

PANNONPLAST MŰANYAGIPARI NYRT.

**CONSOLIDATED FINANCIAL STATEMENTS
IN ACCORDANCE WITH
INTERNATIONAL FINANCIAL REPORTING
STANDARDS
ADOPTED BY THE EUROPEAN UNION**

**FOR THE YEAR ENDED
DECEMBER 31, 2006**

PANNONPLAST MŰANYAGIPARI NYRT.
CONSOLIDATED FINANCIAL STATEMENTS

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This is English translation of the Hungarian original

INDEPENDENT AUDITOR'S REPORT

To the *Shareholders and Board of Directors of Pannonplast Műanyagipari Nyrt.*

We have audited the accompanying consolidated financial statements of *Pannonplast Műanyagipari Nyrt. and subsidiaries (the "Group")*, which comprise the consolidated balance sheet as at December 31, 2006, and the related consolidated income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Qualifications

The Group realised a HUF 1,030,228 thousand gain on the sale of a subsidiary as of December 31, 2005. Our opinion is that this gain should have been accounted for in financial year 2006 according to the supporting documents. If the Group recorded the sale according to the supporting documents, consolidated income after taxes and the equity would be lower by HUF 1,030,228 thousand as of December 31, 2005., while the consolidated income after taxes would be higher by HUF 1,030,228 thousand as of December 31, 2006.

The Group recognised the revenue from sale of investments and the net book value of those investments in sales, and cost of sales as of December 31, 2006 and December 31, 2005. Our opinion is that in both years the gain/loss from sale of investment should have been recognised between financial result. If the Group recorded the sale of investments that way, sales would be lower by HUF 3,248,893 thousands, cost of sales would be lower by HUF 2,091,366 thousands and financial result would be higher by HUF 1,157,527 thousands in the consolidated financial statements for the year ended December 31, 2005, and sales would be lower by HUF 1,657,182 thousands, cost of sales would be lower by HUF 1,055,829 thousands and financial result would be higher by HUF 601,353 thousands in the consolidated financial statements for the year ended December 31, 2006.

Opinion

In our opinion, except for the above qualification, the consolidated financial statements present fairly, in all material respects the consolidated financial position of *Pannonplast Műanyagipari Nyrt. and subsidiaries* as of December 31, 2006, and of its consolidated financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Budapest April 29, 2007

(The original Hungarian version has been signed.)

.....
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PANNONPLAST MŰANYAGIPARI NYRT.
CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 2006
(in HUF thousands)

	Notes	2006	2005
Sales	5.	16,172,299	26,022,774
Cost of sales		(12,021,031)	(20,122,138)
Gross profit		4,151,268	5,900,636
Administration expense		(3,929,054)	(5,418,880)
Other expenses	6.	(406,262)	(1,112,351)
Other revenue	7.	524,026	870,590
Profit for the year before financial result		339,978	239,995
Financial result	8.	711,570	(309,852)
Profit for the year before taxes and minority interest		1,051,548	(69,857)
Income tax expense		(125,249)	(65,004)
Profit for the year before minority interest		926,299	(134,861)
Minority interest		(33,283)	(118,243)
Profit for the year		893,016	(253,104)
Earnings per share (in HUF)			
Basic	27.	220	(60)
Diluted	27.	220	(60)

PANNONPLAST MŰANYAGIPARI NYRT.
CONSOLIDATED BALANCE SHEET
AS OF DECEMBER 31, 2006
(in HUF thousands)

	Notes	2006	2005
NON-CURRENT ASSETS			
Intangible assets	10.	756,961	744,413
Property, plant and equipment	11.	7,526,471	9,704,218
Investments in associates		123,662	3,600
Deferred tax assets	26.	531,119	630,189
Finance lease receivables	9.	1,229,028	-
Non-current receivables	12.	2,234	2,670
Total non-current assets		10,169,475	11,085,090
CURRENT ASSETS			
Inventories	13.	2,171,246	2,386,462
Trade receivables	14.	2,289,783	3,661,972
Other receivables	15.	1,328,331	2,323,257
Finance lease receivables	9.	134,976	-
Financial assets			
at fair value through profit and loss	16.	1,625,693	-
Securities held-to-maturity		45,498	-
Cash and bank balances		1,355,265	2,399,859
Total current assets		8,950,792	10,771,550
NON-CURRENT ASSETS CLASSIFIED AS HELD FOR SALE	17.	-	1,243,148
TOTAL ASSETS		<u>19,120,267</u>	<u>23,099,788</u>
EQUITY			
Issued capital	18.	421,093	421,093
Reserves	20.	11,926,268	12,245,502
Profit for the year		893,016	(253,104)
Net book value of treasury shares	19.	(1,283,435)	-
Minority interest	21.	400,520	756,029
Total equity		12,357,462	13,169,520
Non-current borrowings	22.	1,020,897	537,467
Provisions	24.	35,341	81,377
CURRENT LIABILITIES			
Trade payables		1,901,434	3,340,640
Borrowings	23.	2,972,749	4,926,769
Non-current borrowings			
within 1 year	22.	124,847	244,766
Other current liabilities	25.	707,537	799,249
Total current liabilities		5,706,567	9,311,424
TOTAL EQUITY AND LIABILITIES		<u>19,120,267</u>	<u>23,099,788</u>

PANNONPLAST MŰANYAGIPARI NYRT.
CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 2006
(in HUF thousands)

	Notes	2006	2005
Cash flows from operating activities			
Profit/(Loss) for the year		893,016	(253,104)
<i>Adjustments to income before taxes</i>			
Depreciation and amortisation		1,214,209	2,146,229
Deferred tax		99,070	3,209
Fair value adjustment		(400,730)	-
Foreign exchange (gain)/loss on loans		(20,645)	69,420
Impairment on investment in associates		109,612	-
Impairment on property, plant and equipment and goodwill		37,753	479,515
Impairment and scrapping of inventories		13,188	67,345
(Reversal)/creation of provision		(46,036)	4,357
Provision on bad debt		4,196	76,159
Gain on disposal of property, plant and equipment		(282,051)	(552,929)
Gain on sale of subsidiaries	29.b.	(1,061,476)	(1,157,527)
(Decrease)/Increase in minority interest		(355,509)	118,243
<i>Changes in working capital</i>			
Decrease/(Increase) of inventories		56,225	(128,665)
Decrease/(Increase) of receivables		469,193	(137,467)
(Decrease)/Increase of receivables		(1,343,050)	192,579
NET CASH (USED IN)/FROM OPERATING ACTIVITIES		(613,035)	927,364
Cash flows from investing activities			
Purchase of investment in non-public entity		(229,674)	-
Sale of subsidiary	29.c.	3,234,486	1,483,030
Purchase of property, plant and equipment and intangible assets		(1,899,237)	(1,995,036)
Sale of property, plant and equipment and intangible assets		2,380,976	1,201,413
Increase of non-current receivables		135,208	69
Minority interest		-	1,820
NET CASH FROM INVESTING ACTIVITIES		3,621,759	691,296

PANNONPLAST MŰANYAGIPARI NYRT.
CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 2006
(in HUF thousands)

	Notes	2006	2005
NET CASH FROM INVESTING ACTIVITIES		3,621,759	691,296
Cash flows from financing activities			
Increase/(Decrease) of non-current borrowings		494,919	(1,455,653)
(Decrease)/Increase of non-current borrowings		(3,599,033)	1,530,781
Dividend paid by the subsidiaries		-	(128,166)
to minority interest		(66,130)	(72,040)
Foreign exchange difference		(1,283,435)	-
Purchase of treasury shares		(1,164,195)	-
(Increase) of securities			
NET CASH (USED IN) FINANCING ACTIVITIES		(5,617,874)	(125,078)
(DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(2,609,150)	1,493,582
Cash and cash equivalents at the beginning of the financial year	29.a.	2,247,947	754,365
Cash and cash equivalents at the end of the financial year	29.a.	<u>(361,203)</u>	<u>2,247,947</u>

PANNONPLAST MŰANYAGIPARI NYRT.
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2006
(in HUF thousands)

	Issued Capital	Reserves	Treasury shares	Minority interest	TOTAL
Balance at January 1, 2005	421,093	12,317,542	-	1,419,795	14,158,430
(Loss) for the year	-	(253,104)	-		(253,104)
Changes in minority interest	-	-	-	(663,766)	(663,766)
Foreign exchange difference	-	(72,040)	-		(72,040)
Balance at December 31, 2005	<u>421,093</u>	<u>11,992,398</u>	<u>-</u>	<u>756,029</u>	<u>13,169,520</u>
Profit for the year	-	893,016	-	-	893,016
Changes in minority interest	-	-	-	(355,509)	(355,509)
Nominal value of treasury shares	-	-	(42,066)	-	(42,066)
Difference of nominal value and purchase price of treasury shares	-	-	(1,241,369)	-	(1,241,369)
Foreign exchange difference	-	(66,130)	-	-	(66,130)
Balance at December 31, 2006	<u>421,093</u>	<u>12,819,284</u>	<u>(1,283,435)</u>	<u>400,520</u>	<u>12,357,462</u>

PANNONPLAST MŰANYAGIPARI NYRT.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

1. General information

Pannonplast Műanyagipari Nyrt. ('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 industry, manufacturing of composite insulator and utilization of renewable energy. On May 31, 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 and Szombathely. The Group also has operations in Romania and Ukraine.

The subsidiaries are listed in Note 34.

2. Adoption of new and revised Standards

2.1. The effect of adopting revised International Financial Reporting Standards effective from January 1, 2006 on the consolidated financial statements for the year ended December 31, 2006

In the current year, the Group has adopted all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board (the IASB) and the International Financial Reporting Interpretations Committee (the IFRIC) of the IASB that are relevant to its operations and effective for annual reporting periods beginning on January 1, 2006, especially:

- amendments to IAS 39 'Financial Instruments: Recognition and Measurement' in respect of cash flow hedge accounting and fair value option (effective January 1, 2006);
- amendments to IAS 1 'Presentation of Financial Statements' on capital disclosures (effective January 1, 2007).

The adoption of the above amendments had no significant impact on the consolidated financial statements for the year ended December 31, 2006 of the Group.

Revisions of other Standards also took effect on the consolidated financial statements of the Group, but those revisions concerned matters of detailed application which had no significant effect on amounts reported.

2.2. Changes in Accounting Policy arising from the adoption of new IFRSs and amendments to IASs effective January 1, 2007

At the date of authorisation of these financial statements, the following Standards and Interpretations were in issue but not yet effective:

- IFRS 7 'Financial Instruments: Disclosures' (effective January 1, 2007);
- the introduction of new disclosures regarding capital in IAS 1 'Presentation of Financial Statements' (effective January 1, 2007);
- new Interpretations (IFRIC 7,8,9,10).

It is anticipated that the adoption of these Standards and Interpretations in future periods will have no material financial impact on the financial statements of the Group.

PANNONPLAST MŰANYAGIPARI NYRT.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

3. Significant accounting policies

3.1. General

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union. IFRS as adopted by the European Union do not currently differ from IFRS as issued by the International Accounting Standards Board (IASB).

The consolidated financial statements are prepared in accordance with the historical cost convention with the exception of certain elements of property, plant and equipment and securities (see Note 3.11 and 3.16). The consolidated income statement was prepared in accordance with accrual basis of accounting. The reporting currency of the Group is the Hungarian forint ("HUF").

3.2. 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.

Minority interests in the net assets (excluding goodwill) of consolidated subsidiaries are identified separately from the Group's equity therein. Minority interests consist of the amount of those interests at the date of the original business combination (see below) and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

3.3. Accounting for acquisition

Upon acquisition, subsidiaries are accounted for under the fair value method of accounting. Any goodwill or negative goodwill arising on acquisition is recognised 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 before January 1, 2005 were recorded as amortisation in the consolidated income statement, in anticipation of future economic benefits, on a straight-line basis over a period of five to ten years. From January 1, 2005 the Group stopped the amortisation of goodwill and eliminated the accumulated amortisation with the gross book value in accordance with the IFRS3 'Business Combinations'. The value of any goodwill recorded in the consolidated balance sheet is tested for impairment annually, 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 recognised immediately as an expense.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

PANNONPLAST MŰANYAGIPARI NYRT.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

3. Significant accounting policies - continued

3.4. Goodwill

Goodwill arising on the acquisition of a subsidiary or a jointly controlled entity represents the excess of the cost of acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary or jointly controlled entity recognised at the date of acquisition. Goodwill is recognised as an intangible asset in the consolidated balance sheet. From January 1, 2005 the amortisation of goodwill is not allowed by IFRS.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

On disposal of a subsidiary or a jointly controlled entity, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

3.5. Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced with taxes and for estimated customer returns, rebates and other similar allowances.

3.5.1. Sale of goods

Revenue from the sale of goods is recognised when all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the entity; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

PANNONPLAST MŰANYAGIPARI NYRT.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

3. Significant accounting policies - continued

3.5. Revenue recognition - continued

3.5.2. Dividend and interest revenue

Revenue from use of assets of the Group by others is recognised when all the following conditions are satisfied:

- it is probable that the economic benefits associated with the transaction will flow to the entity;
and
- the amount of revenue can be measured reliably.

Dividend revenue from investments is recognised when the shareholder's right to receive payment has been established, so when it is approved by the shareholders.

Interest revenue is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

3.5.3. Sale of investments

Trusteeship of investment and other fixed assets has become a very important activity of the Group, so the selling price and the net book value of such assets are recorded in sales, and cost of sales. In order that the Group conforms IFRS regarding comparative information in the financial statements, it reclassified and disclosed the gain on sale of investments regarding 2005 in accordance with the new accounting policy.

3.6. Lease

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

3.6.1. The Group as lessor

Amounts due from lessees under finance leases are recorded as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

3.6.2. The Group as lessee

Assets held under finance leases are initially recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation.

Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability.

PANNONPLAST MŰANYAGIPARI NYRT.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

3. Significant accounting policies - continued

3.6. Leases - continued

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

3.7. Foreign currencies

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.

3.8. Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and the grants will be received. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable. Government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the balance sheet and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

3.9. Share-based payments

IFRS 2 'Share-based payments' was applied retrospectively by the Group from January 1, 2005 to options that were provided after November 7, 2002.

The Group issues equity-settled share-based compensations to certain employees. The fair value determined at the grant date of the equity-settled share-based payments is expensed in the income statement as personal type expenditure on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest.

In accordance with the rules of IFRS 2 the Company recorded share-based payments at the fair value of the service, which equalled the fair value of the shares provided and recognised as an expense in the consolidated financial statements. IFRS 2 'Share-based payments' was applied retrospectively from January 1, 2005 to options that were provided after November 7, 2002.

The Annual General Meeting of 2004 approved and the extraordinary general meeting as of September 10, 2004 modified an option and bonus plan covering the three year period between 2004 and 2006 that provided for annual benefits. In the case of options pertaining to 2003 and 2004 subject to IFRS 2 the grant date of the option was December 31, 2002.

PANNONPLAST MŰANYAGIPARI NYRT.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

3. Significant accounting policies - continued

3.9. Share-based payments - continued

The Company was unable to meet the conditions set forth in the management share option plan during 2004, therefore, it was not possible to exercise the share option as of December 31, 2004. Thus neither the restatement of the 2004 taxed profit nor an opening adjustment as of January 1, 2005 is required.

The Annual General Meeting of 2005 approved call options for a total of 420,000 ordinary Pannonplast shares to be provided to the 5 member of Board of Directors and the executive management of the Company. During 2006 each member of the management exercised their option, so the total amount of the was recorded. The difference between the market value and the option price at the date of they are exercised are charged to income statement, and deferred on a straight-line basis over the vesting period. As of the balance sheet date the asset deferred with respect to the option was determined on the basis of the fair value (HUF 345,445 thousands).

3.10. Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax. The annual taxation charge is based on the tax payable under fiscal regulation prevailing in country where the subsidiary is incorporated, adjusted for deferred taxation.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets are recognised when it is probable that sufficient taxable profits will be available in the future, to allow the asset to be recovered. The carrying amount of deferred tax assets and liabilities is reviewed at each balance sheet date. The Group recognises a previously unrecognised deferred tax asset to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered. Consequently, the Group reduces its deferred tax asset to the extent that is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

The deferred tax is presented on a net basis in the balance sheet.

3.11. Property, plant and equipment

Property, plant and equipment of the Group were valued at May 31, 1991 by independent professional valuers. From December 31, 1992 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.

PANNONPLAST MŰANYAGIPARI NYRT.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

3. Significant accounting policies - continued

3.11. Property, plant and equipment - continued

The initial cost of property, plant and equipment comprises its purchase price, including import duties and non-refundable purchase taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use, such as borrowing costs. Expenditures incurred after the property, plant and equipment have been put into operation, such as repairs and maintenance and overhead costs (except form periodic maintenance costs), are normally charged to income in the period in which the costs are incurred. Periodic maintenance costs are capitalized as a separate component of the related assets.

Depreciation is charged so as to write off the cost or valuation of assets, other than land and properties under construction, over their estimated useful lives, using the straight-line method.

Estimated useful lives are as follows:

Buildings, premises	20-50 years
Machinery	3-7 years

The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis. Where the carrying value of property, plant and equipment is greater than the estimated recoverable amount, it is written down immediately to the estimated recoverable amount.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

3.12. Intangible assets

Intangible assets are stated in the consolidated balance sheet at cost less accumulated amortisation. Amortisation is accounted for on the straight-line method over the estimated useful lives of the assets as follows:

Know-how	5 years
Research and development	5 years
Software	3 years

Property rights are amortised over the lenght of the purchased right.

The Group reviews the carrying value of its intangible assets to determine if there is any indication that those assets have suffered any impairment loss.

PANNONPLAST MŰANYAGIPARI NYRT.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

3. Significant accounting policies - continued

3.13. Impairment of tangible and intangible assets excluding goodwill

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 is recognised as an expense immediately.

3.14. Inventories

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

3.15. Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation.

Where discounting is used, the carrying amount of provision increases in each period to reflect the unwinding of the discount by the passage of time. This increase is recognised as interest expense.

3.16. Financial instruments

Financial instruments are recognised and presented at fair value in the financial statements.

Financial instruments are cash and cash equivalents, securities, trade and other receivables, trade and other payables, long term receivables, loans and investments in the consolidated balance sheet.

PANNONPLAST MŰANYAGIPARI NYRT.
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FOR THE YEAR ENDED DECEMBER 31, 2006

3. Significant accounting policies - continued

3.16. Financial investments - continued

Financial instruments (including compound financial instruments) are classified as assets, liabilities or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains, and losses relating to a financial instrument classified as a liability, are reported as expense or income as incurred. Distributions to holders of financial instruments classified as equity are charged directly to equity. In case of compound financial instruments the liability component is valued first, with the equity component being determined as a residual value.

Financial assets, other than those at fair value through profit or loss ('FVTPL'), are assessed for indicators of impairment at each balance sheet date. For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

3.16.1. Securities held-to-maturity

Securities that the Group has the expressed intention and ability to hold to maturity (held-to-maturity securities) are measured at amortised cost, less any impairment losses recognised to reflect irrecoverable amounts.

The annual amortisation of any discount or premium on the acquisition of a held-to-maturity security is aggregated with other investment income receivable over the term of the investment so that the revenue recognised in each period represents a constant yield on the investments.

Held-to-maturity investments include securities, which the Group has the ability and intent to hold to maturity. Such securities comprise mainly securities issued by the Hungarian State.

3.16.2. Financial assets at fair value through profit or loss

These assets are accounted on a settlement date basis and are initially measured at fair value, and are stated at subsequent reporting dates at fair value. Any unrealised resultant gain or loss, determined in course of valuation, is recognised in profit or loss. Financial assets at fair value through profit or loss comprise shares of Synergon Nyrt.

The fair value of these assets are determined using quoted market prices.

3.17. Derivative financial instruments

In the normal course of business, the Group is a party to contracts for derivative financial instruments, which represent a very low initial investment compared to the notional value of the contract. Derivative financial instruments used include currency forward agreements.

Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Fair values are determined using quoted market prices.

PANNONPLAST MŰANYAGIPARI NYRT.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

3. Significant accounting policies - continued

3.18. Cash flow statement

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 balance sheet date.

3.19. 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.

3.20. Comparative figures

Certain comparative figures have been reclassified to conform with the presentation of consolidated financial statements for the year ended December 31, 2006.

3.21. Treasury shares

Treasury shares are purchased on the stock exchange and on OTC markets, and are presented in the consolidated balance sheet as decreasing share capital. The nominal value of treasury shares held is deducted from registered share capital. Any difference between the nominal value and the acquisition price of treasury shares is recorded directly to reserves.

The gain or loss resulting from sale of treasury shares are credited or charged directly to reserves (equity).

3.22. Segment reporting

According to IAS 14 'Segment reporting' entities whose equity or debt securities are publicly traded and by entities that are in the process of issuing equity or debt securities in public securities markets shall disclose segment information in the financial statements. IAS 14 does not apply to the Group as all assets and liabilities of the Group are from plastic industry.

PANNONPLAST MŰANYAGIPARI NYRT.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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4. Critical accounting judgements and key sources of estimation uncertainty

The presentation of financial statements in conformity with IFRS requires the management of the Group to make judgement about estimates and assumptions that affects the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as at the date of the financial statements and their reported amounts of revenues and expenses during the reported period.

4.1. Critical judgments in applying the accounting policies

In the process of applying the accounting policies, which are described in note 3 above, management has made the certain judgments that have significant effect on the amounts recognised in the financial statements (apart from those involving estimates, which are dealt with below). These are detailed in the respective notes, however, the most significant judgments relate to the following:

- availability of taxable income against which deferred tax assets can be recognised;
- outcome of certain contingent liabilities.

4.2. Sources of estimate uncertainty

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

- Determination the fair value of financial instruments
- Determination the useful life of tangible and intangible assets
- Impairment of non-current assets, including goodwill
- Determination the amount of provision

PANNONPLAST MŰANYAGIPARI NYRT.
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5. Sales

Sales by product type are as follows:

	2006 thHUF	2005 thHUF
Rigid films and packaging	8,388,669	7,991,888
Containers and crates	2,993,911	3,809,165
Sale of subsidiaries	1,657,182	3,248,893
Technical plastic components	1,627,229	5,241,818
Moulds	36,232	397,186
Pipes and fittings	-	2,447,119
Foams	-	1,999,755
Other	<u>1,469,076</u>	<u>886,950</u>
TOTAL Sales	<u>16,172,299</u>	<u>26,022,774</u>

Sales by geographical region are as follows:

	2006 thHUF	2005 thHUF
Domestic sales	8,057,186	12,549,905
Export sales	<u>8,115,113</u>	<u>13,472,869</u>
TOTAL Sales	<u>16,172,299</u>	<u>26,022,774</u>

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

During the first half of the year the Group sold its share of 62,2% in TU-Plast Kft., and its share of 74% in Humán Kft. and 68,8% in Dexter Zrt. The purchase price of the investments were disclosed in sales.

During 2005 the Group sold its share of 50% in Pannonpipe Kft. and Pipelife Romania SRL, as well as its shares in Polifoam Műanyagfeldolgozó Kft.

Due to the change of accounting policy in 2006 (see note 3.5.3) the gain on the sale of investment was reclassified from financial result to sales and cost of sales. This type of revenue of the Group was HUF 1,657,182 thousands and HUF 3,248,893 thousands respectively for the year ended 2006 and 2005. The related amount of cost of sales of the Group was HUF 1,055,829 thousands and HUF 2,091,366 thousands respectively for the year ended 2006 and 2005.

PANNONPLAST MŰANYAGIPARI NYRT.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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6. Other expenses

	2006	2005
	thHUF	thHUF
Local taxes, fees, penalties	140,609	238,848
Penalties and late interest	98,644	55,699
Impairment of intangible assets and property, plant and equipment	37,753	432,471
Scrap of inventories	35,129	14,816
Receivables cancelled	22,957	-
Cost related to loss	20,640	7,910
Impairment of inventories	13,188	67,345
Fees, contributions	11,341	11,619
Impairment of receivables	4,196	76,159
Settlement of APEH, VPOP account	1,859	63,458
Impairment of goodwill	-	47,044
Provisions for expected liabilities	-	4,375
Other expenses	19,946	92,607
TOTAL	406,262	1,112,351

7. Other revenue

	2006	2005
	thHUF	thHUF
Gain on sale of intangible assets and property, plant and equipment	282,051	552,929
Subsidies received	63,987	4,831
Discounts	61,619	59,811
Income received due to damage	42,181	13,031
Received penalty, refund	22,463	29,443
Reversal of provisions for expected liabilities	4,284	-
Received compensation of energy	-	34,864
VAT refund	-	559
Other	47,441	175,122
TOTAL	524,026	870,590

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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8. Financial result

	2006 thHUF	2005 thHUF
Interest and similar income	54,713	80,316
Other financial income	1,652,856	462,973
Interest expense	(212,049)	(461,742)
Other financial expense	(783,950)	(391,399)
TOTAL	<u>711,570</u>	<u>(309,852)</u>

9. Finance lease receivables

PMM Zrt. entered into finance lease agreement and uses its premises at Székesfehérvár that way. The lessee has a purchase option of the premises during the term of the agreement. The term of the lease agreement is 60 months, so ending in 2011. The amount of minimum lease payments is denominated in EUR. The interest rate inherent in the leases is fixed at the contract date for the entire lease term. The average effective interest rate contracted is approximately 3.85% per annum.

	Minimal lease payments		Present value of minimal lease payments	
	2006 thHUF	2005 thHUF	2006 thHUF	2005 thHUF
Within one year	193,282	-	134,976	-
In the second to fifth year inclusive	1,339,249	-	1,229,028	-
Total	1,532,531		1,364,004	-
Less unearned finance income	(168,527)		n/a	n/a
Present value of minimum lease payments	1,364,004		1,364,004	-
Allowance for uncollectible lease payments	-	-	-	-
	<u>1,364,004</u>	<u>-</u>	<u>1,364,004</u>	<u>-</u>
Included in the financial statements as:				
Current finance lease receivables	134,976	-	134,976	-
Non-current finance lease receivables	1,229,028	-	1,229,028	-
TOTAL	<u>1,364,004</u>	<u>-</u>	<u>1,364,004</u>	<u>-</u>

PANNONPLAST MŰANYAGIPARI NYRT.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

10. Intangible assets

Gross value:

	Goodwill	Research and development	Rights	Purchased software	Total
	thHUF	thHUF	thHUF	thHUF	thHUF
January 1, 2006	269,360	957,362	481,581	323,970	2,032,273
Purchase	-	338,642	2,258	162,041	502,941
Sale	-	(235,594)	(7,961)	(225,383)	(468,938)
December 31, 2006	<u>269,360</u>	<u>1,060,410</u>	<u>475,878</u>	<u>260,628</u>	<u>2,066,276</u>

Accumulated amortisation:

	Goodwill	Research and development	Rights	Purchased software	Total
	thHUF	thHUF	thHUF	thHUF	thHUF
January 1, 2006	47,045	561,210	415,760	263,845	1,287,860
Purchase	-	131,756	33,521	51,970	217,247
Sale	-	(85,441)	(3,658)	(106,693)	(195,792)
December 31, 2006	<u>47,045</u>	<u>607,525</u>	<u>445,623</u>	<u>209,122</u>	<u>1,309,315</u>
Net value January 1, 2006	<u>222,315</u>	<u>396,152</u>	<u>65,821</u>	<u>60,125</u>	<u>744,413</u>
Net value December 31, 2006	<u>222,315</u>	<u>452,885</u>	<u>30,255</u>	<u>51,506</u>	<u>756,961</u>

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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11. Property, plant and equipment

Gross value:

	Buildings	Machinery	Construction in progress	Total
	thHUF	thHUF	thHUF	thHUF
January 1, 2006	6,291,425	12,773,679	582,872	19,647,976
Purchase	128,173	1,333,740	1,523,723	2,985,636
Sale	<u>(1,664,255)</u>	<u>(7,450,387)</u>	<u>(1,461,913)</u>	<u>(10,576,555)</u>
December 31, 2006	<u>4,755,343</u>	<u>6,657,032</u>	<u>644,682</u>	<u>12,057,057</u>

Accumulated depreciation:

	Buildings	Machinery	Construction in progress	Total
	thHUF	thHUF	thHUF	thHUF
January 1, 2006	621,946	9,319,912	1,900	9,943,758
Purchase	483,979	512,983	-	996,962
Sale	<u>(279,800)</u>	<u>(6,168,087)</u>	<u>-</u>	<u>(6,447,887)</u>
Impairment	<u>-</u>	<u>37,753</u>	<u>-</u>	<u>37,753</u>
December 31, 2006	<u>826,125</u>	<u>3,702,561</u>	<u>1,900</u>	<u>4,530,586</u>

Net value January 1, 2006	<u>5,669,479</u>	<u>3,453,767</u>	<u>580,972</u>	<u>9,704,218</u>
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Net value December 31, 2006	<u>3,929,218</u>	<u>2,954,471</u>	<u>642,782</u>	<u>7,526,471</u>
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Certain land, buildings and machinery are pledged as security for borrowings (see Notes 22 and 23).

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

12. Non-current receivables

	2006 thHUF	2005 thHUF
Housing loan of employees	<u>2,234</u>	<u>2,670</u>
TOTAL	<u>2,234</u>	<u>2,670</u>

Housing loans are extended to employees free of interest. 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 of the Group. The loans are collateralised by the employees' homes.

13. Inventories

	2006 thHUF	2005 thHUF
Raw materials	1,136,046	1,130,781
Work in progress	441,069	392,208
Finished products	623,200	898,486
Goods	87,159	62,115
Advances given for inventories	<u>662</u>	<u>6,574</u>
	2,288,136	2,490,164
Impairment for inventories	<u>(116,890)</u>	<u>(103,702)</u>
TOTAL Inventories, net	<u>2,171,246</u>	<u>2,386,462</u>

Certain inventories are pledged as security for borrowings in 2006 (see Notes 22 and 23).

14. Trade receivables

	2006 thHUF	2005 thHUF
Trade receivables	2,859,109	4,227,102
Allowance for doubtful debt	<u>(569,326)</u>	<u>(565,130)</u>
TOTAL Trade receivables, net	<u>2,289,783</u>	<u>3,661,972</u>

Certain trade receivables are pledged as security for borrowings in 2006 (see Notes 22 and 23).

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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15. Other receivables

	2006 thHUF	2005 thHUF
Deferred expense concerning share based payments	345,445	-
Other taxes (mainly VAT)	296,091	13,527
Prepayments	152,071	167,846
Balance of security custody account	58,218	-
Advances paid for income tax	41,002	1,312
Receivables due from employees	6,903	3,244
Receivables due from Keler Zrt.	5,427	5,427
Receivables from sale of Polifoam Kft.	-	1,692,420
Fair value adjustment	-	33,707
Other	423,174	405,774
TOTAL	<u>1,328,331</u>	<u>2,323,257</u>

The Annual General Meeting of 2005 approved call options for a total of 420,000 ordinary Pannonplast shares to be provided to the 5 member of Board of Directors and the executive management of the Company. During 2006 each member of the management exercised their option, so the total amount of the was recorded. The difference between the market value and the option price at the date of they are exercised are charged to income statement, and deferred on a straight-line basis over the vesting period. As of the balance sheet date the asset deferred with respect to the option was determined on the basis of the fair value (HUF 345,445 thousands).

16. Financial assets at fair value through profit and loss

	2006 thHUF	2005 thHUF
Initial value of shares	1,118,139	-
Fair value adjustment	507,554	-
TOTAL	<u>1,625,693</u>	<u>-</u>

Shares of Synergon Nyrt. owned by the Pannonplast Nyrt. are stated at the closing price of the stock exchange (1,277 HUF/pieces) in the consolidated financial statements. The difference between the book value and the closing price of the stock exchange is recorded as other financial income.

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17. Non-current assets classified as held for sale

The following table contains the Group's non-current assets held for sale as of December 31, 2006:

GROSS VALUE	Intangible assets	Property, plant and equipment	Total
	thHUF	thHUF	thHUF
January 1, 2006	92,408	3,166,835	3,259,243
Increase	-	-	-
Sale	<u>(92,408)</u>	<u>(3,166,835)</u>	<u>(3,259,243)</u>
December 31, 2006	<u>-</u>	<u>-</u>	<u>-</u>
ACCUMULATED AMORTISATION, DEPRECIATION	Intangible assets	Property, plant and equipment	Total
	thHUF	thHUF	thHUF
January 1, 2006	77,702	1,938,393	2,016,095
Increase	-	-	-
Sale	<u>(77,702)</u>	<u>(1,938,393)</u>	<u>(2,016,095)</u>
December 31, 2006	<u>-</u>	<u>-</u>	<u>-</u>
Net value January 1, 2006	<u>14,706</u>	<u>1,228,442</u>	<u>1,243,148</u>
Net value December 31, 2006	<u>-</u>	<u>-</u>	<u>-</u>

In the meaning of a contract made in 2005, during 2006 PMM Zrt. sold part of its assets located at the sites of PMM Zrt. in Székesfehérvár and Szombathely. In accordance with IFRS 5 the Group disclosed these assets held for sale on a separate line in the balance sheet.

Assets mentioned above were sold during 2006, so they were derecognised.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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18. Issued capital

	2006	2005
	thHUF	thHUF
Issued capital	421,093	421,093

Share capital as of December 31, 2006 consists of 4,210,930 ordinary shares (4,210,930 shares in 2005), at a nominal value of HUF 100. From the issued capital 420,656 pieces were owned by the company at the balance sheet date.

19. Treasury shares

	2006	2005
	thHUF	thHUF
Nominal value	42,066	-
Book value	1,283,435	-

20. Reserves

The determination of reserves available for distribution is based on the statutory unconsolidated balance sheet of Pannonplast Nyrt. prepared in accordance with the Act on Accounting. Reserves available for distribution, including profit for the year is HUF 22,494 thousands (HUF 1,191,255 thousands in 2005).

21. Minority interest

	2006	2005
	thHUF	thHUF
Balance as of January 1, 2006	756,029	1,419,795
Minority interests in newly founded subsidiaries	-	1,820
Dividends paid to minority interest	-	(128,166)
Minority shareholders' share of net profit of the subsidiaries for current year	33,283	118,243
Decrease of minority interest due to sale of subsidiaries	<u>(388,792)</u>	<u>(655,663)</u>
Balance as of December 31, 2006	<u>400,520</u>	<u>756,029</u>

Pannonplast Nyrt. together with a company not belonging to the Group founded Pannonplast-Humán Kft. in 2005 with a capital of HUF 7,000 thousands, in which the Company had a 74% share. The Kft. was registered by the Registry Court on July 5, 2005. The value of minority interest increased by HUF 1,820 thousands. The subsidiary was sold during 2006.

Pannonplast Polifin A Vagyonkezelő Kft., the 51% owner of Polifoam Műanyagfeldolgozó Kft. entered into a contract concerning the sale of the latter with a company not belonging to the Group on

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December 27, 2005. As a result of the sale the value of the minority interest decreased by HUF 655,663 thousands.

21. Minority interest - continued

Pannonplast Nyrt. sold its interest of 68,8% in Dexter Szerszámkészítő Zrt. Following the transaction the share of the company in the latter decreased to 25,1%. The value of minority interest decreased by HUF 1,369 thousands.

On May 2, 2006 the company sold its share in TU-Plast Kft., the value of minority interest decreased by HUF 386,922 thousands.

22. Non-current borrowings

	2006 thHUF	2005 thHUF
Non-current borrowings	1,145,744	782,233
Less maturity within one year	<u>(124,847)</u>	<u>(244,766)</u>
TOTAL Non-current borrowings	<u>1,020,897</u>	<u>537,467</u>

The interest rate of borrowings denominated in HUF was within the range of 0% and BUBOR + 0.5% as of December 31, 2006.

As of December 31, 2006 non-current borrowings included borrowings denominated in EUR in value of HUF 495,637 thousands. The interest rate of borrowings denominated in EUR was EURIBOR + 0.8% as of December 31, 2006.

As of December 31, 2005 non-current borrowings included borrowings denominated in EUR in value of HUF 56,689 thousands. The interest rate of borrowings denominated in EUR was EURIBOR + 0.3% as of December 31, 2006.

Non-current investment borrowings are collateralised with property, plant and equipment and inventories in the amount of HUF 11,000,000 thousands.

23. Current borrowings

	2006 thHUF	2005 thHUF
Bank loans	1,381,128	4,926,769
Bank overdrafts	<u>1,716,468</u>	<u>-</u>
TOTAL Current borrowings	<u>3,097,596</u>	<u>4,926,769</u>

Current borrowings didn't include borrowings denominated in EUR as of December 31, 2006.

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Current borrowings included borrowings denominated in EUR and ROL in value of HUF 3,548,944 thousands as of December 31, 2005. The interest rates of borrowings denominated in EUR were within the range of EURIBOR + 0.3% and EURIBOR + 0.8% as of December 31, 2005.

23. Current borrowings - continued

The interest rate of borrowings denominated in HUF was within the range of 0% and BUBOR + 0.5% as of December 31, 2006 (as of December 31, 2005 was within the range of 0% and BUBOR+1%).

In order to consolidate the bank financing of the Group within one credit institution, the Group entered into a loan facility agreement with OTP Bank Nyrt. in December 2005 in the amount of HUF 8,954,011 thousands. They entered into loan, overdraft and bank guarantee agreements within the scope of the aforementioned facility. During 2006, the finance of the Group was restructured in the form of a new facility in HUF 5.000.000 thousands. OTP Bank Nyrt. entered into a new loan agreement with PMM Zrt. during 2006 in the amount of HUF 900.000 thousands.

The loans are collateralised as follows:

- the total assets of the companies involved in the loan facility agreement;
- absolute joint and several guarantee;
- mortgage on movable and immovable property in the total amount of HUF 11,000,000 thousands.

24. Provisions

	Provisions thHUF
Balance as of January 1, 2006	81,377
Creation of provision	-
Reversal of provision	46,036
	<hr/>
Balance as of December 31, 2006	<u>35,341</u>

The majority of provisions made is related to the subsidies received. Three subsidiaries of the Company have received interest-free loans and non-repayable investment subsidies from the Ministry of Economic Affairs in recent years. The subsidy contracts contain different income limits, as well as limitations relating to alienation and utilisation. These indicators are not expected to be met by the aforementioned three subsidiaries, thus an interest liability is likely to occur.

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25. Other liabilities

	2006	2005
	thHUF	thHUF
Accruals	295,000	289,105
Wages and social security	146,926	153,317
Fair value adjustment due to purchase option of shares	102,000	-
Other taxation (mainly VAT and customs duties)	71,658	101,599
Advances received from customers	14,036	35,295
Balance of security custody account	11,881	-
Dividends payable	7,425	-
Finance lease payable within one year	6,846	-
Corporate income tax	6,069	1,308
Liabilities due to printed shares	5,427	5,427
Fair value adjustment of forward transactions	4,720	-
Accruals concerning share based payments	-	58,363
Other liabilities	35,549	154,835
TOTAL Other liabilities	<u>707,537</u>	<u>799,249</u>

The Annual General Meeting of 2005 approved call options for a total of 420,000 ordinary Pannonplast shares to be provided to the 5 member Board of Directors and the executive management of the Company. The details of the option can be read in Note 13.

The company entered into an agreement on October 6, 2006. According to the contract, the company has a selling obligation of 463,000 pieces of Synergon shares. The counterparty of the agreement has the right to call its option of shares till October 5, 2009. The fair value adjustment of the transaction is HUF 102,000 thousands.

The fair value adjustment of forward transactions is HUF 4,720 thousands.

26. Taxation

	2006	2005
	thHUF	thHUF
Current year tax charge	26,179	68,213
Deferred tax charge/(credit), net	99,070	(3,209)
TOTAL	<u>125,249</u>	<u>65,004</u>

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

	2006	2005
	thHUF	thHUF
Balance as of January 1	630,189	626,980
(Decrease)/Increase in deferred tax asset	(99,070)	3,209
Balance as of December 31	<u>531,119</u>	<u>630,189</u>

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26. Taxation - continued

The rate of corporate income tax for 2005 is 16%. From September 2006 a new tax, the solidarity tax of 4% was introduced. According to the accounting policy of the Group, this 4% additional tax is calculated in case of every temporary deferred tax item, at the realisation or settlement of which additional tax is expected to apply. The Group doesn't have any from this kind of adjusting item.

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

	2006 thHUF	2005 thHUF
Loss before income taxes and minority interest	85,098	69,373
Loss before income tax of loss making companies	(321,262)	(1,018,700)
Profit before income tax of profitable companies	406,360	1,088,073
Income tax at 17,34%	70,451	174,092
Permanent differences	(44,272)	(105,879)
Corporate income tax	26,179	68,213
Deferred tax effect of loss carryforward	99,070	(3,209)
Current year tax charge	125,249	65,004

When calculating the income tax the Group took into consideration the 16% rate of corporate income tax and the proportional part of 4% rate of solidarity tax from September 1, 2006.

The company capitalised deferred tax asset from deferred losses of previous years expected to be used against profit of future periods. The tax effect of temporary differences didn't have material effect on the consolidated financial statements, as well as, the probability that they are expected to be realised or settled can't be estimated reliably, so the company didn't recorded deferred tax arising from these differences.

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

	2006 thHUF	2005 thHUF
Subsidiaries		
Losses carried forward	7,107,932	8,169,797
Potential deferred tax asset	1,137,269	1,307,168
Provision against uncertainty of future realization	(606,150)	(676,979)
Deferred tax asset	531,119	630,189

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27. Earning per share

	2006	2005
Profit/(Loss) for the year (thHUF)	893,016	(253,104)
Weighted average number of issued shares for the year (pieces)	<u>4,066,424</u>	<u>4,210,930</u>
Earnings per share (HUF)	<u>220</u>	<u>(60)</u>

28. Sale of subsidiaries

a. Sale of shares of Polifoam Műanyagfeldolgozó Kft.

On December 27, 2005 the Group disposed of its investment in Polifoam Műanyagfeldolgozó Kft.

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

	2006 thHUF	2005 thHUF
Sales	-	1,999,755
Cost of sales	<u>-</u>	<u>(1,035,436)</u>
Gross profit	-	964,319
Profit for the year before financial result	-	276,802
Financial result	<u>-</u>	<u>8,593</u>
Profit for the year	<u>-</u>	<u>243,236</u>

The carrying amounts of the assets and liabilities of Polifoam Műanyagfeldolgozó Kft. as of the date of disposal are disclosed in Note 29 .b.

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28. Sale of subsidiaries - continued

b., Sale of Pannonpipe Műanyagipari Kft. and Pipelife Romania SRL.

During 2005, the Group entered into a sale agreement to dispose of its investments in Pannonpipe Műanyagipari Kft. and Pipelife Romania SRL.

The results of operations of the two companies included in the consolidated financial statements, were as follows:

	2006 thHUF	2005 thHUF
Sales	-	2,447,119
Cost of sales	-	(1,887,223)
Gross profit	-	559,896
Profit for the year before financial result	-	194
Financial result	-	(63,964)
(Loss) for the year	-	(63,795)

The carrying amounts of the assets and liabilities of Pannonpipe Műanyagipari Kft. and Pipelife Romania SRL. as of the date of disposal are disclosed in Note 29. b.

c., Sale of interest of Dexter Zrt.

On January 31, 2006 the Group sold its interest of 68,8% in Dexter Szerszámkészítő Zrt., so it became a minority shareholder of the entity.

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

	2006 thHUF	2005 thHUF
Sales	36,232	-
Cost of sales	(15,353)	-
Gross profit	20,879	-
Profit for the year before financial result	6,911	-
Financial result	(1,105)	-
Profit for the year	5,806	-

The carrying amounts of the assets and liabilities of Dexter Zrt. as of the date of disposal are disclosed in Note 29 .b.

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28. Sale of subsidiaries - continued

d., Sale of shares of TU-PLAST Kft.

On May 2, 2006 the Group sold its interest in TU-Plast Kft.

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

	2006 thHUF	2005 thHUF
Sales	383,723	-
Cost of sales	<u>(277,198)</u>	<u>-</u>
Gross profit	106,525	-
Profit for the year before financial result	36,331	-
Financial result	<u>3,022</u>	<u>-</u>
Profit for the year	<u>37,996</u>	<u>-</u>

The carrying amounts of the assets and liabilities of TU-Plast Kft. as of the date of disposal are disclosed in Note 29 .b.

e., Sale of interest in Pannonplast-Humán Kft.

On June 1, 2006 the Group disposed of its interest in Pannonplast-Humán Kft.

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

	2006 thHUF	2005 thHUF
Sales	-	-
Cost of sales	<u>-</u>	<u>-</u>
Gross profit	-	-
(Loss) for the year before financial result	(278)	-
Financial result	<u>26</u>	<u>-</u>
(Loss) for the year	<u>(252)</u>	<u>-</u>

The carrying amounts of the assets and liabilities of Pannonplast-Humán Kft. as of the date of disposal are disclosed in Note 29 .b.

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29. Notes to the cash flow statement

a., Analysis of cash and cash equivalents:

Cash and cash equivalents as of December 31 consists of:

	2006 thHUF	2005 thHUF
Cash and deposits	1,355,265	2,399,859
Bank overdraft	(1,716,468)	-
Restricted cash	-	(151,912)
Cash and cash equivalents	<u>(361,203)</u>	<u>2,247,947</u>

b., Sale of subsidiaries:

	2006 thHUF	2005 thHUF
Intangible assets	(67,718)	(109,460)
Property, plant and equipment	(524,978)	(1,818,818)
Investments	-	(20,791)
Non-current receivables	(204)	(396)
Inventories	(145,802)	(1,190,338)
Current receivables	(218,241)	(2,327,087)
Cash at bank and in hand	(115,116)	(73,443)
Current borrowings	182,215	1,245,322
Trade payables and other current liabilities	294,138	2,203,645
Net assets	<u>(595,706)</u>	<u>(2,091,366)</u>
Selling price of sold subsidiaries	1,657,182	3,248,893
Gain on sale of subsidiaries	<u>1,061,476</u>	<u>1,157,527</u>

c., Analysis on net cash inflows concerning sale of subsidiaries:

	2006 thHUF	2005 thHUF
Selling price of sold subsidiaries	1,657,182	3,248,892
Cash balances of sold subsidiaries	(115,116)	(73,443)
Unpaid amount of selling price of sold subsidiaries	-	(1,690,420)
Paid amount of selling price of subsidiaries sold previous year	1,690,420	-
Net cash inflow	<u>3,234,486</u>	<u>1,483,030</u>

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29. Notes to the cash flow statement - continued

d., Non-cash transactions

The consolidated cash flow statement for the year ended December 31, 2006 included HUF 66,130 thousands of non-cash transaction arising from foreign currency translation differences on consolidation of foreign subsidiaries. (The respective amount as of December 31, 2005 was HUF 72,040 thousands.)

30. Commitments concerning construction in progress

	2006 thHUF	2005 thHUF
Contracted for, but not included in the consolidated financial statements	128,441	170,429
Authorised, but not contracted for	-	436,163

31. Contingent liabilities

Three subsidiaries, namely Moldin Kft. merged to Pannonplast Műszaki Műanyagok Zrt., Pannonplast Műszaki Műanyagok Zrt., and Dexter Zrt. 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 to pay interest.

According to management of the Group, the subsidised companies are not able to meet the conditions set forth in the contracts; and the obligation to pay the subsidies back is expected. The Group raised provisions for contingent liabilities, see also Note 19.

a., Purchase option of shares

The majority shareholder of Dexter Zrt., in which Pannonplast Nyrt. is a minority shareholder with 25,1% interest, has a purchase option to the share of the company, till the date of the authorization for issue of financial statements the majority shareholder didn't exercised its right. Pannonplast Nyrt. has a purchase option to buy back the interest sold during the period for 68,8% share in Dexter Zrt., so far the company haven't exercised its option.

b., Forward exchange rate deals

As of December 31, 2006 the Company has an open forward exchange rate position of purchase of EUR 1,000,000. Taking the maturity into consideration, the expected loss/gain was charged/credited to financial result.

c., Treasury share transactions

As of December 31, 2006 the Company has an open future position of purchase of 90,000 pieces of Pannonplast shares, with maturity of June 15, 2007, with average exercise price of 3,951 HUF/pieces.

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31. Contingent liabilities - continued

d., Share call option

The company entered into an agreement on October 6, 2006. According to the contract, the company has a selling obligation of 463,000 pieces of Synergon shares. The counterparty of the agreement has the right to call its option of shares till October 5, 2009.

e., Contingent liability concerning disposal of shares in TU-Plast Kft.

Pannonplast Nyrt. disposed of its shares in TU-Plast Kft. In selling the shares of the subsidiary, the company undertook a reasonable guarantee obligation required by market norms. Pannonplast is not aware that outflow of resources embodying economic benefits will be required to settle the obligation.

f., Obligations related to trusteeship transactions

In trusteeship transactions (share-, other assets sale and purchase agreements) the company undertakes reasonable guarantee obligations in order to assure the economic substance of the transactions. The management of the company believes that the possibility of outflow of resources embodying economic benefits is remote.

32. Foreign exchange rate and interest rate risk

Details of borrowings of the Group in foreign currencies are disclosed in Notes 22 and 23. Other foreign currency assets and liabilities arise from export and import of finished goods and raw materials.

The Group has two subsidiaries in Romania and Ukraine. Exchanges losses arising from the devaluation of the local currency are recorded on consolidation directly to shareholders' equity, (see Note 29. d.).

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

33. Pensions

The Group contributed HUF 45,105 thousands into pension funds on behalf of 777 employees in 2006. (In 2005 HUF 46,062 thousands on behalf of 596 employees). Apart from these annual contributions based on salary, the Group has no other obligations above the contributions paid into the State pension scheme.

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34. Subsidiaries

All subsidiaries, with the exception of Kuala Ingatlanhasznosító Kft., Polifin A Vagyonkezelő Kft. and Pannonplast-Humán Kft. are engaged in manufacturing activities, primarily plastics processing.

The Company's consolidated subsidiaries, and its interest in each entity are as follows:

<u>Hungary</u>	2006	2005
Almand Műanyagipari Kft.	100%	100%
Dexter Szerszámgyártó Zrt.	25,1%	94%
FCI Furukawa Kompozit Szigetelő Kft.	58%	58%
Kuala Ingatlanhasznosító Kft.	100%	100%
Pannon-Effekt Műanyagipari Kft.	100%	100%
Pannonplast Műszaki Műanyagok Zrt.*	100%	100%
Pannonplast Polifin A Vagyonkezelő Kft.	100%	100%
Pannonplast-Humán Kft.	0%	74%
Pannunion Csomagolóanyag Kft.	100%	100%
Tu-Plast Tubusgyártó Kft.	0%	60%

* Previously Moldin 2000 Rt.

Foreign subsidiaries:

<u>Romania</u>	2006	2005
Unical SRL.	100%	100%

<u>Ukraine</u>	2006	2005
Interagropak TOV.	51%	51%

35. The future operation of Pannonplast and the Group

Pannonplast Nyrt. primarily will acquire corporate investments and manage them on a medium-term with improving those companies in the future. The sector of renewable energies will be a highlighted area of the company, in which Pannonplast is planning to invest material amount firstly in 2007.

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35. Related party transactions

Transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Group and other related parties are disclosed below.

35.1. Trading transactions

During the year, group entities entered into the following trading transactions with related parties that are not members of the Group:

	Sale		Purchase		Receivables		Payables	
	2006 thHUF	2005	2006 thHUF	2005	2006 thHUF	2005	2006 thHUF	2005
ÖKO-Pannon Kht.	-	-	9,916	8,590	-	-	-	-
Dexter Zrt.	1,443	29,427	91,669	61,807	378	142	6,814	7,998
Prettl Pannonplast Kft.	572,437	-	13,490	-	22,742	-	15,877	-
Pannunion Service GmbH	1,029	-	9,542	-	286	-	1,994	-
Unionplast d.o.o.	-	-	-	-	-	-	-	-

35.2. Loans to related parties

	2006 thHUF	2005 thHUF
Loans to key management personnel	-	-
Loans to a joint venture entity	356,603	126,708
TOTAL	356,603	126,708

35.3. Compensation of key management personnel

The compensation of key management personnel, such as the members of Board of Directors, members of the Supervisory Board, key employees of the company and its major subsidiaries involved in the decision-making process according to the compensation categories defined in IAS 24 'Related party Disclosures', was as follows:

	2006 thHUF	2005 thHUF
Short-term employee benefits	66,376	64,496
Other long-term employee benefits	-	-
Termination benefits	-	-
Share-based payments	695,335	58,363
TOTAL	761,711	122,859

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36. Events after the balance sheet date

The company wrote a call option for 463,000 pieces of shares of Synergon Nyrt. owned by the company, with nominal value of HUF 200 each, T type ordinary shares. The call option could be exercised earliest by the buyer on October 6, 2006 completely or partly. The call option could be exercised lately on October 5, 2009 according to the contract. The obligation of the company to sell the ordinary shares of Synergon Nyrt. ceased after the balance sheet date, as of March 19, 2007.

The company sold its interest of 49% in Prettl Pannonplast Plastics Kft. as of April 18, 2007. As the majority shareholder of the entity, Prettl Management Service GmbH exercised its call option, and paid the selling price totally as of April 18, 2007. Furthermore Prettl Pannonplast Plastics Kft. paid back all its loans to the company.

37. Approval of financial statements

The financial statements were approved by the board of directors and authorised for issue on April 29, 2007.