

# **Pannonplast Rt.**

*Consolidated financial statements  
and  
Independent Auditor's Report*

*December 31, 2004*

**PANNONPLAST MÚANYAGIPARI RT.**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED**  
**31 DECEMBER 2004 AND 2003**

## INDEPENDENT AUDITORS' REPORT

To the Shareholders of Pannonplast Műanyagipari Rt.

We have audited the accompanying consolidated balance sheets of Pannonplast Műanyagipari Rt. and its subsidiaries (the "Group") as of 31 December 2004 and 2003 and the related consolidated statements of income, cash flows and changes in shareholders' equity for the years then ended. These consolidated financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Pannonplast Műanyagipari Rt. and its subsidiaries as of 31 December 2004 and 2003 and the consolidated results of their operations, cash flows and changes in equity for the years then ended in accordance with International Financial Reporting Standards.

Budapest, 4 March 2005



Deloitte

**PANNONPLAST MŰANYAGIPARI RT.**  
**CONSOLIDATED STATEMENTS OF INCOME FOR THE YEARS ENDED**  
**31 DECEMBER**  
**All amounts in HUF thousand unless otherwise stated**

	<b>2004</b>	<b>2003</b>
<b>Sales</b>	26 561 260	26 375 370
<b>Cost of sales</b>	-20 630 501	-18 476 753
<b>Gross profit</b>	<u>5 930 759</u>	<u>7 898 617</u>
Administrative and general expenses	-6 940 133	-7 051 952
Other expenses	-1 134 511	-2 004 764
Other income	647 238	570 247
<b>Operating loss before financial income and expenses</b>	<u>-1 496 647</u>	<u>-587 852</u>
Financial income and expense, net	-655 195	-1 025 146
<b>Loss before income taxes and minority interest</b>	<u>-2 151 842</u>	<u>-1 612 998</u>
Income taxes	350 978	-84 962
<b>Loss after income taxes and before minority interest</b>	<u>-1 800 864</u>	<u>-1 697 960</u>
Minority interest	-97 322	-145 883
<b>Net loss for the year</b>	<u><u>-1 898 186</u></u>	<u><u>-1 843 843</u></u>
Loss per share (HUF)	<u>-451</u>	<u>-442</u>

**PANNONPLAST MŰANYAGIPARI RT.**  
**CONSOLIDATED BALANCE SHEETS AS OF 31 DECEMBER**  
**All amounts in HUF thousand unless otherwise stated**

	<b>2004</b>	<b>2003</b>
<b>NON-CURRENT ASSETS</b>		
Intangible assets	916 116	1 039 189
Property, plant and equipment	13 983 131	16 489 760
Investments	24 390	8 985
Total non-current assets	14 923 637	17 537 934
Long-term receivables	3 135	5 584
<b>CURRENT ASSETS</b>		
Inventories	3 515 480	3 655 886
Accounts receivable	5 254 293	5 459 297
Other receivables	1 937 693	1 996 365
Cash and deposits	1 116 557	1 040 512
Total current assets	11 824 023	12 152 060
<b>TOTAL ASSETS</b>	<b><u>26 750 795</u></b>	<b><u>29 695 578</u></b>
<b>SHAREHOLDERS' EQUITY</b>		
Share capital	421 093	421 093
Reserves	14 215 728	16 051 274
Net income for the year	-1 898 186	-1 843 843
Total shareholders' equity	12 738 635	14 628 524
Minority interest	1 419 795	1 475 942
Long-term debt	2 002 374	1 066 174
<b>CURRENT LIABILITIES</b>		
Accounts payable	4 439 608	3 952 263
Short-term debt	4 607 565	3 814 030
Current maturities of long-term debt	420 950	3 733 319
Provision	78 204	-
Other current liabilities	1 043 664	1 025 326
Total current liabilities	10 589 991	12 524 938
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b><u>26 750 795</u></b>	<b><u>29 695 578</u></b>

**PANNONPLAST MÚANYAGIPARI RT.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED 31 DECEMBER**  
**All amounts in HUF thousand unless otherwise stated**

	<b>2004</b>	<b>2003</b>
<b>Operating activities</b>		
Net loss for the year	-1 898 186	-1 843 843
<i>Adjustments to reconcile net loss to net cash provided by operating activities</i>		
Depreciation and amortisation	2 450 322	2 604 273
Effect of deferred taxation	-422 669	-96 783
Foreign exchange (gain)/loss on loans	-133 988	522 759
Impairment of property, plant and equipments and goodwill	79 762	969 193
Increase in provision for slow moving and obsolete inventory	96 556	194 823
Increase in provision for expected liabilities	78 204	-
Increase in provision and write offs for doubtful receivables	259 085	139 603
Gain on sale of fixed assets	-183 885	-274 559
Loss on sale of investment	168 134	-
Increase in minority interest	97 322	145 883
<i>Changes in operating assets and liabilities</i>		
Increase in inventories	-132 303	-412 918
Decrease/(increase) in receivables, gross	142 829	-942 063
Increase in payables and other liabilities	761 634	920 346
<b>Net cash provided by operating activities</b>	<b>1 362 817</b>	<b>1 926 714</b>
<b>Investing activities</b>		
Purchase of investments	-	-271 249
Net cash inflow on sale of investment	552 448	-
Purchase of intangible assets and property, plant and equipment	-970 806	-2 351 530
Proceeds from sale of intangible assets and property, plant and equipment	538 079	597 036
Decrease in long-term receivables	1 287	1 711
<b>Net cash provided by /(used in) investing activities</b>	<b>121 008</b>	<b>-2 024 032</b>

**PANNONPLAST MŰANYAGIPARI RT.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED 31 DECEMBER**  
**All amounts in HUF thousand unless otherwise stated**

	<b>2004</b>	<b>2003</b>
<b>Net cash provided by /(used in) investing activities</b>	<b>121 008</b>	<b>-2 024 032</b>
<b>Financing activities</b>		
(Decrease)/increase in long-term borrowings, net	-938 493	288 172
Decrease in short-term borrowings, net	-447 134	-316 005
Dividends paid by subsidiaries to minority interests	-151 708	-179 985
Foreign currency differences on consolidation	8 297	-24 980
Decrease of own shares	-	274 441
Loss on sale of own shares	-	-100 468
<b>Net cash used in financing activities</b>	<b>-1 529 038</b>	<b>-58 825</b>
<b>Net decrease in cash and cash equivalents</b>	<b>-45 213</b>	<b>-156 143</b>
Cash and cash equivalents at 1 January	799 578	955 721
<b>Cash and cash equivalents at 31 December</b>	<b><u>754 365</u></b>	<b><u>799 578</u></b>

**PANNONPLAST MŰANYAGIPARI RT.**  
**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**  
**FOR THE YEARS ENDED 31 DECEMBER**  
**All amounts in HUF thousand unless otherwise stated**

	<b>2004</b>	<b>2003</b>
<b>Shareholders' equity at 1 January</b>	<b>14 628 524</b>	<b>16 323 374</b>
Net movement on own shares	-	173 973
Net movement in foreign exchange equalisation reserve	8 297	-24 980
Net loss for the year	-1 898 186	-1 843 843
<b>Shareholders' equity at 31 December</b>	<b><u>12 738 635</u></b>	<b><u>14 628 524</u></b>

**PANNONPLAST MŰANYAGIPARI RT.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED 31 DECEMBER 2004 AND 2003**

## **1. Operations**

Pannonplast Műanyagipari Rt. ("the Company" or "Pannonplast") is a Hungarian enterprise, acting as Holding Company for a Group ("the Group") whose principal business activity is plastic processing mainly for the packaging, household, entertaining, car manufacturing and construction industries. On 31 May 1991, the enterprise was transformed into a company limited by shares pursuant to Act XII of 1989 on the Transformation of Economic Organisations. The Group operations in Hungary are located in Budapest, Debrecen, Kaposvár, Szombathely, Székesfehérvár. The Group also has operations in Romania and Ukraine.

The subsidiaries and joint ventures are listed in Notes 28 and 29, respectively.

### 2.1 General

The accounting policies followed by the Group in the preparation of these consolidated financial statements conform with International Financial Reporting Standards ("IFRS"). The consolidated financial statements are prepared in accordance with the historical cost convention with the exception of certain components of property, plant and equipment (see Note 2.4). The reporting currency of the Group is the Hungarian forint ("HUF").

### 2.2 Basis of consolidation

These consolidated financial statements include the assets, liabilities, revenues and expenses of all majority-owned subsidiaries. Intercompany transactions and balances are eliminated on consolidation. When the Company is an investor in a jointly controlled company, the method of proportional consolidation is used to integrate the invested company into the consolidated financial statements, whereby the Company's proportional share of the assets, liabilities, revenues and expenses are consolidated on a line-by-line basis.

### 2.3 Accounting for acquisitions

Upon acquisition, subsidiaries are accounted for under the fair value method of accounting. Any goodwill or negative goodwill arising on acquisition is recognized in the consolidated balance sheet and accounted for as indicated below.

Goodwill, which represents the residual cost of the acquisition after recognizing the acquirer's interest in the fair value of the identifiable assets and liabilities acquired, is held as an intangible asset and recorded as Depreciation and amortization in the Consolidated Statement of Operations, in anticipation of future economic benefits, on a straight-line basis over a period of five to ten years. The value of any goodwill held in the Consolidated Balance Sheet is reassessed on an annual basis, determined on the basis of specific identification of the investment. If it is no longer probable that the goodwill will be recovered from future economic benefits, it is recognized immediately as an expense.

The excess, as at the date of the exchange transaction, of the Company's interest in the fair values of the identifiable assets and liabilities acquired over the cost of the acquisition, is recognised as negative goodwill among intangible assets.

The extent that negative goodwill relates to expectations of future losses and expenses that are identified in the Company's plan for the acquisition and can be measured reliably, but which do not represent identifiable liabilities at the date of acquisition, that portion of negative goodwill is recognised as Other income in the Consolidated Statement of Operations when the future losses and expenses are recognised.

To the extent that negative goodwill does not relate to identifiable expected future losses and expenses that can be measured reliably at the date of acquisition, negative goodwill is recognised as other income on a systematic basis over the remaining weighted average useful life of the identifiable acquired depreciable/amortisable assets.

**PANNONPLAST MŰANYAGIPARI RT.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED 31 DECEMBER 2004 AND 2003**

## **2. Summary of significant accounting policies**

### 2.4 Foreign currency transactions

Foreign currency transactions are converted into HUF at the exchange rate prevailing at the transaction date. Assets and liabilities denominated in foreign currencies have been converted into HUF at the official exchange rate prevailing at the balance sheet date. Foreign exchange differences are charged or credited in determining income before income taxes.

On consolidation, the assets and liabilities of the Group's foreign operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve.

### 2.5 Property, plant and equipment

Pannonplast's property, plant and equipment were valued at 31 May 1991 by independent professional valuers. Fixed assets are stated in the consolidated balance sheet at historical cost (plant and machinery) or the revalued amount (land and buildings) less accumulated depreciation.

Depreciation is provided on historical cost or revalued amounts using the straight-line method over the estimated remaining useful lives of the assets, which is generally for buildings between 20 and 50 years and for plant and machinery between 3 and 7 years.

Depreciation is not provided on land or on assets under construction.

### 2.6 Impairment

At each balance sheet date, the Group reviews the carrying amount of its tangible and intangible assets to determine whether there is any indication in accordance with internal or external information that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the amount of such an impairment loss (if any). If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment loss are recognized as an expense immediately.

### 2.7 Intangible fixed assets

Intangible assets are included in the consolidated balance sheet at cost less accumulated amortization. Amortization is accounted for on the straight-line method over the estimated useful lives of the assets at the following rates:

Purchased goodwill	5 to 10 years
Purchased know how	5 years
Organisational costs	5 years
Purchased software	3 years

Amortisation of property rights is over the length of the purchased right.

The carrying value of each intangible asset is reviewed annually and adjusted for permanent impairment where it is considered necessary.

### 2.8 Capitalised leases

Assets held under finance leases and the related lease obligations are recorded in the consolidated balance sheet at the fair value of the leased assets at the inception of the lease. The amounts by which the lease payments exceed the recorded lease obligations are treated as finance charges, which are charged to the consolidated statement of income.

**PANNONPLAST MŰANYAGIPARI RT.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED 31 DECEMBER 2004 AND 2003**

**2. Summary of significant accounting policies, continued**

2.9 Investments

Investments include investments in associates and other investments.

Investments in associates comprise those investments in enterprises in which the Company holds 20% or more of the voting power of the enterprise.

Investments in associates are accounted for using the equity method of accounting. Adjustments are also made to the carrying cost of an investment in an associate when an other than temporary diminution in value of the investee occurs.

Other investments comprise investments in unconsolidated subsidiaries and joint ventures and other share holdings where the Company holds less than 20% of the voting power of the enterprise and does not possess significant influence over the enterprise. These investments are treated as held-to-maturity investments and are recorded at the original cost of acquisition, less allowance for permanent diminution in value, when appropriate.

2.10 Income taxation

The taxation charge is based on the tax payable under the appropriate fiscal law, adjusted for deferred taxation.

Deferred taxation is provided on losses available for carryforward for offset against future taxable profits and on temporary differences in the tax bases of assets and liabilities and their carrying value for financial reporting purposes, measured at tax rates that are expected to apply when the asset is realised or the liability is settled, based on tax rates that have been enacted at the date of the consolidated balance sheet.

2.11 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost of inventories is determined using the average cost method.

2.12 Securities

Securities consist of discounted treasury-bills issued by the Hungarian Government, bonds issued by the Hungarian Government and Hungarian financial institutions and certificates of deposit issued by Hungarian financial institutions. Such securities are held for trading purposes by the Group and, accordingly, are included as current assets in the consolidated balance sheet.

Discounted treasury-bills are included in the consolidated balance sheet at fair value. Amortisation of discounts on such securities is accounted for on a straight-line basis during the period from acquisition to maturity. Unrealised gains and losses are included in net profit or loss for the year.

Hungarian Government and commercial bonds and certificates of deposit are initially recorded at cost and are remeasured to fair value at subsequent reporting dates.

Own shares are held at cost and presented as a reduction in shareholders' equity. Gains or losses on the sale of own shares are accounted for directly to reserves.

**PANNONPLAST MŰANYAGIPARI RT.**  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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**2. Summary of significant accounting policies, continued**

2.13 Statement of cash flows

Cash and cash equivalents comprise cash in hand and at bank, bank overdrafts and bank deposits with a maturity date of three months, or less, from the date of acquisition.

2.14 Earnings per share

Earnings per share attributable to the Company's shares are determined based on the attribution of earnings for the period divided by the weighted average number of ordinary shares during the period.

2.15 Fair value of financial instruments

The carrying amount of certain of the financial instruments including cash and cash equivalents, securities, receivables and payables falling due within one year approximate fair value because of their short maturities. The carrying amount of short-term debt, which primarily represents loans with variable interest rates, approximates fair value.

2.16 Provision

Provisions are recorded if the Company has current legal or contingent liabilities resulting from past events, and an outflow of funds manifesting itself in economic benefits is likely to cover the liability, and a reliable estimate of the amount of the liability may be made.

2.17 Comparative figures

Certain comparative figures have been reclassified to conform with the 2004 consolidated financial statement presentation.

**PANNONPLAST MŰANYAGIPARI RT.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED 31 DECEMBER 2004 AND 2003**

**3. Sales**

Sales by product type are as follows:

	2004 ThHUF	2003 ThHUF
Pipes and fittings	4,667,033	4,067,681
Rigid films and packaging	6,919,576	6,514,170
Foams	1,897,881	1,828,896
Containers and crates	2,248,148	2,182,202
Technical plastic components	6,390,074	6,489,009
Moulds	508,819	722,810
Other	<u>3,929,729</u>	<u>4,570,602</u>
<b>Total sales</b>	<u><u>26,561,260</u></u>	<u><u>26,375,370</u></u>

Sales by geographical region are as follows:

	2004 ThHUF	2003 ThHUF
Domestic sales	15,686,671	16,288,860
Export sales	<u>10,874,589</u>	<u>10,086,510</u>
<b>Total sales</b>	<u><u>26,561,260</u></u>	<u><u>26,375,370</u></u>

The majority of export sales are to Western European countries. Sales from operating companies in Romania and Ukraine are included among export sales in these consolidated financial statements.

**4. Other expenses**

	2004 ThHUF	2003 ThHUF
Provision and write off of receivables	259,085	139,603
Local taxes	270,357	351,368
Provision for expected losses	78,204	-
Impairment of goodwill	-	235,105
Impairment of property, plant and equipment	79,762	734,088
Impairment of inventories (related to metal-works activity)	-	10,276
Provision and write off of inventories	96,556	184,547
Penalties and late interest	112,443	19,819
Duty, contribution	38,770	9,771
Cancelled receivables	47,773	-
Given subsidies	22,447	135,044
Other	<u>129,114</u>	<u>185,143</u>
<b>Total</b>	<u><u>1,134,511</u></u>	<u><u>2,004,764</u></u>

**PANNONPLAST MŰANYAGIPARI RT.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED 31 DECEMBER 2004 AND 2003**

**5. Other income**

	2004 ThHUF	2003 ThHUF
Gain on sale of fixed assets	183,885	274,559
Discounts	184,292	130,064
Subsidies received	130,409	70,679
Income due to damage	32,887	9,337
Received compensation	28,025	5,714
Other	<u>87,740</u>	<u>79,894</u>
Total	<u><u>647,238</u></u>	<u><u>570,247</u></u>

**6. Financial income and expense, net**

	2004 ThHUF	2003 ThHUF
Interest and similar income	42,879	52,853
Other financial income	489,958	238,414
Interest expense	(580,124)	(451,841)
Other financial expense	<u>(607,908)</u>	<u>(864,572)</u>
Total	<u><u>(655,195)</u></u>	<u><u>(1,025,146)</u></u>

**PANNONPLAST MŰANYAGIPARI RT.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED 31 DECEMBER 2004 AND 2003**

**7. Intangible assets**

At cost:

	Goodwill	Organisation & Development	Property and Other Rights	Purchased Software	Total
	ThHUF	ThHUF	ThHUF	ThHUF	ThHUF
1 January 2004	1,352,977	879,885	521,138	586,077	3,340,077
Additions	-	178,467	764	46,397	309,791
Disposals	-	(113,914)	(3,840)	(46,190)	(248,107)
31 December 2004	<u>1,352,977</u>	<u>944,438</u>	<u>518,062</u>	<u>586,284</u>	<u>3,401,761</u>

Accumulated amortisation:

	Goodwill	Organisation & Development	Property and Other Rights	Purchased Software	Total
	ThHUF	ThHUF	ThHUF	ThHUF	ThHUF
1 January 2004	1,037,574	448,185	497,454	317,675	2,300,888
Charge for year	46,043	213,640	1,139	114,058	374,880
Provision for impairment	-	(154,533)	(3,705)	(31,885)	(190,123)
31 December 2004	<u>1,083,617</u>	<u>507,292</u>	<u>494,888</u>	<u>399,848</u>	<u>2,485,645</u>

Net book value

1 January 2004	<u>315,403</u>	<u>431,700</u>	<u>23,684</u>	<u>268,402</u>	<u>1,039,189</u>
Net book value					
31 December 2004	<u>269,360</u>	<u>437,146</u>	<u>23,174</u>	<u>186,436</u>	<u>916,116</u>

**PANNONPLAST MŰANYAGIPARI RT.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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**8. Property, plant and equipment**

At cost:

	Land & Buildings	Machinery & Vehicles	Assets under Construct- ion	Total
	ThHUF	ThHUF	ThHUF	ThHUF
1 January 2004	8,098,531	20,390,809	206,054	28,695,394
Additions and transfers	85,271	657,966	771,284	1,514,521
Disposals and transfers	<u>(466,084)</u>	<u>(1,938,576)</u>	<u>(816,626)</u>	<u>(3,221,286)</u>
31 December 2004	<u>7,717,718</u>	<u>19,110,199</u>	<u>160,712</u>	<u>26,988,629</u>

Accumulated depreciation:

	Land & Buildings	Machinery & Vehicles	Assets under Construct- ion	Total
	ThHUF	ThHUF	ThHUF	ThHUF
1 January 2004	862,165	11,343,469	-	12,205,633
Charge for year	123,122	1,952,320	-	2,075,442
Disposals	(90,745)	(1,264,594)	-	(1,355,339)
Provision for impairment	40,231	39,531	-	79,762
31 December 2004	<u>934,773</u>	<u>12,070,725</u>	<u>-</u>	<u>13,005,498</u>
Net book value 1 January 2004	<u>7,236,366</u>	<u>9,047,340</u>	<u>206,054</u>	<u>16,489,760</u>
Net book value 31 December 2004	<u>6,782,945</u>	<u>7,039,474</u>	<u>160,712</u>	<u>13,983,131</u>

Certain land, buildings and machinery are pledged as security for borrowings (see Notes 17 and 18).

**9. Long-term receivables**

	2004 ThHUF	2003 ThHUF
Employee housing loans	<u>3,315</u>	<u>5,584</u>

Housing loans are extended to employees interest free. The loans are repayable over periods up to fifteen years, but become immediately repayable or interest bearing in the event that the recipient ceases to be an employee. The loans are collateralised by the employees' homes.

**PANNONPLAST MŰANYAGIPARI RT.**  
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**10. Inventories**

	2004 ThHUF	2003 ThHUF
Raw materials	1,731,619	1,866,972
Work in progress	417,850	443,627
Finished goods	<u>1,402,368</u>	<u>1,417,454</u>
	3,551,837	3,728,053
Provision for inventories	<u>(36,357)</u>	<u>(72,167)</u>
Total inventories	<u><u>3,515,480</u></u>	<u><u>3,655,886</u></u>

Certain inventories are pledged as security for borrowings in 2004 (see Note 19).

**11. Accounts receivable**

	2004 ThHUF	2003 ThHUF
Trade receivables	5,743,264	5,779,508
Allowance for doubtful receivables	<u>(488,971)</u>	<u>(320,211)</u>
Total accounts receivable	<u><u>5,254,293</u></u>	<u><u>5,459,297</u></u>

Certain accounts receivable are pledged as security for borrowings in 2004 (see Note 19).

**12. Other receivables**

	2004 ThHUF	2003 ThHUF
Corporate income tax paid in advance	106,549	163,480
Prepayments	191,817	312,878
Other taxes (mainly VAT)	460,532	726,875
Deferred taxation	626,980	204,311
Receivables from employees	10,430	15,756
Receivables from sale of own shares	-	171,780
Bill of exchange	70,267	-
Other	<u>471,118</u>	<u>401,285</u>
Total other receivables	<u><u>1,937,693</u></u>	<u><u>1,996,365</u></u>

**13. Share capital**

	2004 ThHUF	2003 ThHUF
Share capital	<u><u>421,093</u></u>	<u><u>421,093</u></u>

Share capital as of 31 December 2004 and 2003 consists of 4,210,930 ordinary shares, at a nominal value of HUF 100.

**PANNONPLAST MŰANYAGIPARI RT.**  
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**14. Reserves**

The determination of reserves available for distribution is based on the statutory unconsolidated balance sheet of Pannonplast Rt. prepared in accordance with the Hungarian Law on Accounting. Reserves available for distribution, including net income for the year after income tax and before dividends were ThHUF 610,519 and ThHUF 3,042,619 as of 31 December 2004 and 2003, respectively.

**15. Minority interest**

	2004 ThHUF	2003 ThHUF
Balance at 1 January	1,475,942	1,530,438
Purchase of minority interest in subsidiaries	(1,761)	(20,394)
Dividends paid to minority investors	(151,708)	(179,985)
Minority share of net loss for the year	<u>97,322</u>	<u>145,883</u>
Balance at 31 December	<u><u>1,419,795</u></u>	<u><u>1,475,942</u></u>

The Group obtained further shares in Dexter Szerszámkészítő Rt without any obligation of payment (1,681 pieces shares). With this transaction, the Company's ownership in Dexter Rt increased to 93.9%.

**16. Long-term debt**

	2004 ThHUF	2003 ThHUF
Long-term debt	2,423,324	4,799,493
Less current maturities	<u>(420,950)</u>	<u>(3,733,319)</u>
Total long-term debt	<u><u>2,002,374</u></u>	<u><u>1,066,174</u></u>

Interest was charged on HUF denominated loans at rates between 0% and BUBOR + 0.65% as of 31 December 2004. Long-term credits with preferential interest rates of ThHUF 14,250 and 39,908 as of 31 December 2004 and 2003, respectively, are granted by development agencies for specific investment activities. These preferential rates of interest are not marketable or transferable.

As of 31 December 2004, included in long-term debt are ThHUF 1,988,124 equivalent of loans denominated in Euro. Interest was charged on loans denominated in Euro at rates between EURIBOR + 0.5% and EURIBOR + 2.55% as of 31 December 2004.

As of 31 December 2003, included in long-term debt are ThHUF 3,787,042 equivalent of loans denominated in Euro. Interest was charged on loans denominated in Euro at rates between EURIBOR + 0.5% and EURIBOR + 2.55% as of 31 December 2003.

Long-term debt is for development purposes and is collateralised by the property, plant and equipment that it finances and is payable in periods between two and five years.

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**17. Short-term debt**

	2004 ThHUF	2003 ThHUF
Bank loans	4,397,285	3,725,008
Bank overdrafts	<u>210,280</u>	<u>89,022</u>
Total short-term debt	<u><u>4,607,565</u></u>	<u><u>3,814,030</u></u>

Included in short-term bank loans as of 31 December 2004 are ThHUF 2,154,493 and ThHUF 274,493 equivalent of loans denominated in Euro and Romanian lei, respectively. Interest on loans denominated in Euro was charged at between LIBOR + 0.55% and EURIBOR + 0.5% and EURIBOR + 2.55%. Interest charged on loans denominated in Romanian lei was between 18.8% and 19.7% as of December 31, 2004. Further information related to repayments see in Note 30.

Included in short-term bank loans as of 31 December 2003 are ThHUF 2,356,078 and ThHUF 157,274 equivalent of loans denominated in Euro and Romanian lei, respectively. Interest on loans denominated in Euro was charged at between LIBOR + 0.55% and LIBOR + 0.7% and EURIBOR + 0.5% and EURIBOR + 0.65% as of 31 December 2003. Interest charged on loans denominated in Romanian lei was between 21% and 23.5% as of December 31, 2003.

Interest on HUF denominated loans and overdrafts was charged at rates between 0% and between BUBOR + 0.5% and BUBOR + 0.65% as of 31 December 2004.

Interest on HUF denominated loans and overdrafts was charged at rates between 0% and between BUBOR + 0.5% and BUBOR + 2.35% as of 31 December 2003.

The Group prolonged its syndicated loan with the consortium lead by CIB Bank Rt. on June 21, 2004. The collateral for the syndicated loan consists of the following:

- The whole property and inventory of Pannonplast Rt., Almand Kft, Pannonplast Műszaki Műanyagok Rt. and Pannunion Kft;
- Production machinery of Dexter Rt - registered mortgage of HUF 342 million.

Collateral of other long and short-term loans and overdraft facilities consists of the following:

- Pannonpipe Kft: mortgage of HUF 455 million is registered on property and machinery; and a mortgage of HUF 487.5 million is registered on inventory.
- FCI Furukawa: assignment of receivables in the amount of HUF 42 million.
- Tu-Plast: mortgage of HUF 200 million registered on movables.

The Company could not meet the requirements of covenants and waiver fees had to be paid in amount of million HUF 14.8 in 2004.

**18. Provision**

	Provision ThHUF
Balance at 1 January, 2004	-
Provision made	78,204
Release of provision	<u>-</u>
Balance at 31 December, 2004	<u><u>78,204</u></u>

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**18. Provision, continued**

Major part of provision is in connection with the interest-free loans and non-repayable subsidies for construction projects from the Ministry of Economy in the prior years of two subsidiaries. The subsidy contracts includes certain expectation for sales, as well as limitations relating to transfer of assets and utilisation. The mentioned two subsidies will probably not meet these contractual terms, and have expected interest liabilities. This amount is HUF 74.5 million.

**19. Other current liabilities**

	2004 ThHUF	2003 ThHUF
Wages and social security	259,354	333,056
Corporate income tax	3,009	3,590
Other taxation (mainly VAT and customs duties)	168,900	185,937
Accrued expenses	481,036	431,596
Advances received from customers	64,706	31,631
Other	<u>66,659</u>	<u>39,516</u>
Total other current liabilities	<u><u>1,043,664</u></u>	<u><u>1,025,326</u></u>

**20. Taxation**

	2004 ThHUF	2003 ThHUF
Current year tax charge	71,691	181,745
Deferred tax charge/(credit), net	<u>(422,669)</u>	<u>(96,783)</u>
Total	<u><u>(350,978)</u></u>	<u><u>84,962</u></u>

A reconciliation of the deferred tax assets included in other receivables is as follows:

	2004 ThHUF	2003 ThHUF
Balance at 1 January	204,311	107,528
Increase in deferred tax asset	<u>422,669</u>	<u>96,783</u>
Balance at 31 December	<u><u>626,980</u></u>	<u><u>204,311</u></u>

The rate of corporate income tax for 2004 is 16% (2003 - 18%).

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**20. Taxation, continued**

A reconciliation of the current year tax charge is as follows:

	2004 ThHUF	2003 ThHUF
Loss before income taxes and minority interest	(2,151,842)	(1,612,998)
Loss before income tax of loss making companies	(2,736,119)	(2,838,381)
Profit before income tax of profitable companies	584,277	1,225,383
Income tax at 16%	93,484	196,061
Permanent differences	(21,793)	(14,316)
Corporate income tax	71,691	181,745
Deferred tax effect of loss carryforward	<u>(422,669)</u>	<u>(96,783)</u>
Current year tax charge	<u>(350,978)</u>	<u>84,962</u>

A deferred tax asset has been recognised for certain accumulated losses available to be carried forward and offset against future taxable income. No deferred taxation has been recorded for temporary differences as the amount is not significant to the consolidated financial statements.

The following losses carryforward future offset against any future taxable income are:

	2004 ThHUF	2003 ThHUF
Subsidiaries		
Losses carried forward	4,316,264	2,591,780
Potential deferred tax asset	690,602	414,685
Provision against uncertainty of future income	(63,622)	207,165
Losses carried forward	626,980	207,520

**21. Loss per share**

	2004	2003
Net loss for the year (ThHUF)	<u>(1,898,186)</u>	<u>(1,843,843)</u>
Weighted average number of issued shares for the year (shares)	<u>4,210,930</u>	<u>4,174,973</u>
Loss per share (HUF)	<u>(451)</u>	<u>(442)</u>

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**22. Discontinued operation**

**a., Sale of Multicard Kft.**

During 2004, the Group entered into a sale agreement to dispose of its investment in Multicard Kft, which carried out plastic card manufacturing operations.

The results of Multicard Kft. operations included in the consolidated financial statements, were as follows:

	2004 ThHUF	2003 ThHUF
Revenue	240,068	296,716
Cost of sales	(144,978)	(173,717)
Gross profit	95,090	122,999
Operating income and expense, net	(1,736)	12,698
Financial expense	6,267	504
Profit for the period	4,531	13,182

The carrying amounts of the assets and liabilities of Multicard Kft. at the date of disposal are disclosed in Note 23/b.

**b., Sale of Kaposlast Kft.**

During 2004, the Group entered into a sale agreement to dispose of its investment in Kaposlast Kft, which carried out brush manufacturing operations.

The results of Kaposlast Kft. operations included in the consolidated financial statements, were as follows:

	2004 ThHUF	2003 ThHUF
Revenue	792,653	684,974
Cost of sales	(579,854)	(474,465)
Gross profit	212,799	210,509
Operating income and expense, net	33,458	(56,742)
Financial expense	(16,261)	(32,382)
Profit for the period	17,555	88,782

The carrying amounts of the assets and liabilities of Kaposlast Kft. at the date of disposal are disclosed in Note 23/b.

**PANNONPLAST MŰANYAGIPARI RT.**  
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**22. Discontinued operation, continued**

**c., Sale of Pannonplast Karbantartó Kft.**

During 2004, the Group entered into a sale agreement to dispose of its investment in Pannonplast Karbantartó Kft, which carried out sparepart-manufacturing, maintenance operations.

The results of Pannonplast Karbantartó Kft. operations included in the consolidated financial statements, were as follows:

	2004 ThHUF	2003 ThHUF
Revenue	240,796	243,915
Cost of sales	(146,436)	(156,305)
Gross profit	94,360	87,610
Operating income and expense, net	2,347	(23,728)
Financial expense	(1,829)	(1,716)
Profit for the period	15,920	24,929

The carrying amounts of the assets and liabilities of Pannonplast Karbantartó Kft. at the date of disposal are disclosed in Note 23/b.

**d., Sale of Recyclen Kft.**

During 2004, the Group entered into a sale agreement to dispose of its investment in Recyclen Kft, which carried out recycling of waste materials operations.

The results of Recyclen Kft. operations included in the consolidated financial statements, were as follows:

	2004 ThHUF	2003 ThHUF
Revenue	113,039	115,615
Cost of sales	(62,395)	(69,543)
Gross profit	50,644	46,072
Operating income and expense, net	12,035	19,711
Financial expense	3,915	1,064
Profit for the period	15,310	20,264

The carrying amounts of the assets and liabilities of Recyclen Kft. at the date of disposal are disclosed in Note 23/b.

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**22. Discontinued operation, continued**

**e., Voluntary liquidation of MŰKI Kft.**

Pannonplast Rt resolved the voluntary liquidation of MŰKI MŰanyagipari Kutatóintézet Kft. Starting date of the voluntary liquidation is July 1, 2004. This carried out the plastic research and development activities.

The results of MŰKI Kft. operations included in the consolidated financial statements, were as follows:

	2004 ThHUF	2003 ThHUF
Revenue	23,978	112,934
Cost of sales	(12,372)	(79,951)
Gross profit	11,606	32,983
Operating income and expense, net	(63,850)	(17,077)
Financial expense	(730)	348
Loss for the period	(64,580)	(13,902)

The carrying amounts of the assets and liabilities of MŰKI Kft. at the date of disposal are disclosed in Note 23/b.

**f., Termination of metal-working activity**

During 2003, the Group decided to terminate the metal-working activity of Moldin 2000 Rt, following the decision of the most significant customer to decrease the ordered quantity of metal products. The customer started to order plastic products from Moldin 2000 Rt. in the second half year of 2003.

The gross profit of metal-working activity included in the consolidated financial statements, are as follows:

	2004 ThHUF	2003 ThHUF
Revenue	-	533,357
Cost of sales	-	(409,617)
Gross profit	-	123,740

The impaired assets related to the metal-working activity are the follows:

	2004 ThHUF	2003 ThHUF
Impairment of know how	-	320,102
Impairment of property, plant and equipment	-	263,674
	-	583,776

**PANNONPLAST MŰANYAGIPARI RT.**  
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**23. Notes to the cash flow statement**

**a. Analysis of cash and cash equivalents**

Cash and cash equivalents at 31 December consists of:

	2004 ThHUF	2003 ThHUF
Restricted cash	(151,912)	(151,912)
Cash and deposits	1,116,557	1,040,512
Bank overdrafts	<u>(210,280)</u>	<u>(89,022)</u>
Net cash and cash equivalents	<u><u>754,365</u></u>	<u><u>799,578</u></u>

**b. Sale or liquidation of investments:**

	2004 ThHUF	2003 ThHUF
Intangible fixed assets	(55,297)	-
Tangible fixed assets	(643,767)	-
Long term receivables	(1,162)	-
Inventory	(176,153)	-
Accounts receivable and other receivables	(284,431)	-
Cash at bank and in hand	(146,272)	-
Short-term loans	184,277	-
Accounts payable and other liabilities	255,951	-
Net assets	<u>(866,854)</u>	<u>-</u>
Selling price of sold investments	698,720	-
Loss on sale of investments	<u>(168,134)</u>	<u>-</u>

**c. Purchase of minority interests**

	2004 ThHUF	2003 ThHUF
Purchase price of minority interest	-	281,623
Purchased minority interests	<u>(1,761)</u>	<u>(20,394)</u>
Goodwill	1,761	261,229
Provision for impairment	<u>(1,761)</u>	<u>(261,229)</u>

**d. Analysis of net inflow of cash in respect of sale of joint venture:**

	2004 ThHUF	2003 ThHUF
Selling price of sold investments	698,720	-
Cash balances of sold investments	<u>(146,272)</u>	<u>-</u>
Net cash inflow	<u><u>552,448</u></u>	<u><u>-</u></u>

**PANNONPLAST MŰANYAGIPARI RT.**  
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**23. Notes to the cash flow statement, continued**

**e. Non-cash movement:**

Included in the consolidated statement of cashflows for the years ended 31 December 2004 and 2003 are ThHUF 8,297 and ThHUF 24,980, respectively, of non-cash movements arising from foreign currency translation differences on consolidation of foreign subsidiaries.

**24. Capital commitments**

	2004 ThHUF	2003 ThHUF
Contracted for but not included in the consolidated financial statements	<u>250,042</u>	<u>7,320</u>
Authorised but not contracted for	<u>467,500</u>	<u>174,300</u>

**25. Contingent liabilities**

Two subsidiaries, Moldin Kft. Merged to Pannonplast Műszaki Műanyagok Rt and Pannonplast Műszaki Műanyagok Rt. were granted non-repayable subsidy for construction projects from the Ministry of Economy during 2000 and 2001 in total amount of HUF 263 million. The subsidy contracts includes certain expectation for sales, as well as limitations relating to transfer of assets and utilisation. Any deviation from these contractual terms may result in an obligation to pay back the loan and the related interest.

According to management, the subsidised companies meet the conditions set forth in the contracts; and no obligation to pay the subsidies back is expected.

**26. Foreign exchange rate and interest rate risk**

Details of the Group's borrowings in foreign currencies are included in Notes 19. and 20. Other foreign currency assets and liabilities arise from the export and import of finished goods and raw materials, respectively.

The Group has two subsidiaries and a joint venture in Romania and Ukraine. Exchanges losses arising from the devaluation of the local currency are recorded on consolidation directly to shareholders' equity, (see Note 23 e).

The majority of the Group's borrowings bear interest at variable interest rates.

**27. Pensions**

The Group contributed ThHUF 73,235 into pension funds on behalf of 822 employees in 2004. (In 2003 ThHUF 73,635 on behalf of 682 employees). Apart from these annual contributions based on salary, the Group has no other obligations above the contributions paid into the State run pension scheme.

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**28. Subsidiaries**

All subsidiaries, with the exception of Kuala Ingatlanhasznosító Kft. and MŰKI Kft., are engaged in manufacturing activities, primarily plastics processing.

The Company's consolidated subsidiaries, and its percentage holding in each company are as follows:

Incorporated in Hungary

	2004	2003
Pannonplast Karbantartó Kft.	-	100%
Recyclen Műanyagfeldolgozó Kft.	-	100%
Almand Műanyagipari Kft.	100%	100%
Tu-Plast Tubusgyártó Kft.	60%	60%
Pannon-Effekt Műanyagipari Kft.	100%	100%
Pannunion Csomagolóanyag Kft.	100%	100%
Dexter Szerszámgyártó Rt.	94%	93%
Polifoam Műanyagfeldolgozó Kft.	51%	51%
Kaposplast Kefe- és Műanyagipari Kft.	-	100%
Multicard Műanyagkártya-gyártó Kft.	-	100%
Moldin Műanyagipari Kft.*	-	100%
Pannonplast Műszaki Műanyag Rt.**	100%	100%
FCI Furukawa Kompozit Szigetelő Kft.	58%	58%
Kuala Ingatlanhasznosító Kft.	100%	100%
MŰKI Műanyagipari Kutatóintézet Kft. VA***	100%	100%

\* Merged into Pannonplast Műszaki Műanyagok Rt. during 2004

\*\* Previously Moldin 2000 Rt.

\*\*\* Under voluntary liquidation

Incorporated outside Hungary:

Romania

	2004	2003
Unical SRL.	100%	100%

Ukraine

Interagropak TOV.	51%	51%
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**29. Joint ventures**

All joint ventures are engaged in plastics processing.

The Company's joint ventures consolidated under the proportional method, are as follows:

Incorporated in Hungary:

	2004	2003
Pannonpipe Műanyagipari Kft.	50%	50%

Incorporated in Romania:

Pipelife Romania SRL.	50%	50%
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**PANNONPLAST MŰANYAGIPARI RT.**  
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**30. Future operation of Pannonplast and the Group**

The Pannonplast Group had a consolidated loss of million HUF 1,898 in 2004 (similarly to the loss of million HUF 1,844 in 2003). The primary reasons for the loss were partly the one-off effect of reorganisation costs, and the reduction in margins due to the effect of price increases in raw materials generated by the oil price rises.

The reduction of Pannonplast Group's level of indebtedness accelerated at the end of 2004. The consolidated loan portfolio of HUF 8,613 million in early 2004 was reduced to nearly HUF 7,000 million by the end of 2004. This process is expected to continue in 2005. Operative cash generation and the cashflow from the sales of non strategic assets will be spent on careful investments and the reduction of the loan portfolio.

As a result of the above measures, the Company expects stable operation of the Pannonplast Group as from 2005, providing a basis for mid-term profit generation and capital accumulation.

**31. Implementing of new accounting standards**

During 2004 there have been many changes relating to future IFRS. The revised standards should be applied for annual periods beginning after January 1, 2005.

The effect of introduction of IFRS 2 will be effective for the consolidated financial statements of the Company from January 1, 2005.

**a.) IFRS 2 Share based payments**

For equity settled share based compensation, under IFRS 2 the Company is required to measure the fair value of services received, based on the fair value of the equity instrument granted, and to recognise such expense in the consolidated financial statements. IFRS 2 will be adopted from January 1, 2005 retrospectively, in respect of options which have a grant date later than November 7, 2002.

The Annual General Meeting of the year of 2004 approved, and the extraordinary General meeting led on September 10, 2004 has modified a three year share option and bonus program for the years 2004 to 2006 which are granted on an annual basis. The Company could not meet the conditions of share based payments program, therefore there is no possibility to call these options. Thus neither loss after tax for 2004 nor opening adjustments as of January 1, 2005 are required.

**b.) IFRS 3 Business Combinations**

The Group has applied IFRS 3 Business Combinations from March 31, 2004 for new acquisitions. Effective from January 1, 2005 the Group will for all subsidiaries:

- discontinue amortising goodwill and the amount of goodwill net of accumulated amortization will become the carrying amount;
- test the goodwill for impairment in accordance with IAS 36 Impairment of Assets.

The most significant item is the goodwill acquired through the acquisition of Panunnon Kft, MŰKI Kft., Pannonplast Műszaki Műanyagok Rt. and Kuala Kft, the related balances as at December 31, 2004 are the following:

	<b>2004</b>
Gross value	434,723
Cumulated depreciation	(165,363)
Net value	<u>269,360</u>
<b>Depreciation charged for the year 2004</b>	<b><u><u>46,043</u></u></b>