutive securities in issue.

2.25 Segment reporting

Segmental information is based on two segment formats. The primary format represents business segments reflecting the Group's management structure. The secondary format represents the Group's geographical markets.

Segment results include revenue and expenses directly attributable to a segment and the relevant portion of Group revenue and expenses that can be allocated on a reasonable basis to a segment, whether from external transactions or from transactions with other segments of the Group. Inter-segment transfer pricing is based on cost plus an appropriate margin, as specified by Group policy.

Segment assets and liabilities comprise those operating assets and liabilities that are directly attributable to the segment or can be allocated to the segment on a reasonable basis. Segment assets are determined after deducting related allowances that are reported as direct offsets in the Group's balance sheet. Segment assets and liabilities do not include income tax items.

Unallocated items mainly comprise corporate, general and administrative expenses that relate to the group as a whole, assets not directly attributable to the operations of the segments such as short and long term investments and liabilities that are incurred for financing rather than operating purposes. Segment results are determined before any adjustments for minority interest.

Capital expenditure represents the total cost incurred during the period to acquire segment assets that are expected to be used during more than one period.

Geographical segment revenue is based on the geographical location of customers and geographical segment assets and capital expenditure are disclosed by the geographical location of the assets.

2.26 Impairment of Assets

The carrying amounts of assets are reviewed at each balance sheet date to assess whether they are recorded in excess of their recoverable amounts. The recoverable amount is estimated as the higher of net selling price and value in use. The net selling price is the amount obtainable from the sale of an asset in an arm's length transaction less the costs of disposal 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 possible, for the cash-generating unit to which the asset belongs.
Where carrying values exceed this estimated recoverable amount the assets are written down to their recoverable value.

2.27 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

2.28 Environmental commitments

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 liability in the year when they are identified. Measurement of liabilities is based on current legal requirements and obligations and estimated based upon existing technical standards.

2.29 Contingencies

Contingent liabilities are not recognised in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is not recognised in the financial statements but disclosed when an inflow of economic benefits is probable.

2.30 Subsequent Events

Post-year-end events that provide additional information about the Group's position at the balance sheet date (adjusting events), are reflected in the financial statements. Post-year-end events that are not adjusting events are disclosed in the notes when material.

2.31 Estimates

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 notes thereto. Although these estimates are based on management's best knowledge of current event and actions, actual results may differ from those estimates.

Notes to the Consolidated Financial Statements (All amounts in HUF million unless otherwise noted)

2.32 Comparatives

As of the requirement of IFRS the balance sheet structure of previous period was reclassified so as to be comparative to the present year's figures. These modifications concerned receivables, financial instruments liabilities and provisions.

3. Property, plant and equipment, construction

	Land and buildings	Machinery and equipment	Construction projects	Subtotal
Opening net value as of 1 January 2004	**37,927**	**54,848**	**14,091**	**106,866**
Translation difference	32	23	-	55
Acquisition of subsidiary	-	19	-	19
Additions	2,162	7,699	21,369	31,230
Disposals and reclassifications	(104)	(65)	-	(169)
Depreciation charge	(1,636)	(7,128)	-	(8,764)
Closing net value as of 31 December 2004	**38,381**	**55,396**	**35,460**	**129,237**
Translation difference	694	554	51	1,299
Additions	9,710	21,964	19,567	51,241
Disposals and reclassifications	(163)	(14)	-	(177)
Depreciation charge	(2,133)	(8,321)	-	(10,454)
Closing net value as of 31 December 2005	**46,489**	**69,579**	**55,078**	**171,146**
As of 31 December 2005				
Cost	54,553	114,664	55,165	224,382
Accumulated depreciation	(8,064)	(45,085)	(87)	(53,236)
Net book value	**46,489**	**69,579**	**55,078**	**171,146**
As of 31 December 2004				
Cost	44,533	93,510	35,460	173,503
Accumulated depreciation	(6,152)	(38,114)	-	(44,266)
Net book value	**38,381**	**55,396**	**35,460**	**129,237**

Land and buildings

Included within freehold land and buildings at 31 December 2005 is land at cost of HUF 1,316 million (2004: HUF 1,174 million).

Construction work in progress

Amounts shown as net additions for construction in progress represent the gross additions into, and transfers out of this account. Gross additions and transfers out were HUF 49,918 million and HUF 30,351 million respectively for the year ended 31 December 2005 and HUF 32,144 million and HUF 10,775 million respectively for the year ended 31 December 2004.

Fully depreciated assets

Included in property, plant and equipment at 31 December 2005 is machinery and equipment with a cost value of HUF 28,607 million (2004: HUF 18,781 million) which is fully depreciated, but remains in use.

Secured assets

Included in property, plant and equipment are the assets of BC-MCHZ s.r.o. – a 100% owned subsidiary of BorsodChem Rt. – with a net book value of HUF 21,234 million at 31 December 2005, which are used as security against loans taken by that subsidiary and the assets of BC Erőmű Kft., a 26% owned subsidiary of BorsodChem Rt. – with a net book value of HUF 8,608 million, which are used as security against loans taken by that subsidiary. (See Notes 15 and 19)

Borrowing costs

In 2005 HUF 668 million borrowing costs were capitalised (in 2004: HUF 512 million). The average interest rate used to capitalise the borrowing costs of general purpose loans was 2.72% and 3.72% in 2005 and 2004, respectively.

Notes to the Consolidated Financial Statements (All amounts in HUF million unless otherwise noted)

4. Intangible assets

	31 December 2005	31 December 2004
Net book value at beginning of year	2,619	2,802
Translation difference	4	1
Acquisition of subsidiary	-	3
Additions	618	254
Disposals and reclassifications	(22)	(1)
Amortisation	(455)	(440)
Net book value at the end of year	**2,764**	**2,619**
Cost	6,341	5,725
Accumulated amortizations	(3,577)	(3,106)
Net book value	**2,764**	**2,619**

Intangible assets primarily consist of licence fees paid for the acquisition of specialised production technology and know-how.

5. Negative goodwill

On April 27, 2000 the Company acquired 97.5% of the shares of BorsodChem MCHZ s.r.o. a company registered in the Czech Republic and the major supplier of aniline to the Company for a net purchase price of HUF 6,369 million. (also see Note 26)

As the fair value of the net assets acquired exceeded the purchase price, negative goodwill in the amount of HUF 730 million was recorded and is amortised over the remaining weighted average useful life of the identified acquired depreciable assets by 31 December 2004.

According to the provisions of IFRS 3 Business Combinations effective as of 1 January 2005 with respect to the recognition of negative goodwill, the amount of negative goodwill as at 31 December 2004 was cancelled by the modification of the opening profit reserve.

Accumulated amortisation as of 31 December 2004 amounted to HUF 341 million.

	31 December 2005	31 December 2004
Net book value at 1 January	-	462
Amortisation	-	(73)
Net book value	**-**	**389**

Notes to the Consolidated Financial Statements (All amounts in HUF million unless otherwise noted)

6. Investment accounted for using the equity method

Investment in Associates and Joint Ventures include the following unconsolidated equity investments:

Name	Activity	Ownership (%)	31 December 2005	31 December 2004
Polimer Kft.	Catering	100	62	152
SP Anfol Ltd.	Clingfilm supply	50	107	99
Total			**169**	**251**

Polimer Kft. is not consolidated, as it is immaterial.

Ongropack Kft. has a 50% share in a joint venture, SP Anfol Ltd, a Ukrainian company. Selected aggregate financial unaudited data translated at year end rates from the financial statements of SP Anfol Ltd. as at and for the years ended 31 December 2005 and 2004 is presented below:

	31 December 2005	31 December 2004
Current assets	138	179
Fixed assets	282	270
Current liabilities	(105)	(208)
Long-term liabilities	(83)	(85)
Total income	617	571
Total expenditure	(604)	(559)
Profit after taxation	**13**	**12**

7. Other investments

	31 December 2005	31 December 2004
Long term receivables Note 24	237	-
Other investments	28	41
	265	**41**

The total long term receivables relate to the sale of BC Handels GmbH.
Other investments primarily include long term loans given to employees.

Notes to the Consolidated Financial Statements (All amounts in HUF million unless otherwise noted)

8. Inventories

	31 December 2005	31 December 2004
Raw materials and other supplies	4,802	5,814
Spare parts	2,837	3,681
Work in progress	1,506	1,174
Finished goods	6,600	5,765
Inventory, gross	**15,745**	**16,434**
Impairment	(395)	(225)
Inventory, net	**15,350**	**16,209**

9. Trade and other receivables

	31 December 2005	31 December 2004
Trade receivables	26,543	25,660
Receivable from associates	57	10
	26,600	**25,670**
Less reserve for doubtful accounts	(624)	(746)
Trade receivables, net	**25,976**	**24,924**
Other receivables		
Prepaid taxes	179	153
VAT receivables	8,602	6,236
Advance payments on capital projects, licence fees and inventories	1,105	2,787
Amount deposited for acquisition (see Note 30)	6,805	-
Other	630	688
Other receivables in total	**17,321**	**9,864**
Trade and other receivables total, net	**43,297**	**34,788**

Notes to the Consolidated Financial Statements (All amounts in HUF million unless otherwise noted)

10. Financial instruments

Short term investments

	31 December 2005		31 December 2004	
	Average interest rate	Book value	Average interest rate	Book value
Government T-bills	**6.70%**	**330**	**10.75%**	**5,506**
Less classified to Cash and cash equivalents		(330)		(332)
Government T-bills net		**-**		**5,174**
Government T-bonds	**6.50%**	**162**	**7.75%**	**1,925**
Government T-bonds net		**162**		**1,925**
Short term investment total		**162**		**7,099**

Currency-risk management

The financial instruments that potentially subject the Company to currency risk consist principally of foreign currency trade receivables, payables, and short and long term borrowings denominated in foreign currency.

The Group's export sales prices are primarily denominated in Euro, U.S. dollars or other hard currencies and therefore the related receivables are denominated in the relevant hard currencies. Domestic sales prices are based on the Hungarian Forint equivalent of the product prices, which are quoted in Euro or other hard currencies, and receivables are denominated in Hungarian Forints. Product prices are generally adjusted at one month intervals to take account of changes in input prices and related commodity indexes.

The Company uses derivative foreign exchange contracts to hedge its risk associated primarily with foreign currency fluctuations relating to foreign currency loans, receivables and payables from/to overseas customers/suppliers respectively. Options contracts concluded after 1 October 2005 – zero cost collar – qualify as hedging instrument under IAS 39. For the purpose of evaluating the effectiveness of hedges, the Company separated the intrinsic value and the time value of the options. The change in intrinsic value (effective part) of the gain or loss from the hedge transaction is directly recorded in equity, while the change in time value (non-effective part) is recorded in the profit. Through the hedging instrument the Company wishes to hedge risk arising from the exchange rates changes of highly probable transactions. As of 31 December 2005 the loss of options contracts amounted to HUF 7 million, which was fully recognized in the profit and loss.

The fair value of the open derivative contracts as at 31 December 2005 are summarized below:

	31 December 2005		31 December 2004	
	Asset	Liability	Asset	Liability
Options (zero cost collar)	27	35	-	-
Open forward deals	1	-	321	-
Swap transactions	-	6	-	17
Derivative assets / liabilities total	**28**	**41**	**321**	**17**

Notes to the Consolidated Financial Statements (All amounts in HUF million unless otherwise noted)

Transaction	Value	Maturity date	Average contracted forward rate
Open forward contracts as at 31 December 2005 are summarized below:			
Derivative transactions	EUR 19,000,000	various during 2006	250.37 HUF/EUR
Hedging	EUR 28,000,000 USD 6,400,000	various during 2006	251.89 HUF/EUR 210.41 HUF/USD

	31 December 2005	31 December 2004
Short term investments total	162	7,099
Derivative assets total	28	321
Financial instruments total	**190**	**7,420**

	31 December 2005	31 December 2004
Derivative liabilities total	**41**	**17**

BC-MCHZ has entered into interest rate swap transactions, which relate to the years 2005 through 2006 in a total volume of CZK 760 million. As a result market floating interest rates on its loans are fixed in the given period. The fair value as of 31 December 2005 gave rise to a HUF 6.2 million unrealised loss.

Short and long term foreign currency borrowings primarily consist of the syndicated loans drawn by the Company in the years 2001 to 2005. The loan facilities are available in USD, EUR, which allows the Company to match its foreign currency receivables and payables in order to minimise foreign currency risk. Borrowings of the Group and the related currencies are shown in Notes 15 and 19.

The Company enters into various long-term supply contracts to guarantee supplies of other raw materials including chlorine, salt, vinyl-chloride and toluol. These contracts generally cover quantities required for the three-year period to 31 December 2006. Prices are based on either an index of related market commodity indexes which exist at the date of delivery or are subject to quarterly and/or annual agreements between the parties. In respect of ethylene the Company has entered into a purchase contract to supply it for the period of 1 September 2004 to 31 December 2013 to supply a minimum 140 kilotonnes and a maximum 155 kilotonnes annually of ethylene at the ICIS LOR FD NEW Contract price plus a 3.5% percentage mark-up in the years 2004 to 2008 and at the ICIS LOR FD NEW Contract price in the years 2009 to 2013.

Credit risk

Financial instruments, which potentially subject the Company to significant concentrations of credit risk, consist principally of cash, short term investments and the related accounts receivable. The Company's cash is primarily held with major banks located in Hungary. Accounts receivable are presented net of allowances for doubtful receivables. Credit risk is limited due to the dispersion across geographical areas and customers. The Group uses insurance contracts to transfer a certain portion of credit risk to insurance companies and where customers are not subject to insurance coverage the Company seeks bank guarantees or advance payments. Accordingly, the Company has no significant concentrations of credit risk.

Interest rate risk

The Company does not have significant holdings of variable long term fixed rate government bonds. The Company's borrowings are provided on interest rate bases as set out in Note 15.

Notes to the Consolidated Financial Statements (All amounts in HUF million unless otherwise noted)

Fair values

At 31 December 2005 and 2004 the carrying amounts of cash, short-term investments, accounts receivable, short term borrowings, accounts payable and accrued expenses approximated their fair values due to the short-term maturities of these assets and liabilities. Receivables are stated after making allowance for doubtful debts. The fair values of long-term borrowings are not materially different from the carrying amounts.

11. Other current assets

	31 December 2005	31 December 2004
Prepayments	855	971

12. Cash and cash equivalents

	31 December 2005	31 December 2004
Cash at bank and in hand	1,906	2,591
Short-term deposits	1,669	13,991
Short-term investments	330	332
Cash and cash equivalents total	**3,905**	**16,914**

Short-term deposits at 31 December 2005 consist primarily of HUF based deposits at an average interest rate of 3.93%.

13. Share capital and share premium

	31 December 2005	31 December 2004
Face value of ordinary shares in issue	15,388	15,388
Treasury Shares	(2,209)	(2,690)
Share capital net of treasury stock	**13,179**	**12,698**
Employee shares	**1,282**	**1,282**
Share premium	**29,034**	**29,034**

Shares issued and outstanding

Effective 14 June 2004 the Company made a five for one share split. As a result the nominal value of Company shares decreased from HUF 1,010 to HUF 202 each.

At 31 December 2005 the Company had 76,179,800 ordinary issued shares with a nominal value of HUF 202 each. (At 31 December 2004 the Company had 76,179,800 ordinary issued shares with a nominal value of HUF 202 each.)

Treasury stock

The total balance of treasury stock was HUF 2,209 million at 31 December 2005. During 2004 the Company repurchased 1,277,522 own shares at an average market price of HUF 106 per share. The total balance of treasury stock was HUF 2,690 million at 31 December 2004.

In 2005 25,000 shares were sold at a price of HUF 2,106 each, and, in the framework of the employee share program (RESOP Note 27) 203,062 shares were deposited at employees.

Issue of Employee shares

The Extraordinary General Meeting in September 2004 approved the implementation of a cash settled share based payment program. On the basis of the program certain designated employees received employee shares for nil consideration. The Company issued 6,346,050 employee shares each with a nominal value of HUF 202 and a total nominal value of HUF 1,282 million from share premium. These shares are intended to have full dividend participation rights but will be non-transferable and mandatorily redeemable. The repurchase of the employee shares and the repurchase value to which the employees are entitled will depend on the fulfillment of various performance criteria related to the successful capitalization and utilization of the new MDI unit. These performance criteria are expected to be fulfilled primarily during 2006 and 2007. Under the terms of the program the repurchase value can vary between 5% and 100% of the nominal value.
In 2005, liabilities recognised with respect to the employee share program amounted to HUF 513 million (2004: HUF 128 million). In 2005 an amount of HUF 385 million was recognised among general and administrative costs (2004: HUF 128 million).

14. Retained earnings / Dividends

Retained earnings available for distribution are based on the financial statements of the Company prepared in accordance with Accounting Regulations in force in Hungary, as opposed to these financial statements, which are prepared under International Financial Reporting Standards. The distributable reserves were HUF 77,790 million and HUF 68,121 million at 31 December 2005 and 2004 respectively.

In 2005 dividend in the amount of HUF 3,372 million (HUF 45/share) was paid with respect to 2004.

Dividends totaling HUF 3,832 million (HUF 51 per share) are proposed for the consideration of the Annual General Meeting, in respect of 2005.

Dividend withholding

A 20% dividend withholding tax, subject to reduction by applicable double taxation treaties, is levied on the recipient in respect of dividends, payable to a foreign legal entity. In the event of payment to domestic or foreign individuals, a personal income tax liability of 20% arises. In both cases the tax is deducted at the source. Dividend paid to a foreign legal entity located in EU after 1 May 2004 is not subject to dividend withholding tax if the party receiving the dividend had a minimum shareholding of 20% in the party paying the dividend for at least 2 years at the date of the payment.

Notes to the Consolidated Financial Statements (All amounts in HUF million unless otherwise noted)

15. Long term debt

At 31 December 2005 and 2004, outstanding bank debt was as follows:

Company	Note	Maturity date	Interest rate	Currency	Average interest rate 2005	2005	Average interest rate 2004	2004
BorsodChem Rt.		26 October 2005	3 month EURIBOR+0.5%	EUR	-	-	2.60%	3,935
BorsodChem Rt.		13 October 2006	3 month EURIBOR+0.6%	EUR	2.74%	3,468	2.70%	6,749
BorsodChem Rt.	(1)	13 October 2006	3 month LIBOR+0.6%	USD	3.87%	1,577	2.15%	2,655
BorsodChem Rt.	(2)	6 November 2009	3 month EURIBOR+0.75%	EUR	2.92%	25,273	2.87%	8,608
BorsodChem Rt.		13 October 2008	1 month EURIBOR+0.47%	EUR	2.60%	1,516	-	-
BorsodChem Rt.		30 July 2007	1 month LIBOR+0.3%	EUR	2.70%	1,390	-	-
BorsodChem Rt.		1 August 2005	3 month EURIBOR+0.65%	EUR	-	-	2.78%	984
BorsodChem Rt.		25 February 2005	12 month EURIBOR-0.1%	EUR	-	-	2.17%	2,951
BorsodChem Rt.		24 October 2005	12 month EURIBOR-0.1%	EUR	-	-	2.17%	1,721
BorsodChem Rt.		2 September 2007	3 month LIBOR+0.43%	EUR	2.57%	5,055	2.03%	4,427
Ongropack Kft.		30 September 2006	3 month EURIBOR+0.3%	EUR	2.50%	43	2.41%	76
Ongropack Kft.		28 November 2007	3 month EURIBOR+0.85%	EUR	3.00%	101	2.96%	148
Ongropack Kft.		16 May 2006	75% MNB+2%	HUF	-	-	10.58%	6
Ongropack Kft.		20 September 2005	0.0%	HUF	-	-	-	29
Ongropack Kft.		31 May 2005	12 month EURIBOR+0.0%	EUR	-	-	2.27%	294
BC-KC Formalin Kft.		31 March 2015	3 month BUBOR+0.7%	HUF	6.99%	250	-	-
BC-KC Formalin Kft.		31 December 2014	3 month EURIBOR+0.7%	EUR	2.84%	541	-	-
BC Ablakprofil Kft.		18 January 2005	2.71625%	EUR	-	-	2.72%	37
BC Ablakprofil Kft.		16 November 2005	2.91288%	EUR	-	-	2.91%	245
BC Ongroelektro Kft.		21 March 2006	7.90%	HUF	7.90%	0.23	2.00%	2
BC Ongroelektro Kft.		26 July 2007	7.90%	HUF	7.90%	2	10.39%	4
BC-Erőmű Kft.	(3)	15 June 2014	5.71%	EUR	5.71%	3,821	5.71%	4,046
BC-Erőmű Kft.	(4)	15 June 2014	6 month EURIBOR+1%	EUR	3.15%	2,484	3.15%	2,630
						45,521		39,547
Less: Current portion of long-term debt						(12,046)		(11,718)
						33,475		27,829

MNB = National Bank of Hungary
LIBOR = London Interbank Offering Rate
BUBOR = Budapest Interbank Offering Rate
PRIBOR = Prague Interbank Offering Rate
EURIBOR = European Interbank Offering Rate

The scheduled maturity of debt at 31 December 2005 is set out in the table below:

2006	2007	2008	2009	2010	after 2010	Subtotal
12,046	13,495	8,608	7,133	857	3,382	45,521

Loan facilities

(1) BorsodChem Rt. signed a syndicated loan agreement with a consortium of sixteen banks on 13 October 1999 in order to finance the Company's three year investment plan. The EUR 100 million multicurrency term loan facility is unsecured and may be drawn in US Dollars or Euros and carries interest rates that reprice at three or six months LIBOR and EURIBOR respectively, plus a margin of 0.60% p.a. The final maturity date of the loan is 7 years from the date of signing the facility agreement. Under the terms of the agreement the Company is required to meet certain financial covenants on the basis of unconsolidated annual financial statements prepared in accordance with HAS including a predetermined level of net debt to equity ratio (not to exceed 0.8:1), an annualised debt service coverage ratio (not less than 1.4:1) and net debt to annualised EBITDA ratio (not to exceed 3.75:1). As at 31 December 2005 EUR 13.7 million (HUF 3,468 million) and USD 7.4 million (HUF 1,577 million) remained outstanding related to this facility.

(2) BorsodChem Rt. signed a second syndicated loan facility with a consortium of eight banks on 8 November 2002 in order to finance its 2003–2005 investment program. According to the contract an EUR 100 million loan facility is available to the Company that may be drawn both in EUR and in USD. The variable interest rate is tied to EURIBOR and LIBOR, respectively, plus a variable margin (currently 0.75% p.a.) made dependent on the net debt to EBITDA ratio. The availability period for withdrawal is 3 years from the date of signing the contract. The final maturity of the loan is November 2009. Under the terms of the agreement the Company is required to meet certain financial covenants on the basis of unconsolidated annual financial statements prepared in accordance with HAS including a predetermined level of net debt to equity ratio (not to exceed 0.8:1), an annualised debt service coverage ratio (not less than 1.4:1) and net debt to annualised EBITDA ratio (not to exceed 3.75:1). The balance of the loan outstanding is EUR 100 million (HUF 25,273 million) as at 31 December 2005.

(3) BC-Erőmű Kft. concluded a loan agreement on 30 September 1999 in order to finance the building of a new cogeneration power plant. The EUR 20 million loan could be drawn in Euro in up to eight instalments. The outstanding balance of any installment bears interest at the rate specified in the Disbursement Notice relative thereto. The average interest rate on the currently outstanding balance is 5.71%. The loan is secured by mortgage set on all of the properties of BC-Erőmű Kft. and with fixed charges set on all its other material assets. The final maturity of the loan is June 2014. Under the terms of the agreement BC-Erőmű Kft. is required to meet certain financial covenants on the basis of its annual financial statements prepared in accordance with HAS including annual debt service cover ratio (not less than 1.1:1) and projected annual debt service cover ratio (not less than 1:1). The balance of the loan outstanding is EUR 15.1 million (HUF 3,821 million) as at 31 December 2005.

(4) BC-Erőmű Kft. concluded a loan agreement on 30 September 1999 in order to finance the building of a new cogeneration power plant. EUR 13 million has been drawn on this facility. The outstanding loan balance bears an interest of 6 months EURIBOR plus a margin of 1%. The loan is secured by mortgage set on all of the properties of BC-Erőmű Kft. and with fixed charges set on all its other material assets. The final maturity of the loan is June 2014. Under the terms of the agreement BC-Erőmű Kft. is required to meet certain financial covenants on the basis of its annual financial statements prepared in accordance with HAS including annual debt service cover ratio (not less than 1.1:1), projected annual debt service cover ratio (not less than 1.1:1) and loan life cover ratio (not less than 1.1:1). The balance of the loan outstanding is EUR 9.8 million (HUF 2 484 million) as at 31 December 2005.

Other loans are secured by the comfort letter issued by the parent company.

16. Taxation

The income of BorsodChem Rt and the majority of its subsidiaries is taxed at 16% in accordance with the relevant Hungarian tax laws. An exception to the above rule is BC-MCHZ s.r.o., operating in the Czech Republic where the tax rate is 28%. From 1 January 2004 the Hungarian tax rate has been decreased from 18% to 16%.

Tax Holiday

Hungarian companies located in underdeveloped regions of Hungary, which invested in excess of HUF 1 billion on capital projects after 31 December 1995, were entitled to a tax holiday of 100% on net income derived from production in the underdeveloped regions in those years in which their sales revenue increased by at least 5% of the initial capital expenditure, compared to the previous year. BorsodChem Rt. was entitled to this tax holiday based primarily on its investment in the Company's MDI plant, which was capitalised in 1996. This tax holiday was available for a period of 5 years from 1997 up to and including the year 2001. In 2002 the Company was entitled to this tax holiday based on its product manufacturing investment capitalised in 1999.

In 2004 and 2005 the Company is entitled to a tax holiday after investments made in excess of HUF 3 billion on qualifying capital projects. The rate of the tax holiday corresponds to the ratio of sales revenues to total revenues. The tax holiday may be used in years in which the average statistical headcount exceeds by at least 100 the average statistical headcount of the year preceding the commencement of the capital project. The Company is entitled to this tax holiday based on the TDI investment capitalised in 2002. Management believes that the Company will continue to meet the criteria for this tax allowance until 2011.

Due to these tax holidays and other tax allowances to which the Company is also eligible, the actual tax payable by BorsodChem Rt. in

Notes to the Consolidated Financial Statements (All amounts in HUF million unless otherwise noted)

2005 is 11.23% (2004 7.21%) of the total tax which would have been payable had no tax allowances been available. Management expect that the effective tax rate will be marginal in the 2006–2011 period.

The other BorsodChem Group companies do not benefit from any significant tax holidays or allowances.

Tax Expense

	31 December 2005	31 December 2004
Current tax expense	(359)	(311)
Deferred tax (expense)/credit	(777)	(327)
Total income tax	**(1,136)**	**(638)**

The major components of deferred tax expense are the following:

	31 December 2005	31 December 2004
Origination and reversal of temporary differences	(777)	(327)
Total deferred tax (expense)/credit	**(777)**	**(327)**

The reconciliation of the total income tax to the theoretical amount that would arise using the tax rate of BorsodChem Rt. is as follows:

	31 December 2005	31 December 2004
Profit before tax	15,593	18,489
Tax calculated at the parent company tax rate of 16%	2,495	2,958
Utilization of previously unrecognised tax losses	(158)	(136)
Reduction due to tax holiday effective rates	(1,354)	(2,318)
Impact of different tax rates in other countries	58	111
Expenses not tax deductible	95	23
Tax charge	**1,136**	**638**

Deferred taxation

Deferred taxes as of 31 December 2005 and 2004:

	31 December 2005	31 December 2004
Deferred tax liabilities:		
Differences in depreciation	2,732	2,008
Other deferred tax liabilities	1	24
Gross deferred tax liabilities	**2,733**	**2,032**
Deferred tax assets:		
Tax losses	1,121	1,240
Other deferred tax assets	32	28
Gross deferred tax assets	**1,153**	**1,268**
Net deferred tax liability	**1,580**	**764**

Notes to the Consolidated Financial Statements (All amounts in HUF million unless otherwise noted)

Deferred tax assets are only recognised when it is probable that taxable profits will be available against which the deferred tax assets can be utilised.

The Company offsets deferred tax assets and deferred tax liabilities when the Company has a legally enforceable right to set off current tax assets against current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on the same taxable entity of the Group. As a result the Group's net deferred tax liabilities amounted to HUF 1,580 million and HUF 764 million as of 31 December 2005 and 31 December 2004, respectively. These deferred tax items are primarily related to differences between IFRS and tax law in the timing of recognition of certain provisions for environmental liabilities, depreciation and recognition of foreign exchange translation gains.

Tax examinations

There is no procedure for final agreement of tax assessments in Hungary. The tax authorities may examine the accounting records and revise assessments for up to five years after the period to which they relate until examinations are finalised. Consequently, the Company may be subject to further assessments in the event of an audit by the tax authorities. The tax authorities have finalised their examinations of the Company through 2002. Management is not aware of any significant unaccrued potential tax liability, which may arise from open examinations.

17. Trade accounts payable

	31 December 2005	31 December 2004
Trade creditors	24,926	22,058
Payable to associates	33	14
Accounts payable, net	**24,959**	**22,072**

18. Other liabilities and accruals

Other liabilities and accruals consist of the following:

	31 December 2005	31 December 2004
Wages and other employee liabilities	1,255	757
Import VAT liability and other payments due to the state budget	1,071	874
Accrued interest	69	98
Accrued bonus	665	426
Accrued given discount	146	114
Advance received for sale of licence	-	456
Other advances received from customers	334	853
Liabilities associated with the employee share scheme	513	128
Other accruals	624	233
Total other liabilities and accruals	**4,677**	**3,939**
Income tax expense	**38**	**208**

None of the above liabilities are secured.

19. Short term borrowings

	31 December 2005	31 December 2004
Bank overdrafts in HUF	3,182	940
Bank overdrafts in foreign currency	9,647	5,374
Bank loans denominated in foreign currency	8,392	7,379
Total short term borrowings	**21,221**	**13,693**

Notes to the Consolidated Financial Statements (All amounts in HUF million unless otherwise noted)

The short term bank loans and overdrafts bear a market rate of interest and are unsecured, except for those taken by BC-MCHZ s.r.o. totalling HUF 8,199 million which are secured by the assets of the subsidiary (Note 3).

20. Provisions

	Provision for early retirement	Provision for environmental commitments	Other	Total
At 1 January 2005	71	452	304	**827**
Translation difference	-	-	(53)	**(53)**
Additional provision in the year	128	-	159	**287**
Utilisation of provision	(71)	(6)	(95)	**(172)**
At 31 December 2005	**128**	**446**	**315**	**889**

	31 December 2005	31 December 2004
Current liabilities	443	375
Non-current liabilities	446	452
	889	**827**

21. Segment information

For management purposes the Group is organised into eight major operating divisions, which comprise four major related product groups:

1) Chlor-Vynil / PVC / Compound segment
2) MDI / TDI / BC-MCHZ segment
3) Plastic Production and
4) Other

The eight operating divisions are described below:

Chlor-Vinyl division, which produces chlorine mainly used internally for vinyl chloride production and caustic soda which is sold to third parties mainly for use as a raw material for aluminium oxide production and vinyl chloride, the basic raw material for production of PVC;

PVC division, which produces PVC resin, which is mainly used in the building and construction industry;

Compounds division, producing PVC compounds in the form of dry blends and granules used by producers of PVC films, sheets, cables, pipes and packaging materials;

MDI division, which produces crude, pure and modified MDI primarily used in the manufacturing of rigid insulation foams for construction and refrigeration and for vehicle components and furnishings;

TDI division, which produces TDI primarily used in the manufacturing of soft foams for vehicle components and furnishing;

BC-MCHZ division, which produces aniline mainly used internally for the production of MDI and cyclohexilamine mainly used in the rubber industry;

Plastic production, which produces end products from PVC compounds such as stretch and rigid films, door and window profiles;

Other, includes the service subsidiaries and divisions of the Group providing electrical power, goods, maintenance, repair, commercial and marketing services to the Group and to third parties.

Notes to the Consolidated Financial Statements (All amounts in HUF million unless otherwise noted)

Primary reporting format business segments	CHLOR-VYNIL / PVC / COMPOUND SEGMENT Chlor-Vinyl Division	PVC Division	Compound Division	Elimination	Total
31 December 2005					
Segment revenues					
Sales to external customers	9,094	48,670	5,677	-	63,441
Inter-segment sales	40,995	5,802	6,219	(46,339)	6,677
Total sales	50,089	54,472	11,896	(46,339)	70,118
Gross profit	**8,270**	**6,458**	**1,709**	**-**	**16,437**
Other net operating allocated expense	-	-	-	-	(10,508)
Operating income by segments	-	-	-	-	5,929
Other net operating unallocated expense	-	-	-	-	-
Operating income total	-	-	-	-	-
Interest income / (expense), net	-	-	-	-	-
Income from associates	-	-	-	-	-
Foreign currency (losses) / gains	-	-	-	-	-
Net gain from the sale of investment	-	-	-	-	-
Net (losses) / gains on derivatives	-	-	-	-	-
Income tax expense	-	-	-	-	-
Net income	**-**	**-**	**-**	**-**	**-**
Atrributable to equity holders of the parent	**-**	**-**	**-**	**-**	**-**
Minority interest	-	-	-	-	-
Segment assets	44,137	18,463	4,880	-	67,480
Investment in associates	-	-	-	-	-
Unallocated assets	-	-	-	-	-
Consolidated total assets	**-**	**-**	**-**	**-**	**-**
Segment liabilities	16,585	1,369	583	-	18,537
Unallocated liabilities	-	-	-	-	-
Consolidated total liabilities	**-**	**-**	**-**	**-**	**-**
Capital expenditure	20,445	3,757	257	-	24,459
Depreciation allocated	1,727	988	245	-	2,960
Depreciation unallocated	-	-	-	-	-

Secondary reporting format geographical segments	Hungary	Western Europe	Central and Eastern Europe	Other	Elimination	Total
31 December 2005						
Revenues						
Sales to external customers	27,898	84,028	49,210	11,830	-	172,966
Inter-segment sales	12,416	29,052	9,754	-	(51,222)	-
Total sales revenues	40,314	113,080	58,964	11,830	(51,222)	172,966
Other segment information						
Net value of segment assets	155,215	7,363	30,785	-	-	193,363
Additions to property, plant and equipment and intangible assets	47,476	18	4,365	-	-	51,859

Notes to the Consolidated Financial Statements (All amounts in HUF million unless otherwise noted)

MDI / TDI / BC-MCHZ SEGMENT								
MDI Division	TDI Division	BC-MCHZ	Elimination	Total	Plastic Production	Other	Elimination	Total
31,028	27,723	24,982	-	83,733	13,403	12,389	-	172,966
1,037	944	11,775	(10,808)	2,948	494	33,641	(43,760)	-
32,065	28,667	36,757	(10,808)	86,681	13,897	46,030	(43,760)	172,966
12,903	**7,804**	**5,925**	**-**	**26,632**	**2,465**	**2,034**	**(90)**	**47,478**
-	-	-	-	(11,993)	(2,120)	(1,083)	-	(25,704)
-	-	-	-	14,639	345	951	(90)	21,774
-	-	-	-	-	-	-	-	(5,709)
-	-	-	-	-	-	-	-	16,065
-	-	-	-	-	-	-	-	(554)
-	-	-	-	-	-	-	-	(14)
-	-	-	-	-	-	-	-	(796)
-	-	-	-	-	-	-	-	762
-	-	-	-	-	-	-	-	130
-	-	-	-	-	-	-	-	(1,136)
-	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**14,457**
-	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**14,113**
-	-	-	-	-	-	-	-	**344**
35,265	33,534	29,813	-	98,612	8,331	30,739	(11,799)	193,363
-	-	-	-	-	-	-	-	169
-	-	-	-	-	-	-	-	44,409
-	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**237,941**
20,111	3,124	15,412	-	38,647	3,494	23,256	(11,785)	72,149
-	-	-	-	-	-	-	-	26,777
-	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**98,926**
14,235	1,026	4,364	-	19,625	241	7,534	-	51,859
687	2,508	1,384	-	4,579	638	737	-	8,914
-	-	-	-	-	-	-	-	1,995

Notes to the Consolidated Financial Statements (All amounts in HUF million unless otherwise noted)

Primary reporting format business segments	CHLOR-VYNIL / PVC / COMPOUND SEGMENT Chlor-Vinyl Division	PVC Division	Compound Division	Elimination	Total
31 December 2004					
Segment revenues					
Sales to external customers	6,023	43,821	5,768	-	55,612
Inter-segment sales	27,602	6,486	6,902	(29,391)	11,599
Total sales	33,625	50,307	12,670	(29,391)	67,211
Gross profit	**7,133**	**7,578**	**1,789**	**-**	**16,500**
Other net operating allocated expense	-	-	-	-	(9,523)
Operating income by segments	-	-	-	-	6,977
Other net operating unallocated expense	-	-	-	-	-
Operating income total	-	-	-	-	-
Interest income / (expense), net	-	-	-	-	-
Income from associates	-	-	-	-	-
Foreign currency (losses) / gains	-	-	-	-	-
Net gain from the sale of investment	-	-	-	-	-
Net (losses) / gains on derivatives	-	-	-	-	-
Income tax expense	-	-	-	-	-
Net income	**-**	**-**	**-**	**-**	**-**
Atrributable to equity holders of the parent	**-**	**-**	**-**	**-**	**-**
Minority interest	-	-	-	-	-
Segment assets	26,341	18,185	4,697	-	49,223
Investment in associates	-	-	-	-	-
Unallocated assets	-	-	-	-	-
Consolidated total assets	**-**	**-**	**-**	**-**	**-**
Segment liabilities	9,223	4,259	366	-	13,848
Unallocated liabilities	-	-	-	-	-
Consolidated total liabilities	**-**	**-**	**-**	**-**	**-**
Capital expenditure	8,454	3,963	335	-	12,752
Depreciation allocated	1,190	544	176	-	1,910
Depreciation unallocated	-	-	-	-	-

Secondary reporting format geographical segments	Hungary	Western Europe	Central and Eastern Europe	Other	Elimination	Total
31 December 2004						
Revenues						
Sales to external customers	24,832	67,922	44,395	10,524	-	147,673
Inter-segment sales	10,901	20,155	11,205	-	(42,261)	-
Total sales revenues	35,733	88,077	55,600	10,524	(42,261)	147,673
Other segment information						
Net value of segment assets	143,532	5,735	23,722	-	-	172,989
Additions to property, plant and equipment and intangible assets	29,665	11	1,808	-	-	31,484

Notes to the Consolidated Financial Statements (All amounts in HUF million unless otherwise noted)

MDI / TDI / BC-MCHZ SEGMENT								
MDI Division	TDI Division	BC-MCHZ	Elimination	Total	Plastic Production	Other	Elimination	Total
23,316	24,445	20,081	-	67,842	13,363	10,856	-	147,673
1,076	846	10,831	(10,620)	2,133	1,027	18,412	(33,171)	-
24,392	25,291	30,912	(10,620)	69,975	14,390	29,268	(33,171)	147,673
6,838	**7,752**	**5,784**	**-**	**20,374**	**2,116**	**1,011**	**(177)**	**39,824**
-	-	-	-	(11,256)	(1,987)	(502)	-	(23,268)
-	-	-	-	9,118	129	509	(177)	16,556
-	-	-	-	-	-	-	-	(5,283)
-	-	-	-	-	-	-	-	11,273
-	-	-	-	-	-	-	-	578
-	-	-	-	-	-	-	-	24
-	-	-	-	-	-	-	-	2,238
-	-	-	-	-	-	-	-	376
-	-	-	-	-	-	-	-	4,000
-	-	-	-	-	-	-	-	(638)
-	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**17,851**
-	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**17,147**
-	-	-	-	-	-	-	-	**704**
21,750	35,870	23,611	-	81,231	7,496	43,492	(8,453)	172,989
-	-	-	-	-	-	-	-	251
-	-	-	-	-	-	-	-	34,821
-	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**208,061**
7,958	11,157	13,482	-	32,597	3,631	34,258	(8,169)	76,165
-	-	-	-	-	-	-	-	8,238
-	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**84,403**
10,756	2,354	1,794	-	14,904	480	3,348	-	31,484
733	2,230	1,037	-	4,000	693	1,692	-	8,295
-	-	-	-	-	-	-	-	909

Notes to the Consolidated Financial Statements (All amounts in HUF million unless otherwise noted)

22. Operating expense and income

	Year Ended 31 December 2005	Year Ended 31 December 2004
Depreciation of property, plant and equipment, and amortisation of intangible assets	10,909	9,204
Costs of inventories recognised as an expense	93,376	99,263
Staff costs:		
Salaries and wages	12,057	9,796
Social security	3,486	3,445
Other personnel type costs	1,257	1,125
Other recurring operating expense	18,270	11,595
Other operating income/expense	1,186	1,972
Total operating expense	**140,541**	**136,400**

Other operating income/(expense) consist of the following items:

	Year Ended 31 December 2005	Year Ended 31 December 2004
Local taxes	(1,056)	(892)
Wage taxes	(374)	(332)
Early retirement and severance cost	(151)	(116)
(Increase) / decrease in bad debt provisions	(212)	(257)
Gain on fixed assets sold	99	136
Negative goodwill amortisation	-	73
Current year negative goodwill	160	-
Sale of licence	644	-
Other	(296)	(584)
Total of other operating income / (expense)	**(1,186)**	**(1,972)**

In September 2003 BC-MCHZ entered an agreement for sale of a licence for its aniline production technology. The contract is a compound of Basic Engineering Packages EUR 270 thousand and Licence Fees EUR 2,680 thousand, totalling EUR 2,950 thousand. The profit, HUF 644 million, was realised in 2005 in line with delivery of the packages pursuant to the schedule set out in the contract. As at 31 December 2004 HUF 456 million has been received as advance payment on the contract.

23. Gain on derivatives

In 2005 the gain on forward deals was HUF 419 million (2004: HUF 4,585 million) of which HUF 391 million (2004: HUF 4,264 million) was realised gain. The loss on futures was HUF 289 million (2004: HUF 585 million) of which HUF 248 million (2004: HUF 568 million) was realised capital loss. (For unrealised profit effects see Note 10.)

Notes to the Consolidated Financial Statements (All amounts in HUF million unless otherwise noted)

24. Earnings per share

Weighted average shares outstanding, net income used in the calculation of earnings per share and calculated earning per share details are set out below:

	Year Ended 31 December 2005	Year Ended 31 December 2004
Weighted average shares outstanding for:	74,947,372	75,836,179
Basic and diluted earnings per share		
Net income used in calculating earnings per share for:	14,113	17,147
Basic earnings per share	**188**	**226**
Fully diluted earnings per share	**188**	**226**

25. Sale of subsidiary

On 12 December 2005 the Company sold its 100% stake in BC-Handelsgesellschaft mbH, Vienna to CE Oil & Gas Trading AG (CETAG, Austria).

The net assets of BC-Handels GmbH as at the time of the sale and on 31 December 2004:

	12 December 2005	31 December 2004
Property, plant and equipment	-	60
Accounts receivable	91	30
Cash and cash equivalents	238	460
Provisions	(45)	(56)
Trade and other payables	(9)	(7)
	275	**487**
Total consideration	985	
Proceeds of disposal	710	
Settlement of consideration:		
Cash	689	
Deferred settlement	296	
	985	
Net cash-flow on disposal:		
Consideration received	689	
Transferred cash	(239)	
	450	

Notes to the Consolidated Financial Statements (All amounts in HUF million unless otherwise noted)

The income statement of BC Handels GmbH between 1 January and 12 December 2005:

	12 December 2005	31 December 2004
Sales	50	2,262
Direct cost of sales	-	(2,151)
Distribution cost	-	(2)
General and administrative expenses	(15)	(101)
Other operating income / expense	25	79
Interest income / expense	5	(3)
Profit before tax	**65**	**84**
Taxation	(13)	(19)
Net income	**52**	**65**
Proceeds from the sale of BC Handels in the current year:		
BC Handels' current year profit	52	
Proceeds from the sale of BC Handels:	710	
	762	

26. Acquisition of minority interest

On 15 November 2005 the Company signed a share purchase agreement with AliaChem a.s. (Prague) for the purchase of a 2.4997% share in BorsodChem-MCHZ s.r.o. (Ostrava) for USD 712,328 (HUF 150 million). Thus the Company became the sole 100% owner of BorsodChem-MCHZ s.r.o. The transaction took place by exercising the option included in the agreement signed by the Parties on 27 April 2000.

The assets and liabilities obtained during the acquisition of the 2.5% share as of the date of the acquisition were the following:

	million HUF
Inventories	44
Cash and cash equivalents	3
Accounts receivable	158
Other short-term assets	19
Property, plant and equipment	526
Intangible assets	1
Trade creditors	96
Other short-term liabilities	61
Short term borrowings	219
Deferred tax	17
Total net assets	358
Negative goodwill	**160**
Profit of minority interest until the date of acqusition	**48**
Total consideration	**150**

27. Registered Employee Share Ownership Program (RESOP)

In 2005 the Company introduced a 3-year employee share scheme as an incentive that was approved and registered by the Ministry of Finance in May 2005 as a recognised employee share scheme. The shares are provided on condition that certain corporate performance indicators are met. Under IFRS 2, the scheme is accounted for as a share-based compensation transaction. The accounted cost was determined indirectly, through the fair value of the shares provided. The fair value of one share as of the time of the transaction was HUF 2,179. The number of shares provided in 2005 was 203,062 while the cost accounted for among general and administrative expenses was HUF 442 million.

Notes to the Consolidated Financial Statements (All amounts in HUF million unless otherwise noted)

28. Related party transactions

Transactions with associates and joint ventures

The Company received dividends of HUF 71 million for the year ended 31 December 2005 while no dividends were received in 2004 from associates and joint ventures. Sales to associates and joint ventures for the years ended 31 December 2005 and 2004 were HUF 98 million and HUF 3,504 million, respectively. Purchases from associates and joint ventures for the years ended 31 December 2005 and 2004 were HUF 346 million and HUF 318 million, respectively. Receivables from and payables to associates and joint ventures are set out in Notes 9 and 17 respectively.

Transactions with shareholders

The Company commenced trading activity in 2004 with a related company of one of its main shareholders, CETAG. The sales to CETAG were HUF 11,746 million and HUF 6,450 million and purchases from CETAG HUF 1,149 million and HUF 997 million for the periods ended 31 December 2005 and 2004, respectively.

VCP Industrie Beteiligungen AG and CE Oil & Gas Beteiligung und Verwaltung AG through a Global Offering disposed of a significant percentage of the shareholding which it had held in BorsodChem Rt. During the offering process BorsodChem Rt. also listed its shares on Polish Stock Exchange. The Company incurred approximately HUF 400 million of the total issue expenses associated with this Offering and its Polish Listing.

Remuneration of the members of the Supervisory Board and Board of Directors in their capacity as members

	Year Ended 31 December 2005	Year Ended 31 December 2004
Board of Directors	42	23
Supervisory Board	22	13
Total	**64**	**36**

29. Commitments and contingencies

29.1. Capital commitments

At 31 December 2005, the Group had authorized capital expenditures of HUF 25,616 million of which binding commitments for capital expenditures in the amount of HUF 6,183 million were entered into at the year end. Included within authorized capital expenditures of the parent company are the estimated project cost required to expand vinyl chloride capacity to 350 kt per year (HUF 350 million), to expand new electrolysis plant capacity (HUF 4,300 million), to expand TDI technology capacity from 80 kt per year to 90 kt per year (HUF 459 million), and to expand PVC capacity to 400 kt per year (HUF 1,500 million). Subsidiaries' significant capital expenditures are the BC-MCHZ's reconstruction of hydrogenation process of aniline producing (HUF 1,023 million) and Petrochemia Blachownia's building of benzene-toluol extraction distillation equipment (HUF 1,377 million).

29.2. Environmental commitments

In 1989, the Company identified that significant contamination from various pollutants had occurred over the years in the soil underlying sections of the plant. The Company contracted environmental consulting firms to assess the extent of the contamination. It was discovered that the contamination did not pose an immediate health risk to surrounding communities because the geological structure of the site, in conjunction with the recommended action plan, would prevent contamination from reaching the public ground water supplies in the foreseeable future. Effective in 1991, the Company recorded a liability, based on 1991 prices, of HUF 885 million for the expected future costs to contain and monitor the situation.

At 31 December 2005 the Company estimated that a total provision of HUF 445 million (2004: HUF 452 million) was still required in order to implement those capital and maintenance projects outstanding from the 1991 action plan and those which have been recommended by subsequent independent environmental audits which related to cleaning up past contamination issues. These costs are expected to be incurred within three years of the balance sheet date.

30. Acquisition of subsidiary

As of 6 October 2005 the Company signed a Share Purchase Agreement with Chiec S. A. (Poland) to acquire 100% of the shares of its subsidiary, Petrochemia Blachownia S. A. for consideration of PLN 104 million (translated at year end closing rates HUF 6,805 million). According to the consent of the Polish Competition Office and the provisions of the Agreement, the transfer of the shares took place on January 10, 2006 as a result of which Petrochemia Blachownia S. A. was taken over by the Company.

UNCONSOLIDATED FINANCIAL STATEMENTS IN ACCORDANCE WITH HAS

Independent Auditor's Report

To the Shareholders of BorsodChem Rt.

We have audited the financial statements of BorsodChem Rt. prepared in accordance with Accounting Act and generally accepted accounting principles for the year ended December 31, 2005, from which the accompanying condensed financial statements included in page 81 and on page 87 were derived, in accordance with Hungarian and International Standards on Auditing. In our report dated February 24, 2006 we expressed an unqualified opinion on the financial statements from which the condensed financial statements were derived.

In our opinion, the information set forth in the accompanying condensed financial statements of the Company is fairly stated in all material respects in relation to the basic financial statements from which it has been derived.

For a better understanding of the Company's financial position and the results of its operations for the year ended December 31, 2005 and of the scope of our audit, the condensed financial statements should be read in conjuction with the financial statements prepared in accordance with Accounting Act and generally accepted accounting principles from which the condensed financial statements were derived and our report thereon.

Budapest, February 24, 2006

Jack Bell
Deloitte
Auditing and Consulting Ltd.
000083

Attila Horváth
Registered Auditor
005173

Unconsolidated Balance Sheet in Accordance with Hungarian Accounting Rules
version "B", HUF million

Number (a)	Description (b)	Previous year (c)	Subject year (d)
01.	**A. Fixed assets**	**112,911**	**149,318**
02.	I. INTANGIBLE ASSETS	2,344	2,530
03.	Capitalised foundation/restructuring		
04.	Capitalised research and development	227	292
05.	Concessions, licenses and similar rights	3	3
06.	Trade-marks, patents and similar assets	2,114	2,235
07.	Goodwill		
08.	Advanced payments for intangible assets		
09.	Adjusted value of intangible assets		
10.	II. TANGIBLE ASSETS	**100,274**	**135,712**
11.	Land, buildings and related property rights	27,614	34,952
12.	Plant, machinery, equipment and vehicles	35,909	45,520
13.	Other equipment, fixtures and fittings, vehicles	1,174	1,226
14.	Breeding stock		
15.	Assets in the course of construction	35,110	53,804
16.	Prepayments for capital expenditures	467	210
17.	Adjusted value of tangible assets		
18.	III. LONG TERM FINANCIAL ASSETS	**10,293**	**11,076**
19.	Long-term participations in related parties	10,274	10,744
19/a.	Companies involved in consolidation	9,461	9,970
19/b.	Jointly managed enterprises		
19/c.	Associated enterprises	813	774
20.	Long-term loans granted to related parties		
20/a.	Companies involved in consolidation		
20/b.	Jointly managed enterprises		
20/c.	Associated enterprises		
21.	Other long-term investment		
22.	Long-term loans granted to other investments		313
23.	Other long-term loans granted	19	19
24.	Long-term debt securities		
25.	Adjusted value of financial investments		
26.	Deviation from capital consolidation		
27.	**B. Current assets**	**56,739**	**46,375**
28.	I. STOCKS	**11,951**	**12,344**
29.	Raw materials and consumables	6,552	6,516
30.	Work in progress and semi-finished products	521	881
31.	Animals for breeding, fattening and other livestock		
32.	Finished products	4,705	4,922
33.	Goods	10	10
34.	Advanced payments for stocks	163	15
35.	II. RECEIVABLES	**20,757**	**31,015**
36.	Trade debtors	11,152	11,143
37.	Receivables from related parties	5,103	6,606
37/a.	Companies involved in consolidation	5,071	5,737
37/b.	Jointly managed enterprises		
37/c.	Associated enterprises	32	869
38.	Receivables from other investments		
39.	Bills of exchange receivables		
40.	Other receivables	4,253	13,238
41.	Corporation tax claim due to consolidation		
42.	Positive deviation from derivative claims	249	28

Number (a)		Description (b)	Previous year (c)	Subject year (d)
43.	III.	SECURITIES	**9,619**	**2,210**
44.		Participations in related parties		
44/a.		Companies involved in consolidation		
44/b.		Jointly managed enterprises		
44/c.		Associated enterprises		
45.		Other participations		
46.		Treasury shares and own participation	2,690	2,210
47.		Marketable debt securities	6,929	
48.		Deviation from securities		
49.	IV.	LIQUID ASSETS	**14,412**	**806**
50.		Cash, cheques	7	8
51.		Bank deposits	14,405	798
52.	**C.**	**Prepaid expenses and accrued income**	**730**	**180**
53.		Accrued income	554	25
54.		Prepaid expenses	176	155
55.		Deferred expenses		
56.	**D.**	**Amounts falling due within the year**	**34,150**	**44,791**
57.		Short-term borrowings		
58.		of which: convertible bonds		
59.		Other short-term loans	12,513	19,648
60.		Prepayment received from debtors	48	275
61.		Creditors	14,966	15,378
62.		Bills of exchange payable		
63.		Short-term debts to related parties	2,426	4,830
63/a.		Companies involved in consolidation	1,803	3,699
63/b.		Jointly managed enterprises		
63/c.		Associated enterprises	623	1,131
64.		Short-term debts to other investments		
65.		Other current liabilities	4,197	4,625
66.		Corporation tax liabilities due to consolidation		
67.		Negative deviation from derivative claims		35
68.	**E.**	**Accrued expenses and deferred income**	**782**	**949**
69.		Deferred income		3
70.		Accrued expenses	713	856
71.		Deferred extraordinary revenues and negative goodwill	69	90
72.	**F.**	**Current assets and current liabilities (B+C-D-E)**	**22,537**	**815**
73.	**G.**	**Total assets less current liabilities (A±F)**	**135,448**	**150,133**
74.	**H.**	**Amounts falling due and payable after more than one year**	**21,558**	**26,916**
75.	I.	Long-term liabilities		
76.		Long-term borrowings		
77.		Convertible bonds		
78.		Liabilities from the issue of bonds		
79.		Investment and development loans	13,190	18,955
80.		Other long-term loans	8,361	7,961
81.		Long-term debts to related parties		
81/a.		Companies involved in consolidation		
81/b.		Jointly managed enterprises		
81/c.		Associated enterprises		
82.		Long-term debts to other investments		
83.		Other long-term liabilities	7	
84.	II.	Subordinated debts		
85.		Subordinated debts to related parties		
85/a		Companies involved in consolidation		
85/b.		Jointly managed enterprises		
85/c.		Associated enterprises		

Number (a)	Description (b)	Previous year (c)	Subject year (d)
86.	Subordinated debts to other investments		
87.	Subordinated debts to third parties		
88.	**I. Provisions**	**596**	**667**
89.	Provisions for contingent liabilities	596	667
90.	Provisions for future commitments		
91.	Other provisions		
92.	**J. Shareholders' equity**	**113,294**	**122,550**
93.	I. Issued capital	16,670	16,670
94.	of which: treasury shares redeemed at face value	258	212
95.	II. Issued capital not paid (-)		
96.	III. Capital reserve	29,243	29,243
97.	IV. Retained earning /(losses)	50,987	64,878
98.	V. Allocated reserves	2,917	2,502
99.	VI. Revaluation reserve		
100.	Valuation reserve of value adjustment		
101.	Valuation reserve of substantial valuation		
102.	**VII. Profit or loss for the year**	**13,477**	**9,257**

Consolidated Statement of Income in Accordance with Hungarian Accounting Rules
(Total cost method) version "A", HUF million

Number (a)	Description (b)	Previous year (c)	Subject year (d)
01.	Domestic sales, net	27,615	36,870
01/a.	Companies involved in consolidation	9,275	8,678
01/b.	Jointly managed enterprises		
01/c.	Associated enterprises	2,462	6,292
01/d.	Other entrepreneurs	15,878	21,900
02.	Export sales, net	87,919	103,013
02/a.	Companies involved in consolidation	30,624	36,767
02/b.	Jointly managed enterprises	3,580	
02/c.	Associated enterprises		
02/d.	Other entrepreneurs	53,715	66,246
I.	**Total sales, net (01+02)**	**115,534**	**139,883**
03.	Movements in self-produced stocks	1,206	577
04.	Capitalised self-manufactured assets	3,641	5,816
II.	**Capitalised own performance (±03+04)**	**4,847**	**6,393**
III.	**Other income**	**1,132**	**2,880**
III/a.	Companies involved in consolidation	28	48
III/b.	Jointly managed enterprises		
III/c.	Associated enterprises		
III/d.	Other entrepreneurs	1,104	2,832
	Reversed diminution in value from other revenues	24	41
05.	Material costs	79,023	91,271
06.	Services used	7,402	7,730
07.	Other services	1,189	1,247
08.	Costs of goods sold	6,277	12,837
09.	Provision of (consignment) services	121	106
IV.	**Material-type expenditures (05+06+07+08+09)**	**94,012**	**113,191**
10.	Payroll	6,809	7,566
11.	Other payments to personnel	856	967
12.	Social security and similar deductions	2,422	2,663
V.	**Payments to personnel (10+11+12)**	**10,087**	**11,196**
VI.	**Depreciaton**	**6,658**	**7,790**
VII.	**Other expenditures**	**2,189**	**4,140**
	Of which: diminution in value	253	198
A.	**Operating profit / (loss) (I±II+III-IV-V-VI-VII)**	**8,567**	**12,839**
13.	Dividends and profit-sharing (received or due)	485	656
13/a.	Companies involved in consolidation	310	461
13/b.	Jointly managed enterprises		
13/c.	Associated enterprises	175	195
13/d.	Other entrepreneurs		
14.	Exchange gains from disposal of shares	616	917
14/a.	Companies involved in consolidation		
14/b.	Jointly managed enterprises		
14/c.	Associated enterprises		
14/d.	Other entrepreneurs	616	917
15.	Interest and capital gains on long-term financial assets		
15/a.	Companies involved in consolidation		
15/b.	Jointly managed enterprises		
15/c.	Associated enterprises		
15/d.	Other entrepreneurs		
16.	Other interests and similar income (received or due)	1,545	598
16/a.	Companies involved in consolidation	11	52

Number (a)	Description (b)	Previous year (c)	Subject year (d)
16/b.	Jointly managed enterprises		
16/c.	Associated enterprises		
16/d.	Other entrepreneurs	1,534	546
17.	Other revenues from financial transactions	9,489	2,460
	From which: valuation adjustment	249	28
VIII.	**Financial revenues (13+14+15+16+17)**	**12,135**	**4,631**
18.	Exchange losses on long-term financial assets		
18/a.	Companies involved in consolidation		
18/b.	Jointly managed enterprises		
18/c.	Associated enterprises		
18/d.	Other entrepreneurs		
19.	Interest payable similar changes	**901**	**810**
19/a.	Companies involved in consolidation	11	11
19/b.	Jointly managed enterprises		
19/c.	Associated enterprises		
19/d.	Other entrepreneurs	890	799
20.	Diminution in the values of shares, securities and bank		
21.	Other expenditures on financial transactions	2,203	2,951
	From which: valuation adjustment		35
22.	Retained earnings for dividend and profit-sharing		
IX.	**Financial expenditures (18+19±20+21)**	**3,104**	**3,761**
B.	**Financial profit or loss (VIII-IX)**	**9,031**	**870**
C.	**Profit or loss of ordinary activities (±A±B)**	**17,598**	**13,709**
X.	**Extraordinary revenues**	**31**	**32**
XI.	**Extraordinary expenditures**	**322**	**156**
D.	**Extraordinary profit/loss (X-XI)**	**(291)**	**(124)**
E.	**Profit before tax (±C±D)**	**17,307**	**13,585**
XII.	**Tax payable**	**173**	**172**
F.	**Profit after tax (± E- XII)**	**17,134**	**13,413**
23.	Dividend and profit-sharing paid (payable)	**3,657**	**4,156**
23/a.	Companies involved in consolidation		
23/b.	Jointly managed enterprises		
23/c.	Associated enterprises		
23/d.	Other entrepreneurs	3,657	4,156
G.	**Profit or loss for the year (±F+22-23)**	**13,477**	**9,257**

Consolidated Statement of Income in Accordance with Hungarian Accounting Rules

(Sales cost method) version "A", HUF million

Number (a)	Description (b)	Previous year (c)	Subject year (d)
01.	Domestic sales, net	27,615	36,870
01/a.	Companies involved in consolidation	9,275	8,678
01/b.	Jointly managed enterprises		
01/c.	Associated enterprises	2,462	6,292
01/d.	Other entrepreneurs	15,878	21,900
02.	Export sales, net	87,919	103,013
02/a.	Companies involved in consolidation	30,624	36,767
02/b.	Jointly managed enterprises	3,580	
02/c.	Associated enterprises		
02/d.	Other entrepreneurs	53,715	66,246
I.	**Total sales, net (01+02)**	**115,534**	**139,883**
03.	Direct costs of sales	81,799	94,402
04.	Costs of goods sold	6,277	12,837
05.	Provision of (consignment) services	121	106
II.	**Direct costs of sales (03+04+05)**	**88,197**	**107,345**
III.	**Gross sales (I-II)**	**27,337**	**32,538**
06.	Selling and marketing costs	5,733	6,527
07.	Administration costs	7,193	7,379
08.	Other general overheads	4,787	4,533
IV.	**Indirect costs of sales (06+07+08)**	**17,713**	**18,439**
V.	**Other revenues**	**1,132**	**2,880**
V/a.	Companies involved in consolidation	28	48
V/b.	Jointly managed enterprises		
V/c.	Associated enterprises		
V/d.	Other entrepreneurs	1,104	2,832
	Reversed diminution in value from other revenues	24	41
VI.	**Other expenditures**	**2,189**	**4,140**
	of which: dimininution value	253	198
A.	**Operating profit /(loss) (±III-IV+V+VI)**	**8,567**	**12,839**
09.	Dividends and profit-sharing (received or due)	485	656
09/a.	Companies involved in consolidation	310	461
09/b.	Jointly managed enterprises		
09/c.	Associated enterprises	175	195
09/d.	Other enterpreneurs		
10.	Exchange gains from disposal of shares	616	917
10/a.	Companies involved in consolidation		
10/b.	Jointly managed enterprises		
10/c.	Associated enterprises		
10/d.	Other entrepreneurs	616	917
11.	Interest and capital gains on long-term financial assets		
11/a.	Companies involved in consolidation		
11/b.	Jointly managed enterprises		
11/c.	Associated enterprises		
11/d.	Other entrepreneurs		
12.	Other interests and similar income (received or due)	**1,545**	**598**
12/a.	Companies involved in consolidation	11	52
12/b.	Jointly managed enterprises		
12/c.	Associated enterprises		
12/d.	Other entrepreneurs	1,534	546
13.	Other revenues from financial transactions	9,489	2,460
	From which: valuation adjustment	249	28

Number (a)	Description (b)	Previous year (c)	Subject year (d)
VII.	**Financial revenues (09+10+11+12+13)**	**12,135**	**4,631**
14.	Exchange losses on long-term financial assets		
14/a.	Companies involved in consolidation		
14/b.	Jointly managed entrprises		
14/c.	Associated enterprises		
14/d.	Other enterpreneurs		
15.	Interest payable similar changes	901	810
15/a.	Companies involved in consolidation	11	11
15/b.	Jointly managed enterprises		
15/c.	Associated enterprises		
15/d.	Other enterpreneurs	890	799
16.	Diminution in the values of shares, securities and bank deposits		
17.	Other expenditures on financial transactions	2,203	2,951
	From which: valuation adjustment		35
VIII.	**Financial expenditures (14+15±16+17)**	**3,104**	**3,761**
B.	**Financial profit or loss (VII-VIII)**	**9,031**	**870**
C.	**Profit or loss of ordinary activities (±A±B)**	**17,598**	**13,709**
IX.	**Extraordinary revenues**	**31**	**32**
X.	**Extraordinary expenditures**	**322**	**156**
D.	**Extraordinary profit/loss (IX-X)**	**(291)**	**(124)**
E.	**Profit before tax (±C±D)**	**17,307**	**13,585**
XI.	**Tax payable**	**173**	**172**
F.	**Profit after tax (± E-XI)**	**17,134**	**13,413**
18.	Retained earnings for dividend and profit-sharing		
19.	Dividend and profit-sharing paid (payable)	3,657	4,156
19/a.	Companies involved in consolidation		
19/b.	Jointly managed enterprises		
19/c.	Associated enterprises		
19/d.	Other enterpreneurs	3,657	4,156
G.	**Profit or loss for the year (±F-18-19)**	**13,477**	**9,257**

BALANCE SHEET DATA FOR BORSODCHEM RT.'S MAJORITY INTERESTS

Balance Sheet Data for BorsodChem Rt.'s Majority Interests
Manufacturing Subsidiaries (all amounts in HUF million)

	Description	BC-MCHZ s.r.o.		BC-Ongropack Kft.		BC-Ablakprofil Kft.		Panorama Ablak-gyártó Kft.		BC-KC Formalin Kft.	
		31/12/04	31/12/05	31/12/04	31/12/05	31/12/04	31/12/05	31/12/04	31/12/05	31/12/04	31/12/05
A.	**Fixed assets**	**17,284**	**20,598**	**1,180**	**1,035**	**1,585**	**1,337**	**191**	**170**	**441**	**1,499**
I.	Intangible assets	42	41	3	1	23	18	2	1	0	0
II.	Tangible assets	17,242	20,557	1,159	1,013	1,562	1,319	183	163	441	1,499
III.	Long-term financial assets	0	0	18	21	0	0	6	6	0	0
B.	**Current assets**	**7,786**	**8,162**	**2,802**	**3,101**	**2,143**	**2,009**	**664**	**676**	**448**	**826**
I.	Stocks	2,208	2,018	764	768	514	519	137	130	94	105
II.	Receivables	5,575	6,134	1,941	2,003	1,589	1,373	515	520	274	475
	Among them:										
	trade debtors	2,891	3,343	1,304	1,379	1,207	1,018	499	503	175	132
	receivables from consolidated companies	1,476	1,469	19	194	117	107	0	1	87	150
III.	Securities	0	0	0	0	2	0	0	0	0	0
IV.	Liquid assets	3	10	97	330	38	117	12	26	80	246
C.	**Prepaid expenses and accrued income**	**161**	**388**	**11**	**13**	**4**	**10**	**2**	**1**	**1**	**1**
D.	**Liabilities outstanding within one year**	**13,690**	**14,018**	**1,448**	**1,353**	**1,725**	**1,479**	**410**	**399**	**350**	**949**
	among them:										
	borrowings and loans	7,823	8,199	488	523	1,033	0	67	60	123	165
	accounts payable	4,806	5,477	211	252	102	90	218	201	68	577
	current liabilities										
	for consol. companies	63	89	722	535	558	1,358	78	96	139	196
E.	**Accrued expenses and differed income**	**86**	**563**	**85**	**144**	**46**	**37**	**0**	**1**	**3**	**16**
F.	**Difference of current assets**										
	and short-term liabilities	**(5,829)**	**(6,031)**	**1,280**	**1,617**	**376**	**503**	**256**	**277**	**96**	**(138)**
G.	**Total assets excluding liabilities**										
	due within one year	**11,455**	**14,567**	**2,460**	**2,652**	**1,961**	**1,840**	**447**	**447**	**537**	**1,361**
H.	**Liabilities due over one year**	**187**	**779**	**140**	**50**	**0**	**0**	**0**	**0**	**0**	**791**
I.	Long-term liabilities	187	779	140	50	0	0	0	0	0	791
	Among them:										
	borrowings and loans	0	0	140	50		0		0		791
II.	Subordinated debts	0	0	0	0	0	0	0	0	0	0
I.	**Provisions**	**0**	**3**	**0**	**7**	**0**	**0**	**1**	**1**	**0**	**0**
J.	**Shareholders' equity**	**11,268**	**13,785**	**2,320**	**2,595**	**1,961**	**1,840**	**446**	**446**	**537**	**570**
I.	Issued capital	6,191	6,191	935	935	190	190	88	88	338	338
II.	Issued capital not paid (-)		0		0		0		0		0
III.	Capital reserve		0		0	1	1		0		0
IV.	Retained earnings / (losses)	3,116	4,051	1,157	1,266	1,901	1,770	356	358	57	188
V.	Allocated reserves		0	46	118		0		0	34	10
VI.	Revaluation reserves	1,026	2,003		0		0		0		0
VII.	Profit or loss for the year	935	1,540	182	276	(131)	(121)	2	0	108	34

Note: before payment of dividend of 2005

Balance Sheet Data for BorsodChem Rt.'s Majority Interests
Service-provider Subsidiaries (all amounts in HUF million)

Description	BC-Ongro-elektro Kft.		BC-Ongro-mechanika Kft.		BC-Ongrobau Kft.		BC-Erőmű Kft.	
	31/12/04	31/12/05	31/12/04	31/12/05	31/12/04	31/12/05	31/12/04	31/12/05
A. Fixed assets	**40**	**56**	**32**	**38**	**42**	**39**	**9,336**	**8,805**
I. Intangible assets	1	1	0	0	0	0	210	197
II. Tangible assets	39	55	32	36	42	39	9,126	8,608
III. Long-term financial assets	0	0	0	2	0	0	0	0
B. Current assets	**312**	**472**	**380**	**397**	**195**	**291**	**2,170**	**2,522**
I. Stocks	152	202	299	254	103	107	266	270
II. Receivables	160	270	79	142	91	184	820	1165
Among them:								
trade debtors	12	22	1	2	1	2	0	0
receivables from consolidated companies	139	241	51	131	83	172	609	1,100
III. Securities	0	0	0	0	0	0	500	492
IV. Liquid assets	0	0	2	1	1	0	584	595
C. Prepaid expenses and accrued income	**1**	**2**	**2**	**2**	**1**	**2**	**52**	**56**
D. Liabilities outstanding within one year	**157**	**235**	**175**	**173**	**59**	**47**	**1,717**	**1,587**
among them:								
borrowings and loans	2	1	1	1	0	0	540	588
accounts payable	73	139	108	31	8	17	17	16
current liabilities for consol. companies	60	46	43	105	32	9	1,053	862
E. Accrued expenses and differed income	**0**	**11**	**9**	**1**	**13**	**27**	**183**	**21**
F. Difference of current assets and short-term liabilities	**156**	**228**	**198**	**225**	**124**	**219**	**322**	**970**
G. Total assets excluding liabilities due within one year	**196**	**284**	**230**	**263**	**166**	**258**	**9,658**	**9,775**
H. Liabilities due over one year	**2**	**1**	**0**	**0**	**0**	**0**	**6,136**	**5,717**
I. Long-term liabilities	2	1	0	0	0	0	6,136	5,717
Among them:								
borrowings and loans	2	1		0		0	6,136	5,717
II. Subordinated debts	0	0	0	0	0	0	0	0
I. Provisions	**4**	**4**	**8**	**23**	**0**	**22**	**0**	**0**
J. Shareholders' equity	**190**	**279**	**222**	**240**	**166**	**236**	**3,522**	**4,058**
I. Issued capital	77	77	157	157	60	60	2,849	2,699
II. Issued capital not paid (-)		0		0		0		0
III. Capital reserve		0		0		0		0
IV. Retained earnings / (losses)	69	113	52	65	91	106	134	673
V. Allocated reserves	20	0		0		0		0
VI. Revaluation reserves		0		0		0		0
VII. Profit or loss for the year	24	89	13	18	15	70	539	686

Note: before payment of dividend of 2005

Balance Sheet Data for BorsodChem Rt.'s Majority Interests
Trading Subsidiaries (all amounts in HUF million)

Description	BC-Energia-kereskedő Kft.		BC Ongro Benelux B.V.		BC-Polska Sp. z o.o.		B.C.-M.C. S.r.l.	
	31/12/04	31/12/05	31/12/04	31/12/05	31/12/04	31/12/05	31/12/04	31/12/05
A. Fixed assets	**0**	**0**	**37**	**38**	**11**	**9**	**24**	**21**
I. Intangible assets	0	0	0	0	0	0	9	10
II. Tangible assets	0	0	37	38	11	9	14	10
III. Long-term financial assets	0	0	0	0	0	0	1	1
B. Current assets	**1,341**	**2,312**	**1,379**	**1,242**	**1,755**	**2,576**	**5,070**	**6,090**
I. Stocks	1	0	13	6	29	27	0	0
II. Receivables	927	1,500	1,346	1,203	1,725	2,546	4,821	5,495
Among them:								
trade debtors	223	0	1,346	1,142	1,691	2,381	4,318	4,853
receivables from consolidated companies	632	1,404	0	36	14	145	2	0
III. Securities	0	0	0	0	0	0	0	0
IV. Liquid assets	413	812	20	33	1	3	249	595
C. Prepaid expenses and accrued income	**1**	**1**	**4**	**4**	**1**	**1**	**1**	**4**
D. Liabilities outstanding within one year	**1,289**	**2,245**	**1,251**	**1,030**	**1,583**	**2,382**	**4,909**	**5,824**
among them:								
borrowings and loans	0	0	351	150	163	236	2,307	3,694
accounts payable	1,124	2,163	8	62	21	339	331	183
current liabilities for consol. companies	80	0	746	743	1,259	1,660	1,618	1,277
E. Accrued expenses and differed income	**1**	**0**	**7**	**9**	**0**	**0**	**15**	**20**
F. Difference of current assets and short-term liabilities	**52**	**68**	**125**	**207**	**173**	**195**	**147**	**250**
G. Total assets excluding liabilities due within one year	**52**	**68**	**162**	**245**	**184**	**204**	**171**	**271**
H. Liabilities due over one year	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
I. Long-term liabilities	0	0	0	0	0	0	0	0
Among them:								
borrowings and loans	-	0	-	0	-	0	-	0
II. Subordinated debts	0	0	0	0	0	0	0	0
I. Provisions	**0**	**0**	**0**	**0**	**2**	**2**	**39**	**57**
J. Shareholders' equity	**52**	**68**	**162**	**245**	**182**	**202**	**132**	**214**
I. Issued capital	50	50	28	28	119	119	25	50
II. Issued capital not paid (-)		0		0		0		0
III. Capital reserve		0		0	52	52		0
IV. Retained earnings / (losses)	0	2	53	91	(29)	10	104	85
V. Allocated reserves		0		0		0		0
VI. Revaluation reserves		0	43	49	1	16	(2)	3
VII. Profit or loss for the year	2	16	38	77	39	5	5	76

Note: before payment of dividend of 2005

Statement of Income for BorsodChem Rt.'s Majority Interests (Sales Cost Method)
Manufacturing Subsidiaries (all amounts in HUF million)

Description	BC-MCHZ s.r.o.		BC-Ongropack Kft.		BC-Ablakprofil Kft.		Panorama Ablak-gyártó Kft.		BC-KC Formalin Kft.	
	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005
Domestic sales, net	0	0	1,290	1,265	4,160	3,081	1,635	1,369	1,702	1,878
Companies involved in consolidation		0	62	69	485	410	27	15	786	863
Jointly managed enterprises		0		0		0		0		0
Associated enterprises		0	0	0	0	0	0	0	0	0
Other entrepreneurs		0	1,228	1,196	3,675	2,671	1,608	1,354	916	1,015
Export sales, net	29,801	36,131	4,926	5,666	2,153	2,090	225	253	383	263
Companies involved in consolidation	10,874	11,998	127	256	327	92		0	0	15
Jointly managed enterprises		0		97		0		0		0
Associated enterprises		0		0		0		0		0
Other entrepreneurs	18,927	24,133	4,799	5,313	1,826	1,998	225	253	383	248
Total sales, net	**29,801**	**36,131**	**6,216**	**6,931**	**6,313**	**5,171**	**1,860**	**1,622**	**2,085**	**2,141**
Direct costs of sales	24,278	29,133	5,302	5,611	4,584	3,754	1,338	1,135	1,745	1,849
Costs of goods sold	1,019	1,687	75	67	969	799	127	105		8
Provision of (consignment) services		0	0	0	0	0	18	40		0
Direct costs of sales	25,297	30,820	5,377	5,678	5,553	4,553	1,483	1,280	1,745	1,857
Gross sales	**4,504**	**5,311**	**839**	**1,253**	**760**	**618**	**377**	**342**	**340**	**284**
Sales and marketing costs	922	1,044	186	186	189	261	58	49	23	19
Administration costs	717	754	323	411	184	190	214	196	115	138
Other general overheads	1,122	1,035	236	282	225	135	86	78	30	29
Indirect costs of sales	2,761	2,833	745	879	598	586	358	323	168	186
Other revenues	329	293	79	176	5	22	26	21	2	3
of which: reversed diminution in value		0	2	0		3		0		0
Other expenditures	305	341	139	199	235	113	37	45	46	46
of which: dimininution in value		0	24	15	51	28	14	5		0
Operating profit / (loss)	**1,767**	**2,430**	**34**	**351**	**(68)**	**(59)**	**8**	**(5)**	**128**	**55**
Dividends and profit-sharing (received or due)	0	0	0	1	0	0	3	7	0	0
of which: from consolidated companies		0		0		0		0		0
Exchange gains from disposal of shares	0	0	0	0	0	0	0	0	0	0
of which: from consolidated companies		0		0		0		0		0
Interests and capital gains on long-term financial assets	0	0	0	0	0	0	0	0	0	0
of which: from consolidated companies		0		0		0		0		0
Other interests and similar income (received or due)	46	30	3	7	1	1	2	1	1	0
of which: from consolidated companies		0	2	5		0		0		0
Other revenues from financial transactions	284	476	262	81	52	31	3	5	11	5
Financial revenues	330	506	265	89	53	32	8	13	12	5
Exchange losses on long-term financial assets	0	0	0	0	0	0	0	0	0	0
of which: from consolidated companies		0		0		0		0		0
Interest payable and similar changes	328	281	29	96	83	76	5	6	15	12
of which: from consolidated companies		0	9	8		42		0		0
Diminution in the values of shares, securities and bank deposits		0		0		0		0		0
Other expenditures on financial transactions	650	546	93	56	45	31	5	1	5	6
Financial expenditures	978	827	122	152	128	107	10	7	20	18
Financial profit or loss	**(648)**	**(321)**	**143**	**(63)**	**(75)**	**(75)**	**(2)**	**6**	**(8)**	**(13)**
Profit or loss on operation and financial transactions	**1,119**	**2,109**	**177**	**288**	**(143)**	**(134)**	**6**	**1**	**120**	**42**
Extraordinary revenues		0	6	5	12	13		0		0
Extraordinary expenditures	8	9	1	0	0	0	2	0		0
Extraordinary profit/loss	**(8)**	**(9)**	**5**	**5**	**12**	**13**	**(2)**	**0**	**0**	**0**
Profit before tax	**1,111**	**2,100**	**182**	**293**	**(131)**	**(121)**	**4**	**1**	**120**	**42**
Tax payable	176	560	0	17	0	0	2	1	12	8
Profit after tax	**935**	**1,540**	**182**	**276**	**(131)**	**(121)**	**2**	**0**	**108**	**34**
Dividend and profit-sharing paid from retained earnings		0		0		0		0		0
Dividend and profit-sharing paid (payable)		0		0		0		0		0
of which: from consolidated companies		0		0		0		0		0
Profit or loss for the year	**935**	**1,540**	**182**	**276**	**(131)**	**(121)**	**2**	**0**	**108**	**34**

Note: before payment of dividend of 2005

Statement of Income for BorsodChem Rt.'s Majority Interests (Sales Cost Method)

Service-provider Subsidiaries (all amounts in HUF million)

Description	BC-Ongro-elektro Kft. 2004	BC-Ongro-elektro Kft. 2005	BC-Ongro-mechanika Kft. 2004	BC-Ongro-mechanika Kft. 2005	BC-Ongrobau Kft. 2004	BC-Ongrobau Kft. 2005	BC-Erőmű Kft. 2004	BC-Erőmű Kft. 2005
Domestic sales, net	1,198	1,882	1,068	1,181	869	1,070	6,566	8,400
Companies involved in consolidation	1,064	1,782	1,025	1,167	849	1,055	6,566	8,399
Jointly managed enterprises		0		0		0		0
Associated enterprises	0	0	0	0	1	1		0
Other entrepreneurs	134	100	43	14	19	14		1
Export sales, net	0	0	0	0	0	0	0	1
Companies involved in consolidation		0		0		0		0
Jointly managed enterprises		0		0		0		0
Associated enterprises		0		0		0		0
Other entrepreneurs		0		0		0		1
Total sales, net	**1,198**	**1,882**	**1,068**	**1,181**	**869**	**1,070**	**6,566**	**8,401**
Direct costs of sales	667	846	749	864	356	452	5,518	7,333
Costs of goods sold	210	654	11	1	2	0		0
Provision of (consignment) services	4	3	0	0	244	234		2
Direct costs of sales	881	1,503	760	865	602	686	5,518	7,335
Gross sales	**317**	**379**	**308**	**316**	**267**	**384**	**1,048**	**1,066**
Sales and marketing costs	15	32	33	34	139	170		0
Administration costs	189	210	188	201	71	94	129	122
Other general overheads	16	17	22	22	4	4		0
Indirect costs of sales	220	259	243	257	214	268	129	122
Other revenues	4	4	1	8	0	1	0	73
of which: reversed diminution in value		0		0		0		0
Other expenditures	17	20	25	43	10	35	52	60
of which: dimininution in value		1	1	1		1		0
Operating profit / (loss)	**84**	**104**	**41**	**24**	**43**	**82**	**867**	**957**
Dividends and profit-sharing (received or due)	0	0	0	0	0	0	0	0
of which: from consolidated companies		0		0		0		0
Exchange gains from disposal of shares	0	0	0	0	0	0	0	0
of which: from consolidated companies		0		0		0		0
Interests and capital gains on long-term financial assets	0	0	0	0	0	0	0	0
of which: from consolidated companies		0		0		0		0
Other interests and similar income (recived or due)	2	1	3	1	4	4	84	59
of which: from consolidated companies	2	1	3	1	4	4		0
Other revenues from financial transactions	0	0	0	0	0	0	474	163
Financial revenues	2	1	3	1	4	4	558	222
Exchange losses on long-term financial assets	0	0	0	0	0	0	0	0
of which: from consolidated companies		0		0		0		0
Interest payable and similar changes	2	0	0	1	0	0	341	311
of which: from consolidated companies	2	0	0	1		0		0
Diminution in the values of shares, securities and bank deposits		0		0		0		0
Other expenditures on financial transactions	0	0	0	0	0	0	43	182
Financial expenditures	2	0	0	1	0	0	384	493
Financial profit or loss	**0**	**1**	**3**	**0**	**4**	**4**	**174**	**(271)**
Profit or loss on operation and financial transactions	**84**	**105**	**44**	**24**	**47**	**86**	**1,041**	**686**
Extraordinary revenues	0	0	11	0		0	0	0
Extraordinary expenditures	0	0	9	0		0	0	0
Extraordinary profit/loss	**0**	**0**	**2**	**0**	**0**	**0**	**0**	**0**
Profit before tax	**84**	**105**	**46**	**24**	**47**	**86**	**1,041**	**686**
Tax payable	10	16	8	6	7	16	0	0
Profit after tax	**74**	**89**	**38**	**18**	**40**	**70**	**1,041**	**686**
Dividend and profit-sharing paid from retained earnings		0		0		0		0
Dividend and profit-sharing paid (payable)	50	0	25	0	25	0	502	0
of which: from consolidated companies	50	0	25	0	25	0	131	0
Profit or loss for the year	**24**	**89**	**13**	**18**	**15**	**70**	**539**	**686**

Note: before payment of dividend of 2005

Statement of Income for BorsodChem Rt.'s Majority Interests (Sales Cost Method)

Trading Subsidiaries (all amounts in HUF million)

Description	BC-Energia-kereskedő Kft.		BC Ongro Benelux B.V.		BC-Polska Sp. z o.o.		B.C.-M.C. S.r.l.	
	2004	2005	2004	2005	2004	2005	2004	2005
Domestic sales, net	3,416	10,633	0	0	0	9,338	0	0
Companies involved in consolidation	414	10,633		0		0		0
Jointly managed enterprises		0		0		0		0
Associated enterprises	1,930	0		0		0		0
Other entrepreneurs	1,072	0		0		9,338		0
Export sales, net	0	0	10,849	12,840	9,383	741	12,648	20,755
Companies involved in consolidation		0	101	238	242	741	10	0
Jointly managed enterprises		0		0		0		0
Associated enterprises		0		0		0		0
Other entrepreneurs		0	10,748	12,602	9,141	0	12,638	20,755
Total sales, net	**3,416**	**10,633**	**10,849**	**12,840**	**9,383**	**10,079**	**12,648**	**20,755**
Direct costs of sales	0	0	0	0	0	0	0	0
Costs of goods sold	3,379	10,530	10,590	12,545	9,179	9,912	12,285	20,158
Provision of (consignment) services		0		0		0		0
Direct costs of sales	3,379	10,530	10,590	12,545	9,179	9,912	12,285	20,158
Gross sales	**37**	**103**	**259**	**295**	**204**	**167**	**363**	**597**
Sales and marketing costs		0	19	22	9	8	7	7
Administration costs	57	20	129	129	122	113	209	286
Other general overheads		0		0		0		0
Indirect costs of sales	57	20	148	151	131	121	216	293
Other revenues	0	0	0	0	9	1	100	0
of which: reversed diminution in value		0		0		0		0
Other expenditures	1	4	0	11	14	33	112	33
of which: dimininution in value		0		0		0		0
Operating profit /(loss)	**(21)**	**79**	**111**	**133**	**68**	**14**	**135**	**271**
Dividends and profit-sharing (received or due)	0	0	0	0	0	0	0	0
of which: from consolidated companies		0		0		0		0
Exchange gains from disposal of shares	0	0	0	0	0	0	0	0
of which: from consolidated companies		0		0		0		0
Interests and capital gains on long-term financial assets	0	0	0	0	0	0	0	0
of which: from consolidated companies		0		0		0		0
Other interests and similar income (recived or due)	5	14	0	0	11	12	0	0
of which: from consolidated companies		0		0		0		0
Other revenues from financial transactions	95	230	0	0	0	0	18	11
Financial revenues	100	244	0	0	11	12	18	11
Exchange losses on long-term financial assets	0	0	0	0	0	0	0	0
of which: from consolidated companies		0		0		0		0
Interest payable and similar changes	0	0	16	21	5	8	54	83
of which: from consolidated companies		0		0		0		0
Diminution in the values of shares, securities and bank deposits		0		0		0		0
Other expenditures on financial transactions	41	304	0	0	8	7	38	44
Financial expenditures	41	304	16	21	13	15	92	127
Financial profit or loss	**59**	**(60)**	**(16)**	**(21)**	**(2)**	**(3)**	**(74)**	**(116)**
Profit or loss on operation and financial transactions	**38**	**19**	**95**	**112**	**66**	**11**	**61**	**155**
Extraordinary revenues		0		0		0	3	1
Extraordinary expenditures		0		0		0	0	1
Extraordinary profit/loss	**0**	**0**	**0**	**0**	**0**	**0**	**3**	**0**
Profit before tax	**38**	**19**	**95**	**112**	**66**	**11**	**64**	**155**
Tax payable	6	3	32	35	10	6	36	79
Profit after tax	**32**	**16**	**63**	**77**	**56**	**5**	**28**	**76**
Dividend and profit-sharing paid from retained earnings		0		0		0		0
Dividend and profit-sharing paid (payable)	30	0	25	0	17	0	23	0
of which: from consolidated companies	30	0	25	0	17	0	23	0
Profit or loss for the year	**2**	**16**	**38**	**77**	**39**	**5**	**5**	**76**

Note: before payment of dividend of 2005

* A B.C.-M.C. S.r.l. 2004i adatok a konszolidációba bevonás időpontjától (2004.04.02-2004.12.31)

A LIST OF SPECIFIC ABBREVIATIONS

CPE	chlorinated polyethylene
CL-MDI	modified MDI
CR-MDI	crude MDI
DKE	dichloroethane
DNT	dinitrotoluene
EPS	expandable polystyrene
HS-MDI	pure MDI
MDA	methylene-di-phenylene amine
MDI	methylene-di-phenylene diisocyanate
PVC	poly(vinyl chloride)
TDA	toluene diamine
TDI	toluene diisocyanate
VCM	vinyl chloride monomer

EBIT	Operating Profit (Earnings Before Interests and Taxes)
EBITDA	Operating Profit + Depreciation (Earnings Before Interest, Tax, Depreciation and Amortization)
EPS	Earnings per share
IPPC	Integrated Pollution and Prevention Control (EU)
ISO	International Organization for Standardisation
EMS	Environmental Management System
QMS	Quality Management System
PDMS	Plant Design Management System
PED	Pressure Equipment Directive
WSE	Warsaw Stock Exchange

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Forward-Looking Statements

The Annual Report of BorsodChem Rt. may contain statements and projections that bear a certain form of reference to the future, the Company's future position, its operation and business activities. Any forward-looking statement contained within the Report is based on historic data and circumstances prevailing at the time of information provision. The Company undertakes no responsibility for the possible drawing of conclusions from such forward-looking information, neither does it assume any obligation to update relevant information.

Conclusions drawn from forward-looking information may differ materially from the actual future results of the Company, which does not substantiate the responsibility of BorsodChem Rt.

BorsodChem Share Ticker Symbols

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London Stock Exchange (LSE): BDCD
Warsaw Stock Exchange (WSE): BCH

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Publisher:
BorsodChem Rt., April 2006

Responsible editor:
László F. Kovács Chief Executive Officer

Creative conception and publication design:
H-artdirectors Kommunikációs Tervező Iroda

Printer:
Prospektus Nyomda

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