Annual Report 2006

Slovnaft Annual Report 2006

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Chairman and CEO letter

Dear shareholders,

External conditions for the oil business, especially in the second half of the year, have made 2006 distinct from previous years. However, this has again proved that sound performance driven by sophisticated investments into the upgrade of refining and petrochemical assets, a strong export position, and integration into the international MOL Group have now become intrinsic characteristics of SLOVNAFT, a.s. This in turn has created strong pillars for future sustainable growth. Let's take this opportunity to summarise the key driving forces of Slovnaft´s performance in 2006.

Primacy in biofuels introduction within V4

In spite of the deteriorating external conditions towards year-end and extensive periodic maintenance shutdowns rescheduled to the fourth quarter, Slovnaft succeeded in increasing crude oil processing by 201 thousand tons in 2006 to 5.6 million tons. This was mainly driven by strong diesel demand, both on the domestic and key export markets. The Company thus increased diesel production by 172 thousand tons y-o-y to 2,613 thousand tons.

In 2006 Slovnaft launched biodiesel and biogasoline on the market. During 2006 only low-sulphur diesel was produced by the Company, of which almost 36% was FAME (Fatty Acid Methyl Ester) diesel. Biogasoline represented 11% of total gasoline production in 2006. Slovnaft thus significantly contributed not only to the fulfilment of EU requirements, but also allowed Slovakia to become the first country in V4 producing and selling biofuels both on the domestic and export markets. This once again evidenced not only the environmental consciousness of the Company, but also its pace-setter position, flexibility, and strong customer-orientation. Slovnaft expects the biofuel share of total sales to grow in forthcoming years.

Export remains key succes factor

Export remains the key pillar of the Company's profitability, whereby despite high base figures from the previous year, Slovnaft further increased its export sales which represents approximately 3/4 of total sales revenues. This represented a more than 17% jump in 2006 to SKK 87 billion, while sales volumes were maintained at practically the same level.

In 2006, Slovnaft also kept its focus on ensuring reliable supplies on the domestic market: supported by increasing demand mainly for diesel, the Company succeeded in selling 8% more in terms of volume. Domestic sales revenues strengthened by nearly 19% y-o-y to SKK 33 billion.

In spite of unfavourable results in the last months of 2006 which were caused by deteriorating external environment for the refining industry, the rapid appreciation of the SKK exchange rate, and turnarounds of key production units, total wholesale revenues in 2006 increased by almost 15% y-o-y amounting to SKK 113.2 billion. This was influenced mainly by the positive development of refinery products' quoted prices during January-September, higher volume sales of products, and a better refinery product mix than a year ago.

Retail sales up despite lower number of filling stations

In 2006, Slovnaft successfully completed the process of restructuring and modernising its retail network. This allowed the Company to increase the efficiency of retail operations and the provision of services. In 2006, the Company also succeeded in improving its domestic retail sales, despite having 46 fewer filling stations. At the end of December 2006, Slovnaft owned 210 filling stations. In 2007 Slovnaft will focus on the further improvement of service quality and customer satisfaction.

Ambitious petrochemical business

Starting 1 July, 2006, all Slovnaft petrochemical activities were unbundled to a new 100%-subsidiary – Slovnaft Petrochemicals, s.r.o. The reason behind this step was threefold: the increasing importance of petrochemical activities for Slovnaft and the MOL Group; the ongoing process of petrochemical activity consolidation within the MOL Group; and the start up of the new PP3 production unit. This unit has more than tripled annual Slovnaft polypropylene production to 255 thousand tons.

Driven by strong demand and improved market conditions, Slovnaft Petrochemicals, s.r.o. significantly increased its contribution to Group sales, and in so doing strengthened its position within the Slovnaft Group. Sales volumes of polymer increased by 25% to 387 thousand tons in 2006 y-o-y mainly due to the increased capacity of the PP plant.

2007 objectives

In 2007, Slovnaft will continue to focus on improving the efficiency of its operations and key internal processes. In the segment of Refinery and Marketing, the objective is to contribute to the MOL Group strategic target to double refined product sales until 2010, maintain its quality leader role, and increase biofuel production and sales along with ensuring reliable biocomponent supplies. Slovnaft and the MOL Group also aim to further improve product slate flexibility, aimed at increasing share of diesel production. As with logistics, Slovnaft will continue its investments in environmental projects, with storage tank reconstruction being the most recent example. In retail area, the Company will focus on the continued improvement of the efficiency and increase of sales. In the petrochemical business, we aim to strengthen Group's position on the traditional markets while developing a presence in strategic expanding markets in the Eastern Europe. Moreover, the aim is to improve operational reliability and utilise recent significant investments in petrochemical assets.

Marián Jusko
Chairman of the Board
of Directors

Oszkár Világi
Chief Executive Officer

Sophisticated and properly timed investments remain critical factors of success

Refining and marketing

Summary

In 2006 Slovnaft processed 5.6 million tons of crude oil originating from Russia and transported through the Druzhba crude oil pipeline. In spite of the fact that in 2006 turnarounds of key production units were realised, motor fuel production was higher than the previous year. This was driven mainly by higher capacity utilisation of key production units.

Refinery

Motor fuels produced by the Company were fully in compliance with European quality standards. Motor diesel was produced exclusively with low-sulphur-content quality (below 50 ppm). Additionally, 73.3% of total diesel production was diesel below 10 ppm sulphur content.

The ecological contribution of Slovnaft in motor fuel production was ensured by the production of biodiesel containing 4.4% of FAME, which represented 36% of total motor diesel production. In November, the production of bio-component ETBE was introduced and consequently the Company started to produce motor gasoline with bioethanol content below 2.2%. In 2006, 157 thousand tons of biogasoline was produced, representing 11% of 2006 total motor gasoline production.

Several internal steps were realised in order to decrease energy consumption, this lowered energy-related costs significantly y-o-y.

Marketing

Despite turnarounds of key production units, Slovnaft was able to secure full coverage of domestic market demand in 2006. Total sales of refinery products by volume increased y-o-y by 11.4% - this was positively influenced mainly by market demand for motor diesel sales increasing sales by more than 16%. Sales of refinery products on export markets remained practicaly unchanged y-o-y, and Slovnaft kept its strong position on neighbouring markets mainly due to its ability to cover market requests for biofuel deliveries.

Retail

In 2006 the network restructuring and modernisation program was finalised, focusing on quality improvement and increased competitiveness. Forty-eight filling stations were closed, two opened, and two stations reconstructed. At year-end, Slovnaft owned 210 retail stations.

Despite the significant network reduction, sales volume was slightly higher than 2005, with the average sale per station increasing by 15.8%. The market share in the framework of SAPPO was slightly below 2005, but significantly lower compared to the share based on the number of stations. This demonstrates the enhanced performance of the current network.

The fuel portfolio was revised in 2006, when sales of Tempo Plus 91 gasoline were terminated, grade 91 UNI was replaced by 95 UNI, and the new top gasoline grade EVO was introduced.

Non-fuel income increased by 22.7% compared with the previous year.

Total fuel sales in 2006 were 557 million litres – an increase of 9 million litres y-o-y. This growth was stimulated by diesel sales which amounted to 278 million litres in 2006, a 27 million litre increase y-o-y. Gasoline sales, on the other hand, dropped by 21 million litres to 267 million litres. LPG sales increased by 2 million to 13 million litres.

Expenditure was carefully monitored and controlled, evidenced by being SKK 75 million below that of 2005. The process of the disposal of unused non-core assets began in 2006.

Outlook

The Slovnaft Group will further focus on the development of competitive refining with optimised supply chain management to satisfy growing demand for high quality products. In 2007 the Group's main objectives will include increasing crude oil conversion, maximisation the share of biofuel production, and meeting European Union requirements for decreasing emissions and the further reduction of energy consumption.

Petrochemicals

Summary

The petrochemical segment supplies polymers as feedstock to several European polymer-processing companies. The main focus is increasing profitability in existing markets and development in new target markets. The aim of the segment is to leverage previous year investments in the firm base of domestic and Central European markets and strengthening the position on Western European markets, while developing a presence in strategic eastern growth markets.

Within the frame of strengthening the presence of the Company in strategic growth markets, a single sales channel has been established in Ukraine. It is expected to improve significantly contact with customers, to decrease logistic costs, and the Company will be able to provide partners with more effective technical support.

The segment is continuously improving its pricing position by product portfolio optimisation through product customisation and product application development, as well as increasing focus on targeted customer segments.

Key developments in 2006

Unbundling of Slovnaft's petrochemicals activities

As an integrated part of MOL Group Petrochemicals Division, the petrochemical business unit of Slovnaft started its legally distinct operation as Slovnaft Petrochemicals, s.r.o. as of 1 July, 2006. The new company is fully owned by Slovnaft, its main activities are the production and sale of olefin and polymer products. The MOL Group business consolidation of petrochemical segment was accomplished through the realisation of this step.

Record volume of polymer production

The planned maintenance shutdowns in olefin and polymer units were successfully completed in the second half of the year. Improved operational reliability together with the solid performance of the new PP unit allowed the segment to produce 387 thousand tons of polymers. Due to the integrated operations within the MOL Group, synergies were realised through feedstock optimisation, more efficient production planning and scheduling, product portfolio, and inventory optimisation.

Operational results

Segment profit was hit by the unfavourable development of external factors, resulting in high feedstock prices. The relatively strong polymer sales prices did not offset the effect of high naphtha and monomer prices. The profitability of the segment is monomer-price sensitive as a significant part of propylene consumption is covered by external sources. Due to the fact that the segment mainly supplies polymers to export markets, the strengthening of the SKK has also had a negative effect on the results.

Outlook

The preparation for the modernisation and further development of LDPE production facilities has begun. The likely long-term outcome of this process will be the development of a technology which will be able to meet regional demand at a higher technological level via a modern product portfolio and increase competetivness.

HSE

HSE Management

In 2006 preparations for the change of HSE organisational structure from integrated to decentralised began, with the aim of keeping HSE closer to its internal customers. Previously under the integrated HSE organisation, one HSE partner was assigned to each division together with a team of staff providing services to the division. However, from the beginning of 2007, teams will be integrated in divisions within the organisation, reporting directly to division managers. The Company expects this change to increase the flexibility of HSE management and the satisfaction of internal customers. An integrated international central team will continue to provide HSE methodological management tasks, regulation development, reviews, and harmonisation of selected HSE activities at MOL Group level.

From 1 July 2006, the petrochemical business was unbundled as an independent Company, Slovnaft Petrochemicals, s.r.o., where HSE services are provided by an independent professional team. All data on emissions, and the number of accidents and fires reported in this Annual Report also reflect Slovnaft Petrochemicals, s.r.o.

Social Responsibility

The implementation of the General Management for Sustainable Development at the level of the MOL Group was an important step in the on-going commitment of the Slovnaft Group in adopting a responsible approach towards both stakeholders and the natural environment. The aim of this activity is to unify the existing processes in order to contribute to sustainable development within a uniform management structure, as well as ensuring continuous performance improvement of the MOL Group in this field. HSE is also an important contributor to individual areas of sustainable development such as environmental protection, and health and safety at work.

All achievements and areas providing opportunities for further improvement are annually published in the Slovnaft Sustainable Development Report. The electronic version of this is available at www.slovnaft.sk.

Health and Safety

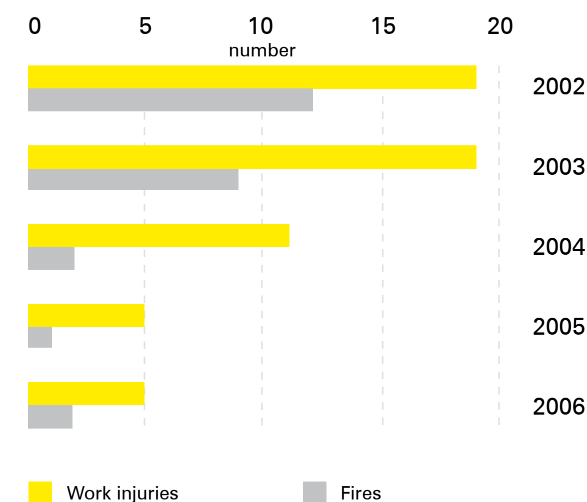
The Group has minimum levels of work accidents and fires. Moreover, a decrease in accidents per million of hours worked was reported from 0.6 in 2005 to 0.4 in 2006 when eight work accidents were recorded. Since 2002, no fatal work accident of own employees or contractors has been reported. These excellent results also resulted from the conducting of regular audits as part of the Secure Workplaces project; and an extension of the application of a standardised investigation method in order to identify the underlying causes of emergency events in order to take efficient precautionary measures.

Slovnaft has also maintained excellent results in the field of fire prevention. Two fires occurred in 2006 and didn't cause any direct damage.

Through HSE, in 2006 Slovnaft developed the multi-modular "Take a Step for Your Health" project in order to ensure health protection and support for its employees. The implementation of Part 1 began in 2006: this focussed on special medical examinations of employees aimed at preventing cardiovascular and oncological diseases that could be the result of the working environment, work-related stress, or the fast pace of life.

As part of the preparation for the anticipated legislation (known as REACH) relating to chemical substances and agents, the inspection of manufactured and purchased chemical substances and agents was performed to conform with their future registration as required by this legislation.

Safety



Environment

In 2006, an external environmental audit was performed at the Slovnaft Group which focused on the review of the creation of provisions for the elimination of environmental pollutions as a result of the Company's past activities. Compared to year-end 2005, when the amount of environmental provision was SKK 1.0 billion, there was a slight increase in its balance at the end of 2006, when it amounted to SKK 1.1 billion.

Increased activity in the elimination of past environmental damage at logistics terminals and during the closing and reconstruction of filling stations characterised 2006. Active decontamination was conducted at eight logistics terminals with a total cost of SKK 30 million. An intensive filling station closure and decontamination program included – together with previous periods – the liquidation of 63 and the reconstruction of two filling stations with a total cost for the sanation of the soil and underground water amounting to SKK 15 million.

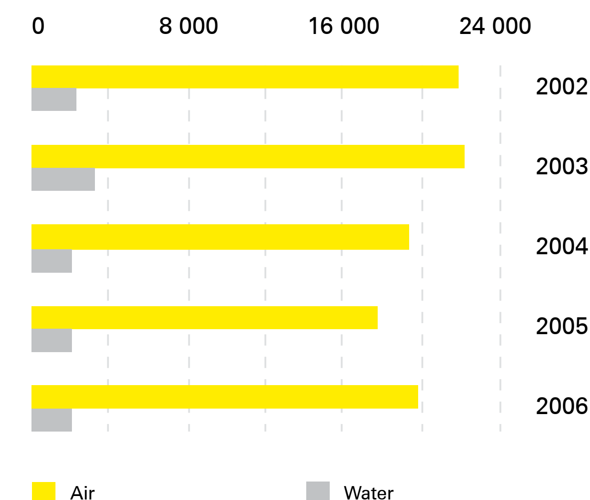
While in the past four years, Slovnaft Group investments in environmental projects annually totalled about SKK 400 million, in 2006 this figure was SKK 830 million. This increase resulted from the fact that along with the continuing Storage Tank Reconstruction project, expensive projects reducing volatile organic compounds (VOC) emissions releases from a waste water treatment plant, and the renovation of the sludge incineration plant were implemented.

In 2006, specific activities took place which led to the reduction of nitrogen oxides, solid pollutants, and VOC in the air. Nevertheless, the total amount of air emissions increased by almost 12%, caused mainly by an increase in SO_2 emissions due to general revisions.

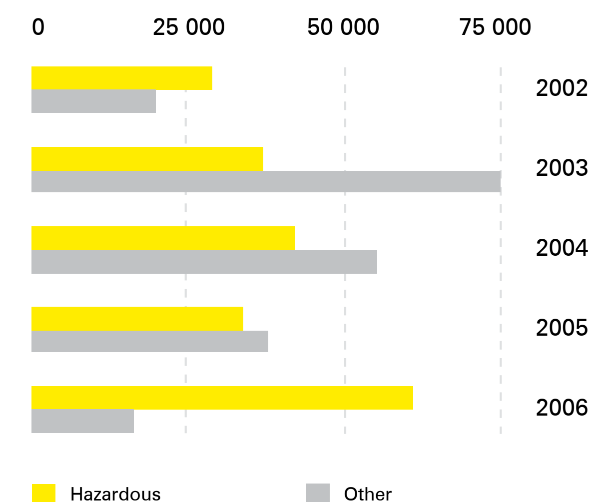
Although the Company maintains a decreasing trend in other waste production which was 57% lower than 2005, there was an 80% increase in the production of hazardous waste. This increase was caused by a more intensive decontamination of previous environmental damage at logistics terminals and filling stations. At logistics terminals alone, the increase represented more than 10 thousand tons. Hazardous waste was then disposed of by authorised contractors.

In 2006, pursuant to the Emission Allowance Trading Act, Slovnaft presented a verified report on CO_2 emissions to the competent public administration authority. The amount of emission allowances corresponding to the amount of actually released emissions was delivered to the National Emission Registry. In order to decrease CO_2 emissions, Slovnaft ensured the implementation of several technological measures, the performance of an energy audit of heat supplies in the production units, and the reconstruction of certain furnaces.

Pollutants (tons)



Waste (tons)



Outlook

In 2007, the Company aims to continue increasing HSE employee awareness as part of the Safe Workplaces project. The Company also intends to focus on the implementation of process safety management. The reduction of CO_2 emissions is an another important area for further indicator improvement. In 2007, the aforementioned REACH legislation will come into force, regulating chemical substances and agents. Accordingly, tasks arising from adherence to this legislation will be among the top priorities of 2007.

Human resources

The on-going restructuring process continued in 2006, influencing employee structure and headcount as well as average wage development. As a result of this process, the Company recorded a closing headcount of 2,366 which represented a y-o-y decrease of 21.5%. This significant decrease was influenced by the transfer of 453 employees to Slovnaft Petrochemicals, s.r.o., fully owned by Slovnaft. Fluctuation through the year was 8.73%.

The implementation of unified principles with regards to remuneration and employee benefits within the MOL Group was reflected in the General Agreement and consequently positively influenced employee structure and wage levels. The average monthly wage in 2006 was SKK 49,502 (excluding one-off items), significantly above the Slovak Republic average.

The restructuring process in the Slovnaft Group was also affected by changes in subsidiaries. The net effect of all the changes is a headcount reduction of 327 in the Slovnaft Group.

In the social area, monetary and non-monetary benefits totalling SKK 384 million were provided to employees. The most important included: optional social contributions, life and accident insurance contributions, supplementary pension insurance, catering, loans from the social fund and health improvement program. Free inoculation against flu and vitamins were provided to employees as prevention against viral diseases. Employees are free to use Company sports facilities, the most popular of which include the swimming pool, sauna, sport hall and tennis courts. In 2006 the swimming pool was utilised for 1,340 hours, the sauna 560 hours, and fitness facilities 1,080 hours.

The Company paid severance payments amounting to SKK 62 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.

Education and employee development

The Company focused on implementing education programs for managers, experts, and other employees. The total cost of employee training was SKK 33.7 million.

Great attention was given to HSE – safety at work, fire prevention, protection of the environment, precaution against accidents, and management of quality. Two programs successfully kicked-off: e-learning in the HSE area, and e-learning to increase IT security. This form of study was utilised by more than 900 employees.

More than 200 employees took part in the language education program, some of which courses took place abroad.

The Company supports employees in their educational activities with the aim of increasing their qualifications. In 2006, 32 employees finished studies (Secondary School 11, University 20, and one employee graduated with an MBA). The total cost for study exceeded SKK 2.3 million (7% of the total cost for education).

Each year Slovnaft carries out a recruitment of talented graduates and creates new positions with opportunities for further professional and personal development. In 2006, six graduates with technical back-grounds were employed.

An ethical advisory service has been in effect since 2002. The establishment of this service was initiated by the need to provide an outlet for employees who want to report any suspicion about a breach of ethics, or to disclose any problem related to the quality of ethics code. But primarily it is service for each employee and manager who has any ethics problem and would like to discuss it, or when they find themselves in a situation which is problematic from the ethics point of view. The ethical advisory service represents a platform which guarantees anonymity for employees, upon request. It helps to resolve conflict situations at the workplace, but also helps to prevent any conflict situations in communication. The advisory service is led by an independent expert which is evaluated positively by participants.

The ethical advisory service supports the role of the ethics code in Slovnaft as a strong part of the Company culture; employees perceive it as a valuable regulator of behaviour.

Slovnaft created an Ethics column, which has become a key tool to strengthen ethical principles in the Company culture. The Ethics column is an article written by an independent expert in the area of ethics which is printed in the Company bi-weekly magazine Panoráma. It aims to resolve and explain ethical problems using both real and hypothetical examples. The subjects for inclusion are based on employee suggestions. In the latest satisfaction survey, employees evaluated the Ethics column with a high score. For employees the Ethics column is not only an educational tool in the area of work relations, but also an opportunity to learn how to resolve ethical problems.

The Company also looks after is retired employees. Slovnaft's association of pensio-ners has 1,846 members and is led by a council which prepares a cultural program. In 2006, the Company supported this Association with SKK 1.2 million.

Research and development

In 2006, Slovnaft's long-term technology strategy was updated with the goal of maintaining its prominent position among European refineries. The research of motor fuels containing biofuels recorded significant progress, which is in accordance with EU energy and environmental policy (Biofuels Directive No. 2003/30/EC). In 2006, the routine production of diesel fuel blended with FAME was launched. The timely completion of the investment projects "Conversion of MTBE unit to ETBE production" and "Bio-diesel blending" considerably contributed to the launching of biofuel production at Slovnaft.

Activities in the field of technological research were focused on capacity increase and operational reliability of the VGO HCK, FCC, Sulphur recovery, and Alkylation units. This was achieved through the optimisation of technological processes, as well as energy savings by optimisation of the heat exchanger network.

In the field of new product development, the main activities were aimed at the formulation and development of biodiesel B05 for the Slovak market, gasoline with ETBE content, multigrade bitumen MTGA 35/50, LPG ECO+, and a modified bitumen portfolio. Product quality harmonisation for Slovak trading has been performed according to the new EU standards.

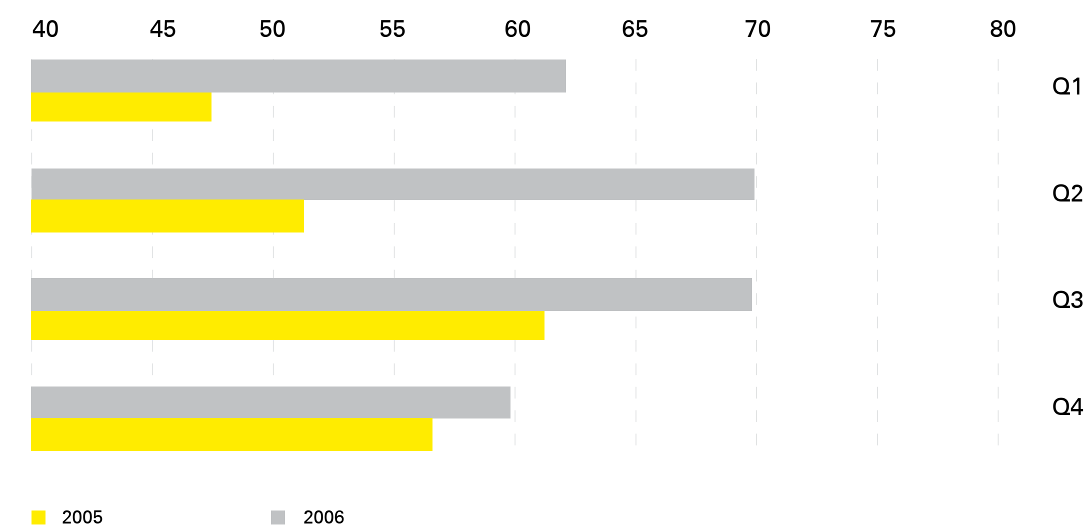
Environmental protection remains a constant priority. In 2006, the implementation of the IPPC (Integrated Pollution Prevention & Control) directive continued, and integrated permits for eight production unit were granted. The Company's attention was focused on monitoring and minimising VOC emission released from the wastewater treatment system. In line with Slovnaft's environmental obligations, the revamped Waste Incinerator was put into operation in December.

Maintenance shutdowns rescheduled to Q4 enabled full utilisation of favourable market conditions

Management discussion and analysis

Overview of business environment

The most important factors that influenced the development of crude oil prices at the beginning of 2006 were manifold. Lost output due to hurricanes in the U.S. Gulf, concerns about possible sanctions against Iran for its nuclear ambitions, as well as 10% loss of crude oil output in Nigeria due to militant attacks at Shell's oil installations all collectively played a part. Crude oil average price was 61.8 USD/bbl in the first three months of the year, which was an increase of 14.2 USD/bbl compared to the first quarter of 2005. The biggest impact on the increasing crude oil price during the second quarter of 2006 was Iran's continued nuclear program, and their provocative stance towards the UN Security Council. This increased worries about possible disruptions to crude oil supplies in the event of imposed sanctions. Fears about the hurricane season in the Mexico Gulf that could have been as severe as hurricanes Katrina and Rita impacted crude oil price in the second quarter of 2006, when Brent Dtd reached 69.6 USD/bbl on average. In September, the crude oil price dropped by more than 11 USD/bbl for several reasons: the announcement that the USA was the world's biggest crude oil consumer and its sharp increase in state crude oil reserves; as well as the unexpectedly placid Atlantic hurricane season. The crude oil price development at year-end was mainly influenced by production capacity limits of crude oil refineries; uncertain crude oil supplies from Iran, Nigeria, Iraq, and Russia; and anticipated global economic growth slow-down as a result of the impact of higher crude oil



prices on the global economy. In comparison with the previous year, annual average Brent Dtd increased by 11 USD/bbl in 2006.

Crack spreads for motor gasoline in the first quarter of 2006 were higher compared to the historical quarterly average, approaching 96.3 USD/t. The main reasons were stocks decrease in the USA as a result of the delayed launching of production units into operation after massive turnarounds at the end of the last year, and unplanned shutdowns of motor gasoline key production units. The crack spreads for motor gasoline increase in the first quarter of 2006 compared to the first quarter of 2005 was influenced by market concerns of possible gasoline supply problems in the event of additives changes (MTBE was replaced by the more environmentally-friendly ETBE). The crack spreads development in the next period was significantly influenced by lower gasoline stocks in the USA. This was due to production outages resulting from the hurricanes, and by anticipated higher gasoline demand in the USA at the beginning of the summer holiday season. The above mentioned factors resulted in the substantial growth of the average gasoline crack spreads in the second quarter of 2006, which were 65.5 USD/t higher y-o-y.

Conversely, the increase of gasoline stocks in the USA – the biggest world energy consumer – caused a steep fall in gasoline crack spreads in the third quarter of 2006, reaching an average level of 153 USD/t. At year-end, the gasoline crack spreads decreased by 29.6 USD/t compared to the third quarter of 2005. This was a result of a mild hurricane season that did not cause wide damage, and the stagnation of world market demand for gasoline due to its higher price in the fourth quarter of 2006.

Diesel crack spreads development in the first quarter of 2006 was mainly influenced by a mild winter in the USA. In spite of this, the average diesel crack spreads at the level of 99.2 USD/t in this period were not significantly different from those of the same period 2005. The lower crack spreads in the second quarter of 2006 compared to the second quarter of 2005 were mainly caused by lower spring demand for fuel oils. Further strong growth of world distillate stocks in the third quarter of 2006 influenced crack spreads development in this period, decreasing by 19 USD/t on average compared to the third quarter of 2005. The lower crack spreads in the last quarter of 2006 resulted from mild weather in the North-eastern USA and consequent lower demand for fuel oils.

Financial operations

Profit and loss statement
The higher sold volumes and an increase in products' quoted prices resulted in y-o-y sales growth of SKK 17.8 billion in 2006. This positive effect was however partially offset by the negative impact of exchange rates, lower diesel crack spreads, other products' margins, and regular maintenance turnarounds in the last quarter. Material expenses increased by SKK 20.5 billion, impacted by higher crude oil prices and higher feedstock processing. Material services costs were SKK 651 million higher, largely as a result of increased maintenance and repair, transportation, and IT costs. Lower personnel costs of SKK 140 million reflected the decrease in employee numbers. Lower profits from financial operations of SKK 362 million reflected the development of exchange rates and interest paid, this was partially offset by proceeds from the sale of shares in Doplnková dôchodková spoločnosť Tatra banky, a.s.

Balance sheet
In 2006 the value of property, plant, and equipment y-o-y reflected capital expenditures in the amount of SKK 4.3 billion, depreciation in the amount of SKK 3.5 billion, and completion of divestments. Inventories grew by SKK 1.7 billion y-o-y as a result of a different production and sales structure, and the increase of compulsory fuel reserves in Slovnaft Polska in accordance with Polish law. Trade receivables decreased by SKK 2.2 billion mainly due to lower quoted prices in December y-o-y. The increase in other current assets by SKK 1.7 billion was mainly connected with related parties' transactions. Trade and other payables were SKK 4.7 billion lower, mainly as a result of a different development of crude oil payables and capital expenditures in December. Short-term and long-term bank loans showed only minimum values due to the Company's strong cash position.

Cash flow
The total closing value of cash and cash equivalents in 2006 amounted to SKK 3.1 billion, which represented an increase of SKK 1.2 billion compared to the previous year. This result reflected the repayment of a loan (SKK 6.6 billion), which was granted to MOL as part of the MOL Group's liquidity management, and which fully eliminated the impact of higher dividend payment (by SKK 3.4 billion) and lower profit. The financial position of the Slovnaft Group continued to remain stable.

Refining and marketing

In 2006, Slovnaft processed 5.6 million tons of crude oil, 201 thousand tons more y-o-y. The quality of processed crude oil was in line with contracted specifications.

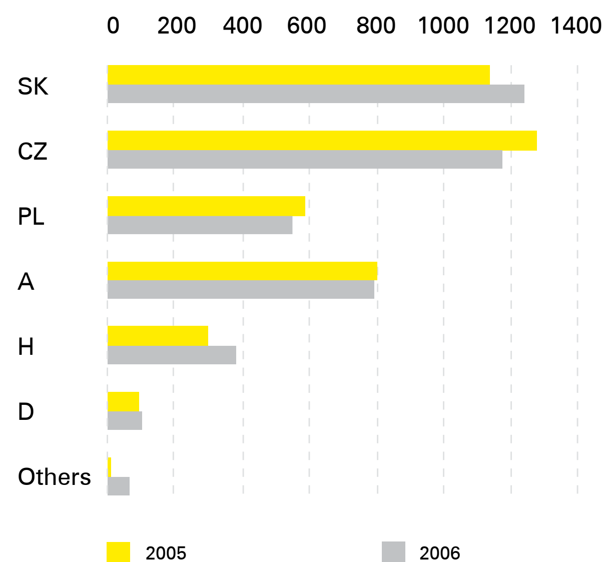
In spite of turnarounds of key production units in 2006, the total volume of production increased by 125 thousand tons y-o-y due to optimised crude oil processing and raw material purchasing, as well as achieving better performance parameters of key production units. Motor fuel production was 58 thousand tons higher y-o-y. Diesel production increased by 172 thousand tons y-o-y due to rising market demand, this fully compensated for motor gasoline production which was 114 thousand tons lower.

Total refinery products sales volume of 5.2 million tons (excluding chemical raw materials transferred to the Petrochemicals segment) increased by 0.2 million tons compared to 2005. Revenues from sales of refining products improved by more than 13% in monetary terms, resulting mainly from higher quoted prices driven by the development of international oil markets.

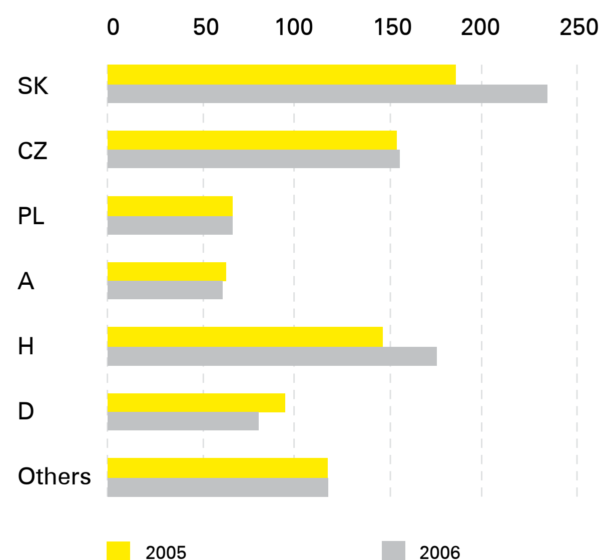
Domestic sales were 11% higher y-o-y, influenced mainly by higher sales of diesel of almost 16% caused by continued stronger market demand and positive development in the business environment, as well as the market trend of so-called dieselisation. On the other hand, motor gasoline sales declined by 3%, affected by decreased market consumption and further stronger market competition. As a result of the renewal of supplies for M.R.Stefanik airport in Bratislava, jet kerosene sales increased by 30 thousand tons. Sales of fuel oils grew by 27% y-o-y due to their higher production reflecting planned shutdowns of key production units. Slovnaft refinery product sales on the domestic market were positively influenced by increased sales of LPG via the retail network of 18% (1,000 tons), as well as 9% higher sales of bitumen y-o-y - driven by road infrastructure construction in Slovakia. Sales revenues from domestic refinery products in monetary terms improved by 23% y-o-y.

Production volume (thousand tons)	2006	2005
Gasoline	1,450.8	1,565.1
Diesel	2,612.8	2,440.5
Kerosene	44.6	37.9
Heavy fuel oil	262.1	181.2
Bitumen and oxidation mixture	41.1	45.9
Sulphur	64.8	64.6
Other refinery products	182.5	206.3
Petrochemicals products	204.1	196.5
Total	**4,862.8**	**4,738.0**

Sales of motor fuels (thousand tons)



Sales of other refinery and petrochemical products (thousand tons)



In 2006, export sales remained at 2005 levels in spite of the lower production of motor gasoline due to shutdowns of several key production units. Significantly higher motor fuel sales to the Hungarian market of 91 thousand tons (31%) as well as higher motor fuel sales to the German market of 12 thousand tons (13%) driven by extremely high market demand fully compensated for the decline in sales of motor gasoline on the most important export markets (Czech Republic – 8% lower sales, Poland 6%, Austria 2%). Sales revenues from the export of refinery products rose by 11% in monetary terms y-o-y.

Sales of other refinery and petrochemical products that represented more than 17% of total volume sold increased by 8% y-o-y. The adopted strategy of supply chain management optimisation was the main reason behind the development of sales from other refinery and petrochemicals products that complete the Slovnaft product portfolio.

Petrochemicals

The petrochemical segment utilised 529 thousand tons of naphtha and 151 thousand tons of light hydrocarbons, while 278 thousand tons of steam cracker by-products were transferred back to the refinery. The steam cracker produced 202 thousand tons of ethylene and 92 thousand tons of propylene. All production volumes were behind 2005 figures as a result of realised planned turnaround activities.

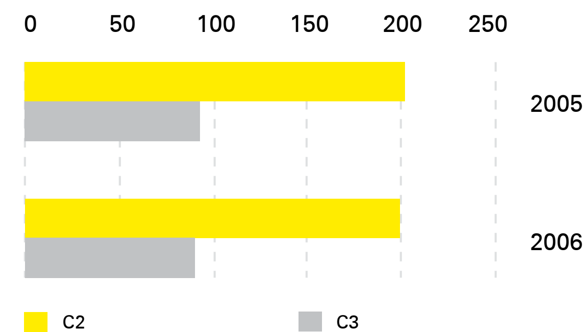
2006 was the first year when the new polypropylene unit could be fully utilised. Due to the above-mentioned, production reached 219 thousand tons, which is 45% higher y-o-y. Besides the production increase, the Company managed to significantly change the product portfolio (increase the share of more advanced copolymers), which led to a more effective and flexible meeting of customer requirements.

In 2006, the production of polyethylene was 164 thousand tons, which is slightly below the figure for 2005. The reason behind this was the planned turnaround of key production lines, and partially the lack of ethylene at year-end.

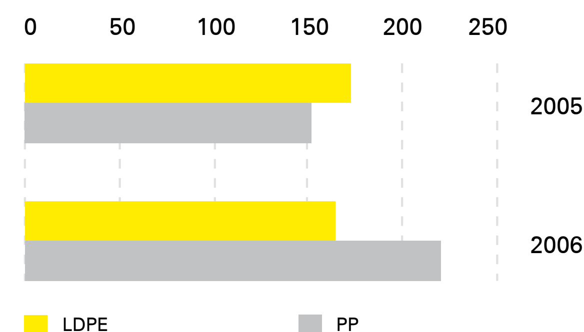
The improved reliability of the new production facility led to the highest sold volume in the Company's history, 387 thousand tons of polymers, 26% higher y-o-y.

In 2006, both domestic and export sales increased. As a result of a more favourable product and customer portfolio, sales figures improved mainly on markets with strategic importance from both the volume and growth points of view. Besides the volume increase, a considerable decrease of spot sales was also managed.

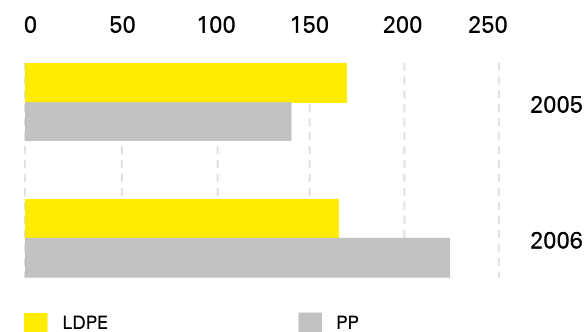
C2 and C3 production (thousand tons)



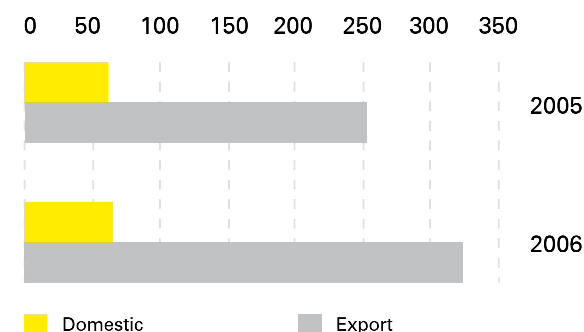
LDPE and PP production (thousand tons)



LDPE and PP sales (thousand tons)



Domestic and Export sales (thousand tons)



Corporate services

Operational excellence reflected in the satisfaction of internal and external partners and cost leadership were the major drivers of Corporate service activities in 2006.

Following cost savings in recent years, a new challenging cost improvement program – Global 5 – was implemented in the procurement of goods and services. Slovnaft's mass of experience and its ranking as one of the largest companies in Slovakia enables the Company to drive down costs from the moment of purchase. Tenders with the application of electronic sourcing tools (electronic request for offer, electronic reverse auctions) achieved volumes of over SKK 1.4 billion with notable cost savings. Electronic procurement increases the transparency of the whole process, resulting in a more effective supplier selection.

In the framework of increasing sustainable efficiency, the restructuring program of SLOVNAFT MONTÁŽE A OPRAVY, a.s., which performs maintenance for the parent Company, was also successfully completed.

Investment activities

In 2006, Slovnaft Group (CAPEX) investments totalled SKK 4.3 billion. The major part of investments, almost SKK 3.5 billion, was spent on projects in the refining and marketing segment.

Expenditure on projects focused on the improvement of operating reliability reached almost SKK 1.7 million, of which periodical maintenance represented SKK 818 million. The investment program focusing on improving the efficiency of refining production, marketing, and logistics also continued in 2006. The CAPEX of the Refinery Profit Improvement Project (RPIP) represented more than SKK 150 million. The purpose of this project is to increase the operational efficiency and profitability of refining production.

In the first half of the year, the petrochemical segment was operating as part of SLOVNAFT, a.s. From 1 July 2006 it has been unbundled into a separate subsidiary, Slovnaft Petrochemicals, s.r.o. The CAPEX of the segment reached SKK 421 million in 2006.

In the retail segment, the Group invested SKK 147 million. Retail investment activities were mainly focused on efficiency improvements and environmental projects. The main drivers behind CAPEX performance was the network reconstruction project with spending of SKK 80 million and the ongoing IT project "Unified coding" which enables better control of business processes. With the aim of improving the profitability of the network and in view of environmental aspects, 48 filling stations were closed. At year-end, the "Emergency tanks" project was launched.

HSE-related projects totalled SKK 830 million in 2006, of which expenditures on the most important project "Storage tanks reconstruction" represented SKK 264 million.

In 2006, investments in the area of information technology represented capital expenditures in the amount of SKK 175 million.

More than SKK 60 million was invested in order to ensure the safe and secure operation of facilities and buildings.

SLOVNAFT, a.s. and Subsidiaries

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

31 December 2006

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Fax: +421 2 5922 9222
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Independent Auditor's Report

To the Shareholders of SLOVNAFT, a.s.:

We have audited the accompanying consolidated financial statements of SLOVNAFT, a.s. ('the Company'), which comprise the consolidated balance sheet as at 31 December 2006, and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

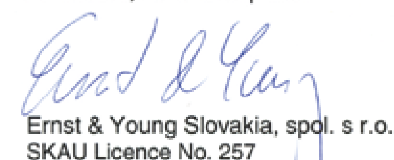
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of 31 December 2006 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

16 March 2007
Bratislava, Slovak Republic



Ernst & Young Slovakia, spol. s r.o.
SKAU Licence No. 257

Ing. Dagmar Válová
SKAU Licence No. 916

Ernst & Young Slovakia, spol. s r.o., IČO: 35 840 463, zapísaná v Obchodnom registri Okresného súdu Bratislava I, oddiel: Sro, vložka číslo: 27004/B a v zozname audítorov vedenom Slovenskou komorou audítorov pod č. 257.

SLOVNAFT, a.s. and Subsidiaries

Consolidated financial statements prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2006

Bratislava, 16 March 2007

Marián Jusko
Chairman of the Board
of Directors

Oszkár Világi
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 2006

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 activities of the Company, its subsidiaries and associates („the Group“) are the processing of crude oil and the distribution and sale of refined products.

The Company's registered address is:
SLOVNAFT, a.s.
Registration No.: 31322832
Tax registration No: 2020372640
Vlčie hrdlo 1
824 12 Bratislava
Slovak Republic

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

In 2006, the Group had 3,795 employees on average (2005: 4,162 employees), 96 of which were management (2005: 103 managers).

These consolidated financial statements are presented in millions of Slovak Crowns.

These consolidated financial statements were approved and authorised for issue by the Board of Directors on 16 March 2007.

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

SLOVNAFT, a.s. and Subsidiares

Consolidated balance sheet at 31 December 2006

	Notes	2006 SKK millions	2005 SKK millions
ASSETS			
Non-current assets			
Intangible assets	2	672	714
Property, plant and equipment	3	40,332	40,301
Investments in associated companies	5 i)	97	103
Available-for-sale financial assets	5 ii)	1,438	1,542
Deferred tax assets	22	84	2
Other non-current assets	6	39	6,586
Total non-current assets		**42,662**	**49,248**
Current assets			
Inventories	7	8,479	6,803
Trade receivables	8	7,626	9,844
Income tax receivable		738	368
Available-for-sale financial assets	5 ii)	102	1
Other current assets	9	6,045	4,365
Cash and cash equivalents	10	3,085	1,872
Total current assets		**26,075**	**23,253**
Assets classified as held for sale	3	**–**	**645**
TOTAL ASSETS		**68,737**	**73,146**
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	19,938	18,790
Net income attributable to equity holders of the parent		6,357	8,997
Equity attributable to equity holders of the parent		**50,569**	**52,061**
Minority interest		56	57
Total equity		**50,625**	**52,118**
Non-current liabilities			
Long-term debt, net of current portion		18	–
Provisions for liabilities and charges	14	1,211	791
Deferred tax liabilities	22	990	564
Government grants and other non-current liabilities	15	697	768
Total non-current liabilities		**2,916**	**2,123**
Current liabilities			
Trade and other payables	16	13,690	18,370
Provisions for liabilities and charges	14	459	529
Short-term debt incl. current portion of long-term debt	13	1,043	1
Income tax payable		4	5
Total current liabilities		**15,196**	**18,905**
TOTAL EQUITY AND LIABILITIES		**68,737**	**73,146**

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

SLOVNAFT, a.s. and Subsidiares

Consolidated income statement for the year ended 31 December 2006

	Notes	2006 SKK millions	2005 SKK millions
Net revenue	28	120,066	102,256
Other operating income	17	1,428	776
Total operating income		**121,494**	**103,032**
Raw materials and consumables used		(100,077)	(79,539)
Personnel expenses	18	(3,145)	(3,285)
Depreciation, depletion, amortisation and impairment	28	(3,560)	(3,599)
Value of services used	19	(4,680)	(4,029)
Other operating expenses	20	(2,980)	(3,800)
Change in inventories of finished goods and work in progress		340	2,003
Work performed by the enterprise and capitalised		595	308
Total operating expenses		**(113,507)**	**(91,941)**
Profit from operations	28	**7,987**	**11,091**
Finance revenues	21	429	362
Finance expenses	21	(475)	(46)
Income from associates		21	25
Profit before tax	22	**7,962**	**11,432**
Income tax expense	22	(1,606)	(2,441)
Profit for the year		**6,356**	**8,991**
Attributable to:			
Equity holders of the parent	23	6,357	8,997
Minority interest		(1)	(6)
Basic / diluted earnings per share attributable to ordinary equity holders of the parent (SKK)	23	**308.2**	**436.2**

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

SLOVNAFT, a.s. and Subsidiares

Consolidated statement of changes in equity for the year ended 31 December 2006

	Share capital SKK millions	Share premium SKK millions	Translation reserve SKK millions	Retained earnings SKK millions	Fair valuation reserve SKK millions	Total reserves SKK millions	Profit for the year attributable to equity holders of the parent SKK millions	Total equity attributable to equity holders of the parent SKK millions	Minority interest SKK millions	Total equity SKK millions
Opening balance 1 January 2005	**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 differences	–	–	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**
Fair value changes of available-for-sale financial assets	–	–	–	–	(2)	**(2)**	–	**(2)**	–	**(2)**
Currency translation reserve	–	–	(61)	–	–	**(61)**	–	**(61)**	–	**(61)**
Total income and expense for the year recognised directly in equity	–	–	(61)	–	(2)	**(63)**	–	**(63)**	–	**(63)**
Profit for the period	–	–	–	–	–	–	6,357	**6,357**	(1)	**6,356**
Total income and expense for the year	–	–	(61)	–	(2)	**(63)**	6,357	**6,294**	(1)	**6,293**
Transfer to reserves of retained profit for the previous year	–	–	–	8,997	–	**8,997**	(8,997)	–	–	–
Dividends	–	–	–	(7,786)	–	**(7,786)**	–	**(7,786)**	–	**(7,786)**
Closing balance 31 December 2006	**20,625**	**3,649**	**(140)**	**19,933**	**145**	**19,938**	**6,357**	**50,569**	**56**	**50,625**

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

SLOVNAFT, a.s. and Subsidiares

Consolidated cash flow statement for the year ended 31 December 2006

	Notes	2006 SKK millions	2005 SKK millions
Profit from operations		7,987	11,091
Adjustments to reconcile operating profit to net cash provided by operating activities			
Depreciation, depletion, amortisation and impairment	28	3,560	3,599
Amortisation of deferred income	15, 17	(55)	(90)
Write-off of inventories		17	44
Reversal of impairment losses on PP&E		(124)	–
Gain on sale of fixed assets	17	(166)	(163)
Movement in provisions for liabilities and charges		302	(1,236)
Write-off of receivables		67	14
Unrealised foreign exchange gain on receivables and payables		(2)	(27)
Other non cash items		(8)	24
Operating cash flow before changes in working capital		**11,578**	**13,256**
Increase in inventories		(2,021)	(2,315)
Decrease / (increase) in trade receivables		710	(3,898)
Decrease in other current assets		694	37
(Decrease) / increase in trade payables		(2,348)	5,999
(Decrease) / increase in other payables		(209)	55
Corporate taxes paid		(1,633)	(3,907)
Net cash provided by operating activities		**6,771**	**9,227**
Capital expenditures		(4,237)	(4,173)
Government grants received		–	22
Proceeds from disposals of property, plant and equipment		977	248
Purchase of available-for sale investments		(18)	–
Proceeds from disposal of available-for sale investments		319	4
Proceeds from sale of subsidiary undertakings		518	–
Net short-term loans (granted) / repaid		(2,965)	116
Long-term loans granted		(2,231)	(6,566)
Repayment of long-term loans granted		8,650	–
Interest received and other financial income		202	196
Dividends received		39	72
Net cash provided/(used) by/in investing activities		**1,254**	**(10,081)**
Proceeds from long-term borrowings		18	–
Proceeds from derivative transactions		11	25
Net proceeds from short-term non-bank borrowings		971	6
Proceeds from short-term bank loans		123	–
Interest paid and other financial costs		(33)	(21)
Dividends paid to shareholders		(7,779)	(4,357)
Net cash used in financing activities		**(6,689)**	**(4,347)**
(Decrease) / increase in cash and cash equivalents		**1,336**	**(5,201)**
Cash and cash equivalents at the beginning of the year		1,872	6,961
Effects of exchange rate changes		(123)	112
Cash and cash equivalents at the end of the year		3,085	1,872

The accounting policies and the notes form an integral part of these consolidated 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 2006

1 Basis of preparation

These consolidated financial statements were approved and authorised for issue by the Board of Directors on 16 March 2007.

With effect from 1 January 2005, the change in the Slovak Accounting Act requires the Group to prepare its consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU"). At this time, due to the endorsement process of the EU, and the activities of the Group, there is no difference between the IFRS policies applied by the Group and those adopted by the EU.

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

The financial statements were prepared using the going concern assumption that the Company will continue its operations for the foreseeable future.

The preparation of the 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, the actual results may differ from those estimations.

The financial year is the same as the calendar year.

i) Information on consolidated group

The consolidated financial statements of the Group are included in the consolidated financial statements of the MOL Group. MOL Nyrt., Október huszonharmadika u. 18, 1117 Budapest, Hungary, prepares the Group's consolidated financial statements. The consolidated financial statements are available directly at the registered addresses of the company stated above.

ii) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and all applicable IFRS 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").

iii) Principles of Consolidation

Subsidiaries

The consolidated financial statements include the accounts of the Company and the subsidiaries that it controls. A company generally has control over another company when it owns, either directly or indirectly, more than 50% of the voting rights of that company's share capital and is able to govern the financial and operating policies of the company so as to benefit from its activities. 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.

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.

Minority interest represent the profit or loss and net assets not held by the Group and are shown separately in the consolidated balance sheets and the consolidated income statement, respectively. Acquisitions of minority interests are accounted for using the parent company extension method, whereby the difference between the consideration and the book value of the share of the net assets acquired is recognized as goodwill.

Joint ventures

The Company's interests in its joint ventures are accounted for by the method of proportionate consolidation, where a proportionate share of the joint venture's assets, liabilities, income and expenses is combined with similar items in the consolidated financial statements on a line-by-line basis. The financial statements of the joint ventures are prepared for the same reporting year as the parent company, using consistent accounting policies.

When the Group contributes or sells assets to the joint venture, any portion of gain or loss from the transaction is recognized based on the substance of the transaction. When the Group purchases assets from the joint venture, the Group does not recognize its share of the profits of the joint venture from the transaction until it resells the assets to an independent party.

Investments in associates

The Group's investments in its associates are accounted for using the equity method of accounting. An associate is an entity in which the Group has significant influence and which is neither a subsidiary nor a joint venture. Under the equity method, the investment in the associate is carried in the balance sheet at cost plus post acquisition changes in the Group's share

of net assets of the associate. Goodwill relating to an associate is included in the carrying amount of the investment and is not amortised. The income statement reflects the share of the results of operations of the associate. Where there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes and discloses this, as applicable, in the statement of changes in equity. Profits and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

The reporting dates of the associate and the Group are identical and the associate's accounting policies conform to those used by the Group for like transactions and events in similar circumstances.

Investments in associates are accounted for to determine whether there is any objective evidence of impairment. If there is evidence the recoverable amount of the investment is determined to identify any impairment loss to be recognised. Where losses were made in previous years, an assessment of the factors are made to determine of any loss may be reversed.

iv) Changes in Accounting Policies

The accounting policies adopted are consistent with those applied in the previous financial years, except as follows.

The Group has adopted the following new and amended IFRS and IFRIC interpretations during the year. Other than as noted below, adoption of these standards and interpretations did not have any effect on the financial statements of the Group. They did however give rise to additional disclosures.

- IAS 19 Amendment – Employee Benefits
- IAS 21 Amendment – The Effects of Changes in Foreign Exchange Rates
- IAS 39 Amendments – Financial Instruments: Recognition and Measurement
- IFRS 6 Exploration for and Evaluation of Mineral Resources
- IFRIC 4 Determining whether an Arrangement contains a Lease
- IFRIC 5 Rights 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

The Group has not performed an early adoption of any IFRS standards where adoption is not mandatory at the balance sheet date. The principal effects of these changes are as follows:

IAS 19 Employee Benefits

As at January 2006, the Group has adopted the amendments to IAS 19. As a result, additional disclosures are made providing information about trends in the assets and liabilities in the defined benefit plans and the assumptions underlying the components of the defined benefit cost. This change has resulted in additional disclosures being included for the years ending

31 December 2006 and 31 December 2005 but has not had any recognition or measurement impact, as the Group has chose not to apply the option offered to recognise actuarial gains and losses outside of the income statement.

IAS 21 The Effects of Changes in Foreign Exchange Rates

As at 1 January 2006, the Group adopted the amendments to IAS 21. As a result, all exchange differences arising from a monetary item that forms part of the Group's net investment in a foreign operation are recognised in a separate component of equity in the consolidated financial statements regardless of the currency in the monetary item is denominated. This change has had no significant impact as at 31 December 2006 or 31 December 2005.

IAS 39 Financial Instruments: Recognition and Measurement

Amendment for financial guarantee contracts (issued August 2005) – amended the scope of IAS 39 requiring financial guarantee contracts that are not considered to be insurance contracts to be recognised initially at fair value and to be remeasured at the higher of the amount determined in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets and the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with IAS 18 Revenue. This amendment did not have an effect on the financial statements.

Amendment for hedges of forecast intragroup transactions (issued April 2005) – amended IAS 39 to permit the foreign currency risk of a highly probable intragroup forecast transaction to qualify as the hedged item in a cash flow hedge, provided that the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction and that the foreign currency risk will affect the consolidated income statement. As the Group currently has no such transactions, the amendment did not have an effect on the financial statements.

Amendment for the fair value option (issued June 2005) – amended IAS 39 to restrict the use of the option to designate any financial asset or any financial liability to be measured at fair value through the income statement. The Group had not previously used this option; hence the amendment did not have an effect on the financial statements.

IFRS 6 Exploration for and Evaluation of Mineral Resources

The Group is not engaged in the exploration for and evaluation of mineral resources.

IFRIC 4 Determining Whether an Arrangement contains a Lease

The Group adopted IFRIC Interpretation 4 as at 1 January 2006, which provides guidance in determining whether arrangements contain a lease to which lease accounting must be applied. As the entity did not enter in such arrangements, this interpretation has had no impact on the financial statements.

IFRIC 5 Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds

The Group adopted IFRIC Interpretation 5 as at 1 January 2006, which establishes the accounting treatment for funds established to help finance decommissioning for a companies assets. As the entity does not currently operate in a country where such funds exists, this interpretation has had no impact on the financial statements.

IFRIC 6 Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment

The Group adopted IFRIC Interpretation 6 as at 1 January 2006, which established the recognition date for liabilities arising from the EU Directive relating to the disposal of Waste Electrical and electronic Equipment. As the operations of the Company does not result in such obligations, there was no impact on the financial position as at 31 December 2006 and 2005.

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
- IFRS 4 Insurance Contracts
- IFRS 7 Financial Instruments: Disclosures
- 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
- IFRIC 10 Interim Financial Reporting and Impairment
- IFRIC 11 IFRS 2 – Group and Treasury Share transactions
- IFRIC 12 Service Concession Arrangements

The management does not anticipate that the adoption of these standards and interpretations will have a material impact on the consolidated financial statements in the period of initial application. Upon adoption of IFRS 7, the Group will disclose additional information about its financial instruments, their significance and the nature and extent of risks to which they give rise. More specifically, it will be required to disclose the fair value of its financial instruments and its risk exposure in greater detail. There will be no effect on reported profit or net assets.

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

Business combinations are accounted for using the purchase accounting method. This involves recognising identifiable assets (including previously unrecognised intangible assets) and liabilities (including contingent liabilities and excluding future restructuring) of the acquired business at fair value.

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the business combination over the Group's interest in the net fair value of the acquirer's identifiable assets, liabilities and contingent liabilities. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash generating units, or groups of cash generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is allocated represents the lowest level within the Group at which the goodwill is monitored for internal management purposes, and is not larger than a segment based on the Group's reporting format determined in accordance with IAS 14 Segment Reporting.

Where goodwill forms part of a cash-generating unit (group of cash generating units) and part of the operation within that unit is 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 based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

When subsidiaries are sold, the difference between the selling price and the net assets plus cumulative translation differences and unamortised goodwill is recognised in the income statement.

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 and Other Accounts Receivable

Receivables are stated at face value less provision for doubtful amounts. Where the time value of money is material, receivables are carried at amortized cost using the effective interest method less any allowance for impairment. A provision for impairment is recognised in the income statement when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Group will not be able to collect all of the amounts due under the original terms of the invoice. Impaired debts are derecognised when they are assessed as uncollectible.

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.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the income statement, is transferred from equity to the income statement. Reversals in respect of equity instruments classified as available for sale are not recognised in the income statement. Reversals of impairment losses on debt instruments are reversed through the income statement; if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognised in the income.

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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) Classification and Derecognition of 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 reduce 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 are taken directly to net profit or loss for the year as financial income or expense.

The fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles. The fair value of interest rate swap contracts is determined by reference to market values for similar instruments.

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 (or the carrying value of the assets determined as at 1 May 1992) 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 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 for 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.

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

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.

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

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 (fair value less costs to sell) 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.

Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of the cash-generating unit (or group of cash-generating units), to which the goodwill relates. Where the recoverable amount of the cash-generating unit (or group of cash-generating units) is less than the carrying amount of the cash-generating unit (group of cash-generating units) to which goodwill has been allocated, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods. The Group performs its annual impairment test of goodwill as at 31 December.

Intangible assets with indefinite useful lives are tested for impairment annually as at 31 December either individually or at the cash generating unit level, as appropriate.

xiv) 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.

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

xv) Provisions for Liabilities and Charges

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 for liabilities and charges 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

Provisions for environmental costs are recognized when environmental assessments or clean-ups are probable and the associated costs can be reasonably estimated. Generally, the timing of these provisions coincides with the commitment to a formal plan of action or, if earlier, on divestment or on closure of inactive sites. The amount recognized is the best estimate of the expenditure required. Where the liability will not be settled for a number of years, the amount recognized is the present value of the estimated future expenditure.

Provision for Decommissioning

The Company records a provision upon initial recognition for the present value of the estimated future cost of abandonment of oil and gas production facilities following the termination of production. The estimate is based upon current legislative requirements, technology and price levels. A corresponding item of property, plant and equipment of an amount equivalent to the provision is also created. This is subsequently depreciated as part of the capital costs of the facility or item of plant. Any change in the present value of the estimated expenditure is reflected as an adjustment to the provision and the corresponding property, plant and equipment.

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.

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

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 2006 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 4 average salaries and in case of disability a multiple of their average monthly salary up to 8 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.

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% (2005: 35.2%) of gross salaries up to a monthly salary between SKK 24 thousand to SKK 47 thousand and SKK 26 thousand to SKK 52 thousand until 30 June 2006 and after this date, respectively (2005: SKK 22 thousand to SKK 43 thousand and SKK 24 thousand to SKK 47 thousand until 30 September 2005 and after this date, respectively), to such schemes, together with contributions by employees of a further 13.4% (2005: 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.

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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 plus compensatory wage of an employee.

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.

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.

xvi) Greenhouse Gas Emissions

The Group receives free emission rights as a result of the European Emission Trading Schemes. The rights are received on an annual basis and in return the Group is required to remit rights equal to its actual emissions. The Group has adopted a policy of applying a net liability approach to the emission rights granted. Therefore, a provision is only recognized when actual emissions exceed the emission rights granted and still held. Where emission rights are purchased from other parties, they are recorded at cost, and treated as a reimbursement right.

xvii) Share-based Payment Transactions

Certain employees (including directors and managers) of the Group receive remuneration in the form of share-based payment transactions. The cost of these cash-settled transactions is measured initially at fair value at the grant date using the Black-Scholes formula. This fair value is expensed over the period until vesting with recognition of a corresponding liability. The liability is remeasured at each balance sheet date up to and including the settlement date with changes in fair value recognized in profit or loss.

xviii) 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 to the income statement. 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. 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.

xix) 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.

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xx) Reserves

Reserves shown in the consolidated financial statements do not represent the distributable reserves for dividend purposes.

Retained earnings

Reserves for dividend purposes are determined based on the standalone financial statements of the parent company. Retained earnings comprise a Legal Reserve fund set up in accordance with the Slovak legislation to cover potential future losses and is not distributable.

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.

xxi) Dividends

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

xxii) 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 VAT, excise tax 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.

xxiii) 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.

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

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.

xxiv) 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 Group 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 Group re-assesses unrecognised deferred tax assets and the carrying amount of deferred tax assets. The Group recognises a previously unrecognised deferred tax asset to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered. The Group 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.

xxv) 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.

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

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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.

xxvi) 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. There are no dilutive potential ordinary shares. All the shares bear the same rights.

xxvii) 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.

xxviii) 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.

Significant accounting judgements and estimates

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

Scope of environmental provision
Regulations, especially environmental legislation does not exactly specify the extent of remediation work required or the technology to be applied. Management uses its previous experience and its own interpretation of the respective legislation to determine the scope of the environmental provision. The environmental provision is SKK 1,108 million and SKK 992 million as at 31 December 2006 and 2005, respectively (see Note 14).

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

Outcome of certain litigations
The Group is party to a number of litigations, proceedings and civil actions arising in the ordinary course of business. Management uses its own judgment to assess the most likely outcome of these and a provision is recognized on a consistent basis (see Note 14 and 25).

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 these estimates. These are detailed in the relevant notes, however, the most significant estimates relate to the following:

Calculation of fair values of financial instruments
Fair valuation of financial instruments reflects management's estimate on the future trend of key drivers of such values, including, but not limited to yield curves, foreign exchange and risk-free interest rates.

Quantification and timing of environmental liabilities
Management makes estimations on the future cash outflow associated with environmental and decommissioning liabilities using comparative prices, analogies to previous similar work and other assumptions. Furthermore, the timing of these cash-flows reflects management's current assessment of priorities, technical capabilities and the urgency of such obligations. Consequently, the carrying amount of these liabilities of SKK 1,108 million and SKK 992 million as at 31 December 2006 and 2005 respectively (see Note 14) is exposed to uncertainty.

Impairment of non-current assets
The impairment calculation requires an estimation of the value in use of the cash-generating units. This value is measured based on discounted projected cash flows. The most significant variables in determining cash flows are discount rates, terminal values, the period for which cash flow projections are made, as well as the assumptions and estimates used to determine the cash inflows and outflows. Impairment recorded in the income statement amounts to SKK 68 million and SKK 495 million in 2006 and 2005, respectively.

Actuarial estimates applied for calculation of retirement benefit obligations
The cost of defined benefit plans is determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, future salary increases and mortality or fluctuation rates. Due to the long term nature of these plans, such estimates are subject to significant uncertainty. Provision for long-term employee benefits amounts to SKK 192 million and SKK 186 million as at 31 December 2006 and 2005, respectively. Provision for redundancy and other employee benefits amounts to SKK 20 million and SKK 100 million as at 31 December 2006 and 2005, respectively (see Note 14).

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

SLOVNAFT, a.s. and Subsidiaries
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2 Intangible assets

	Software	Goodwill	Other intangible assets and rights	Total
	SKK millions	SKK millions	SKK millions	SKK millions
As at 1 January 2005				
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**
As at 31 December 2005				
Gross book value	858	335	760	1,953
Accumulated amortization and impairment	(515)	(335)	(389)	(1,239)
Net book value	**343**	**–**	**371**	**714**
Year ended 31 December 2006				
Opening net book value	343	–	371	714
- additions	161	–	3	164
- amortization for the year	(98)	–	(96)	(194)
- impairment	(1)	–	–	(1)
- disposals	(6)	–	–	(6)
- exchange adjustment	(1)	–	–	(1)
- sale of subsidiaries	(4)	–	–	(4)
Closing net book value	**394**	**–**	**278**	**672**
As at 31 December 2006				
Gross book value	943	335	758	2,036
Accumulated amortization and impairment	(549)	(335)	(480)	(1,364)
Net book value	**394**	**–**	**278**	**672**

For the year ended 31 December 2006:

- 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 an indefinite useful life.

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

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
As at 1 January 2005					
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**
As 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**
Year ended 31 December 2006					
Opening net book value	**20,488**	**17,942**	**209**	**1,662**	**40,301**
- additions	–	25	22	4,151	4,198
- depreciation for the year	(661)	(2,484)	(21)	–	(3,166)
- impairment	(151)	(40)	–	(1)	(192)
- reversal of impairment	113	11	–	–	124
- disposals	(122)	(10)	(3)	(3)	(138)
- exchange differences	(25)	(3)	–	–	(28)
- transfer	378	3,304	(116)	(3,566)	–
- sale of subsidiaries	(637)	(126)	(3)	(1)	(767)
Closing net book value	**19,383**	**18,619**	**88**	**2,242**	**40,332**
As at 31 December 2006					
Gross book value	28,441	47,406	684	2,274	78,805
Accumulated depreciation and impairment	(9,058)	(28,787)	(596)	(32)	(38,473)
Net book value	**19,383**	**18,619**	**88**	**2,242**	**40,332**

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

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Leased assets

Property, plant and equipment includes machinery acquired under finance leases with a net book value of SKK 0.4 million (31 December 2005: SKK 1 million)

Fully Depreciated Intangibles, Property, Plant and Equipment

The gross carrying amounts of certain intangibles, property, plant and equipment items of SKK 16,868 million (31 December 2005: SKK 14,524 million) are fully depreciated, but still in use.

Government grants

Property, plant and equipment includes assets with carrying value of SKK 683 million (31 December 2005: SKK 738 million) financed from state grants (Note 15). Part of these assets with a carrying value of SKK 246 million (31 December 2005: SKK 255 million) are under construction and the rest are currently being 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.

Assets classified as held for sale

Assets held for sale represented as at 31 December 2005 include 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 was finalised during the year 2006.

Impairment by segments

	2006 SKK millions	2005 SKK millions
Refining and Marketing segment		
Petrol stations	160	347
Lubricant production assets	–	21
Refinery assets	2	–
Petrochemicals	30	–
Corporate and Others		
Recreation sites (to be sold Rekreacentrum)	–	109
Other (non-production assets)	–	18
Total	**192**	**495**
Reversal of impairment – Refining and Marketing segment	(124)	–
Reversal of impairment – Corporate and Others	–	–
Total net impairment	**68**	**495**

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

4 Investments in consolidated companies and joint ventures

i) Subsidiaries

Company name	Country	Range of activity	Ownership 2006	Ownership 2005
Refining and Marketing				
Slovnaft Česká republika, s.r.o.	Czech Republic	Wholesale and retail	Sold	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%
Zväz pre skladovanie zásob, a.s.	Slovakia	Wholesale and retail, storage	100%	–
APOLLO Rafinéria, s.r.o.	Slovakia	Wholesale and retail	100%	–
Petrochemicals				
Slovnaft Petrochemicals, s.r.o.	Slovakia	Petrochemical production and trading	100%	100%
Corporate and other				
Rekreacentrum, a.s.	Slovakia	Operation of recreation facilities	Sold	100%

ii) Joint ventures

Company name	Country	Range of activity	Ownership 2006	Ownership 2005
Refining and Marketing				
MEROCO, a.s.	Slovakia	Wholesale and retail	25%	–

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.

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

SLOVNAFT, a.s. and Subsidiaries
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Business combinations

The Company is the sole founder of Zväz pre skladovanie zásob, a.s. established under the establishment deed dated 26 May 2006. The nominal value of its share in the company is SKK 1,100 thousand. Zväz pre skladovanie zásob, a.s. was incorporated in the Commercial Register with the District Court Bratislava I on 7 June 2006.

The Company is the sole founder of APOLLO Rafinéria, s.r.o. established under the establishment deed dated 9 June 2006. The nominal value of its share in the company is SKK 200 thousand. APOLLO Rafinéria, s.r.o. was incorporated in the Commercial Register with the District Court Bratislava I on 17 June 2006.

As at 30 June 2006 the Company as the sole founder of Slovnaft Petrochemicals, s.r.o. increased the share capital in this company via an in kind contribution of assets and liabilities related to the petrochemicals segment in the book value of SKK 7,882 million.

Disposals

Rekreacentrum divestment
As at 10 February 2006 the Company signed a sale agreement with the company HOTEL SENEC, a.s on the sale of its 100% ownership interest in Rekreacentrum, a.s.

Slovnaft Česká republika divestment
The sale of the 100% stake in Slovnaft Česká republika, s.r.o. to MOLTRADE-Mineralimpex Zrt. (member of MOL Group) was closed on 20 October 2006.

Carrying amounts of the assets and liabilities of Rekreacentrum, a.s. as at 28 February 2006 and of Slovnaft Česká republika, s.r.o. as at 31 October 2006 were as follows:

	Rekreacentrum, a.s. SKK millions	Slovnaft Česká republika, s.r.o. SKK millions
Intangible assets	–	4
Property, plant and equipment	64	764
Inventories	2	326
Trade receivables	3	1,242
Other current assets	–	477
Cash and cash equivalents	1	195
Assets	**70**	**3,008**
Trade and other payables	12	2,296
Provisions	1	–
Other non-current liabilities	–	–
Translation reserves	–	32
Liabilities	**13**	**2,328**
Net assets sold	57	680
Net gain/(loss) realised on disposal	9	(33)
Cash consideration	**66**	**647**

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

The analyses of the net cash inflow on the disposal of Rekreacentrum, a.s. and Slovnaft Česká republika, s.r.o. are as follows:

	Rekreacentrum, a.s. SKK millions	Slovnaft Česká republika, s.r.o. SKK millions
Net cash disposed during the sale	(1)	(194)
Cash consideration	66	647
Net cash inflow	**65**	**453**

Joint Ventures

Based on the share purchase agreement and shareholders agreement the Group acquired a 25% + 1share stake in MEROCO, a.s. The assets, liabilities and contingent liabilities of MEROCO, a.s. were immaterial at the date of acquisition and did not differ materially from their book values. Following the contractual arrangements with the other shareholder the management decided to treat this investment as a joint venture. The share of the assets, liabilities, income and expenses of this jointly controlled entity at 31 December 2006, which are included in these consolidated financial statements, are as follows:

	2006 SKK millions
Current assets	11
Non-current assets	28
	39
Current liabilities	10
Non-current liabilities	18
	28
Net assets	**11**
Net sales less cost of sales	–
Other expenses	(3)
Financial (expense) / income, net	–
Profit before income tax	(3)
Income tax expense	–
Net profit	**(3)**

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

5 Other investments

i) Investments in associated companies

	Country	Activity	Ownership 2006	Ownership 2005	Net book value of investment SKK millions 2006	Net book value of investment SKK millions 2005
Refining and Marketing						
Messer Slovnaft, s.r.o.	Slovakia	Production of technical gases	49.00%	49.00%	93	99
Corporate and other						
Chémia, a.s.	Slovakia	Services	49.00%	49.00%	4	4
Petrimex, a.s. (dissolved during the year)	Slovakia	Trading of chemicals	–	33.18%	–	–
Total					**97**	**103**

ii) Available for sale financial assets

	Country	Activity	Ownership 2006	Ownership 2005	Net book value of investment SKK millions 2006	Net book value of investment SKK millions 2005
Non-current						
TVK Nyrt.	Hungary	Petrochemical production and trading	8.07%	8.03%	1,438	1,542
Total					**1,438**	**1,542**
Current						
APOLLO zdravotná poisťovňa, a.s.	Slovakia	Health Insurance	51.00%	51.00%	101	–
Doplnková dôchodková spoločnosť Tatra banky, a.s.	Slovakia	Supplementary Pension Insurance	Sold	32.95%	–	–
Incheba, a.s.	Slovakia	Organising of exhibitions	0.59%	0.59%	1	1
Inaco, a.s. (dissolved during the year)	Slovakia	Retail, wholesale	–	5.60%	–	–
Theben, a.s.	Slovakia	Editing of publications	7.71%	7.71%	–	–
SKB, a.s.	Slovakia	Financial services	6.85%	6.85%	–	–
Total					**102**	**1**

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

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 did not posses control over the entity and it was excluded from the consolidation. In December 2006 the Company entered into a share sale agreement. Closing the transaction is subject to Antimonopoly Office approval.

The selling price set in the agreement was used as the fair value for the revaluation of the shares in the accompanying financial statements as at 31 December 2006.

In the previous years Doplnková dôchodková spoločnosť Tatra banky, a.s. (former DDP Pokoj) was not accounted for using the equity method due to the strong regulation over the supplementary retirement insurance imposed by the state. These regulations prevented the Company from participating 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 changes in the legislation the entity started to transform into a joint-stock company. This transformation was completed in April 2006 and the Group sold its share in the Doplnková dôchodková spoločnosť Tatra banky, a.s. for SKK 218 million.

According to the share purchase agreement between Hermész Kft. (majority owned subsidiary of MOL Nyrt.) and the Company signed on 8 December 2004, Hermész Kft. sold its 8.02% stake in TVK Nyrt. to the Company. TVK Nyrt. is fully consolidated subsidiary of MOL Nyrt. Hermész Kft. also entered into call and put options with the same strike price. The options are exercisable only upon the occurrence of restricted triggering events of low probability within the period ended 31 December 2006. Due to these restrictive conditions the fair value of the options was determined to be nil on the balance sheet date. The ownership interest of the Company in TVK Nyrt. increased in 2006 to 8.07% due to the withdrawal of employees´ shares.

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

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6 Other non-current assets

	2006 SKK millions	2005 SKK millions
Long-term receivables	23	47
Advance payments for assets under construction	16	–
Loans granted	–	6,539
Total	**39**	**6,586**

Long-term receivables of SKK 63 million are shown after the impairment provision (31 December 2005: 81 million).

Loans granted as at 31 December 2005 included a loan to MOL Nyrt. 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 was payable on 31 January 2007 but was paid in 2006 before its maturity date.

7 Inventories

	2006 At cost SKK millions	2006 At lower of cost or net realisable value SKK millions	2005 At cost SKK millions	2005 At lower of cost or net realisable value SKK millions
Raw materials	981	943	1,026	938
Purchased crude oil	803	803	578	578
Work in progress and finished goods	2,592	2,592	2,491	2, 491
Finished goods	2,797	2,757	2,519	2,518
Goods for resale	1,384	1,384	278	278
Total	**8,557**	**8,479**	**6,892**	**6,803**

According to Polish legislation, the subsidiary Slovnaft Polska, SA as an importer of liquid fuels is required to maintain obligatory reserves of inventories. At 31 December 2006 these amounted to 117,138 m^3 of liquid fuels with the carrying value of SKK 1,579 million.

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

8 Trade receivables

	2006 SKK millions	2005 SKK millions
Trade receivables	7,835	10,178
Provision for doubtful receivables	(209)	(334)
Total	**7,626**	**9,844**

9 Other current assets

	2006 SKK millions	2005 SKK millions
Prepaid and recoverable taxes and duties	1,677	1,829
Prepaid excise taxes	198	223
Transferred receivables	1,655	2,164
Loans granted to MOL Nyrt.	2,443	59
Prepayments	47	74
Other	25	16
Total	**6,045**	**4,365**

Loans granted include a loan to MOL Nyrt. The loan was granted partially in USD with the interest rate of 1M LIBOR – 0.17% and partially in EUR with the interest rate of 1M EURIBOR – 0.14%.

10 Cash and cash equivalents

	2006 SKK millions	2005 SKK millions
Cash at bank – SKK	1,013	477
Cash at bank – EUR	326	262
Cash at bank – USD	208	62
Cash at bank – other currencies	177	212
Cash on hand – SKK	2	3
Cash on hand – EUR	–	1
Cash on hand – other currencies	–	59
Short-term bank deposits – SKK	1,292	490
Short-term bank deposits – EUR	30	83
Short-term bank deposits – USD	36	58
Short-term bank deposits – PLN	1	34
Other cash equivalents	–	131
Total	**3,085**	**1,872**

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

Interest rates on current accounts range from 1.55 % to 5.8% (2005: 0.35 % to 3.0%) and those on short-term deposits from 1.65 % to 5.9% (2005: 0.6 % to 7.68%).

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

	2006 SKK millions	2005 SKK millions
Cash at bank	1,724	1,013
Cash on hand	2	63
Short-term bank deposits	1,359	665
Other cash equivalents	–	131
Total	**3,085**	**1,872**

11 Share capital

The Company's authorised share capital is 20,625,229 ordinary shares (31 December 2005: 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 2006 in respect of 2005 was SKK 7,786 million (31 December 2005: SKK 4,331 million), equivalent to SKK 377.5 (31 December 2005: 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 4,157 million (31 December 2005: SKK 3,966 million). This has been set up in accordance with the Slovak law to cover potential future losses and is not distributable.

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

13 Short-term debt

	2006 SKK millions	Interest rate	2005 SKK millions
Unsecured bank loans in EUR	85	EUR LIBOR +0.175%	–
Unsecured bank loans in PLN	38	1M WIBOR +0.35%	–
Loans received from MOL Nyrt.	920	1M BRIBOR +0.37%	–
Current portion of long-term debt	**–**		**1**
Total short-term debt, incl. current portion of long-term debt	**1,043**		**1**

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 at 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 at 31 December 2005	**992**	**100**	**186**	**0**	**42**	**1,320**
Provision made during the year and revision of previous estimates	277	10	39	1	349	676
Unwinding of the discount	35	–	12	–	–	47
Exchange differences	–	–	–	–	–	–
Provision utilised during the year	(121)	(90)	(15)	–	(41)	(267)
Provision unused during the year	(75)	–	(29)	–	(1)	(105)
Sale of subsidiaries	–	–	(1)	–	–	(1)
Balance as at 31 December 2006	**1,108**	**20**	**192**	**1**	**349**	**1,670**
Current portion 2005	411	76	–	–	42	529
Non-current portion 2005	581	24	186	–	–	791
Current portion 2006	151	7	–	1	300	459
Non-current portion 2006	957	13	192	–	49	1,211

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

Environmental Provision

As at 31 December 2006 the Group had 210 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 342 million (31 December 2005: SKK 490 million) for decommissioning of non-compliant warehousing capacities and those service stations sites where activities will be ceased. The utilisation of the provision related to service stations is expected to be during 2007, in the case of the provision related to non-compliant warehousing capacities; it is expected within the years 2007 – 2015.

In accordance with the 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 initially as at 31 December 2004. The initial provision was made on the basis of assessments prepared by the Company's internal environmental audit team and it 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.

As at 31 December 2006 the provision was reassessed based on the updated amount of the contaminated soil and groundwater and on the basis of assessments prepared by the external environmental audit team. As the result of this revision the provision was increased by SKK 277 million and adjusted by the interest impact of SKK 24 million. As at 31 December 2006 the Group recognised a provision of SKK 766 million (31 December 2005: SKK 465 million). The utilisation of this provision is expected to be during the years 2010 – 2019.

Based on the "Report on emission of greenhouse gases CO_2 to the air from the Slovnaft refinery for the year 2006" the air was polluted by 2,203,863 tons of CO_2 emissions in the year 2006. In accordance with the Slovak National Allocation Plan the Company was allocated 2,290,555 quotas for emission of greenhouse gases for the year 2006. Since these quotas did fully cover the emissions made by the Company during 2006 the Company did not recognised any provision (31 December 2005: SKK 37 million).

On 25 April 2006 the Bratislava District Environmental Office confirmed the "Report on emission of greenhouse gases CO_2 to the air from the Slovnaft refinery for the year 2005". At the same time it confirmed the Protocol on verification of CO_2 emissions. On the basis of the protocol the Company surrendered the relevant amount of the emission quotas to the National registry of the Emission Quotas of the Slovak Republic and consequently released the provision created as at 31 December 2005 for this purpose.

The closing amount of the environmental provisions is SKK 1,108 million (31 December 2005: SKK 992 million).

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

Provision for Redundancy and Severance Payment Redemption

In 2006 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 the 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 provision of SKK 20 million (31 December 2005: SKK 100 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. An extra severance payment was paid in 2006 only to the employees who were made redundant based on the decision from the 2005 year.

Provision for Long-term Employee Retirement Benefits

As at 31 December 2006 the Group has recognised a provision of SKK 192 million (31 December 2005: SKK 186 million) to cover its estimated obligation regarding future retirement benefits payable to current employees expected to retire from the Group entities. The Group operates benefit schemes that provide a lump sum benefit to all employees at the time of their retirement. The Group provides a maximum of up to 4 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.

	2006 SKK millions	2005 SKK millions
Balance as at the beginning of the period	**186**	**147**
Past service cost	17	16
Current service cost	13	12
Unwinding of the discount	12	10
Provision used during the year	(15)	–
Revision	(20)	1
Actuarial gains and (losses)	–	–
Sale of subsidiaries	(1)	–
Balance as at year end	**192**	**186**
Past service cost not yet recognized	264	271
Present value of total defined benefit obligation at year end	456	457

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

The principal actuarial assumptions used were as follows:

	31 December 2006
Discount rate	6.1% p.a. in 2006 and 4.4% p.a. thereafter
Future salary increases	4.1% p.a. in 2006 and 2.4% p.a. thereafter
Mortality	Slovak population mortality 2000

The principal actuarial assumptions state an approximately 2% interest margin between the discount rate and the future salary increase.

Other Provisions

The Abuse of Dominant Position Department of the Antimonopoly Office of the Slovak Republic notified the Company by its letter dated 21 November 2005 of the commencement of Administrative proceeding against the Company due to a possible breach of the provisions of Act No. 136/2001 Coll. on Economic Competition. These administrative proceedings involved a review of the price policy of the Company with respect to petrol and diesel sales.

As at 22 December 2006 the Abuse of Dominant Position Department of the Antimonopoly Office of the Slovak Republic issued the first instance decision stating that the Company had abused the dominant position in the form of discrimination and the Department imposed a penalty of SKK 300 million. As at 10 January 2007 the Company filed an appeal against the first instance decision to the Office Council.

15 Government grants and other non-current liabilities

	2006 SKK millions	2005 SKK millions
Government grants		
As at 1 January	738	806
Government grants received – cash	–	22
Amortisation for the period (Note 17)	(55)	(90)
As at 31 December	**683**	**738**
Other non-current liabilities	14	30
Total	**697**	**768**

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).

Other non-current liabilities are payable between 1 – 5 years.

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

16 Trade and other payables

	2006 SKK millions	2005 SKK millions
Trade payables	9,845	14,006
Advances from customers	263	149
Taxes, contributions payable	2,128	2,515
Customs fees payable	482	707
Accrued expenses	373	319
Amounts due to employees	342	275
Security deposit received from petrol station lessees	82	92
Social security	85	50
Liabilities to shareholders (dividends)	25	18
Liabilities from financial derivatives transaction	–	62
Other	65	177
Total	**13,690**	**18,370**

The social fund payable is included in the Other payables. The creation and use of the social fund during the period are shown in the table below:

	2006 SKK millions	2005 SKK millions
As at 1 January	4	16
Creation expensed	27	33
Other creation	14	15
Use	(44)	(60)
As at 31 December	**1**	**4**

17 Other operating income

	2006 SKK millions	2005 SKK millions
Exchange gain on customers and suppliers in foreign urrencies	682	–
Income from sale of precious metals contained in fully used catalysts	186	381
Profit from the sale of intangible and tangible assets	166	163
Reversed impairment on intangible assets and tangible fixed assets	124	–
Net impact of revision of estimates of provisions	106	–
Amortization of government grants (Note 15)	55	90
Received fines, penalties, default penalties and penalty relief	109	142
Total	**1,428**	**776**

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

18 Personnel expenses

	2006 SKK millions	2005 SKK millions
Wages and salaries	2,167	2,153
Social security	679	731
Other personnel expenses	268	373
Pension costs and post-employment benefits	29	28
Expense of share-based payments	2	–
Total	**3,145**	**3,285**

19 Value of services used

	2006 SKK millions	2005 SKK millions
Transportation and storage expenses	2,130	1,741
Maintenance expenses	1,491	1,214
Commission fees paid	464	544
Services related to administration	279	272
Costs of liquidation of idle tangible assets	102	31
Catalysts liquidation	55	84
Other services	159	143
Total	**4,680**	**4,029**

20 Other operating expenses

	2006 SKK millions	2005 SKK millions
Rental including operating lease	513	555
Net (decrease) increase in provisions (recognition less unused amounts)	416	(284)
Accounting, advisory and similar services fees	296	260
Insurance premium	269	232
Security expenses	230	206
Fines, penalties and other payable items	219	36
Taxes and duties	178	222
Environmental protection costs	155	133
Marketing costs	151	128
Cleaning costs	110	119
Fuel pricing penalty	–	1,342
Net foreign exchange losses related to operation	–	519
Other operating expenses	443	332
Total	**2,980**	**3,800**

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

21 Finance revenues and expenses

	2006 SKK millions	2005 SKK millions
Interest income	206	197
Net foreign exchange gains	–	138
Other financial income	23	27
Gain on the sale of available-for-sale financial assets	200	–
Total finance revenues	**429**	**362**
Interest expense	(83)	(43)
Net foreign exchange loss	(387)	–
Other finance costs	(5)	(3)
Total finance expenses	**(475)**	**(46)**
Total net finance revenues/(expenses)	**(46)**	**316**

22 Income taxes

Total applicable income taxes reported in these consolidated financial statements for the years ended 31 December 2006 and 2005 include the following components:

	2006 SKK millions	2005 SKK millions
Current income taxes	1,262	1,972
Deferred income taxes	344	469
Total income tax expense	**1,606**	**2,441**

The applicable corporate income tax rate on the taxable income of the companies of the Group was 19% both in 2006 and 2005. 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 at 31 December 2006 and 2005 in these consolidated balance sheets consist of the following items:

	Balance sheet		Recognized in income statement		Recognized directly in equity	
	2006 SKK millions	2005 SKK millions	2006 SKK millions	2005 SKK millions	2006 SKK millions	2005 SKK millions
Breakdown of net deferred tax assets						
Unrealized gains on intra-group transfer	–	2	(2)	(14)	–	–
Statutory tax losses carried forward	84	–	84	–	–	–
Net deferred tax assets	**84**	**2**	**–**	**–**	**–**	**–**
Breakdown of net deferred tax liabilities						
Revaluation of available-for-sale investments to fair value	34	35	–	–	1	(35)
Difference between tax and carrying values of PP&E	1,231	831	(400)	(447)	–	–
Unrealized gains on intra-group transfer	8	–	(8)	–	–	–
Statutory tax losses carried forward	–	(6)	(6)	4	–	–
Provisions for liabilities and charges	(249)	(239)	11	7	–	–
Write off of receivables	(4)	(31)	(27)	(27)	–	–
Other	(30)	(26)	4	8	–	–
Net deferred tax liabilities	**990**	**564**	**–**	**–**	**–**	**–**
Deferred tax expense / (income)			**(344)**	**(469)**		
Changes recognized in equity					**1**	**(35)**

The Group has tax losses totalling SKK 88 million (31 December 2005: 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.

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

	2006 SKK millions	2005 SKK millions
Profit before tax	7,962	11,432
Tax at the applicable tax rate 19% (Year 2005: 19%)	1,513	2,172
Expenditure not allowable for income tax purposes	92	248
Effect of tax loss not assessable for tax release	4	52
Effect of utilisation of prior year tax losses carried forward	(13)	(32)
Effect of different tax rates	–	1
Non-taxable income from associated companies	(5)	–
Others	15	–
Total income tax expense / (benefit)	**1,606**	**2,441**

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 are the same as the basic earnings per share.

	Income SKK millions	Weighted average number of shares	Earnings per share SKK
Basic Earnings Per Share 2005	8,997	20,625,229	436.20
Basic Earnings Per Share 2006	6,357	20,625,229	308.20

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

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24 Financial instruments

Fair value of financial instruments

The 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. Market values have been used to determine the fair value of listed available-for-sale investments. There were no open derivatives as at 31 December 2006. The estimated fair values of other instruments mainly current financial assets and liabilities approximate their carrying amounts.

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.

(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.

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

(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 at 31 December 2006 consists of the following:

	2006 SKK millions	2005 SKK millions
Long-term loan facilities of the Group	18	568
- out of which loan facilities from MOL Nyrt.	–	568
Short-term loan facilities of the Group	10,180	6,613
- out of which loan facilities from MOL Nyrt.	3,846	1,597
Total loan facilities available	**10,198**	**7,181**

During 2006, bank credit lines were used dominantly for bank guarantees securing the Group's liabilities toward the customs authorities. As at 31 December 2006 the Group utilised SKK 3,614 million (31 December 2005: SKK 3,198 million) from these facilities for obtaining bank guaranties.

In addition, guaranties amounting to SKK 312.5 million (31 December 2005: SKK 1,200 million) were provided outside the credit lines mentioned above.

In order to cover the liquidity risk in 2006, the Group also effectively used credit facilities established between the Group and MOL Nyrt. The Group acted as a borrower but mainly as lender towards MOL Nyrt., in case there was surplus cash created by the Group. The total amount of credit lines provided to MOL Nyrt. as at 31 December 2006 reached SKK 9,739 million (31 December 2005: SKK 13,965 million) out of which SKK 2,434 million was outstanding.

(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.

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

(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 the short crude oil position, long refinery margin position (long refinery products) and long petrochemical margin position. As at 31 December 2006 and 31 December 2005 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 47 million (31 December 2005: SKK 60 million).

Capital and Contractual Commitments

The total value of capital commitments as at 31 December 2006 is SKK 655 million (31 December 2005: SKK 728 million) relates to obligations to purchase tangible and intangible assets.

Operating leases

The operating lease liabilities are as follows:	2006 SKK millions	2005 SKK millions
Not later than 1 year	143	104
Later than 1 year not later than 5 years	94	84
Total	**237**	**188**
Minimum lease payments recognised in income statement for the period	80	101

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

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

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. The next hearing in the proceeding mentioned above was set for 29 March 2007.

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 starting in the fourth quarter 2004. This price audit had not been finished as at the date of these financial statements. Based on the Company's demand, the Ministry of Finance of the Slovak Republic temporary superseded the price audit exercise on 10 April 2006.

Other inspections/ controls

Except for the above-mentioned administrative proceedings, the Company is subject to various controls performed by the state authorities. Although the Company cannot exclude that any of these 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.

Litigations

The Russian arbitral court imposed upon the Company as defendant a duty to pay to Mende-Rossi USD 15,689,041.00 together with 16% default interest p.a. on the amount of USD 9,144,095.00 from 24 June 1994 until payment and the costs of the proceeding in an amount USD 68,160.00 for failing to provide the consideration of the crude oil supplies in its resolution in April 1996 in the course of the proceedings 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 the right for the Company to be represented as a contending party, as well as because the decision was not supported with adequate evidence the competent courts of the Slovak Republic finally refused the enforcement of the decision of the Russian court of arbitration. The legal proceedings in the case in the Slovak Republic finished in March 2004 in favour of the Company.

At the same time the Mende-Rossi firm also court of arbitration in Austria to enforce the decision in 1997. The competent court of the Slovak Republic finds the decision of the court of arbitration illegal.

The company Ashford Technologies Corporation (Ashford) states that it has become under the contract on the assignment of receivable concluded with the Mende-Rossi on 14 July 2005 the owner of the receivable mentioned above. Ashford filed a request dated 2 August 2005 in the Czech Republic for the enforcement of the execution of the Arbitration Award issued by the International Commercial Arbitration Court at the Chamber of Commerce and Industry of the Russian Federation. The Regional Court for Prague 4 upheld the request and ordered the execution thorough its resolution dated 16 September 2005. The Company appealed against the decision on execution. Based on it, the first instance court postponed the execution.

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The City Court in Prague subsequently changed the decision of the first instance court and overruled the execution order. In October 2006 Ashford filed an appeal to the Supreme Court of the Czech Republic.

At present the proceedings against the Company are still going on in the Czech Republic. The probability of success in the case cannot be quantified, since it concerns an extremely complicated matter both from the factual and legal aspects.

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 1,108 million for the estimated cost as at 31 December 2006 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:

	2006 %	2005 %
MOL Nyrt.	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 2006 that would require adjustment to, or disclosure in the financial statements.

28 Segmental information

Primary reporting format – business segments

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

2005	Refining and Marketing SKK millions	Petro-chemicals SKK millions	Corporate and Other SKK millions	Inter-segment transfers SKK millions	Total SKK millions
Sales to external customers	90,884	11,106	266	–	102,256
Inter-segment sales	14,131	5,674	2,766	(22,571)	–
Segment revenue	**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

2006	Refining and Marketing SKK millions	Petro-chemicals SKK millions	Corporate and Other SKK millions	Inter-segment transfers SKK millions	Total SKK millions
Sales to external customers	105,107	14,804	155	–	120,066
Inter-segment sales	16,857	6,474	3,245	(26,576)	–
Segment revenue	**121,964**	**21,278**	**3,400**	**(26,576)**	**120,066**
Depreciation, depletion, amortisation and impairment	(2,881)	(517)	(173)	11	(3,560)
Other non-cash expenses	(64)	(9)	(193)	–	(266)
Profit/(loss) from operations	9,105	129	(1,271)	24	7,987
Income from Associates	21	–	–	–	21
Finance expenses net	–	–	–	–	(46)
Profit before tax	**–**	**–**	**–**	**–**	**7,962**
Income tax expense	–	–	–	–	(1,606)
Profit for the year	**–**	**–**	**–**	**–**	**6,356**
Property, plant, equipment and intangibles acquired	3,624	421	265	–	4,310

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

2005	Refining and Marketing SKK millions	Petro-chemicals SKK millions	Corporate and Other SKK millions	Inter-segment 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
Non-current available-for-sale financial assets	–	–	1,542	–	1,542
Current available-for-sale financial assets	–	–	1	–	1
Inventories	5,461	748	594	–	6,803
Not allocated assets	–	–	–	–	13,907
Total assets	**–**	**–**	**–**	**–**	**73,146**
Trade payables	13,789	326	623	(413)	14,325
Not allocated liabilities	–	–	–	–	6,703
Total liabilities	**–**	**–**	**–**	**–**	**21,028**

2006	Refining and Marketing SKK millions	Petro-chemicals SKK millions	Corporate and Other SKK millions	Inter-segment transfers SKK millions	Total SKK millions
Property, plant and equipment, net	33,237	4,456	2,720	(81)	40,332
Trade receivables net	6,875	2,631	1,287	(3,167)	7,626
Investments in Associates	93	–	4	–	97
Non-current available-for-sale financial assets	–	–	1,438	–	1,438
Current available-for-sale financial assets	–	–	102	–	102
Inventories	7,207	895	364	13	8,479
Not allocated assets	–	–	–	–	10,663
Total assets	**–**	**–**	**–**	**–**	**68,737**
Trade payables	9,840	2,134	1,415	(3,170)	10,219
Not allocated liabilities	–	–	–	–	7,893
Total liabilities	**–**	**–**	**–**	**–**	**18,112**

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 isobutene to Petrochemicals and Petrochemicals transfers various by-products to Refining and Marketing. The transfer prices used are based on prevailing market prices. Segmental figures contain the results of the fully consolidated subsidiaries engaged in the respective segments.

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 period. 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 Other to Refining & Marketing and to Petrochemicals.

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

Secondary reporting segment – geographical segments

Net sales

	2006 SKK millions	2005 SKK millions
Slovak Republic	33,468	28,056
Czech Republic	24,773	24,878
Austria	16,871	15,872
Poland	14,229	13,291
Hungary	12,528	8,086
Germany	6,087	5,520
Italy	3,619	2,263
Other	8,491	4,290
Total	**120,066**	**102,256**

Total assets

	2006 SKK millions	2005 SKK millions
Slovak Republic	64,409	65,252
Czech Republic	–	4,115
Austria	4	6
Poland	2,886	2,231
Hungary	1,438	1,542
Total	**68,737**	**73,146**

Capital expenditure

	2006 SKK millions	2005 SKK millions
Slovak Republic	4,301	3,904
Czech Republic	–	92
Poland	9	7
Total	**4,310**	**4,003**

29 Related party transactions

The Group is controlled by MOL Nyrt. 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, a member of the Company's Board of Directors and Chief Executive Officer is a partner in the legal firm CVD, 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. and until 13 July 2006 he was the chairman of the Board of Trustees of Železnice Slovenskej Republiky ("Railways of SR" or "ŽSR").

Mr. Hatina, former Chairman of the Board of Directors of the Company holds ownership in Slov-integra a.s. which has an interest in a Czech company Granitol, a.s. The partner of the company Real – H.M., s.r.o. is related to Mr. Hatina. The companies listed above have not been related parties of the Group since 1 January 2006 due to the changes in the statutory bodies of the Company.

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

	2006 SKK millions	2005 SKK millions
Sales – products and goods		
MOL Group	24,243	13,624
TVK Group	792	239
Messer Slovnaft, s. r. o.	148	146
Real – H.M., s.r.o.	–	455
Granitol, a.s.	–	499
Železnice Slovenskej republiky	38	28
Sales – services		
MOL Group	474	325
TVK Group	1	–
Messer Slovnaft, s. r. o.	2	2
Železnice Slovenskej republiky	1	–
Real – H.M., s.r.o.	–	4
Sales – intangible and tangible fixed assets		
Skupina MOL	6	–
Sales – subsidiary		
MOL Group	647	–
Interest income		
MOL Group	98	36
Dividends		
TVK Group	11	–

	2006 SKK millions	2005 SKK millions
Purchases – products and goods		
MOL Group	8,505	8,851
TVK Group	671	544
Messer Slovnaft, s. r. o.	193	194
Purchases – services		
MOL Group	298	346
TVK Group	152	67
Železnice Slovenskej republiky	2	2
CVD, s.r.o.	11	16
Interest expense		
MOL Group	28	2

	2006 SKK millions	2005 SKK millions
Receivables		
MOL Group	3,094	3,547
TVK Group	61	199
Real – H.M., s.r.o.	–	20
Železnice Slovenskej republiky	7	–
Messer Slovnaft, s. r. o.	13	14
Loans granted		
MOL Group (Notes 6,9)	2,443	6,598
Payables		
MOL Group	1,167	3,367
TVK Group	177	138
CVD, s. r. o.	2	5
Messer Slovnaft, s. r. o.	22	30
Loans received		
MOL Group (Note 13)	920	–
Accrued interests		
MOL Group	3	–

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

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

The Board of Directors' total remuneration approximated SKK 4 million in 2006 (31 December 2005: remuneration SKK 5 million, payroll costs SKK 25 million). The total remuneration of members of the Supervisory Board amounted to SKK 1 million in 2006 (31 December 2005: remuneration SKK 1 million, payroll costs SKK 2 million).

Key management compensation

	2006 SKK millions	2005 SKK millions
Salaries and other short-term employee benefits	44	31
Termination benefits	2	–
Post-employment benefits	1	1
Total	**47**	**32**

Long-Term Incentive Schemes for management

A long-term bonus for the year 2006 is granted to the relevant managers in Slovak crowns and its amount is dependent on the parent company's MOL Nyrt. share price. The amount of the bonus is calculated as the difference between initial share price for the purpose of motivation (average share price for the 4th quarter, 2005) and average share price in the period of the bonus settlement. In the accompanying consolidated financial statements a share-based bonus liability of SKK 2 million is included. The period of settlement is any month in the period from 1 January 2009 to 31 December 2010.

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). The incentives for the year 2006 will be paid to managers based on the evaluation of indicators and tasks defined in the individual agreements.

Evaluation of the contribution related to the performance provided during 2005 held in 2006, and based on this that part which is due within one year was paid in May 2006, while the deferred part determined in shares will be settled in 2007. Evaluation of the contribution related to the performance provided during 2006 will be held in 2007, and based on this the incentive due within one year will be paid in May 2007.

Loans granted

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

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

Shareholders' value created by transparent business contributes to the economic growth and improvement in quality of life in the region

Corporate governance

Over its long history, Slovnaft has always been conscious of the importance of the monitoring and application of contemporary international experience and procedures in the field of corporate governance.

Due to the extent of its business activities, Slovnaft is a key Company in the economy of Slovakia. Thus, it has a significant positive influence on the future of thousands of its employees, as well as employees from more than 3,000 supplier organisations.

Slovnaft is a fully integrated part of the multinational MOL Group, which follows the highest standards in the field of corporate governance. The parent company MOL Nyrt has fully declared its obligations by accepting the Corporate Governance Recommendations effective on the Budapest and Warsaw Stock Exchanges where its shares are traded. The standards of the MOL Group in this field have been rigorously assessed by Deminor Rating, an international consulting and rating Company in the field of corporate governance.

Slovnaft respects the principles of the Unified Corporate Governance Code, the rules of the Bratislava Stock Exchange, as well as the Ethical Code of the Slovnaft Group: all within the framework of applying the highest levels of openness and responsibility towards shareholders, potential investors, customers, providers, creditors, competitors, state and government bodies, the Company, employees, and other third parties.

The top administrative body of the Company is the Board of Directors, which is responsible for all Company activities.

The main activities of the Board of Directors are to focus on share value growth, boosting effectiveness and profitability, and ensuring the transparency of Company activities for all parties concerned. Thus, it makes equally strident efforts to effectively manage business risks.

The Supervisory Board provides for the control function of corporate governance in close cooperation with the internal audit function.

The work principles of Company bodies

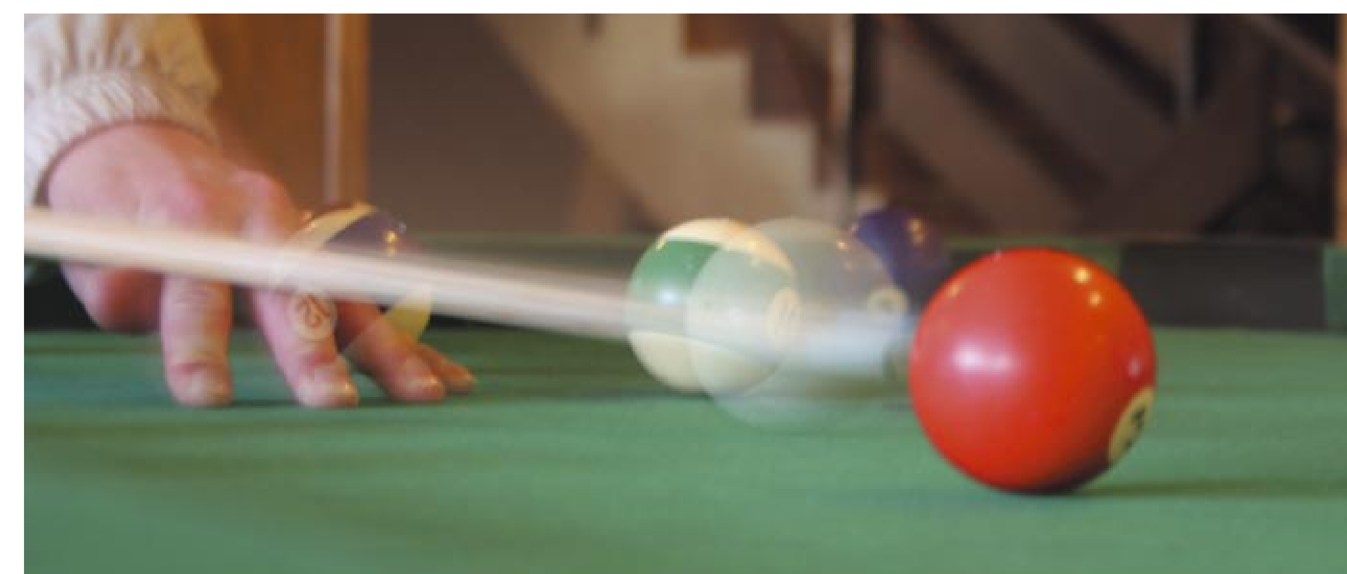
The Supervisory Board and the Board of Directors are elected by the General Assembly. All the members of the Supervisory Board and the Board of Directors have access to all relevant information. During the period which is the subject of this Annual Report, the Board of Directors met four times and the Supervisory Board five times. The Secretary of the Board of Directors and the Supervisory Board keeps records of resolutions adopted by the corporate governance bodies.

Information publication and transparency

The Company applies strict rules in the field of insider trading and ensures that lists of members of the Board of Directors and the Supervisory Board are updated. This also applies for employees who could be considered insiders, and all lists are archived by the National Bank of Slovakia and the Bratislava Stock Exchange.

In accordance with the internal rules of the Company, all members of the Board of Directors and the Supervisory Board are obliged to declare any economic interests they may have in particular transactions. Such declarations are made during sessions of the Board of Directors, the Supervisory Board, or the General Assembly. Here the relevant transaction will be discussed for the first time, with the person whom the transaction concerns being barred from voting on the issue.

By observing the principles of the Unified Corporate Governance Code, the rules of the Bratislava Stock Exchange, and the Ethical Code of the Slovnaft Group, the Company assures that shareholders, potential investors, and third parties have access to all the relevant information on the basis of which they can make qualified investment or other business decisions. All information is also available on the Slovnaft website.



Relations with shareholders and concerned parties

The Board of Directors of Slovnaft understands its obligations to enforce the interests of Slovnaft Group shareholders. The main communication channels in this regard are the Annual Report and related records, as well as the quarterly reports on achieved results. In addition, the Company shareholders are informed of Slovnaft Group activities and its further strategy at Regular or Extraordinary General Assembly meetings, where all questions and queries are also answered.

The Slovnaft Group fully understands its social responsibility with regard to its unique position in the national economy. It does not strive for continual development only for itself, but also for the Company in a wider context. In this field the public and charitable activities of the Slovnaft Group focus mainly on assisting children and the young, supporting education and science, culture, sport, environment, towns, and villages.

In 2005, Slovnaft launched a unique charity project called 'Goldfish EVO' in order to contribute to the relief of long-term sick and disabled children in Slovakia. In 2006 this project celebrated its first anniversary – during its short existence Goldfish EVO has succeeded in making hundreds of children smile, thereby assisting in their well-being.

Through the 'Regions for us' grant program realised by Slovnaft along with the Central European Foundation, educational conditions for almost 20 thousand children have been improved, especially via the reconstruction of schools and kindergartens throughout Slovakia.

The 'Green oasis' grant program – realised by Slovnaft in cooperation with the Ekopolis Foundation – financially supports ideas which help the environment in Slovak villages by creating ecologically valuable areas or caring for and renewing green areas for the general public or schools. Within the framework of the pilot year of the project, Slovnaft has supported 19 eco-projects with SKK 1.6 million across Slovakia.

Concerning other activities in 2006, Slovnaft was the general partner of Lúčnica, the best and most renown Slovak folk group, the Slovak national ice hockey team, the ice hockey Slovnaft Extra League, the Slovak Davis Cup Team, Jaroslav Katriňák (the most successful Slovak motorcyclist and world champion, and the only Slovak to have completed the legendary Dakar rally), and the general partner of the Complex central emergency service in Gabčíkovo.

As a partner in 2006, Slovnaft supported the Faculty of Chemical and Food Technology, the Faculty of Mechanical Engineering of the Slovak University of Technology in Bratislava, the Week of Science in Slovakia (organised under the patronage of the Ministry of Education of the Slovak Republic), and it also supported the City of Bratislava in connection with the Cultural Summer and Coronation Celebrations projects.

Social responsibility

Slovnaft is part of the multinational MOL Group, which confirms its awareness of its social responsibility not only in word but in action. Slovnaft understands social responsibility as the management of business activities with a positive effect on economic outcomes and employees, partners, cities, and the entire region with minimal impact on the natural environment. Slovnaft is obliged to perform its business in an ethical and transparent way, contributing to economic development, and improving the quality of life of its employees, their families, the local community, and wider society.

Slovnaft has a significant position in the Slovak economy and a justified reputation of being successful, stable, and high performing Company. This reflects the scope of its public and charity activities which focus mainly on the support of children and youth, education, science, culture, sport, and the natural environment.

Board of Directors

as of 31 December 2006

Marián Jusko

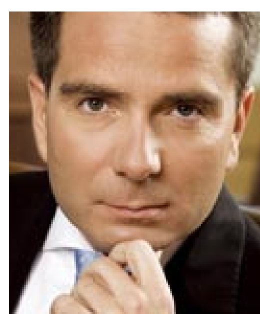
Chairman of the Board of Directors of SLOVNAFT since 2005; former Governor of the Slovak National Bank
Marián Jusko graduated from the Faculty of National Economy at the Economic University in Bratislava. In 1989 he obtained the economic title CSc. He has been working in banking sector since 1991, after formation of the National Bank in 1993 he became its acting Deputy Governor. Between 1999 and 2004 he was Governor of the National Bank of Slovakia.
Mr. Jusko has been performing in various influential positions in international institutions – he was alternating governor of the European Bank for Reconstruction and Development, member of the Bank Board of International Investment Bank and International Bank of Economic Cooperation.

Oszkár Világi

Member of the Board of Directors; CEO of SLOVNAFT since March 2006;
Oszkár Világi graduated from the Faculty of Law at the Commenius University in Bratislava in 1985 and achieved the academic title D.C.L. in 1991. In 1992 he was co-founder of the Law Consultancy Office Csekes,Világi, Drgonec & Partners, s.r.o. During 1990 – 1992 he was member of the Czechoslovak Parliament. From 1996 he was in governing bodies of several important Slovak companies, including Poľnobanka, Slovenská poisťovňa and Slovak Railways (ŽSR). He was the legal advisor of foreign investors in big restructuring projects of Slovak industry (US Steel, France Telecom, OTP, MOL). Before becoming a member of the Board of Directors in SLOVNAFT in 2005 he was a member of its Supervisory Board. On March 6, 2006 Mr. Világi was appointed CEO.

József Simola

Member of the Board of Directors since May 2004; MOL Group Corporate Centre Executive Vice President
Between 1991 – 1992 he worked as an SAP expert at General Electric – Tungsram. After that he was employed as auditor and consultant at Arthur Andersen. In 1995 he participated in the French INSEAD MBA programme. In 1996 he joined the Boston Consulting Group, where he held various managerial positions in Hungary, Germany and Australia. Director of Corporate Centre of MOL Group since 2003 and Human Resources Director simultaneously since September 2004. Corporate Centre Executive Vice President since April 2006. Between April 2004 and April 2005 member of the Supervisory Board of TVK.

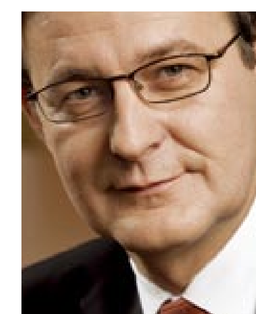


József Molnár

Member of the Board of Directors since January 2004; MOL Group Chief Financial Officer
Mr. Molnár graduated from the Budapest University of Economic Sciences in 1978. From 1978 to 2001, he held various management positions at Borsodchem, including head of Pricing Department from 1982 to 1987, head of Economic Department from 1987 to 1991. Between 1991 and 2001, as Chief Financial Officer and first deputy of CEO, contributed to the crisis management and reorganization of the company, and later to the elaboration of its vision and its privatization. He played key role in the stock exchange listing of Borsodchem shares. He joined TVK as CEO in 2001. From 20 April 2001 he has been the member of the Board of Directors of TVK. Since 2003 he was MOL Group Planning and Controlling Director.

Ferenc Horváth

Member of the Board of Directors since May 2003; MOL Group Commercial Director of Refining and Marketing
Mr. Horváth graduated from St. Peterburg State University in 1984. His professional career started in Mineralimpex, Hungarian Foreign Trade Company for Oil and Mining Products, where he worked till 1989. Between 1990 and 1997 he was the Managing Director of ALLCOM Trading Co. He joined MOL plc in 1997 as LPG Business Unit Director, had been working since January 2001 till December 2002 as Director of Sales, till October 2003 and later on as Commercial Director of Refining and Marketing Division.



Ferenc Dénes

Member of the Board of Directors since 2001; MOL Group Managing Director of Lubes Division
Ferenc Dénes, graduate from Veszprém University in oil technology, has a 30 years experience in the Hungarian oil industry within MOL and predecessor companies. He has held different managerial position in R&D, production, sales and marketing of lubricants. From 1992 to 1996 he managed the Lubricants Business Unit of MOL. From 1996 to 2000 he headed the Supply Chain activities of MOL Downstream, including refining, logistics and wholesale. From 2001 as portfolio manager was responsible for managing of SLOVNAFT issues inside MOL. In 2003 was the project manager of the MOL – SLOVNAFT integration project. From 2004 he took over the Lubes Division of the Group as Managing Director.

Béla Kelemen

Member of the Board of Directors since March 2004; director of Refinery and Marketing
Béla Kelemen graduated from the Chemical Faculty at the Budapest Technical University in 1986 and later on has got PhD degree in Physical Chemistry. His professional carrier started at the university, where he worked as a professional assistant in chromatography and air pollution monitoring till 1992. Between 1992 and 1997 he worked for ALLCOM Trading Co. (American/Hungarian JV) as a director of fuel sales. In 1997 he joined MOL Rt. where he occupied various leading positions. In 2003 he was appointed director of Refinery & Marketing in SLOVNAFT, a.s. Mr. Kelemen represents MOL Group in European Institutions EUROPIA and IEA.

László Fekete

Member of the Board of Directors since April 2006; MOL Group Corporate services director
László Fekete, graduate from Technical University Miskolc (mechanical engineer) and Technical University Budapest (electric engineer), started his professional carrier in Tungsram Plc. After acquisition by General Electric (GE) he attended exchange management program and became a director of Hungarian branch of GE in Ózd. He joined MOL in 2000, between 2001 – 2003 acted as director of Corporate services in Slovnaft. In November 2003 he was promoted to director of Corporate services for the MOL Group. He acts as MOL's representative in relation to maintenance companies Explant Kft., Petrolszolg Kft. and SLOVNAFT MONTÁŽE A OPRAVY, a.s.

Supervisory Board

as of 31 December 2006

György Mosonyi
Chairman of the Supervisory Board

Krisztina Dorogházi
Member of the Supervisory Board

András Huszár
Member of the Supervisory Board

Ilona Bánhegyi
Member of the Supervisory Board

Miloš Nešpor
Member of the Supervisory Board

Pavol Buday
Member of the Supervisory Board

Report on SLOVNAFT, a.s. Supervisory Board Activities for the Period from the Ordinary General Meeting Held on 24 April 2006

The submitted Supervisory Board report on the business year 2006 is prepared on the basis of the Board of Directors' reports and auditor's reports in the matter of the individual and consolidated financial statements for 2006 and regular evaluation of the Company activities.

The Supervisory Board declares thereby that due to previous investments and an upturn in the economy as well as favourable external environment, the Company reached good results.

The Board of Directors permanently communicated with the Supervisory Board via the General Director. Within the year, the Supervisory Board required quarter reports on activities related to internal audits and activities.

According to the Supervisory Board, the Company operation was in compliance with the particular Acts, statutes and resolutions of the preceding General Meetings focused on maximisation of the shareholder's value. Based on the Supervisory Board assessments, the Board of Directors' activities were performed in compliance with the approved Business Plan for 2006. The Board of Directors' members fulfilled their obligations while maintaining classified information confidentiality and keeping provisions of Article 196 of the Commercial Code on Ban on Competition.

The employee representatives in the Supervisory Board actively participated in all meetings and paid special attention to problems affecting situation of SLOVNAFT, a.s. employees.

The Supervisory Board verified and discussed an independent auditor's report of the regular individual and consolidated financial statements for 2006 drawn up according to the International Standards for Financial Reporting adopted in the EU prepared on the basis of an audit performed by Ernst & Young Slovakia, spol. s r.o. in compliance with the international audit standards.

According to the Supervisory Board, the regular individual and consolidated financial statements of SLOVNAFT, a.s. express the financial situation of SLOVNAFT, a.s. as of 31 December 2006 in all important facts as well as its business income and cash flow for the mentioned year.

After verification and discussion of the Board of Directors' report on the Company operation in 2006, the Supervisory Board recommends the General Meeting to approve the regular individual and consolidated financial statements for 2006. Moreover, the Supervisory Board agrees with the Board of Directors' proposal for allocation of profit for 2006 and rules of distribution of dividends.

György Mosonyi
Chairman of the Supervisory Board

Bratislava, April 2007

Information for shareholders

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