

 **SLOVNAFT, a.s.**
MEMBER OF THE MOL GROUP

Annual Report 2005



Slovnaft

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Letter from the Chairman of the Board of Directors

Dear shareholders,

2005 was an outstanding year for our company. Similarly to the previous year, Slovnaft benefited from the well-timed key investment decisions, the positive impact of which was only felt in the recent past. Massive investments in the core production units and technologies, focus on the highly qualified human resources, and positive synergy effects within the MOL Group were the main contributors to our excellent results.

Thanks to these factors, Slovnaft was well prepared to deal with enormous challenges emerging from the rapidly changing external environment and successfully continued its development. Due to our technological advantage, we were able to exploit the favourable market conditions better than our competition, and in a European context, maintain our leading position among the best performing downstream oil companies.

I would like to take this opportunity to summarise the most important results and pillars of our success.

Investments – the basis of our competitive advantage and key to future success

Last year's results reiterated that our investment strategy implemented during the last 10 years, as part of which Slovnaft invested more than SKK 46 bn into the latest technologies was the right decision. The good choice and timing of investments aimed at increasing the efficiency of the Russian crude oil processing was the main driving force which placed us among the state-of-the-art European refineries and enabled us to benefit from the boom in the global crude oil industry.

The year 2005 was another important milestone in our investment strategy. We successfully completed a new production unit of deep desulphurization of middle distillates at the end of 2004, and in the last year, put into operation the second most important investment of the past years – a new production unit, PP3, with a capacity of 255 kt/year of polypropylene. As a result of the investment of SKK 5 bn, Slovnaft's polypropylene production capacity was not only tripled, but the product range was also widened. This will enable us to penetrate new market segments. The importance of the project is even greater that thanks to the new PP3 production unit at Slovnaft and the new HDPE unit at TVK Tiszaújváros, the MOL Group with its annual petrochemical capacity of 1.2 million tones is on its way to becoming the biggest producer of petrochemical products in central Europe and an important player in Europe as a whole. The petrochemical development project within the MOL Group is a further sign of the success of Slovnaft's strategic partnership with MOL and TVK.

Exports – the main profitability driver

Throughout 2005, similarly to the previous years, Slovnaft concentrated on the export markets and export efficiency. Thus, with 73% share, our exports remained the main factor influencing our company's profitability. However, the revenues from our exports in monetary terms have increased by more than 23% in comparison to the previous year, despite a slight decrease in export volume compared to 2004. Slovnaft aims to further strengthen its position in the foreign markets, which is why we started supplying the Austrian market with a new product – bio diesel containing 4.4% fatty acid methyl ester (FAME). This also contributed to last year's increase in export revenues compared to 2004.

Total net revenues increased by 20%, mainly because of higher quoted crude oil and crude oil product prices on global markets. Refinery product sales volumes in the domestic market decreased slightly, mainly because of planned and realised maintenance shutdowns of key production units in the second quarter. Higher sales of motor diesel and bitumen driven by high domestic demand compensated for the

decrease in sales of gasoline, jet kerosene and lubricants. Revenues from domestic sales increased by more than 12%.

Stable sales despite a lower number of filling stations

The motor fuel sales realised in the domestic retail market were comparable to that of 2004. According to the Slovak Association of Petroleum Industry and Trade (SAPPO), our retail share decreased by 2.8% because of the lower number of operating fuel stations (down by 31 stations), as well as the increase in the total number of operating filling stations by SAPPO members (up by 11 stations). Slovnaft continued with the restructuring of its retail network in 2005, with the aim of increasing efficiency and competitiveness.

Despite the planned shutdowns, both production and sales increased

Unlike in 2004, which did not see any maintenance shutdowns, Slovnaft's last year's results were significantly influenced by shutdowns of key production units in the second quarter of 2005 with negative impact on crude oil processing, as well as the production and sales of motor fuels. However, having utilised its advanced technology, Slovnaft was able to increase the main production units' capacity utilisation and thus compensate for the lower volume of oil processing caused by the irregularities of the Russian oil supplies in October. Despite lower volume of processed crude oil compared to the previous year, the volume of crude oil products sold remained almost the same. Moreover, the entire production volume was produced in "zero-sulphur" quality, and almost 9% of which was bio-diesel oil.

Synergies from partnership and integration

The second year of integrated business and management operations confirmed that Slovnaft and MOL were more competitive as partners, not only from a regional, but also from a European perspective. Synergies from integrated activities in 2005 were achieved mainly by continuously improving the supply chain management (SCM), optimised logistic operations, and the single sales channel management for fuels and plastics. Benefits from synergies and efficiency improvements, and process optimisation reached SKK 2.3 bn in 2005 with further integration benefits expected in the coming years.

Favourable year for the oil industry

Favourable external conditions for our business sector as a whole continued also in 2005. Persisting high crude oil prices throughout the year surprised the majority of business analysts. There was a number of drivers for this trend including the continued growth in demand from the biggest consumers such as the USA, China, and India, coupled with limited drilling capacities, constant geo-political risks and the resulting uncertainty over the reliability of oil supplies. In addition, natural disasters, especially hurricanes, in the main drilling areas of the Gulf of Mexico also played an important role. All this resulted in a record Brent oil price which increased by 16 USD/bbl in comparison to the previous year. The above-mentioned factors, together with limited refining capacities and strong demand for oil products in the main consumption areas, led to high crude oil product prices and increased crack spreads.

All of these often contradictory external and internal conditions resulted in an operating profit of SKK 11.1 bn, which represents a 10% decrease compared to 2004. The main reason besides lower production volume as a result of shutdowns, were the continuous strengthening of the Slovak Crown against the US dollar, and a fine in the amount of SKK 1.3 bn imposed by the Ministry of Finance, against which Slovnaft has already appealed and believes in a positive outcome of the case. Without this one-off cost item, Slovnaft's results are comparable to those of the previous year.

Main goals for 2006

The year 2005 was very important for Slovnaft as well as for the MOL Group as a whole. The Group succeeded in realising its goals set three years ago and at the same time formulated a new strategy for 2006-2010. The MOL Group is already a flagship of Central and Eastern Europe's "new Europe". Based on the new strategy, one of our key growth drivers will be the full utilisation of the enormous development potential in this region in a way that will enable us to challenge our competitors in the "old Europe", as well as in other regions. We are well positioned to achieve our goals given the high efficiency of Slovnaft and the MOL Group as a whole.

Strong economic growth in Central and Eastern Europe, as well as the trends in the global crude oil and crude oil product markets, lead us to believe that favourable conditions in the crude oil industry will continue. However, we will face increasingly stronger competition from other players with regional ambitions. Therefore, it will be crucial for us to further improve internal efficiency and overall performance of our company. In the Refinery and Marketing segment, we aim to build on our position of technological leader and continue to use it as a base for further improvement in our competitive skills. We intend to be a leader in implementation of innovations for our customers, as well as the implementation of low sulphur fuels and bio-fuels. In the Petrochemistry segment, our priority will be effectively utilise the huge investments of the past years to continue improving our performance.

Motivation of our human resources will remain a driver of sustainable improvement in internal efficiency this year. Despite last year's excellent results, there is still potential for further improvement focused on achieving the goals set for 2006.

Acknowledgement

On behalf the Board of Directors of Slovnaft, I would like to thank all our customers, business partners and shareholders for their confidence in our business. Let me also express my thanks to our employees and managers for their energy, which significantly contributed to the excellent operating results of the last year.

Refining and marketing

Summary

In 2005, Slovnaft processed 5.4 million tons of crude oil coming from Russia through the Druzhba crude oil pipeline. In spite of the fact that in 2005 turnarounds of key production units were realised, the second highest level of motor fuels production in the history of the company was achieved, driven mainly by higher capacity utilisation of key production units.

Refinery

In 2005, motor diesel was produced exclusively in the low-sulphur-content quality (below 50 ppm) driven by high utilisation of a new production unit for desulphurization of middle distillates (HDS 7), which was put into operation in November 2004. Furthermore 60% of total diesel production was diesel with below 10 ppm sulphur content, which is in compliance with the 2009 European standards.

A great ecological contribution of Slovnaft was the introduction of a new product biodiesel containing 4.4% of FAME. In 2005, 213 kt of biodiesel was produced, which represents 9% of total motor diesel production. In 2005, capacity test runs on both distillation units were performed in order to achieve a higher crude oil processing capability. Coupled with the realised capacity increase at FCC and VGO hydrocracker, this action will create further opportunities to increase the profitability of the refinery operations.

Several internal steps were taken to reduce energy consumption, which significantly decreased energy related costs compared to the previous year. Additionally, savings in chemicals and additives for motor fuels production had a considerable positive influence on 2005 performance.

Marketing

Total refinery product volume sold in the domestic market was 3.7% lower compared to the previous year. Higher sales of motor diesel and bitumen in 2005 driven by high market demand fully compensated for the fall in motor gasolines and kerosene sales. In spite of the fact that the share of export sales in volume terms decreased by 5% compared to the last year, Slovnaft kept its strong position in the Czech and Polish markets as a result of activities of its subsidiaries, Slovnaft Česká Republika and Slovnaft Polska. In order to fulfil market requirements, Slovnaft started to supply biodiesel to the Austrian market in October 2005, which helped to improve its position in this market.

Retail

Slovnaft Group continued its retail network restructuring in 2005 focusing on quality improvement and increased competitiveness.

In 2005, the Slovnaft service stations network achieved approximately the same sales in Slovakia as during the previous year, whilst operating a lower number of service stations. As of 31 December 2005, Slovnaft operated 256 service stations with an average fuels sale per station up by 9%. During the year, 31 service stations were closed, 4 new stations were put into operation, and the reconstruction of 4 stations was completed. Retail market share and market share in the framework of SAPPO were slightly below the level of the previous year. A considerable improvement of service station quality was recorded resulting in a 19% increase in the sale of non-fuel goods. LPG was sold at 72 stations.

Outlook

Slovnaft Group will continue to focus on the development of competitive refining with an optimised supply chain management to satisfy growing demand for high quality products.

In 2006, the Group's main objectives will be strengthening its capability to produce outstanding quality light products from sour crude oil, increasing product mix flexibility as well as reduction in energy consumption.

Petrochemicals

Summary

Slovnaft's petrochemical segment within the MOL Group's integrated Petrochemical Division is a strong player in the polyethylene and polypropylene markets in the CEE region. The segment supplies its products to several Central European, Western and Eastern European small- and medium-sized plastic processing companies.

The main goals of this segment include becoming a low cost producer providing top quality products and excellent services to customers, while exploiting the full-scope of synergies from the MOL-Slovnaft-TVK integration.

In order to establish economic and competitive polypropylene capacity of 255 kt/year, Slovnaft launched a EUR 135 million project in November 2003. In April 2005, the first chemical reaction was initiated and the unit was finally commissioned in November 2005. The new polypropylene unit uses licensed technology of Dow Chemical Co. following a launch of a wider product range together with advanced non-solvent technology, Slovnaft is well positioned to meet the growing demand in the region with positive impact on the environment. Parallel with the launch of the new polypropylene unit, the two older units were shut down.

Operations

Following favourable conditions in the first half of 2005, a steadily diminishing petrochemical margin was recorded in the subsequent quarters compared to the previous year. An enormous increase in feedstock prices had a significant impact on profitability. Nonetheless, the segment managed to achieve good performance in 2005, mainly due to volume growth.

Slovnaft has successfully implemented a new commercial strategy focusing on end users providing more favourable margins. Applying the single sales channel operation, the commercial efficiency, mainly in the Italian, French and German markets, has also improved.

Overall sales have increased by 42 kt which is mainly a result of the new polypropylene unit. Compared to the previous year the polypropylene sales increased by 63%.

The new polypropylene unit production has also opened up new opportunities for expansion into overseas sales markets.

Due to strict cost controls and further efficiency improvements, the segment's performance has strengthened. In spite of growing capacities there was a significant decrease in headcount, which resulted in higher workforce efficiency.

Outlook

In the near future, the Group will further improve production capabilities and exploit the opportunities offered by the growing polymer markets in the region. The anticipated improvement in market conditions together with record sales and production volumes will allow Slovnaft to achieve strong results in the coming years.

In 2006, the focus will be on commercial and operational excellence, namely sales efficiency improvement, active customer and product portfolio management, product customisation, further modernisation and efficiency improvement projects in the production area aimed at maximising plant availability and minimising HSE exposure, and outsourcing of non-core activities. Meanwhile, potential synergies will be exploited throughout the whole value chain.

HSE

HSE Management

Year 2005 was the first year of operation under the new HSE Policy, approved at the end of 2004. The new Group HSE policy breaks down long-term goals (strategic actions and targets) into yearly HSE targets and objectives, divisional HSE objectives and tasks.

The fact that the implemented HSE management was efficient and in compliance with the standards was confirmed by the surveillance audit of the Integrated Management System in accordance with the Occupational Health and Safety specification (OHSAS 18001), Environmental management system standard (ISO 14001:2004) and the Quality management system standard (ISO 9001:2000). As for the Environmental management system, the audit was conceived as transitional, due to the new version of the standard. The external auditors did not identify any non-conformity and recommended maintaining the IMS certificates.

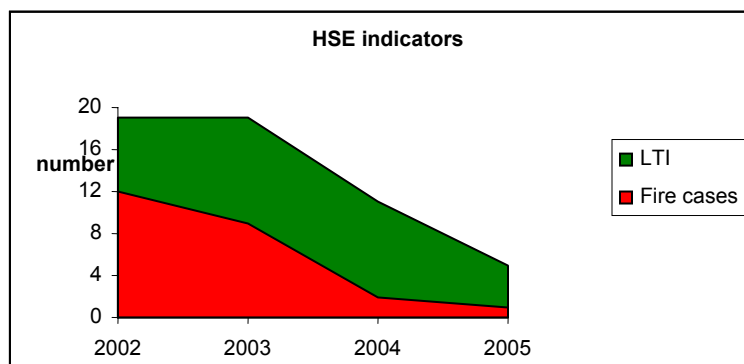
Special attention was paid to the HSE management of company's contractors. The second annual Safety day for construction contractors was organised, where the cooperation with contractors from the HSE point of view was evaluated and joint efforts to improve HSE performance were set.

Communication with stakeholders

The sustainable development (SD) report became an accepted way of communicating our achievements in the environmental, social and financial areas to our stakeholders. With each new issue, Slovnaft strives to enhance the reporting scope and closely follows international best practice, represented by the Global reporting initiative guidelines. Slovnaft SD reports are published only in electronic form and are available on the official web site www.slovnaft.sk, together with MOL Group's sustainable development reports.

Safety

Slovnaft continued its excellent safety performance by further decreasing the LTIF indicator (number of work injuries per one million worked hours) from 1.1 in 2004 to 0.6 in 2005. In absolute figures, it means a decrease of work injuries from 6 in 2004 to 3 in 2005. This is a very good achievement compared to the CONCAWE (the oil companies' European organisation for environment, health and safety) report, where the industry LTIF average in 2004 was 3.3. Since 2001, no fatalities of either own employees or contractors were recorded. The number of injuries at subsidiaries dropped as well, from 5 in 2004 to 2 in 2005. One of the projects that contributes to this result is the Safe workplaces project. The goal of the project is to develop managers' and employees' positive attitude and knowledge of safety measures. As an additional tool for improving the management of HSE, especially the safety performance, a standardized methodology for investigation of extraordinary events was implemented. The application of the methodology will allow disclosing causes of events and taking appropriate preventive measures.



Slovnaft managed to maintain and even improve its fire prevention performance. In 2004, 2 fire cases were recorded, while in 2005 there was only 1.

Risk assessments of all production units were completed; emergency plans and safety reports were developed in order to improve control of major accident hazards, protection of life, environment and assets. In 2005, the Slovnaft's safety report was submitted to authorities in accordance with the Major Industrial Accidents Prevention Act.

HSE plays a very important role in the commissioning of new production units. In 2005, HSE experts supported the commissioning of a new Polypropylene 3 unit using their expertise during the application process.

Environment

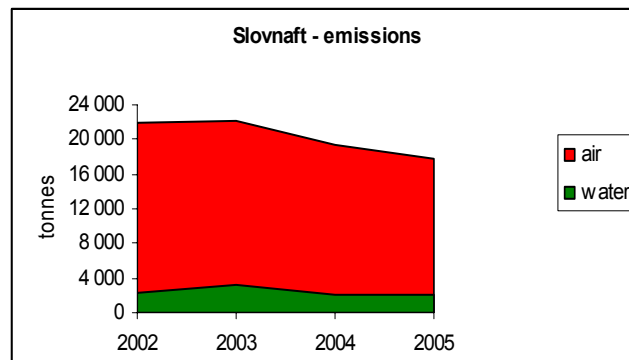
Identification and consequent elimination of environmental liabilities resulting from past activities has continued. The provision created for managing these activities increased slightly, from SKK 903 million in 2004 to SKK 992 million in 2005.

In 2005, Slovnaft decommissioned or reconstructed service stations with the aim of operating the entire network in compliance with legal requirements. As part of the focused approach to the service stations network reconstruction, SKK 30 million was spent on soil and groundwater remediation during the decommissioning of service stations.

Following preparatory activities for the implementation of the SIMPLE project carried out in 2004, including remediation of soil and groundwater at Logistics depots, close to SKK 40 million was spent on soil and groundwater decontamination-related work.

HSE investments were maintained approximately at the same level as in the previous year and almost SKK 400 million was spent on HSE-related projects. Half of this was used for the storage tanks reconstruction program. In 2005, reconstruction of 5 storage tanks with a total volume of 38,000 m³ was completed and reconstruction of 2 storage tanks with a total volume of 5,000 m³ started.

Slovnaft considers protecting the water environment a key priority and pays high attention to decreasing its impact on surface water and groundwater. The groundwater protection system (GWHP) keeps hydrocarbons from penetrating groundwater from Slovnaft's area of operation. Continuous operation of 3 wastewater treatment plants (WWHTPs) ensures that there is no significant impact on the Danube or Little Danube. The volume of water taken from the Danube for technological purposes was decreased by 20%. The volume of discharged pollutants to the water remained approximately the same compared to 2004. The amount of emissions to the air was decreased by 8%. This was achieved mainly by implementing projects such as the reconstruction of furnaces by replacing burners and WWTP roofing. Improvements were achieved in waste management as well. Compared to 2004, the volume of hazardous waste was decreased by 20% and non-hazardous waste by one third. This represents a total waste decrease by more than one quarter at Slovnaft.



There is strong scientific evidence that human activities, especially burning of fossil fuels, are contributing to climate change. Therefore, this issue was addressed by a series of legal regulations setting national emission limits and defining tools for a cost efficient decrease of CO₂ emissions. One of such tools is emission trading and the year 2005 brought the beginning of the first trading period of CO₂ emissions. Slovnaft installations are subject to this scheme and therefore this issue is of high importance to Slovnaft.

Outlook

Given that the human factor is a key element in HSE management, Slovnaft will continue its efforts to further increase HSE awareness, especially through the implementation of actions defined within the Safe workplaces project. Higher value added and an increase in efficiency are expected as a result of using e-tools, specifically the HSE Info system and the e-learning application. Slovnaft intends to seek new ways of decreasing CO₂ emissions and implementing these measures whenever feasible. Through a committed approach to HSE management, supported by excellent results, Slovnaft will continue to enhance its image of a socially responsible company.

Quality

The management of quality, environment, health and safety at workplace, has been certified and developed within the framework of the Integrated Management System (IMS).

In addition to other activities, last year represented a period of significant skill development of the IMS auditors. Consultancies and auditors, Bureau Veritas Slovakia and SGS Slovakia, delivered a series of certified courses lasting 250 days in total, aimed at key external and internal auditors, to Slovnaft's employees.

Simultaneously with the maintenance and continuous improvement of management systems, Slovnaft undergoes a systematic preparation prior to regular annual surveillance audits carried out by an external auditor.

In November 2005, SGS Slovakia performed the second IMS surveillance audit with exceptional results concluding that systems have been operated without either major or minor non-conformities and confirmed the validity of IMS certificates until September 2006.

The transition audit of the environment management system meeting conditions of the new ISO 14001:2004 standard was also a part of the IMS surveillance audit.

The standard-based management systems will be transformed internationally during 2006 to systems implemented at individual business divisions.

In addition, exceptional achievements in 2005 include the accreditation of Slovnaft's Refining Quality Control laboratories as a "C" type inspection body following provisions of ISO/IEC 17020, and as a ISO/IEC 17025 testing laboratory.

Human resources

The restructuring process which started in the previous years continued also in 2005 influencing the employee structure and headcount as well as the average wage development. As a result of this process, the company recorded a closing headcount of 3,014 and the decrease compared to previous year was 8.3%. Fluctuation reflecting 81 hired and 352 dismissed during the year reached 10.9%.

Implementation of unified principles in the remuneration and employee benefit areas within the MOL Group was reflected in the general agreement and consequently positively influenced employee structure and wage levels. The average wage in 2005 reached SKK 46,324 (excluding one-off items), significantly above the Slovak Republic average.

In the social area, monetary and non-monetary benefits in the total of SKK 452 million were provided to employees. The most important included: optional social contribution, life and accident insurance contributions, supplementary pension insurance, catering, loans from the social fund and the health improvement program. Free inoculation against flu and vitamins was provided to employees as prevention against viral diseases. Employees are free to use the company sports facilities, the most popular of which include the swimming pool, sauna, sports hall, and tennis courts.

The company paid severance payments in the total of SKK 92 million to employees that were made redundant as a result of the restructuring. In order to reduce the negative impact of dismissals, affected employees were offered outplacement services, psychological counselling, and retraining courses. The costs of these services were fully covered by the company. 82 employees attended the retraining courses in economics, language studies, information systems, transportation and welding areas. The total cost of these services was SKK 1.5 million.

The company focused on implementing a language policy through a systematic language education program. More than 450 employees took part and will pass an internationally accepted exam at the end of the course.

During 2005, the Young Talent program continued within MOL Group, focused on the development of employees with great managerial and professional potential. At Slovnaft, 8 employees took part in this program.

Apart from the above-mentioned program, recruitment of talented graduates was carried out. 15 graduates with economics and technical backgrounds were employed at selected positions with opportunity for further professional and personal development. The total cost of employee training exceeded SKK 28 million.

Slovnaft demonstrates its social responsibility through the implementation of an Ethics code. The advisory service and Ethics column, led by an independent expert, support the development of ethics principles throughout the company.

At year-end, a unique five-year program, "New Europe", was agreed between employers and unions of the MOL Group. It defines common goals for the MOL Group with respect to wage development, employment, education and health care areas, taking into account the position of individual companies in the region, as well as challenges resulting from EU membership.

Research and development

Research centre operations were focused on further quality improvement of ultra-low sulphur fuels. The new additives formula ensures outstanding economics of the fuels and radically decreases emissions. The research of motor fuels containing biofuels recorded significant progress, which is in accordance with the energy and environmental policy of the EU (Biofuels Directive No. 2003/30/EC). In the second half of 2005, Slovnaft started trial production of diesel fuel blended with a bio component and set up ETBE production on the basis of bioethanol.

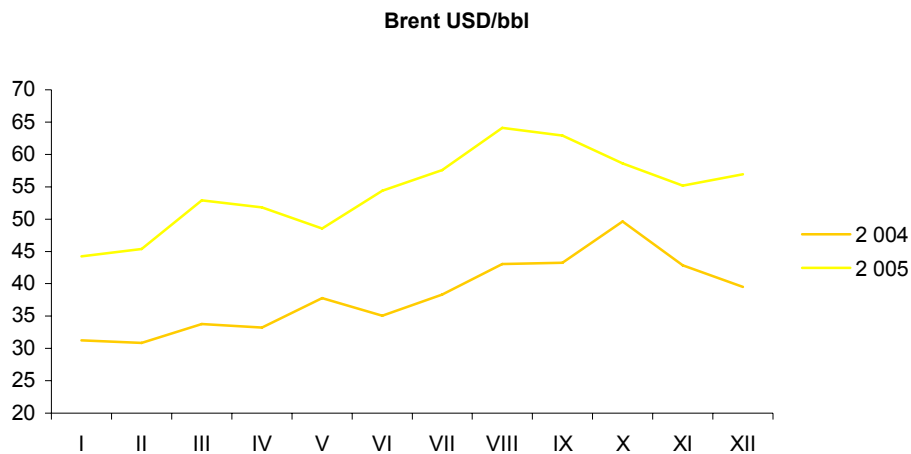
Work in the field of technological research was focused on an output increase through the optimisation of technological processes, development and selection of a technology for a new energy concept aimed at the fulfilment of tighter requirements for refinery emission limits. The work on the "Revamp of Aromatic block" is in progress. A new system has been developed for coking monitoring at the LC Finer unit. In the field of new product development, the main achievements were the formulation of summer grade EVO Diesel, the reformulation of Apollobit MCA-65 modified bitumen and the development of automotive LPG ECO+.

Protection of the environment remains a constant priority for the Slovnaft Group. In 2005, the implementation of the IPPC (Integrated Pollution Prevention and Control) directive continued, where 8 applications for integrated permission for installations operating were submitted. The focus was on monitoring and minimization of VOC (Volatile Organic Compounds) emission released from wastewater treatment system and minimisation of hazardous waste formation. In the first phase, priority substances were observed and technologies were evaluated using the BAT (Best Available Technique) method, in accordance with the EU Directive No. 96/61 EC on Integrated Pollution Prevention and Control. Application of new corrosion protection methods increased the service reliability of production plants.

Management discussion and analyses

Overview of business environment

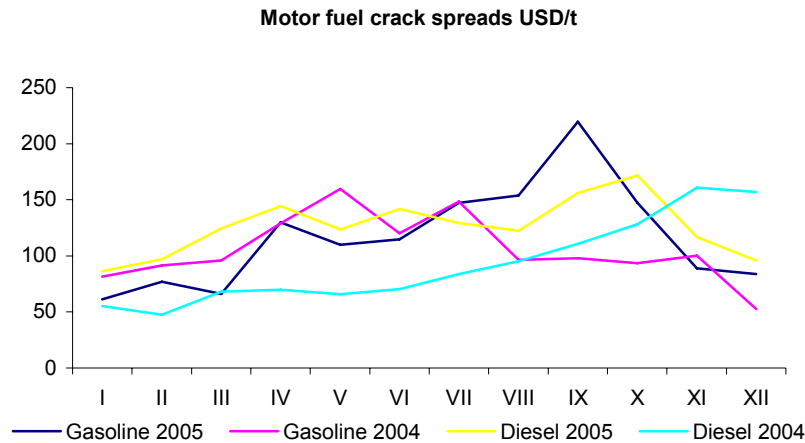
In 2005, high crude oil prices were recorded due to the strong oil demand, weak US dollar and production capacity constraints. Under these circumstances, the global crude oil supply was struggling to satisfy the record demand. The OPEC cut, along with production difficulties in the North Sea and extraordinarily cold weather, contributed to the tight supply/demand balance in the first three months and maintained the prices above the Q1 2004 average by 15.6 USD/bbl. The biggest impact on the continuously increasing price of Brent Dtd during Q2 2005 was the continuing strong demand for oil products mainly in China and USA and also fear of disruption of the tight world oil supply due to possible terrorist attacks or major natural catastrophes, such as hurricanes. During Q3 2005, concerns about tight refining capacity and the producers' ability to meet peak summer gasoline demand and stocking up on distillate fuels ahead of the winter caused a further increase in Brent Dtd prices. At the end of the year, beside the above-mentioned factors, uncertain supplies from major crude oil producers (Iraq, Venezuela and Nigeria) strengthened high prices of reference crude Brent Dtd, achieving an average 57 USD/bbl in Q4 compared to 44 USD/bbl in Q4 2004. The annual average was up by 16 USD/bbl.



Crack spreads for motor gasoline in Q1 2005 were relatively high compared to the historic average of this season, approaching the level of 68 USD/t. The development in Q2 2005 was significantly influenced by growing US consumption at the beginning of the summer driving season. Gasoline crack spreads increased by 16 USD/t compared to Q2 2004 and averaged at 116.3 USD/t for Q2 2005. Continuing strong gasoline demand in the summer driving season despite high retail prices, low US gasoline stocks (2% below last year's level) and limited production due to hurricanes resulted in a significant increase in gasoline crack spreads by 63 USD/t in Q3 2005 compared to Q3 2004. In Q4 2005, motor gasoline crack spreads were up by 25 USD/t compared to the same period of the last year. The main reasons behind this fact were tighter than average Atlantic Basin inventory levels, the high number of turnarounds scheduled for H1 2006, particularly in the USA, and the expected early start of the gasoline season.

Diesel crack spreads increased significantly, achieving in Q1 2005 the average level of 103 USD/t, due to the short supply of products meeting tighter EU 2005 quality requirements and the low level of stocks compared to consumption. Continuing strong diesel demand from Europe, China and the USA resulted in the shortage of distillate products ahead of the winter season (distillate stocks in Q2 2005 were down by 1.4% compared to Q2 2004). This was the main reason behind the significantly higher values of crack spreads in Q2 2005 compared to the same period of the last year. In Q3 2005, continuing strong diesel demand in the biggest world economies further strengthened the diesel crack spread increase. Mild

weather in the North-Eastern USA and higher-than-last-year USD distillate stocks resulted in a drop in diesel (ULSD 50 ppm) crack spreads in Q4 2005, which was also down by 19.1 USD/t compared to Q4 2004.



Financial performance

Profit and loss statement

The SKK 17.1 bn (20.1%) rise in net sales was caused by the increase in motor fuel quoted prices (especially in the case of diesel) and plastics' prices. This positive effect was, however, offset by the negative impact of foreign exchange rates and lower fuel and plastics sales volumes. Raw materials and consumables grew by SKK 19.6 bn (32.7%), impacted by the significantly higher crude oil price which offset its lower processing. Personnel expenses were up by SKK 412 million (14.3%), reflecting the annual wage growth on one hand, and different creation and release of personnel-cost related provisions on the other. The decrease in depreciation, depletion, amortisation and impairment in the amount of SKK 240 million (6.3%) resulted mainly from the revision of the economic life of assets, in accordance with IAS 16. The value of services used was up by SKK 347million (9.4%) as a result of two factors. Firstly, the different reporting methodology of maintenance services (the counterparts in work performed by the enterprise and capitalised), and secondly, the higher value of maintenance services. The increase in other operating expenses by SKK 264 million (7.5%) results from a penalty from the Ministry of finance in the amount of SKK 1.3 bn, which was, however, offset to a great degree by cost savings and the release of provisions. A SKK 2.0 bn increase in own production stock was mainly related to the higher revaluation of crude oil products compared to a year ago. Higher net finance revenues by SKK 180 million (132.4%) reflected the development of foreign exchange rates and the significantly lower interest paid, as a result of minimal bank loans during entire year 2005.

Balance sheet

The intangible assets and property, plant, equipment line reflects capital expenditures related mainly to PP3 and HDS7 units in 2005. Available-for-sale financial assets were up by SKK 182 million (13.4%), as a result of the revaluation of TVK shares to their market value. Other non-current assets went up by SKK 6.5 bn mainly as a result of an intra-Group loan to MOL. Inventories grew by SKK 2.0 bn (40.7%) as a result of the already mentioned higher quoted prices of crude oil products and different production and sales volumes compared to 2004. Trade receivables increased by SKK 1.8 bn (22.3%) despite lower sales volumes due to higher sales prices. Cash and cash equivalents were down by SKK 5.4 (74.4%) bn as a result of the above-mentioned intra-Group loan to MOL, which is a part of MOL Group's liquidity management. Trade and other payables were up by SKK 5.7 bn (45.8%) due to the much higher crude oil

cost and different development of capital expenditures. Short-term and long-term bank loans were minimal due to the strong cash position.

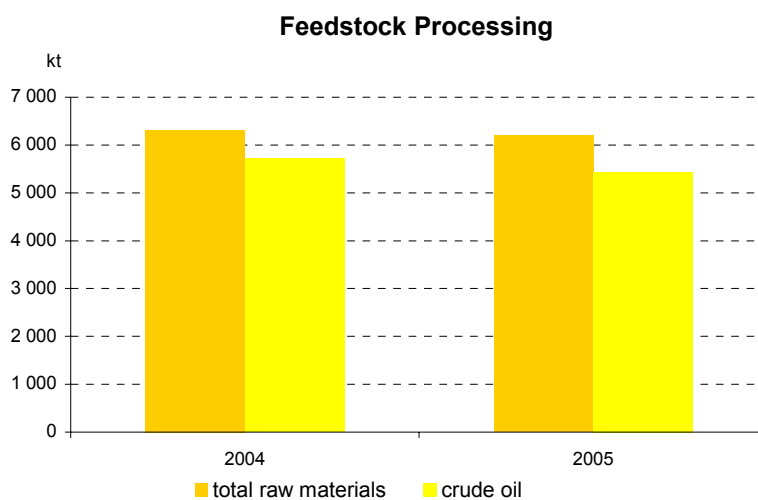
Cash flow

The total closing value of cash and cash equivalents in 2005 amounted to SKK 1.9 bn, which represents a significant decrease (SKK 5.2 bn) compared to a year ago. However, the drop does not imply a weaker cash position. It only reflects MOL Group's liquidity management strategy and shows the provision of the intra-Group loan to MOL in the amount of SKK 6.6 bn. Other key factors included lower operating profit by SKK 1.2 bn, higher dividend payment by SKK 1.7 bn, and lower capital expenditures by SKK 2.5 bn.

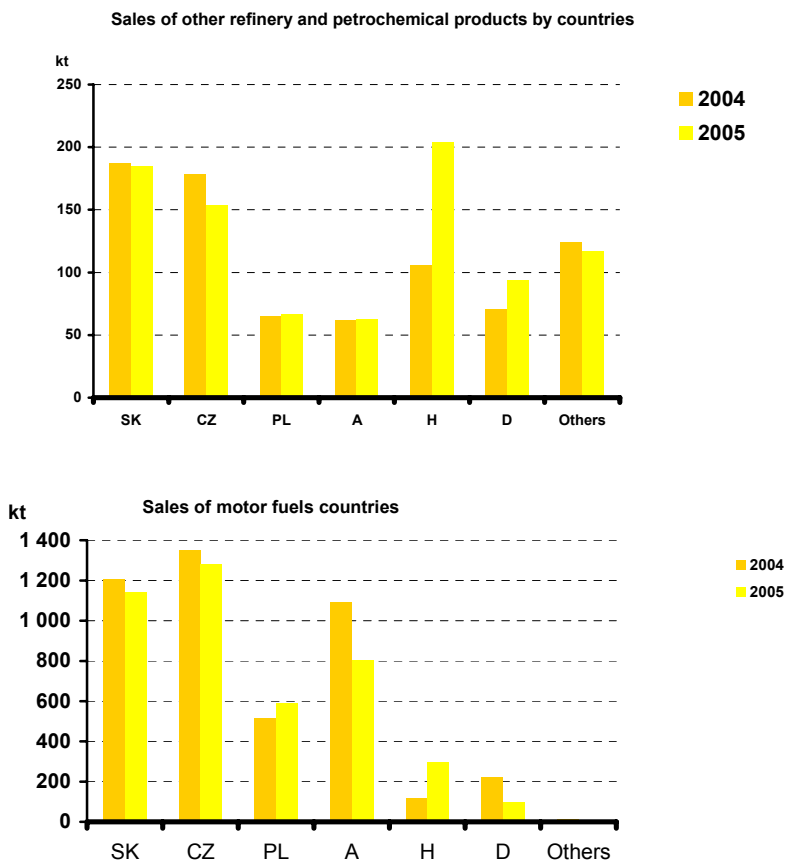
Refining and marketing

In 2005, Slovnaft processed 5.4 Mt of crude oil, which is 276 kt less compared to the previous year. The quality of processed crude oil was in line with contracted specifications and the content of light fractions was practically the same as a year ago.

Motor gasoline production was lower by 106 kt and motor diesel lower by 99 kt compared to 2004. In spite of turnarounds of key production units realised in 2005, relatively high motor fuel production was achieved mainly due to optimised crude oil processing and purchases of raw materials, as well as higher utilisation of distillation and cracking capacities compared to a year ago.



Production (in kt)	2005	2004
Motor gasoline	1,565.1	1,670.8
Motor diesel	2,440.5	2,539.8
Kerosene	37.9	61.9
Heavy fuel oil	181.2	190.2
Bitumen and oxidation mixture	45.9	67.3
Sulphur	64.6	65.1
Other refinery products	206.3	174.2
Petrochemical products	196.5	212.0
TOTAL	4,738.0	4,981.3



Total refinery product sales volumes of 5.1 Mt (excluding chemical raw materials transferred to the Petrochemicals segment) decreased slightly compared to the 5.3 Mt achieved in 2004. Revenues from sales of refining products improved significantly (by 23%) in SKK terms, resulting mainly from higher quoted prices driven by the development of international oil markets.

In 2005, domestic sales were slightly lower (by 4.8%) than a year ago impacted mainly by the fall in sales of motor fuels. Motor gasoline sales declined affected by decreased market consumption. In addition, kerosene sales dropped due to increased competitive pressure. In spite of growing market demand, motor diesel sales remained at 2004 levels due to slightly lower production in 2005. On the other hand, increasing sales of LPG via the retail network by 3 kt (79%), as well as higher sales of bitumen by 38 kt compared to a year ago, driven by continuously increasing market consumption, positively influenced sales of refinery products from Slovnaft in domestic market in. Sales revenues from domestic refinery products improved by 19% compared to last year's figures.

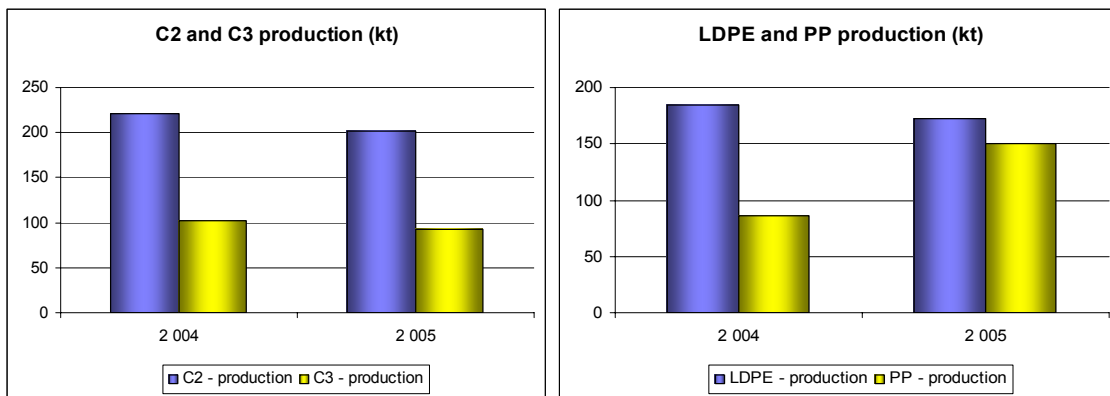
Export sales in 2005 represented 74% of total sales (in volume terms). Sales to the most important export market, the Czech market, decreased slightly (by 6% in volume terms) compared to the previous year. Limited availability of products from the Slovnaft refinery a lack of products in the pipeline system during the summer 2005 driving season reduced sales of motor fuels from Slovnaft in this market. On the other hand, our position in the Polish market has improved. Slovnaft's sales in Poland increased compared to the previous year by almost 12.9% in volume terms. Significantly higher sales of motor diesel (by 92 kt) driven by growing market consumption fully compensated the decline in sales of motor gasolines (by 19 kt compared to the previous year). In line with the Group Supply Chain Management strategy, deliveries of 10 ppm motor diesel to the Austrian market were mostly realised from the MOL refinery in Szazhalombatta causing a drop in Slovnaft's product sales in Austria by almost 25% compared to 2004. Motor fuels sales to the Hungarian market in 2005 increased significantly compared to the last year (by 178 kt i.e. 152%), driven by extremely high market demand. On the contrary, intense competitive pressure coupled with the

high price level reduced sales of motor fuels produced by Slovnaft in the German market by almost 58% (129 kt) compared to 2004. Sales revenues from export of refinery products rose by 25% in SKK terms compared to 2004.

Sales of other refinery and petrochemical products, which represent in volume terms more than 17% of total refinery products sales, increased compared to 2004. Domestic sales remained at 2004 levels, while export sales increased by 15%, mainly to the German and Hungarian markets. The main reason behind this fact was already mentioned the implementation of the Group Supply Chain Management Optimization Strategy.

Petrochemicals

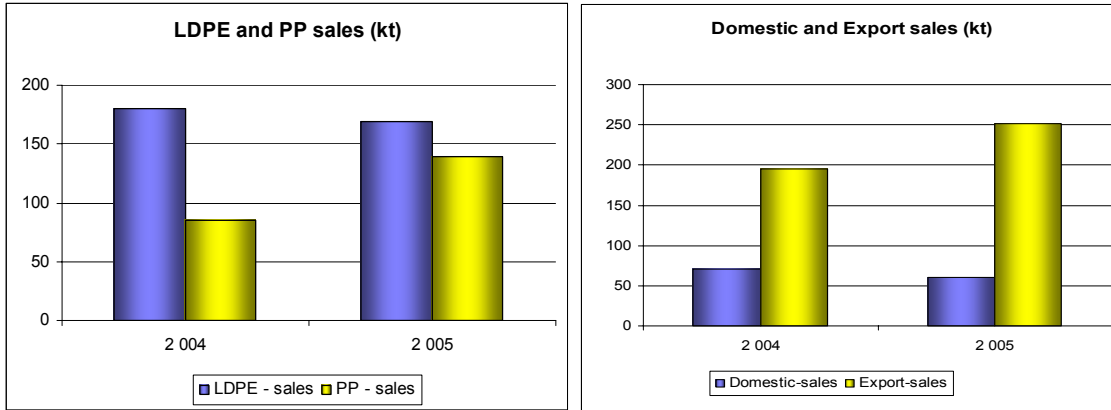
The petrochemical segment utilised 528.4 kt of naphtha and 150.3 kt of light hydrocarbons and transferred 278 kt of steam cracking by-products back to the refinery. The steam cracker produced 201.8 kt of ethylene and 91.9 kt of propylene. All production volumes were behind the figures from 2004 as a result of turnaround activities at the steam cracker.



In 2005, the launch of the new polypropylene unit boosted the production volumes which reached the level of 151 kt, 74% higher compared to the level of 2004. In case of polyethylene, production decreased by 7% reaching the level of 172 kt in 2005 as a result of the above-mentioned turnaround activities at both olefin and polyethylene units.

High utilisation of available capacities along with the new propylene capacity and improved sales activity resulted in 308 kt polymers sold in 2005, 16% higher compared to 2004.

In 2005, domestic sales volumes decreased by 15% compared to the previous year. The main reason behind is the different product portfolio produced at the new polypropylene unit. Different polyethylene price strategy applied in 2005 led to a price increase, which subsequently resulted in lower sales volumes. Export sales increased significantly reaching 251 kt, 29% higher than in 2004. In the case of polyethylene, sales volumes slightly decreased (by 4%). However, polypropylene sales almost doubled, increasing by 95%. As a result of the single sales channel operation, the company position in Germany, Italy, Poland and France improved significantly. In Germany, polymer sales increased by 8% due to a rise in both polyethylene and polypropylene sales. In Italy and Poland, the increase in polymer sales was even higher.



Investment activities

In 2005, the Slovnaft Group invested SKK 4,003 million. The largest portion of the investments, over SKK 2,100 million, was spent on projects in the Refinery segment.

Investments into the Refinery Profit Improvement Project (RPIP) represented more than SKK 300 million. The purpose of this project is to increase production efficiency.

Projects ensuring the stable operation of the business consumed more than SKK 760 million. Their aim is to ensure an uninterrupted and stable operation of the units.

The Polypropylene 3 unit (PP3) was put into operation during Q1 2005, before the planned date. This investment became the Group's largest following the EFPA project completion in 2000. Its production capacity enables a significant (3.5 times higher) increase in polypropylene production. In addition, it also serves as a replacement for old production units delivering a reduction in maintenance costs, an increase in quality and widening of the product range.

The focus in retail investment activities was on Slovakia. The number of service stations increased by 4. The retail segment continued with the shop reconstruction program, building of car-washes and closure of non-profitable and ecologically problematic service stations. As a result, a total of 31 filling stations were closed. A significant amount of investments was spent on information systems, enabling unification of the whole network, and an improvement of processes and cards services.

The network rationalization program continued in the Czech Republic and the total number of filling stations operated decreased to 30 following disposal of non-profitable stations. In the meantime, smaller reconstructions on the remaining stations were completed with the aim of improving the level of services provided.

In 2005, the Slovnaft Group also invested in HSE projects. The largest investment was in the ongoing Storage Tank Reconstruction project, reaching over SKK 200 million.

More than SKK 100 million was invested to secure the operation of facilities and buildings.

Over SKK 160 million was spent on IT projects in 2005, mainly on maintenance, security and system availability.

Corporate services

The volume of procurement activities realised via corporate services exceeded 90% of the total purchase volume (excluding feedstock purchases). Over SKK 3.6 bn of purchases were made through electronic tenders with the average price reduction of 8%. Compared to 2004, it represents an increase of 250%. In addition, the e-catalogue was extended by 500 items with the total number of items now at above 4,000. Electronic procurement increases the transparency of the whole process, resulting in more effective supplier selection.

In 2005, the integration of the Slovnaft and Slovnaft MaO warehouses continued the optimisation of their storekeeping activities, decreasing the value of stored materials. Outsourcing of the warehouse operation was completed in 2004, resulting in higher internal and external customer satisfaction in 2005.

Corporate governance

In addition to the processing of crude oil, Slovnaft's main entrepreneurial activities are the distribution and sale of refinery and petrochemical products, along with related services. Slovnaft is one of the most important companies in the Slovak Republic, and as such, is fully aware of the importance of adhering to the best practice in the field of corporate governance.

The Board of Directors of Slovnaft is the supreme body of the company and it is responsible for corporate issues. Its key activities are focused on increasing shareholders' value, efficiency improvement and securing transparency in corporate activities towards all stakeholders. It also aims to ensure appropriate risk management.

The Supervisory Board, in close cooperation with the Internal Audit, carries out supervision of the corporate governance of the company.

Code of Conduct of the bodies

The General Meeting appoints the Supervisory Board and the Board of Directors. All members of the Supervisory Board and the Board of Directors have access to all relevant information. During the reported period, the Board of Directors, as well as the Supervisory Board, held 2 meetings each. There have been significant changes in the positions of the chairpersons of both bodies. After 35 years devoted service, Mr. Slavomír Hatina completed his term as a chairman of the Board of Directors, and Mr. Marián Jusko was elected a new chairman of the Board. Similar changes took place at the Supervisory Board where Mr. György Mosonyi was appointed the new chairman, supported by the former chairwoman, Ms. Ilona Bánhegyi in her capacity as a member of the Board.

Corporate bodies' resolutions, fulfilment records, and minutes of deliberations of both corporate bodies are filed with all supporting documents with the Secretary.

Information disclosure and transparency

The Company applies stringent rules in the area of insider dealing and updates the list of Board and SB members and employees who could be considered insiders, which is filed with the Financial Market Authority and the Bratislava Stock Exchange.

Following Company by-laws, all Board of Directors and Supervisory Board members are obliged to declare material interest they might have in any transaction. Such announcements are made at the Board

of Directors, Supervisory Board, and / or general meetings where the said transaction is dealt with for the first time and the relevant person, as a rule, abstains from voting on such a transaction.

In addition, the Company follows the rules issued by the Bratislava Stock Exchange that govern disclosure of material information. Adherence for these rules, applied by the Company, ensures access for all shareholders to information on the financial position, business results, ownership and governance of the Company based on which they are able to make competent investment decisions.

Relations with shareholders and stakeholders

Slovnaft is fully aware of its social responsibility, in frame of which one of the company's main efforts is to ensure continuous sustainable growth for the wider public. Slovnaft, as one of the most significant Slovak companies, plays an important role in child and youth support including health and education services, as well as humanitarian activities, cultural and sport support.

With a view to supporting the recovery of long-term long-term illnesses children, Slovnaft has initiated a unique charitable project called Golden Fish EVO. Unlike the present benefits focused mainly on material gain, this project's main goal is to help children with long-term illnesses. By fulfilling their secret wishes, Slovnaft is trying to bring joy back into their lives and thereby help their recovery. Within the scope of this project, Slovnaft has so far enabled these children to meet their sport idol – ice hockey goalkeeper Jan Lasak, to spend a day as western heroes and become a fairy tale hero.

Slovnaft, in cooperation with the Central European Foundation, also carried out the "Region for Us Project", within which the company improved the education conditions of more than 10 000 children. This successful project is to be continued in 2006.

Beside immediate financial help following the natural disaster which destroyed a large area of the forest in the Tatra Mountains in 2004, Slovnaft gave helping hand to the mountains also last year. It organised the fund raising campaign "Trees for Tatra mountains" based on the sale of the specially designed stickers. Thanks to Slovnaft and the drivers, there are now more than 500 thousands of new trees in the Tatra Mountains.

In 2005, Slovnaft reiterated that it is not insensitive to the fates of people facing difficulties. As a result, Slovnaft organised and supported rescue and humanitarian missions in Pakistan and Romania, which were hit by devastating earthquakes and floods.

Further information on such efforts is available on Slovnaft's website (www.slovnaft.sk), where there is a special section dedicated to shareholders and the financial community.

Board of Directors

- | | |
|-----------------------------|--|
| 1. Marián Jusko | Chairman of the Board since April 25, 2005 |
| 2. Ferenc Dénes | Member of the Board |
| 3. Ferenc Horváth | Member of the Board |
| 4. Slavomír Jankovič | Member of the Board since April 25, 2005 |

5. Oszkár Világi	Member of the Board since April 25, 2005
6. József Molnár	Member of the Board
7. József Simola	Member of the Board
8. Béla Kelemen	Member of the Board
9. Vratko Kaššovic	Member of the Board

Supervisory Board

György Mosonyi	Chairman of the Supervisory Board
Ilona Bánhegyi	Member of the Supervisory Board
András Huszár	Member of the Supervisory Board
Krisztina Dorogházi	Member of the Supervisory Board
Pavol Buday	Member of the Supervisory Board
Miloš Nešpor	Member of the Supervisory Board

Report on the Supervisory Board's activity of Slovnaft, a.s. for the period since the ordinary General Meeting of April 25, 2005

The submitted report of the Supervisory Board on the business year 2005 has been prepared based on the reports of Board of Directors and the auditor as to the ordinary stand-alone and consolidated financial statements for the year ended December 31, 2005, and regular assessment of the Company's activities.

The Supervisory Board states that due to its previous investments and efficiency improvements as well as favorable external environment the Company achieved good results and could further reduce its indebtedness.

The Board of Directors was reporting through the Chief Executive Officer to the Supervisory Board on a continuant basis. During the year the Supervisory Board requested quarterly reports on the internal audit's and security's activities.

In the opinion of the Supervisory Board the operation of the Company was in compliance with applicable laws, the Articles of Association and decisions of the previous general meetings and focused on the maximization of the shareholders' value. Based on the assessments of the Supervisory Board the activities of the Board of Directors were performed in line with the approved Business Plan for 2005. The members of the Board of Directors complied with their obligations to maintain the secrecy of confidential information and observed the provisions of § 196 of the Commercial Code on the ban of competitive conduct.

The employee representatives of the Supervisory Board participated actively at all meetings and paid a special attention to the issues affecting the status of the employees of Slovnaft, a.s.

The Supervisory Board reviewed and discussed the audit of the both ordinary stand-alone and consolidated financial statements for the year ended December 31, 2005, conducted by Ernst & Young company in accordance with International auditing standards.

In the opinion of the Supervisory Board the ordinary stand-alone and consolidated financial statements of Slovnaft, a.s. present fairly, in all material respects, the financial position of Slovnaft, a. s. as of December 31, 2005 and the results of its operations, changes in equity and its cash flow for the year ended.

Having verified and discussed the Board of Directors' report about the Company's operation in 2005 the Supervisory Board recommends to the General Meeting to approve the ordinary stand-alone and consolidated financial statements for the year 2005. Further, the Supervisory Board agrees also with the proposal of the Board of Directors for the distribution of the profits of 2005 and with the method of payments of dividend.

György Mosonyi
SB Chairman

in Bratislava, April 2006

SLOVNAFT, a.s. and Subsidiaries

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

31 December 2005

SLOVNAFT, a.s. and Subsidiaries
Consolidated financial statements prepared in accordance with International
Financial Reporting Standards for the year ended 31 December 2005

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To the Shareholders of SLOVNAFT, a.s.

We have audited the accompanying consolidated balance sheet of SLOVNAFT, a.s. and its subsidiaries ("the Company") as of 31 December 2005 and the related consolidated statements of income, changes in shareholders' equity and cash flows for the year then ended and the related notes presented on pages 2 to 40. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the accompanying consolidated financial statements give true and fair view of the financial position of the Company as of 31 December 2005, and of the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Bratislava, 15 March 2006

Ernst & Young Slovakia, spol. s r.o.

SLOVNAFT, a.s. and Subsidiaries

Consolidated financial statements
prepared in accordance with International Financial Reporting Standards

31 December 2005

Bratislava, 15 March 2006

Marián Jusko
Chairman of the Board of
Directors

Béla Kelemen
Member of the Board of Directors

SLOVNAFT, a.s. and Subsidiaries
Consolidated financial statements prepared in accordance with International
Financial Reporting Standards for the year ended 31 December 2005

General Information

SLOVNAFT, a.s. ("SLOVNAFT" or "the Company") was registered in Slovakia as a joint stock company on 1 May 1992. Prior to that date it was a state owned enterprise. The Company was set up in accordance with Slovak regulations. The Company has its primary listing on the Bratislava stock exchange.

The principal activity of the Company, its subsidiaries and associates ("the Group") is the processing of crude oil, distribution and sale of refined products.

The Company's registered address is:

SLOVNAFT, a.s.
Vlčie hrdlo
824 12 Bratislava
Slovak Republic

Since April 2003 the parent company of the Group is MOL Rt, Hungarian Oil and Gas Company, incorporated and domiciled in Hungary.

These consolidated financial statements have been presented in millions of Slovak Crowns.

These consolidated financial statements have been approved and authorised for issue by the Board of Directors on 15 March 2006.

SLOVNAFT, a.s. and Subsidiaries
Consolidated balance sheet at 31 December 2005

	Notes	2005 SKK millions	2004 SKK millions
ASSETS			
Non-current assets			
Intangible assets	2	714	426
Property, plant and equipment	3	40,301	40,714
Investments in associated companies	5 i)	103	150
Available-for-sale financial assets	5 ii)	1,542	1,360
Deferred tax assets	22	2	16
Other non-current assets	6	6,586	101
Total non-current assets		49,248	42,767
Current assets			
Inventories	7	6,803	4,834
Trade receivables	8	9,844	8,049
Income tax receivable		368	20
Available-for-sale financial assets	5 ii)	1	2
Other current assets	9	4,365	1,880
Cash and cash equivalents	10	1,872	7,313
Total current assets		23,253	22,098
Assets classified as held for sale	3	645	-
TOTAL ASSETS		73,146	64,865
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Share capital	11	20,625	20,625
Share premium		3,649	3,649
Reserves	12	18,790	12,853
Net income attributable to equity holders of the parent		8,997	10,021
Equity attributable to equity holders of the parent		52,061	47,148
Minority interest		57	63
Total equity		52,118	47,211
Non-current liabilities			
Long-term debt, net of current portion	13	-	1
Provisions for liabilities and charges	14	791	793
Deferred tax liabilities	22	564	74
Government grants and other non-current liabilities	15	768	831
Total non-current liabilities		2,123	1,699
Current liabilities			
Trade and other payables	16	18,370	12,597
Provisions for liabilities and charges	14	529	1,764
Short-term debt incl. current portion of long-term debt	13	1	1
Income tax payable		5	1,593
Total current liabilities		18,905	15,955
TOTAL EQUITY AND LIABILITIES		73,146	64,865

SLOVNAFT, a.s. and Subsidiaries**Consolidated income statement for the year ended 31 December 2005**

	Notes	2005 SKK millions	2004 SKK millions
Net revenue	28	102,256	85,170
Other operating income	17	776	964
Total operating income		103,032	86,134
Raw materials and consumables used		(79,539)	(59,934)
Personnel expenses	18	(3,285)	(2,873)
Depreciation, depletion, amortisation and impairment	28	(3,599)	(3,839)
Value of services used	19	(4,029)	(3,682)
Other operating expenses	20	(3,800)	(3,536)
Change in inventories of finished goods and work in progress		2,003	25
Work performed by the enterprise and capitalised		308	(6)
Total operating expenses		(91,941)	(73,845)
Profit from operations	28	11,091	12,289
Finance revenues	21	362	277
Finance expenses	21	(46)	(141)
Income from associates		25	74
Profit before tax	22	11,432	12,499
Income tax expense	22	(2,441)	(2,477)
Profit for the year		8,991	10,022
Attributable to:			
Equity holders of the parent	23	8,997	10,021
Minority interest		(6)	1
Basic / diluted earnings per share attributable to ordinary equity holders of the parent (SKK)	23	436.2	485.9

SLOVNAFT, a.s. and Subsidiaries
Consolidated statement of changes in equity for the year ended 31 December 2005

	Share capital	Share premium	Translation reserve	Retained earnings	Fair valuation reserve	Total reserves	Profit for the year attributable to equity holders of the parent	Total equity attributable to equity holders of the parent	Minority interest	Total equity
	SKK millions	SKK millions	SKK millions	SKK millions	SKK millions	SKK millions	SKK millions	SKK millions	SKK millions	SKK millions
Opening balance 1 January 2004	20,625	3,649	(253)	13,391	-	13,138	2,374	39,786	62	39,848
Currency translation differences	-	-	74	-	-	74	-	74	-	74
Total income and expense for the year recognised directly in equity	-	-	74	-	-	74	-	74	-	74
Profit for the period	-	-	-	-	-	-	10,021	10,021	1	10,022
Total income and expense for the year	-	-	74	-	-	74	10,021	10,095	1	10,096
Transfer to reserves of retained profit for the previous year	-	-	-	2,374	-	2,374	(2,374)	-	-	-
Dividends	-	-	-	(2,733)	-	(2,733)	-	(2,733)	-	(2,733)
Closing balance 31 December 2004	20,625	3,649	(179)	13,032	-	12,853	10,021	47,148	63	47,211
Fair value changes of available-for-sale financial assets	-	-	-	-	147	147	-	147	-	147
Currency translation reserve	-	-	100	-	-	100	-	100	-	100
Total income and expense for the year recognised directly in equity	-	-	100	-	147	247	-	247	-	247
Profit for the period	-	-	-	-	-	-	8,997	8,997	(6)	8,991
Total income and expense for the year	-	-	100	-	147	247	8,997	9,244	(6)	9,238
Transfer to reserves of retained profit for the previous year	-	-	-	10,021	-	10,021	(10,021)	-	-	-
Dividends	-	-	-	(4,331)	-	(4,331)	-	(4,331)	-	(4,331)
Closing balance 31 December 2005	20,625	3,649	(79)	18,722	147	18,790	8,997	52,061	57	52,118

SLOVNAFT, a.s. and Subsidiaries
Consolidated cash flow statement for the year ended 31 December 2005

	Notes	2005 SKK millions	2004 SKK millions
Profit from operations		11,091	12,289
Adjustments to reconcile operating profit to net cash provided by operating activities			
Depreciation, depletion, amortisation and impairment	28	3,599	3,839
Amortisation of deferred income	15,17	(90)	(84)
Write-off of inventories		44	53
Reversal of impairment losses on PP&E		-	(58)
Net gain on sale of fixed assets	17	(163)	(15)
Net (decrease) / increase in provisions for liabilities and charges		(1,236)	761
Write-off / (reversal of write-off) of receivables		14	(25)
Unrealised foreign exchange gain on receivables and payables		(27)	(122)
Other non cash items		24	89
Operating cash flow before changes in working capital		13,256	16,727
Increase in inventories		(2,315)	(628)
Increase in trade receivables		(3,898)	(2,252)
Decrease/(increase) in other current assets		37	(149)
Increase in trade payables		5,999	1,385
Increase in other payables		55	-
<i>Corporate taxes paid</i>		(3,907)	(621)
Net cash provided by operating activities		9,227	14,462
Capital expenditures		(4,173)	(6,762)
Government grants received		22	78
Proceeds from disposals of property, plant and equipment		248	162
Purchase of available-for sale-investments		-	(1,370)
Proceeds from disposal of available-for sale-investments		4	40
Short-term loans granted		(2,321)	-
Repayment of short-term loans granted		2,437	1,062
Long-term loans granted		(6,566)	-
Interest received and other financial income		196	322
Dividends received		72	23
Net cash used in investing activities		(10,081)	(6,445)
Changes in other long-term liabilities		(1)	-
Net income/(loss) from derivative transactions		26	(37)
Repayments of borrowings		(962)	(4,397)
Proceeds from short-term borrowings		968	1,971
Interest paid and other financial costs		(21)	(156)
Dividends paid to shareholders		(4,357)	(2,700)
Net cash used by financing activities		(4,347)	(5,319)
(Decrease) / Increase in cash and cash equivalents		(5,201)	2,698
Cash and cash equivalents at the beginning of the year		6,961	4,231
Effects of exchange rate changes		112	32
Cash and cash equivalents at the end of the year		1,872	6,961

SLOVNAFT, a.s. and Subsidiaries

Notes to the consolidated financial statements prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2005

1 Basis of preparation

The Company prepares its statutory unconsolidated financial statements in accordance with the requirements of the Slovak accounting legislation. Some of the accounting principles prescribed in this legislation differ from International Financial Reporting Standards (IFRS).

For the purposes of the application of the historical cost convention, the consolidated financial statements treat the Company as having come into existence as of 1 May 1992, at the carrying values of assets and liabilities determined at that date, subject to the IFRS adjustments.

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 estimations.

These consolidated financial statements have been approved and authorised for issue by the Board of Directors on 15 March 2006.

The financial year is the same as the calendar year.

i) Statement of compliance

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

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

ii) Principles of Consolidation

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

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

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

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

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

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iii) Changes in Accounting Policies

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

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

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

Additionally, the adoption of IFRS 3 and IAS 36 has resulted in termination of annual goodwill amortisation and implementation of testing for impairment annually at cash generating unit level (unless an event occurs during the year which requires the goodwill to be tested more frequently) in respect of these business combinations.

In case of acquisitions on or after 31 March 2004, any excess of the Company's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquired entity over the cost of the business combination are recognized directly in the consolidated income statement. Business combinations prior to 31 March 2004 have not been restated. There was no outstanding balance of negative goodwill on these acquisitions.

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

IFRS 5 Non-current Assets Held for Sale and Discontinued Operations

From 1 January 2005 the Group has applied IFRS 5 prospectively in accordance with the transitional provisions of IFRS 5. This standard requires a component of an entity to be classified as discontinued when the criteria to be classified as held for sale have been met or it has been disposed of. An item is classified as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. Such a component represents a separate major line of business or geographical area of operations, is part of a single co-ordinated major line of business or geographical area of operations or is a subsidiary acquired exclusively with a view to resale.

Other International Financial Reporting Standards

In addition to the standards referred to above, the Group has adopted prospectively all new and revised Standards and Interpretations issued by the International Accounting Standards Board (the IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that are relevant to its operations and mandatory for financial years beginning on 1 January 2005, except for IAS 21 – The Effects of Changes in Foreign Exchange Rates, which has been early adopted from 1 January, 2004.

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

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Issued but not yet effective International Financial Reporting Standards

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

- *IAS 1 (amended 2005) Presentation of Financial Statements*
- *IAS 19 (amended 2004) Employee Benefits*
- *IAS 21 (amended 2005) The Effects of Changes in Foreign Exchange Rates*
- *IAS 39 (amended 2005) Financial Instruments: Recognition and Measurement – The Fair Value Option*
- *IAS 39 (amended 2005) Financial Instruments: Recognition and Measurement – Cash Flow Hedge Accounting of Forecast Intragroup Transactions*
- *IFRS 4 Insurance Contracts*
- *IFRS 6 Exploration for and Evaluation of Mineral Resources*
- *IFRS 7 Financial Instruments: Disclosures*
- *IFRIC 4 Determining whether an Arrangement contains a Lease*
- *IFRIC 5 Right to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds*
- *IFRIC 6 Liabilities arising from Participating in a Specific Market—Waste Electrical and Electronic Equipment*
- *IFRIC 7 Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies*
- *IFRIC 8 Scope of IFRS 2*
- *IFRIC 9 Reassessment of Embedded Derivatives*

There is no material effect expected from the adoption of these new standards.

Summary of significant accounting policies

i) Presentation Currency

Based on the economic substance of the underlying events and circumstances the functional currency of the parent company and the presentation currency of the Group has been determined to be the Slovak Crowns (SKK).

ii) Goodwill

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

Goodwill is carried at cost less accumulated impairment losses. Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

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

iii) Cash and Cash Equivalents

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

iv) Trade receivables

The accounting policies and the notes form an integral part of these consolidated financial statements

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

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v) Investments

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

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

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

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

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

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

vi) Financial Instruments

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

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

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

vii) Derivative Financial Instruments

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

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

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The fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles.

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

- the economic characteristics and the risks of the embedded derivative are not closely related to the economic characteristics of the host contract,
- a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and
- a hybrid (combined) instrument is not measured at fair value with changes in fair value reported in current year net profit.

viii) Hedging

No transactions have been designated as hedges for the purpose of hedge accounting.

ix) Inventories

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

x) Property, Plant and Equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation, depletion and accumulated impairment loss. When assets are sold or retired, their cost and accumulated depreciation are eliminated from the accounts and any gain or loss resulting from their disposal is included in the consolidated statements income statement.

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

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

Land owned at the date of incorporation has been stated at the values attributed to it in the legislation incorporating the Company. These values are treated as cost. Land is carried at cost less any impairment provisions. Land is not depreciated.

xi) Intangible Assets

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

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

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

xii) Depreciation, Depletion and Amortisation

Depreciation of each component of intangible assets and property, plant and equipment is computed on a straight-line basis over the following expected average economic useful lives:

	Years
Buildings	30 - 40
Plant and machinery	8 - 15
Other fixed assets	4 - 8

Amortisation of leasehold improvements is provided using the straight-line method over the term of the respective lease or the useful life of the asset, whichever period is less. Periodic maintenance and inspection costs are depreciated until the next similar maintenance takes place.

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

xiii) Impairment of Assets

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

xiv) Interest-bearing loans and borrowings

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

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xv) Provisions

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

Provision for Redundancy

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

Provision for Environmental Expenditures

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

Provision for Retirement Benefits

Pension plans

A defined benefit plan is a pension plan that defines an amount of pension benefit to be provided, usually as a function of one or more factors such as age, years of service or compensation. A defined contribution plan is a pension plan under which the Group pays fixed contributions and will have no legal or constructive obligations to pay further contributions if the scheme does not hold sufficient assets to pay all employees benefits relating to employee service in the current and prior periods.

Unfunded defined benefit pension plan

According to the contract with the Trade Unions for the year 2004 the Group is obliged, based on the number of years in service, to pay its employees on retirement or disability a multiple of their average monthly salary up to 11 average salaries. The minimum requirement of the Labour Code of one-month average salary payment on retirement is included in the above multiples.

The same or similar liability has been included in the contracts with the Trade Unions since 1992. The Group has created expectations on the part of its employees that it will continue to provide the benefits and it is the management's judgement that it is not realistic for Group to cease providing them.

The liability in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date, together with adjustments for actuarial gains/losses and past service cost. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by the estimated future cash outflows using interest rates of government securities which have terms to maturity approximating the terms of the related liability.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to income when incurred. Amendments to pension plans are charged or credited to income over the average remaining service lives of the related employees.

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Defined contribution pension plans

The Group contributes to the government and private defined contribution pension plans.

The Group makes contributions to the Government's health, retirement benefit and unemployment schemes at the statutory rates in force during the year, based on gross salary payments. Throughout the year, the Group made contributions amounting to 35.2% (2004: 35.2%) of gross salaries up to a monthly salary between SKK 22 thousand to SKK 43 thousand and SKK 24 thousand to SKK 47 thousand until the 30 September 2005 and after this date, respectively, to such schemes, together with contributions by employees of a further 13.4% (2004: 13.4%). The cost of the contributions made by the Group is charged to the income statement in the same period as the related salary cost.

In addition, with respect to employees who have chosen to participate in a supplementary pension scheme, the Group makes contributions to the supplementary scheme amounting up to 3% from the total of monthly tariff wage in addition to an amount variable for each employee based on number of years worked.

Termination benefits

Termination benefits are payable whenever an employee's employment is terminated before the normal retirement date or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either terminate the employment of current employees according to a detailed formal plan without a possibility of withdrawal or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after balance sheet date are discounted to the present value.

Profit sharing and bonus plans

A liability for employee benefits in the form of profit sharing and bonus plans is recognised in other liabilities. Profit sharing and bonus plans are divided into short-term and long-term. The short-term portion of the bonus is paid out after the evaluation of the performance in the given year and recognised in other liabilities. The payment of the long-term portion is deferred after the third year of the given year including the given year. The payment of the long-term portion is subject to the approval of the annual general meeting and is recognised in other non-current liabilities.

Liabilities for profit sharing and bonus plans are measured at the amounts expected to be paid when they are settled.

Other

The Group also pays certain work and life jubilees benefits and disability benefits.

The liability in respect of work and life jubilees benefits plan is the present value of the work and life jubilees benefit obligation at the balance sheet date, together with adjustments for actuarial gains/losses and past service cost. The work and life jubilees benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the work and life jubilees benefit obligation is determined by the estimated future cash outflows using interest rates of government securities which have terms to maturity approximating the terms of the related liability.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to income when incurred. Amendments to work and life jubilees benefit plan are charged or credited to income over the average remaining service lives of the related employees.

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xvi) Leases

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

xvii) Government grants

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

xviii) Reserves

Reserves shown in the consolidated financial statements do not represent the distributable reserves for dividend purposes. Reserves for dividend purposes are determined based on the standalone financial statements of the Company prepared in accordance with Slovak accounting legislation.

Translation reserve

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

xix) Dividends

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

xx) Revenue Recognition

Revenue is recognised when it is probable that the economic benefits associated with a transaction will flow to the company and the amount of the revenue can be measured reliably. Sales are recognised net of sales taxes and discounts when delivery of goods or rendering of the service has taken place and transfer of risks and rewards has been completed.

Interest is recognised on a time-proportionate basis that reflects the effective yield on the related asset. Dividends due are recognised when the shareholder's right to receive payment is established.

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

xxi) Borrowing Costs

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

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xxii) Income Taxes

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

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

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

xxiii) Foreign Currency Transactions

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

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

xxiv) Earnings Per Share

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

xxv) Segmental Disclosure

For management purposes the Group is organised into three major operating business units: Refining and Marketing, Petrochemicals and Corporate and Other. The business units are the basis upon which the Group reports its primary segment information. Geographical segments provide products or services within a particular economic environment that is subject to risks and returns that are different from those of components operating in other economic environments.

xxvi) Contingencies

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

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Significant accounting judgements and estimates

Critical judgements in applying the accounting policies

In the process of applying the accounting policies, which are described above, management has made the certain judgements 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 judgements relate to:

- Scope of environmental provision
- The availability of taxable income against which deferred tax assets can be recognized
- Outcome of certain litigations and administrative proceedings
- Actuarial judgments applied for calculation of retirement benefit obligations

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:

- Calculation the fair values of financial instruments
- Determination of useful lives of property, plant and equipment
- Quantification and timing of environmental liabilities
- Impairment of tangible assets and goodwill

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2 Intangible assets

	Software	Goodwill	Other intangible assets and rights	Total
	SKK millions	SKK millions	SKK millions	SKK millions
At 1 January 2004				
Gross book value	620	335	596	1,551
Accumulated amortization and impairment	(433)	(35)	(372)	(840)
Net book value	187	300	224	711
Year ended 31 December 2004				
Opening net book value	187	300	224	711
- additions	72	-	33	105
- amortization for the year	(78)	(22)	(10)	(110)
- impairment	-	(278)	-	(278)
- disposals	(1)	-	(2)	(3)
- exchange differences	-	-	1	1
Closing net book value	180	-	246	426
At 31 December 2004				
Gross book value	593	335	626	1,554
Accumulated amortization and impairment	(413)	(335)	(380)	(1,128)
Net book value	180	-	246	426
Year ended 31 December 2005				
Opening net book value	180	-	246	426
- additions	88	-	312	400
- amortization for the year	(93)	-	(20)	(113)
- impairment	(1)	-	-	(1)
- disposals	2	-	-	2
- transfers	167	-	(167)	-
Closing net book value	343	-	371	714
At 31 December 2005				
Gross book value	858	335	760	1,618
Accumulated amortization and impairment	(515)	(335)	(389)	(904)
Net book value	343	-	371	714

For the year ended 31 December 2005:

- Software is being amortised evenly over its useful economic life of max. 5 years
- Goodwill arose on the acquisition of MOL-Slovensko, spol. s r.o. Following the impairment review of the recoverable amount of the related cash generating unit the carrying amount of goodwill was fully impaired in 2004.
- The Group has no intangible assets with indefinite useful life.

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3 Property, plant and equipment

	Land and building SKK millions	Machinery and equipment SKK millions	Other machinery and equipment SKK millions	Construction in progress SKK millions	Total SKK millions
At 1 January 2004					
Gross book value	27,357	36,904	180	4,504	68,945
Accumulated depreciation and impairment	(7,708)	(23,671)	(42)	-	(31,421)
Net book value	19,649	13,233	138	4,504	37,524
Year ended 31 December 2004					
Opening net book value	19,649	13,233	138	4,504	37,524
- additions	14	30	-	6,788	6,832
- depreciation for the year	(584)	(2,338)	(13)	-	(2,935)
- impairment	(377)	(69)	(1)	(10)	(457)
- reversal of impairment	40	7	-	11	58
- disposals	(130)	(65)	(4)	(158)	(357)
- exchange differences	41	6	1	1	49
- transfer	2,020	3,283	27	(5,330)	-
Closing net book value	20,673	14,087	148	5,806	40,714
At 31 December 2004					
Gross book value	29,264	39,754	220	5,837	75,075
Accumulated depreciation and impairment	(8,591)	(25,667)	(72)	(31)	(34,361)
Net book value	20,673	14,087	148	5,806	40,714
Year ended 31 December 2005					
Opening net book value	20,673	14,087	148	5,806	40,714
- additions	3	323	13	3,601	3,940
- depreciation for the year	(697)	(2,250)	(6)	-	(2,953)
- impairment	(445)	(48)	-	(2)	(495)
- disposals	(195)	(28)	(8)	(85)	(316)
- transfer to assets classified as held for sale	(587)	(48)	(10)	-	(645)
- exchange differences	35	7	-	14	56
- transfer	1,701	5,899	72	(7,672)	-
Closing net book value	20,488	17,942	209	1,662	40,301
At 31 December 2005					
Gross book value	29,256	44,676	830	1,693	76,455
Accumulated depreciation and impairment	(8,768)	(26,734)	(621)	(31)	(36,154)
Net book value	20,488	17,942	209	1,662	40,301

Leased assets

Property, plant and equipment includes machinery acquired under finance leases with a net book value of SKK 1 million (31 December 2004: SKK 3 million)

Fully Depreciated Intangibles, Property, Plant and Equipment

The gross carrying amounts of certain intangibles, property, plant and equipment items of SKK 14,524 million (31 December 2004: SKK 14,813 million) are fully depreciated, but these items are still in active use.

Government grants

Property, plant and equipment includes assets with carrying value of SKK 738 million (31 December 2004: SKK 806 million) financed from state grants (Note 15). Part of these assets with carrying value of SKK 255 million (31 December 2004: SKK 237 million) are in the course of construction and the rest are currently used for commercial purposes. All of these assets were designed and constructed to serve State Authorities, including military forces, in state emergencies. In such situations title to these assets may be restricted.

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Assets classified as held for sale

Assets held for sale represent certain individual assets from the Refinery and Marketing (with carrying value of SKK 584 million) and Corporate (SKK 61 million) segments. The process of disposal is expected to be finalised within 12 months. The proceeds of disposal are expected to exceed the net carrying value of these assets.

Changes in accounting policies

According to the requirements of IAS 16 periodic maintenance and inspection costs related to production facilities are capitalized from 1 January 2005. These costs were expensed in prior periods. The effect of the implementation has increased consolidated current year profits by SKK 520 million.

Changes in estimates

As required by the same standard the Group has performed an annual revision of useful lives of property, plant and equipment, serving as the basis of depreciation resulting in a SKK 734 million increase in the consolidated current year profits, net of deferred tax.

Impairment by segments

	2005 SKK millions	2004 SKK millions
<i>Refining and Marketing segment</i>		
Petrol stations	347	271
Lubricant production assets	21	64
Refinery assets	-	9
<i>Corporate and Others</i>		
Recreation sites (to be sold Rekrea centrum)	109	67
SOUCH school to be sold to state	-	35
Other (non-production assets)	18	11
Total	495	457
Reversal of impairment – Refining and Marketing segment	-	(32)
Reversal of impairment – Corporate and Others	-	(26)
Total net impairment	495	399

4 Investments in consolidated companies

Company name	Country	Range of activity	Ownership 2005	Ownership 2004
<i>Refining and Marketing</i>				
Slovnaft Česká republika, s.r.o.	Czech Republic	Wholesale and retail	100%	100%
Slovnaft Montáže a opravy, a.s.	Slovakia	Repairs & maintenance	100%	100%
Apollo Oil Rohstoffhandels GmbH	Austria	Crude oil trading	67%	67%
Slovnaft Polska, SA	Poland	Wholesale and retail	100%	100%
MOL-Slovensko, spol. s r.o.	Slovakia	Wholesale and retail	100%	100%
Slovnaft Trans, a.s.	Slovakia	Transport	100%	100%
Slovnaft VÚRUP, a.s.	Slovakia	Research & development	100%	100%
Slovnaft Ukrajina, s.r.o.	Ukraine	Wholesale trade	89%	89%
Ukrslovnaft, s.r.o.	Ukraine	Retail trade	85%	85%
SWS, s.r.o.	Slovakia	Transport support services	51%	51%
<i>Petrochemicals</i>				
Slovnaft Petrochemicals, s.r.o.	Slovakia	Petrochemical production and trading	100%	-
<i>Corporate and other</i>				
Rekrea centrum, a.s.	Slovakia	Operation of recreation facilities	100%	100%

The activities of the undertakings shown above are for the most part connected with the principal activity of the Group. All subsidiaries are unlisted. Holdings are in the ordinary share capital of the undertaking concerned.

SLOVNAFT, a.s. and Subsidiaries

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The Company is the sole founder of Slovnaft Petrochemicals, s.r.o. established under the establishment deed dated 17 August 2005. The nominal value of its share in the company is SKK 200 thousand. Slovnaft Petrochemicals, s.r.o. was incorporated in the Commercial Register with the District Court Bratislava I on 6 September 2005.

5 Other investments

i) Investments in associated companies

			Ownership 2005	Ownership 2004	Net book value of investment 2005 SKK millions	Net book value of investment 2004 SKK millions
<u>Refining and Marketing</u>						
Messer Slovnaft, s.r.o.	Slovakia	Production of technical gases	49.00%	49.00%	99	97
<u>Corporate and other</u>						
Chémia, a.s.	Slovakia	Services	49.00%	49.00%	4	53
Petrimex, a.s.	Slovakia	Trading of chemicals	33.18%	33.18%	-	-
Total					103	150

ii) Available for sale financial assets

	Country	Activity	Ownership 2005	Ownership 2004	Net book value of investment 2005 SKK millions	Net book value of investment 2004 SKK millions
<u>Non-current</u>						
TVK Rt.	Hungary	Petrochemical production and trading	8.03%	8.03%	1,542	1,360
Total					1,542	1,360

	Country	Activity	Ownership 2005	Ownership 2004	Net book value of investment 2005 SKK millions	Net book value of investment 2004 SKK millions
<u>Current</u>						
Apollo zdravotná poisťovňa, a.s.	Slovakia	Health Insurance	51.00%	51.00%	-	-
Pokoj DDP	Slovakia	Supplementary Pension Insurance	32.95%	32.95%	-	-
Incheba, a.s.	Slovakia	Organising of exhibitions	0.59%	0.59%	1	1
Inaco, a.s.	Slovakia	Retail, wholesale	5.60%	5.60%	-	-
Theben, a.s.	Slovakia	Editing of publications	7.71%	7.71%	-	-
SKB, a.s.	Slovakia	Financial services	6.85%	6.85%	-	-
Tradeinvest, a.s.	Slovakia	Intermediary activities	-	6.08%	-	1
Total					1	2

SLOVNAFT, a.s. and Subsidiaries

Notes to the consolidated financial statements prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2005

Apollo zdravotná poisťovňa, a.s. – Health Insurance Company (51% ownership) was not consolidated in the previous years due to strong regulations over the health care sector in the Slovak Republic which prevented the Company from exercising the control. Since no financial benefit was expected from the investment its carrying value was fully impaired. During 2005 following the changes in the legislation it was transformed into a joint stock company. Before the transformation in June 2005 the Company had entered into an agreement of future sale of the shares of the transformed entity. The Company has also entered into call and put options with the same strike price related to all the shares of the transformed entity. As a result of this contractual arrangement the Company does not possess the control over the entity and it was excluded from the consolidation.

In the previous years DDP Pokoj was not accounted for using equity method due to strong regulation over the supplementary retirement insurance imposed by the state. These regulations prevented the Company from participation in the financial and operating policy decisions. Since no financial benefit was expected from the investment its carrying value was fully impaired. During 2005 following the changes in the legislation the entity has started its transformation into a joint stock company. This transformation has not been completed yet pending the approval of the regulator. DDP Pokoj is not accounted for using equity method in these financial statements.

According to the share purchase agreement between Hermész Kft. (majority owned subsidiary of MOL Rt.) and the Company signed on 8 December 2004, Hermész Kft. sold its 8.02% stake in TVK Rt. to the Company. TVK Rt. is fully consolidated subsidiary of MOL Rt. Hermész Kft. also entered into call and put options with the same strike price. The options are exercisable only upon occurrence of restricted triggering events of low probability within a period ending 31 December 2006. Due to these restrictive conditions the fair value of the options was determined to nil on the balance sheet date.

6 Other non-current assets

	2005 SKK millions	2004 SKK millions
Long-term receivables	47	62
Advance payments for assets under construction	-	39
Loans granted	6,539	-
Total	6,586	101

Long-term receivables are shown after impairment provision in amount of SKK 81 million (31 December 2004: 75 million).

Loans granted include a loan to MOL Rt. The loan was granted partially in USD with the interest rate of 1M LIBOR - 0.54% and partially in EUR with the interest rate of 1M EURIBOR - 0.54%. The loan is payable on 31 January 2007.

7 Inventories

	2005 At cost SKK millions	2005 At lower of cost or net realisable value SKK millions	2004 At cost SKK millions	2004 At lower of cost or net realisable value SKK millions
Raw materials	1,026	938	1,628	1,528
Purchased crude oil	578	578	-	-
Work in progress and finished goods	2,491	2,491	1,607	1,607
Finished goods	2,519	2,518	1,400	1,400
Goods for resale	278	278	299	299
Total	6,892	6,803	4,934	4,834

SLOVNAFT, a.s. and Subsidiaries**Notes to the consolidated financial statements prepared in accordance with
International Financial Reporting Standards for the year ended 31 December 2005****8 Trade receivables**

	2005	2004
	SKK millions	SKK millions
Trade receivables	10,178	8,784
Provision for doubtful receivables	(334)	(735)
Total	9,844	8,049

9 Other current assets

	2005	2004
	SKK millions	SKK millions
Prepaid and recoverable taxes and duties	1,829	1,068
Prepaid excise taxes	223	589
Receivables transferred to MOL Rt.	2,164	-
Advance payments for inventories	3	118
Loans granted	59	-
Prepayments	74	85
Other	13	20
Total	4,365	1,880

10 Cash and cash equivalents

	2005	2004
	SKK millions	SKK millions
Cash at bank - SKK	477	396
Cash at bank - EUR	262	361
Cash at bank - USD	62	31
Cash at bank - other currencies	212	758
Cash on hand - SKK	3	2
Cash on hand - EUR	1	-
Cash on hand - USD	-	1
Cash on hand - other currencies	59	-
Short-term bank deposits - SKK	490	3,535
Short-term bank deposits - EUR	83	118
Short-term bank deposits - USD	58	68
Short-term bank deposits - PLN	34	1,514
Short-term bank deposits - other currencies	-	529
Other cash equivalents	131	-
Total	1,872	7,313

Interest rates on current accounts range from 0.35 % to 3.0% (2004: 1.5% to 2.5%) and those on short-term deposits from 0.6 % to 7.68% (2004: 1.35% to 7.0%).

For the purposes of the consolidated cash flow statement, cash and cash equivalents comprise the following:

	2005	2004
	SKK millions	SKK millions
Cash at bank	1,013	1,194
Cash on hand	63	3
Short-term bank deposits	665	5,764
Other cash equivalents	131	-
Total	1,872	6,961

Cash of SKK 352 million was restricted due to ongoing litigation (Note 14) in 2004. There is no restricted cash at 31 December 2005.

SLOVNAFT, a.s. and Subsidiaries

Notes to the consolidated financial statements prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2005

11 Share capital

The Company's authorised share capital is 20,625,229 ordinary shares (31 December 2004: 20,625,229) with a par value of SKK 1,000 each. All of these shares are issued and fully paid.

12 Reserves

Dividends

The dividend approved by the shareholders at the Annual General Meeting in April 2005 in respect of 2004 was SKK 4,331 million, equivalent to SKK 210 per issued share. No dividends for the year 2005 were proposed or approved by the date of these financial statements.

Retained earnings comprise a Legal Reserve Fund of SKK 3,966 million (31 December 2004: SKK 3,006 million). This has been set up in accordance with the Slovak law to cover potential future losses and is not distributable.

13 Long-term debt

The Group did not have any outstanding loan balances at 31 December 2005 and 31 December 2004 respectively. Long-term financial lease payable at 31 December 2005 amounted to SKK 1 million (31 December 2004: SKK 2 million).

14 Provisions for liabilities and charges

	Environ- mental SKK millions	Redun- dancy SKK millions	Long-term employee retirement benefits SKK millions	Legal claims SKK millions	Other SKK millions	Total SKK millions
Balance as of 31 December 2003	430	400	164	802	-	1,796
Provision made during the year and revision of previous estimates	586	972	50	-	15	1,623
Unwinding of the discount	4	6	10	-	-	20
Provision utilised during the year	(84)	(263)	-	(281)	-	(628)
Provision unused during the year	(33)	-	(77)	(144)	-	(254)
Balance as of 31 December 2004	903	1,115	147	377	15	2,557
Provision made during the year and revision of previous estimates	315	10	29	-	32	386
Unwinding of the discount	24	-	11	-	-	35
Exchange differences	-	1	-	-	(1)	-
Provision utilised during the year	(177)	(1,026)	-	-	-	(1,203)
Provision unused during the year	(73)	-	(1)	(377)	(4)	(455)
Balance as of 31 December 2005	992	100	186	0	42	1,320
Current portion 2004	259	1,113	-	377	15	1,764
Non-current portion 2004	644	2	147	-	-	793
Current portion 2005	411	76	-	-	42	529
Non-current portion 2005	581	24	186	-	-	791

SLOVNAFT, a.s. and Subsidiaries

Notes to the consolidated financial statements prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2005

Environmental Provision

The Group operates 256 service stations and several warehousing capacities in the Slovak Republic. Some of these are not fully compliant with the current or future environmental legislation and environmental policy of the Group, including containment of evaporative losses on filling of the station tanks, treatment of effluent, and protection of soil and groundwater. The Group recognised environmental provisions of SKK 490 million (31 December 2004: SKK 484 million) for decommissioning of non-compliant warehousing capacities and those service stations sites where activities will be ceased.

In accordance with Group policies a provision for the estimated costs of remediation of past environmental damage, primarily soil and groundwater contamination under the refinery site was recognised. The provision was made on the basis of assessments prepared by the Company's internal environmental audit team. The amount of the provision of SKK 465 million (31 December 2004: SKK 419 million) was determined on the basis of existing technology at current prices by calculating risk-weighted cash flows discounted using estimated risk-free real interest rates. The utilisation of this provision is expected to be within the next 12 – 13 years.

In accordance with the Slovak National Allocation Plan the Company was allocated 2,290,555 quotas for emission of greenhouse gases. Since these quotas do not fully cover the emissions made by the Company during 2005 the Company recognised a provision of SKK 37 million. The provision was estimated using the reference price of the Commodity Exchange Bratislava at the balance sheet date.

The closing amount of the environmental provisions is SKK 992 million (31 December 2004: SKK 903 million).

Provision for Redundancy and Severance Payment Redemption

In 2005 the Group continued to implement the restructuring plan. The Group started to implement the restructuring plan during 2003. The entire restructuring process will result in termination of employment before the normal retirement date of up to 1,700 employees. The Group has a detailed formal plan for the termination and material changes to the plan are not likely. The restructuring process is divided into several phases. The currently implemented phase should be completed by 2008. A provisions of SKK 100 million (31 December 2004: SKK 191 million) for the net present value of future redundancy payments and related tax and contributions has been recognised in these financial statements.

The collective labour agreements of the Group companies include higher severance payment than required by law. In order to bring the collective agreements into line with current labour market conditions, in December, 2004 the Group initiated a process to reduce future severance payments to the standard legally required level. As a result of this process the collective labour agreements were amended eliminating the extra severance payment. This amendment did not affect already implemented restructuring plans.

During the negotiations with the trade unions the Group agreed to provide volunteering current employees with a one-off reward based on their current salary and length of employment with the Group. The acceptance of this agreement by the employees exceeded 90% in the Group. Consequently a provision of SKK 924 million was recognised in the consolidated financial statements as of 31 December 2004. During 2005 all the redemption payment was settled to the employees who accepted the discounted level. Non-volunteering employees retain their rights for benefits in case of being made redundant as part of a restructuring plan. The closing balance of severance payment redemption was nil as of 31 December 2005 (31 December 2004: SKK 924 million).

Provision for Long-term Employee Retirement Benefits

As of 31 December 2005 the Group has recognised a provision of SKK 186 million to cover its estimated obligation regarding future retirement benefits payable to current employees expected to retire from the Group entities. The Company operates benefit schemes that provide a lump sum benefit to all employees at the time of their retirement. The Company provides a maximum of up to 11 months of the final salary depending on the length of the service period. None of these plans have separately administered funds. The value of provision has been determined using the projected unit credit method, based on financial and actuarial variables and assumptions that reflect relevant official statistical data and are in line with those incorporated in the business plan of the Group.

SLOVNAFT, a.s. and Subsidiaries**Notes to the consolidated financial statements prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2005**

	2005 SKK millions	2004 SKK millions
Balance as of the beginning of the period	147	164
Past service cost	16	28
Current service cost	12	22
Unwinding of the discount	10	10
Revision	1	(74)
Actuarial gains and (losses)	-	(3)
Balance as of year end	186	147
Past service cost not yet recognized	(50)	(266)
Present value of total defined benefit obligation at year end	236	413

The principal actuarial assumptions used were as follows:

	31 December 2005
Discount rate	7.5% p.a. in 2005 and 7% p.a. thereafter
Future salary increases	5.5% p.a. in 2005 and 5% p.a. thereafter
Mortality	Slovak population mortality 2000

Principal actuarial assumptions states an approximately 2% interest margin between the discount rate and the future salary increase.

*Legal and Other Provisions**Apollo Interoil*

Following the decision of the Board of Directors of the Company, the Company cancelled the contract with Apollo Oil, a subsidiary of the Company, being the sole supplier of crude oil. In May 2003 Apollo Interoil, minority shareholder of Apollo Oil, filed an Attachment Request against Apollo Oil at a Geneva court claiming breach of the Crude Master Supply agreement and penalties in the amount of USD 11.6 million referring to that Apollo Oil did not take over the quantity of the crude oil accordingly to the agreement. Apollo Oil on the basis of long-term crude oil supply agreements sold the crude oil bought from Apollo Interoil to the Company. As a consequence this amount was blocked in the Swiss bank account of Apollo Oil. Considering that the amount blocked in the account of Apollo Oil was the consideration for the crude oil supplies for the Company, until the release of the freezing Apollo Oil could not perform toward the Company according to the contract, the Company terminated the supply agreement with Apollo Oil. In line with its strategy the Group in the meantime arranged crude oil supplies directly from Russian suppliers' trading companies. The court proceedings were successfully completed in May 2005 and the Company released the provision of SKK 377 million in these consolidated financial statements.

Other items include a provision for the costs of fuel stations to be closed and for future payment obligations.

15 Government grants and other non-current liabilities

	2005 SKK millions	2004 SKK millions
Government grants		
At 1 January	806	782
Government grants received – cash	22	78
Government grants received – assets received	-	30
Amortisation for the period (Note 17)	(90)	(84)
At 31 December	738	806
Other non-current liabilities	30	25
Total	768	831

Government grants were provided to finance certain Property, plant and equipment designed and constructed to serve State Authorities, including military forces, in state emergencies (Note 3).

SLOVNAFT, a.s. and Subsidiaries

Notes to the consolidated financial statements prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2005

16 Trade and other payables

	2005 SKK millions	2004 SKK millions
Trade payables	14,006	8,202
Advances from customers	149	107
Taxes, contributions payable	2,515	2,497
Custom fees payable	707	887
Accrued expenses	319	389
Amounts due to employees	275	248
Security deposit received from petrol station lessees	92	83
Social security	50	74
Liabilities to shareholders (dividends)	18	44
Liabilities from financial derivatives transaction	62	-
Other	177	66
Total	18,370	12,597

17 Other operating income

	2005 SKK millions	2004 SKK millions
Income from sale of precious metals contained in fully used catalysts	381	117
Profit from the sale of intangible and tangible assets	163	15
Reversed impairment on intangible assets and tangible fixed assets	-	58
Reversed write-off and impairment on receivables	-	25
Amortization of government grants (Note 15)	90	84
Received fines, penalties, default penalties and penalty relief	67	56
Reversed write-off on stocks	25	163
Exchange gain on customers and suppliers in foreign currencies	-	137
Reimbursement from insurance companies	-	185
Other operating income	50	124
Total	776	964

18 Personnel expenses

	2005 SKK millions	2004 SKK millions
Wages and salaries	2,153	2,040
Social security	731	627
Other personnel expenses	401	206
Total	3,285	2,873

SLOVNAFT, a.s. and Subsidiaries**Notes to the consolidated financial statements prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2005****19 Value of services used**

	2005 SKK millions	2004 SKK millions
Transportation and storage expenses	1,741	1,462
Maintenance expenses	1,214	1,063
Commission fees paid	544	710
Services related to administration	272	229
Catalysts liquidation	84	69
Other services	174	149
Total	4,029	3,682

20 Other operating expenses

	2005 SKK millions	2004 SKK millions
Fuel pricing penalty (Note 25)	1,342	-
Rental including operating lease	555	545
Net foreign exchange losses related to operation	519	-
Accounting, advisory and similar services fees	260	320
Insurance premium	232	271
Taxes and duties	222	131
Security expenses	206	218
Environmental protection costs	133	94
Marketing costs	128	137
Cleaning costs	119	121
Management services from MOL	46	113
Training cost	36	33
Net (decrease)increase in provisions (recognition less unused amounts)	(284)	1,446
Loss on receivables sold	13	-
Other operating expenses	273	107
Total	3,800	3,536

21 Finance revenues and expenses

	2005 SKK millions	2004 SKK millions
Interest income	197	133
Net foreign exchange gains	138	1
Profit from derivatives	26	-
Other financial income	1	143
Total finance revenues	362	277
Interest expense	(43)	(73)
Loss from derivatives	-	(37)
Other finance costs	(3)	(31)
Total finance expenses	(46)	(141)
Total net finance revenues	316	136

SLOVNAFT, a.s. and Subsidiaries

Notes to the consolidated financial statements prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2005

22 Income taxes

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

	2005 SKK millions	2004 SKK millions
Current income taxes	1,972	2,304
Deferred income taxes	469	173
Total income tax expense	2,441	2,477

The applicable corporate income tax rate on the taxable income of the companies of the Group was 19% both in 2005 and 2004. The Group's current income tax is determined on the basis of taxable statutory profit of the individual companies comprising the Group.

The deferred tax balances as of 31 December 2005 and 2004 in these consolidated balance sheets consist of the following items:

	Balance sheet		Recognized in statement of operations		Recognized directly in equity	
	2005 SKK millions	2004 SKK millions	2005 SKK millions	2004 SKK millions	2005 SKK millions	2004 SKK millions
<i>Breakdown of net deferred tax assets</i>						
Unrealized gains on inter-group transfer	2	16	(14)	16	-	-
Net deferred tax assets	2	16	(14)	16	-	-
<i>Breakdown of net deferred tax liabilities</i>						
Revaluation of available-for-sale investments to fair value	35	-	-	-	(35)	-
Difference between tax and carrying values of PP&E	831	384	(447)	(219)	-	-
Statutory tax losses carried forward	(6)	(2)	4	(3)	-	-
Provisions	(239)	(232)	7	56	-	-
Write off on receivables	(31)	(58)	(27)	(22)	-	-
Other	(26)	(18)	8	(1)	-	-
Net deferred tax liabilities	564	74				
Deferred tax expense / (income)			(455)	(189)		
Changes recognized in equity					(35)	-

The Group has tax losses totalling to SKK 636 million that are available to offset against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognized in respect of these losses as they may not be used to offset taxable profits elsewhere in the Group.

SLOVNAFT, a.s. and Subsidiaries

Notes to the consolidated financial statements prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2005

The reconciliation between the reported income tax expense and the theoretical amount that would arise using the standard tax rates is as follows:

	2005 SKK millions	2004 SKK millions
Profit before tax	11,432	12,499
Tax at the applicable tax rate 19% (Year 2004: 19%)	2,172	2,375
Expenditure not allowable for income tax purposes	248	82
Effect of tax loss not assessable for tax release	52	36
Effect of utilisation of prior year tax losses carried forward	(32)	(16)
Effect of different tax rates	1	-
Total income tax expense / (benefit)	2,441	2,477

23 Earnings per share

Basic earnings per share are calculated by dividing the net profit for the period attributable to ordinary shareholders (net profit for the period less dividends on preference shares) by the weighted average number of ordinary shares in issue during the year.

There are no potential ordinary shares and therefore the diluted earnings per share is the same as the basic earnings per share.

	Income (SKK millions)	Weighted average number of shares	Earnings per share (SKK)
Basic Earnings Per Share 2004	10,021	20,625,229	485.9
Basic Earnings Per Share 2005	8,997	20,625,229	436.2

24 Financial instruments

Fair value of financial instruments

Financial instruments in the balance sheet include investments, other non-current assets, trade receivables, other current assets, cash and cash equivalents, short-term and long-term debt, other long-term liabilities, trade and other payables. Derivatives are presented as other non-current assets, other current assets and trade and other payables. The estimated fair values of these instruments approximate their carrying amounts. There were no open derivatives as at 31 December 2005.

Financial risk management

Financial risk management function is centralized in the Company. All risks are integrated and measured in a group level model. The Company may enter into various types of forwards, swaps and options in managing its commodity, foreign exchange and interest rate risk resulting from cash flows from business activities and financing arrangements. In line with the Company's risk management policy, no speculative dealings are allowed. Any derivative transaction the Company may enter is under ISDA agreements.

(i) Credit risk

The Company provides a variety of customers with products and services, none of whom, based on volume and creditworthiness, present significant credit risk, individually or aggregated. The Company's procedure is to ensure that sales are made to customers with appropriate credit history and do not exceed an acceptable credit exposure limit.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset, including derivative financial instruments, in the balance sheet, net of any impairment.

SLOVNAFT, a.s. and Subsidiaries

Notes to the consolidated financial statements prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2005

(ii) Interest rate risk

The Company's policy is to ensure that not more than 50% of its exposure to changes in interest rates is on a fixed rate basis. As of 31 December 2005 the Group did not have any outstanding long-term borrowings and none of the Company's long-term loans granted were at fixed rates.

(iii) Liquidity risk

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

	2005 SKK millions	2004 SKK millions
Long-term loan facilities of the Group	568	-
- out of which loan facilities from MOL	568	-
Short-term loan facilities of the Group	6,613	5,201
- out of which loan facilities from MOL	1,597	-
Total loan facilities available	7,181	5,201

During 2005, bank credit lines were used dominantly for bank guarantees and letter of credits securing the Group's liabilities toward customs authorities and certain contractors. As of 31 December 2005 the Group has utilised SKK 3,198 million (31 December 2004: SKK 2,271 million) from these facilities for obtaining bank guarantees.

In addition, guaranties amounting to SKK 1,200 million were provided outside the facilities mentioned above.

In order to cover the liquidity risk in 2005, the Group effectively used credit facilities established between the Group and MOL Rt. The Group acted also as lender towards MOL Rt., in case there was surplus cash created by the Group. The total amount of credit lines provided to MOL Rt. as of 31 December 2005 reached SKK 13,965 million.

(iv) Foreign exchange risk

The Company may enter into various types of foreign exchange contracts in managing its foreign exchange risk resulting from cash flows from business activities and financing arrangements denominated in foreign currencies or certain transactional exposures.

The Company has a net long USD and long EUR operating cash flow position. The Group's oil business constitutes a long USD cash flow exposure, while its petrochemical business adds a long EUR cash flow position.

The Company follows the basic economic currency risk management principle that the currency mix of the debt portfolio should reflect the net operating cash flow position of the Group, constituting a natural hedge.

(v) Commodity price risk management

The whole MOL Group as an integrated oil and gas company is exposed to commodity price risk on both the purchasing side and the sales side. The main commodity risks of the Group are short crude oil position, long refinery margin position (long refinery products) and long petrochemical margin position. As of 31 December 2005 and 31 December 2004 there were no open hedging positions in respect of commodity risks.

25 Commitments and contingent liabilities

Guarantees

The total value of guarantees granted to parties outside the Group is SKK 60 million (31 December 2004: SKK 67 million).

SLOVNAFT, a.s. and Subsidiaries

Notes to the consolidated financial statements prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2005

Capital and Contractual Commitments

The total value of capital commitments as of 31 December 2005 is SKK 728 million (31 December 2004: SKK 1,177 million) relates to obligations to purchase tangible and intangible assets.

Operating leases

The operating lease liabilities are as follows:

	2005 SKK millions	2004 SKK millions
Not later than 1 year	104	166
Later than 1 year not later than 5 years	84	170
Total	188	336
Minimum lease payments recognised in income statement for the period:	101	113

Authority procedures, litigation

Ministry of Finance

The Ministry of Finance of the Slovak Republic has initiated a procedure against the Company, for the review of its costs arising during the years of 2002 and 2003 and the profit included in its fuel prices in 2004. The Ministry of Finance pursued its procedure under the Slovak Price Act that in the opinion of the Ministry entitles the Ministry of Finance to review the costs and profits included in the product prices with retroactive effect. As a consequence of the second instance decision of the Slovak Ministry of Finance the Company had to pay a fine of SKK 1,342 million in October 2005. However, as in the Company's opinion the Ministry's decision was based on arbitrary and economically unfounded calculations concerning the measures of "proportionate profit" it filed a claim for the invalidation of the Ministry's decision and the suspension of its enforcement. Despite the fact that the court of first instance ordered the suspension of the enforcement of the Ministry's decision the Ministry has not paid back the amount of the fine to the Company.

On 24 January 2005 the Ministry of Finance of the Slovak Republic initiated another price audit procedure focusing on the adherence of the Slovak Price Act for the period from 1 January 2004 by the end of control termination. This price audit had not been finished as of the date of these financial statements.

Administrative proceedings of the Antimonopoly Office of the Slovak Republic

The Antimonopoly Office of the Slovak Republic, Abuse of Dominant Position Department notified the Company by its letter dated on 21 November 2005 on commencement of Administrative proceeding against the Company due to a possible breach of the provisions of the Act No. 136/2001 Coll. on Economic Competition. These administrative proceedings involve a review of the price policy of the Company with respect to petrol and diesel sales. The proceedings are still ongoing. No provision has been recognized in these financial statements as the management is unable to determine any possible negative outcome of the proceedings.

Other inspections/ controls

Except for the above mentioned administrative proceeding the Company is subject to various controls performed by the state authorities. Although the Company cannot exclude that any of this proceedings establishes irregularities in its activities based on which the Company could be penalized, the management cannot determine any amount for which a provision should be recognized because of such proceedings.

SLOVNAFT, a.s. and Subsidiaries

Notes to the consolidated financial statements prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2005

Litigations

The Russian arbitral court imposed upon the Company as defendant duty to pay to Mende Rossi an amount of USD 15,689,041.00 together with 16% default interest p.a. on the amount of USD 9,144,095.00 from June 24, 1994 until payment and the costs of the proceeding in an amount USD 68,160.00 for failing the consideration of the crude oil supplies in its resolution on April of 1996 in the course of the proceeding initiated by plaintiff "Mende-Rossi", Mendelejevsk Tartar firm in front of the International Commercial Arbitration Tribunal at the Chamber of Commerce and Industry of the Russian Federation. Considering that the Russian arbitration proceeding violated the rights to impartial proceeding and right to represent of the Company as contending party, as well as because the decision was not supported with adequate evidence the competent courts of Slovak Republic finally refused the enforcement of the decision of the Russian court of arbitration. The "Mende-Rossi" firm also asked the enforcement of the decision of the court of arbitration in Austria in 1997 at the same time with the attempt of the Slovak enforcement and after the final refusal of the Slovak enforcement in the Czech Republic in 2005. The Company filed an appeal against both. The Austrian and Czech proceedings are still going on, but regarding the decision of the competent court of the Slovak Republic adopted between years 2002 - 2004 which finds the decision of the court of arbitration illegal as follows not enforceable the Company does not consider likely a failure of lawsuits in front of the Austrian and Czech courts.

Environmental liabilities

The Company's operations are subject to the risk of liability arising from environmental damage or pollution and the cost of any associated remedial work. The Company is currently responsible for significant remediation of past environmental damage relating to its operations. Accordingly, the Company has established a provision of SKK 992 million for the estimated cost as at 31 December 2005 for probable and quantifiable costs of rectifying past environmental damage (see Note 14). Although the management believes that these provisions are sufficient to satisfy such requirements to the extent that the related costs are reasonably estimable, future regulatory developments or differences between known environmental conditions and actual conditions could cause a revaluation of these estimates.

26 Shareholders structure

Major shareholders of the Company were:

	2005	2004
	%	%
MOL Rt., Hungarian Oil and Gas Plc.	98.4	98.4
Others	1.6	1.6
Total	100.0	100.0

27 Events after the balance sheet date

No events have occurred after 31 December 2005 that would require adjustment to, or disclosure in the financial statements.

SLOVNAFT, a.s. and Subsidiaries**Notes to the consolidated financial statements prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2005****28 Segmental information***Primary reporting format – business segments*

The Group is organised into following business segments: Refining and marketing, Petrochemicals and Corporate and other. The internal transfer prices are derived from international quoted market prices published by Platt's or ICIS, reflecting international nature of oil business.

2004	Refining and Marketing SKK millions	Petrochemicals SKK millions	Corporate and other SKK millions	Intersegment transfers SKK millions	Total SKK millions
Net external sales	86,575	12,681	2,399	(16,485)	85,170
Depreciation, depletion, amortisation and impairment	3,537	60	242	-	3,839
Other non-cash expenses	370	(5)	545	-	910
Profit/(loss) from operations	12,697	912	(1,320)	-	12,289
Income from Associates	26	-	48	-	74
Finance revenues net	-	-	-	-	136
Profit before tax	-	-	-	-	12,499
Income tax expense	-	-	-	-	(2,477)
Profit for the year	-	-	-	-	10,022
Property, plant, equipment and intangibles acquired	3,558	2,992	143	-	6,693

2005	Refining and Marketing SKK millions	Petrochemicals SKK millions	Corporate and other SKK millions	Intersegment transfers SKK millions	Total SKK millions
Net external sales	105,015	16,780	3,032	(22,571)	102,256
Depreciation, depletion, amortisation and impairment	3,058	291	256	(6)	3,599
Other non-cash expenses	(589)	(77)	(682)	-	(1,348)
Profit/(loss) from operations	10,813	730	(360)	(92)	11,091
Income from Associates	25	-	-	-	25
Finance revenues net	-	-	-	-	316
Profit before tax	-	-	-	-	11,432
Income tax expense	-	-	-	-	(2,441)
Profit for the year	-	-	-	-	8,991
Property, plant, equipment and intangibles acquired	2,932	781	290	-	4,003

SLOVNAFT, a.s. and Subsidiaries

Notes to the consolidated financial statements prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2005

2004	Refining and Marketing SKK millions	Petrochemicals SKK millions	Corporate and other SKK millions	Intersegment transfers SKK millions	Total SKK millions
Property, plant and equipment, net	33,364	4,812	2,538	-	40,714
Trade receivables net	7,055	952	557	(515)	8,049
Investments in Associates	97	-	53	-	150
Available-for-sale financial assets	-	-	1,360	-	1,360
Inventories	3,893	276	665	-	4,834
Not allocated assets	-	-	-	-	9,758
Total assets	-	-	-	-	64,865
Trade payables	7,656	558	573	(478)	8,309
Not allocated liabilities	-	-	-	-	9,345
Total liabilities	-	-	-	-	17,654

2005	Refining and Marketing SKK millions	Petrochemicals SKK millions	Corporate and other SKK millions	Intersegment transfers SKK millions	Total SKK millions
Property, plant and equipment, net	33,773	4,812	2,453	(92)	40,946
Trade receivables net	7,831	1,757	683	(427)	9,844
Investments in Associates	99	-	4	-	103
Available-for-sale financial assets	-	-	1,542	-	1,542
Inventories	5,461	748	594	-	6,803
Not allocated assets	-	-	-	-	13,908
Total assets	-	-	-	-	73,146
Trade payables	13,789	326	623	(413)	14,325
Not allocated liabilities	-	-	-	-	6,703
Total liabilities	-	-	-	-	21,028

The operating profit of the segments includes the profit arising both from sales to third parties and transfers to the other business segments. Refining and Marketing transfers chemical feedstock, propylene and isobutane to Petrochemicals and Petrochemicals transfers various by-products to Refining and Marketing. The internal transfer prices used are based on prevailing market prices. Segmental figures contain the results of the fully consolidated subsidiaries engaged in the respective segments.

SLOVNAFT, a.s. and Subsidiaries

Notes to the consolidated financial statements prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2005

The inter-segment transfers show the effect on operating profit of the change in the amount of unrealised profit deferred in respect of transfers between segments. Unrealised profits arise where the item transferred is held in inventory by the receiving segment and a third party sale takes place only in a subsequent quarter. For segmental reporting purposes the transferor segment records a profit immediately at the point of transfer. However, at the company level profit is only reported when the related third party sale has taken place. Unrealised profits arise principally in respect of transfers from Corporate and Others to Refining & Marketing and to Petrochemicals.

Secondary reporting segment: geographical segments

Net sales

	2005 SKK millions	2004 SKK millions
Slovak Republic	28,056	24,936
Czech Republic	24,878	20,884
Austria	15,872	16,194
Poland	13,291	9,347
Hungary	8,086	3,198
Germany	5,520	5,718
Other	6,553	4,893
Total	102,256	85,170

Total assets

	2005 SKK millions	2004 SKK millions
Slovak Republic	65,252	57,677
Czech Republic	4,115	3,591
Austria	6	362
Poland	2,231	1,875
Hungary	1,542	1,360
Total	73,146	64,865

Capital expenditure

	2005 SKK millions	2004 SKK millions
Slovak Republic	3,904	6,378
Czech Republic	92	94
Poland	7	221
Total	4,003	6,693

29 Related party transactions

The Group is controlled by MOL Hungarian Oil and Gas Plc. Following the integration process within the MOL Group the Group undertook significant transactions with other companies within the MOL Group (including TVK Group). Messer SLOVNAFT, s.r.o. ("Messer") is an associate of the Company.

Mr. Oszkár Világi, the Company's Board of Directors member is the chairman of the Board of Trustees of Železnice Slovenskej Republiky ("Railways of SR" or "ŽSR"), a partner in legal firm Csekés, Világi, Drgonec & Partners, spol. s r.o., a chairman of the Board of Directors of Apollo zdravotná poisťovňa, a.s. and a member of the Supervisory Board of OTP Banka Slovensko, a.s.

SLOVNAFT, a.s. and Subsidiaries

Notes to the consolidated financial statements prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2005

Mr. Hatina, member of the Supervisory Board of MOL Rt. and former Chairman of the Board of Directors of the Company holds ownership in Slovintegra a.s. which has an interest of a Czech company Granitol, a.s. The partner of the company Real – H.M., s.r.o. is related to Mr. Hatina.

The transactions with related parties above are presented in the following table:

	2005	2004
	SKK millions	SKK millions
<i>Sales – products and goods</i>		
MOL Group	13,624	10,524
TVK Group	239	1,373
Messer Slovnaft, s. r. o.	146	131
Real – H.M., s.r.o.	455	449
Granitol, a.s.	499	533
Železnice Slovenskej republiky	28	27
<i>Sales – services</i>		
MOL Group	325	12
Messer Slovnaft, s. r. o.	2	2
Železnice Slovenskej republiky	-	1
Real – H.M., s.r.o.	4	3
<i>Interest income</i>		
MOL Group	36	-
<hr/>		
	2005	2004
	SKK millions	SKK millions
<i>Purchases – products and goods</i>		
MOL Group	8,851	4,244
TVK Group	544	-
Messer Slovnaft, s. r. o.	194	174
<i>Purchases – services</i>		
MOL Group	346	307
TVK Group	67	24
Železnice Slovenskej republiky	2	2
Csekes, Világi, Drgonec & Partners, spol. s r.o.	16	3
<i>Interest expense</i>		
MOL Group	2	2
<hr/>		
	2005	2004
	SKK millions	SKK millions
<i>Receivables</i>		
MOL Group	3,547	1,384
TVK Group	199	-
Real – H.M., s.r.o.	20	19
Železnice Slovenskej republiky	-	5
Messer Slovnaft, s. r. o.	14	14
<i>Loans granted</i>		
MOL Group (Notes 6,9)	6,598	-
<i>Payables</i>		
MOL Group	3,367	395
TVK Group	138	9
Csekes, Világi, Drgonec & Partners, spol. s r.o.	5	1
Granitol, a. s.	-	66
Messer Slovnaft, s. r. o.	30	15

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Emoluments of the members of the Board of Directors and Supervisory Board

The Board of Directors' total remuneration approximated SKK 30 million and SKK 27 million in 2005 and 2004, respectively. The total remuneration of members of the Supervisory Board amounted to SKK 3 million in 2005 and SKK 7 million in 2004. The other key management total remuneration amounted to SKK 5 million in 2005 and SKK 18 million in 2004.

Long-Term Incentive Schemes for senior management

Long-term bonus is paid to the employee in line with achievements after the three year evaluation period. The evaluation of fulfilment and the payment of the bonus is subject to the approval of the Board of Directors.

General Incentive Schemes for management

The incentive aim involves the Company and organizational level financial and operational targets, evaluation of the contribution to the strategic goals of the Company and determined individual tasks in the Performance Management System (PMS). From the settled incentive scheme based on evaluation of indicators and qualification of individual tasks, 60% will be paid after the evaluation and 40% will be paid after the two years waiting period. The ratio of the incentive may change according to the individual agreements.

Evaluation of the contribution relates to the performance provided during 2004 held in 2005, and based on this that part which is due within one year was paid in May 2005, while deferred part determined in shares will be settled in 2007.

Loans granted

No loans have been granted to key management and members of the Board of Directors and Supervisory Board.

30 Reconciliation between Slovak Accounting Standards standalone financial statements and IFRS consolidated financial statements

The Slovak Act on Accounting, which came into force on 1 January 2003, brought Slovak accounting ("SAS") closer to IFRS. The accounting principles imposed by the law are based on the IFRS endorsed by the EU Commission. However, they still differ in certain respects from IFRS.

The following table shows the reconciliation of the equity under Slovak Accounting Standards and IFRS financial statements

SKK millions	Share capital	Reserves	Net income	Total equity
SAS equity 31 December 2005				
SLOVNAFT, a.s.	20,625	22,381	8,664	51,670
Subsidiaries		3,141	36	3,177
Consolidation adjustments		(3,104)	(55)	(3,159)
IFRS adjustments				
Capitalisation of periodic maintenance costs	-	-	428	428
Other	-	21	(76)	(55)
Minority interest	-	63	(6)	57
IFRS equity 31 December 2005	20,625	22,502	8,991	52,118

SLOVNAFT, a.s. and Subsidiaries

Notes to the consolidated financial statements prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2005

SKK millions	Share capital	Reserves	Net income	Total equity
SAS equity 31 December 2004				
SLOVNAFT, a.s.	20,625	16,872	9,693	47,190
Subsidiaries	-	3,356	(253)	3,103
Consolidation adjustments	-	(3,725)	622	(3,103)
IFRS adjustments	-	-	(40)	(40)
Minority interest	-	61	-	61
IFRS equity 31 December 2004	20,625	16,564	10,022	47,211

Periodic maintenance and inspection cost

In accordance with IAS 16, the cost of regular major periodic maintenance and inspections is included in the carrying amount of property, plant and equipment that should be depreciated over the period until the next major periodic maintenance and inspection takes place. Slovak Accounting Standards requires such costs to be expensed when incurred.

Shareholder Information

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