ANNUAL REPORT ON DEBT MANAGEMENT

2005

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FOREWORD

This is the 2nd year that the Hungarian Debt Management Agency Ltd (ÁKK) publishes its yearly Debt Management Report in a much detailed form. The report describes last year's funding activity of the Republic of Hungary, the evolution of the national debt and the government securities market and the institutions of Hungarian public debt management in a more detailed manner. According to market reactions the purpose of this change has been realised, however ÁKK intended to develop this year's report even further.

Briefly I would just like to emphasise the most important event for Hungarian public debt management in 2005. It was the 1st full year when funding was done on the basis of the new debt management strategy and benchmarks established in late 2004. We can say that the basic objectives for 2005 were met and the structure of the public debt fulfilled the target levels defined and announced before. The funding need of the Republic of Hungary was smoothly covered with a proper and balanced debt structure.

Ferenc Szarvas
Chief Executive Officer

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I. THE INSTITUTIONAL FRAMEWORK AND OBJECTIVES OF GOVERNMENT DEBT MANAGEMENT

The main legal framework of government debt management is set by Act XXXVIII of 1992 on Public Finances (hereinafter: Public Finances Act). This law authorises the Minister of Finance to ensure implementation of the budget, the financing of the deficit, the continuous solvency of the state budget, registration of the debt and debt service of the central budget and repayment of interest and debt. The annual Budget Acts specify this authorisation by assigning the duties of financing and debt management in the current year to the Minister's scope of authority. The Minister of Finance performs these tasks through the Government Debt Management Agency Ltd. (ÁKK) based on the provisions of the Public Finances Act.[1]

Since March 1, 2001, following an amendment of the Public Finances Act, ÁKK, the legal successor to the budgetary institution that had operated before, is responsible for government debt management. ÁKK is a company limited by shares, where the sole shareholder is the Hungarian State, and the owner's rights are exercised by the Minister of Finance. The operation of ÁKK as a company is governed by the general corporate law regulations. The management's activities are controlled by the Board of Directors while supervision is carried out by the Supervisory Board and the auditor pursuant to the corporate status. In addition to these internal management and audit mechanisms, the process of debt management is regularly audited by the State Audit Office.

According to the rules, the government debt management strategy, the annual financing plan and the benchmarks that are worked out by ÁKK are first submitted to the Board of Directors then to the Minister of Finance for approval and signing.

TASKS OF ÁKK

According to the Public Finances Act, the activities of ÁKK – among others – include the following major tasks:

- Elaboration of a long-term financing strategy in line with the economic policy, which determines the purpose of debt management and the means of its implementation.
- Preparation of the annual and medium-term financing plans based on the annual Budget Act and in line with the strategy.
- Performing the required financing operations, i.e. organising and implementing both domestic and international government securities issuance and raising of foreign currency loans.
- Handling and managing the temporarily free cash funds of the state (liquidity management).
- Effecting debt redemptions and interest payments.
- Organisation and continuous development of the government securities market (the primary dealer system, sales channels, secondary market, etc.).
- Co-operation in determining the financial terms and conditions of borrowings with a state guarantee; on request, organisation of transactions with individual guarantees; keeping a secondary database of the state guarantees (the Hungarian State Treasury is primary registrar of such guarantees).

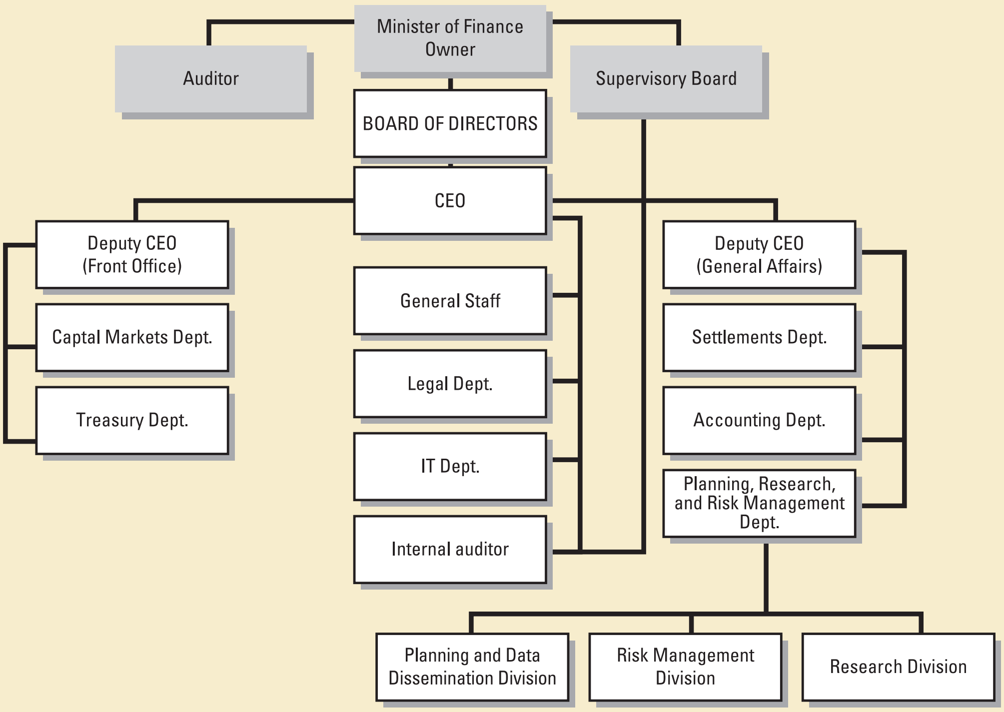
[1] *The legislation in force at the end of 2005 concerning deficit financing, government debt management and the role of ÁKK can be found in point 4 of the Annex.*

ESTABLISHMENT AND ORGANISATIONAL STRUCTURE OF ÁKK

Government Debt Management Agency Ltd. was founded on March 1, 2001 as the general legal successor to the budgetary institution Government Debt Management Agency (ÁKK) of the Hungarian State Treasury.
ÁKK started its operation in May 1995. The amendment to the Public Finances Act in 2000 assigned the task of government debt management to a market organisation that is able to respond quickly if required. The purpose of setting up a separate institution was to fulfil the strategic debt management objectives in an unambiguous decision-making, responsibility and accountability framework. Strategic decisions are now made by the Minister of Finance as owner and by the Board of Directors. Tactical, day-to-day decisions are done by the management of ÁKK (on the basis of authorisation given by the Minister of Finance.

The company's organisational structure is similar to that of banks and investment banks, i.e. market operations are performed by the Front Office, while settlement is done by the Back Office; planning, risk management and research are carried out by a department separated from these two units (Middle Office).

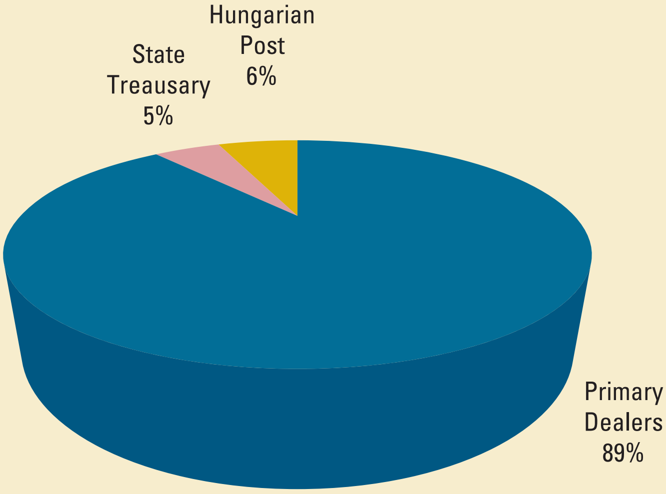
Organisational structure of ÁKK Rt.



II. THE INSTITUTIONAL STRUCTURE OF GOVERNMENT SECURITIES ISSUANCE

ÁKK sells government securities through intermediaries. In the domestic market the majority of HUF government securities are sold via the primary dealers.

Intermediaries of domestic securities issuance in 2005



THE PRIMARY DEALER SYSTEM

The primary dealer system was set up in January 1996 in order to improve the transparency and liquidity of the issuance and trading of government securities.
Since May 1, 2004, any investment bank or credit institution that has its seat in a European Union member state may become a primary dealer for Hungarian government securities if it meets the contractual requirements and concludes a primary dealer contract with ÁKK. Naturally, in addition to the numerous obligations, the primary dealer status also grants exclusive rights.

THE GROUP OF PRIMARY DEALERS AT THE END OF 2005:

CIB Bank Rt.
Citibank Rt.
Deutsche Bank Rt.
Dresdner Bank AG.
Erste Bank Befektetési Magyarország Rt.
HVB Bank Hungary Rt.
Kereskedelmi és Hitelbank Rt.
Magyar Külkereskedelmi Bank Rt.
Magyar Takarékszövetkezeti Bank Rt.
Országos Takarékpénztár és Kereskedelmi Bank Rt.
ING Bank (Magyarország) Rt.

One of the tasks and at the same time an exclusive right of the primary dealers is to participate in the auctions of government bonds and discount Treasury bills; in this respect, ÁKK requires the primary dealers to buy a certain share of the auctioned amounts.

Another important task of primary dealers is to quote two-way (bid and ask) prices for government securities, thereby ensuring liquidity and transparency both on the stock exchange and in the OTC (over-the-counter) market and continuous access to government securities for investors. The obligation to quote prices applies to publicly issued government bonds and discount Treasury bills with a term-to-maturity of at least 90 days. Primary dealers have to report on their turnover in government securities and provide information about their financial position to ÁKK

Primary dealers have an exclusive right to

1. submit bids directly at the government bond and discount Treasury bill auctions organised by ÁKK as well as at government bond buy-back auctions;
2. submit non-competitive bids directly at auctions;
3. make use of the stand-by repo facility provided by ÁKK;
4. participate in the consultations organised by ÁKK;
5. use the title "primary dealer".

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Investors can submit bids at auctions indirectly, through a primary dealer.
Furthermore, primary dealers who have a broad distribution network may conclude a separate agreement with ÁKK in respect of issuance and trading of Interest Bearing Treasury Bills, designed for retail investors.[2]
In addition to primary dealers, ÁKK also uses the branch network of the Hungarian State Treasury and the Hungarian Post for selling certain government securities to households.

THE HUNGARIAN STATE TREASURY'S BRANCH NETWORK

In the branches of the State Treasury retail investors have access to government bonds and discount Treasury bills sold on tap and to Interest Bearing Treasury Bills sold by subscription. Daily bid and ask prices are quoted for bonds and discount T-bills and bid prices for retail government securities.

THE BRANCH NETWORK OF THE HUNGARIAN POST

The Hungarian Post participates in the sale and redemption of Treasury Saving Bills. These retail securities with a tenor of one or two years are available in printed form, and can be bought and redeemed in over 2,800 post offices throughout the country.

INTERNATIONAL BOND ISSUES

Investment banks and credit institutions are selected in competition to lead-manage each foreign currency bond issue of the Republic. Placement of the bonds is usually facilitated by the members of a selected syndicate group.

IN 2005 THE LEAD MANAGERS FOR THE INTERNATIONAL ISSUES OF THE REPUBLIC WERE*:

ABN AMRO (EUR)	Dresdner Kleinwort Wasserstein (EUR)
BNP Paribas (EUR)	Mizuho Securities (JPY)
Citigroup (GBP)	Morgan Stanley (USD)
Daiwa Securities SMBC (JPY)	Royal Bank of Scotland (GBP)
Deutsche Bank (USD)	UBS Investment Bank (EUR)

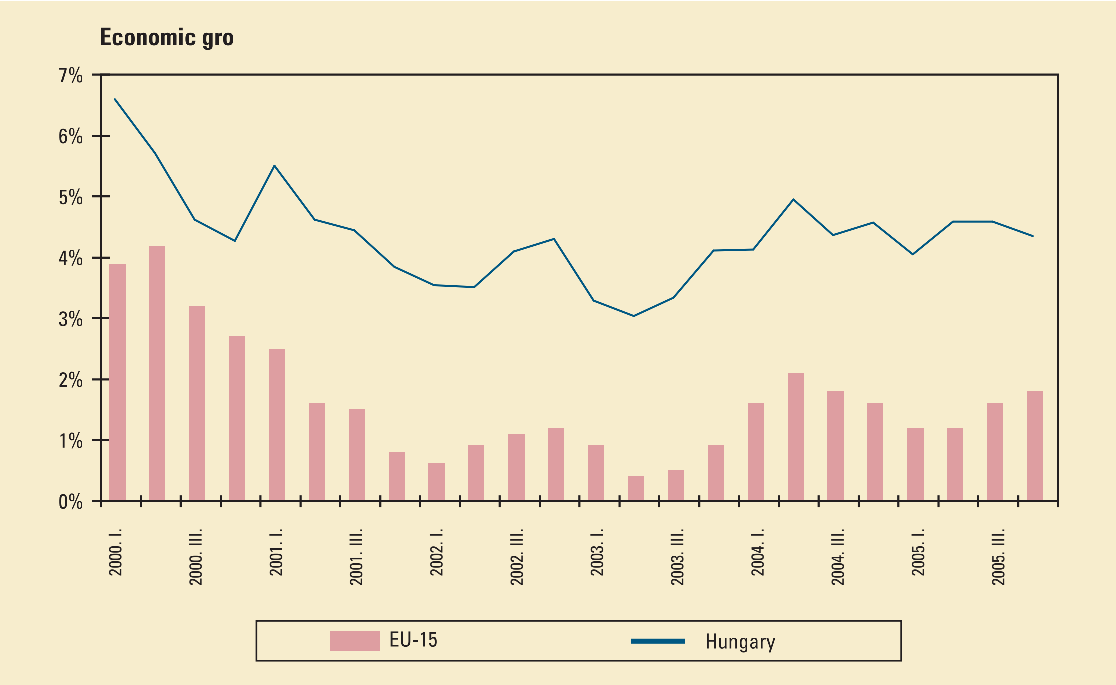
** 6 international bond issues (2 JPY bond in one transaction), with 2 lead managers for each transaction*

[2] *Interest-Bearing Treasury Bills as well as the Treasury Saving Bills are continuously available government debt instruments developed for and sold specifically to retail investors.*

III. MACRO-ECONOMIC DEVELOPMENTS IN 2005

THE ECONOMY

Like in the previous year, driven by exports and investments, the Hungarian economy grew by 4.3%, a rate somewhat slower than in 2004 but substantially exceeding the average growth rate in the EU15 in 2005. The growth in Hungary is based on favourable fundamentals since export growth exceeded import growth and the increase in investments outpaced the GDP growth rate, too. Amid a decelerating house building boom the infrastructural projects played an important role in the high – 14.3% – growth rate in the construction industry. On the supply side the 11% contraction of the agricultural sector is worth mentioning; the drop is mainly attributable to base effect as the harvest in the year 2004 was exceptionally good.



Source: Central Statistical Office (CSO), Eurostat

At the same time household consumption grew only by 2.4%, slower than in 2004; this is the lowest figure since 1997. The deceleration was caused not only by the calendar day effect, but also the increase of household savings activities reaching considerable high levels again. Real wages grew by 6.3% compared to the previous year. This high growth rate was partly a result of a delay of the "13th month salary" from December 2004 to January 2005 (as "0th month salary"), but the rapidly decelerating inflation, the lower tax burden and the increasing productivity in manufacturing also put upward pressure on real wages. The growing unemployment rate is an unfavourable development, although it mainly reflects the increase of the activity rate; the number of employed stagnated whilst the number of unemployed rose significantly. In 2005 the gross fixed capital formation grew faster than the GDP: by 6.6%. The upswing in investments was mainly the result of the significant increase of highway construction expenditures. In 2005 the domestic use of GDP grew only by 0.2%, close to stagnation, mainly as a result of changes in inventories and other non-specified items. The second driver of economic growth in 2005 was the strong external demand, as a result of the improvement in the global economic environment. In 2005 the volume of both exports and imports grew rapidly (by 10.6% and 5.8% respectively) compared to the previous year. The dynamics of exports increased during the year, and outpaced imports growth each quarter..

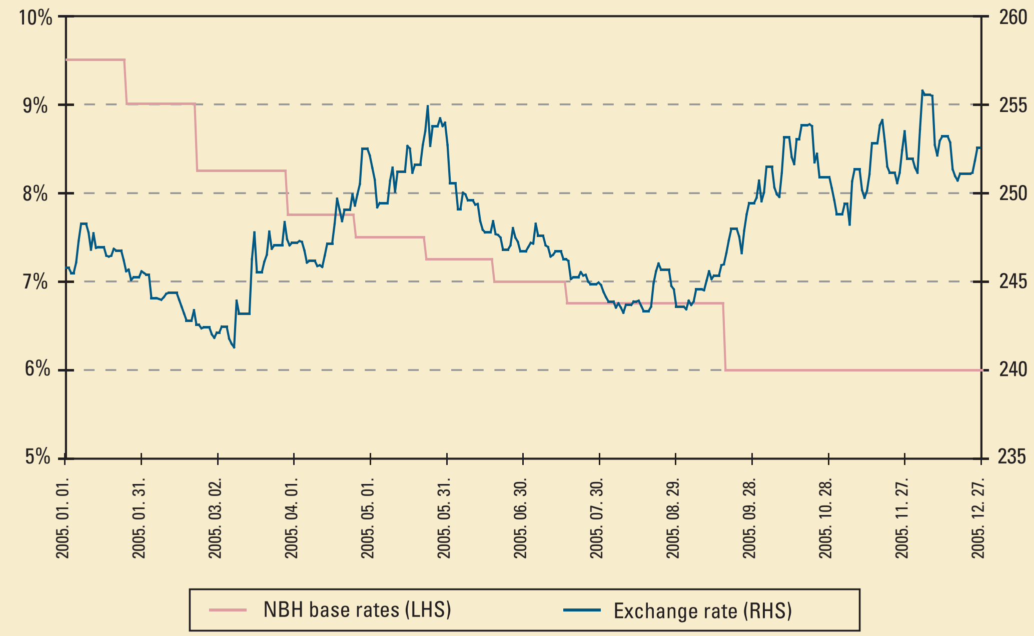
MONETARY DEVELOPMENTS

Similarly to the previous year, the net financing requirement of the government was high in 2005.[3] However, the net lending position of households doubled throughout the year reaching 4.2% of GDP and thus helped to finance the budget deficit. The upswing in the net household lending activity during the year 2005 is attributable to the drop in the housing loans and a slow growth of consumption. Meanwhile the net borrowing requirement of the enterprises increased by 15% reaching 5.7% of GDP in the year 2005 due to an increase in investments.

All together the consolidated financing needs of the resident sectors amounted to 8.7% of GDP; the current account deficit reached EUR 6.4 billion. The structure of financing of the current account deficit improved, as the amount of long-term foreign investments (FDI, re-invested corporate profit) had increased considerably compared to the previous year and covered approximately two-thirds of the external financing requirements. A significant portion (amounting to EUR 2 billion) is attributable to one-off terms (revenues related to privatisation). The net external debt of the country increased by 3.5 billion euros reaching EUR 24.7 euros by the end of 2005.

In the first three quarters of 2005 the central bank cut the central bank base rate in gradually from 9.5% to 6% amid stable foreign exchange rates. The central bank discontinued the policy of easing in autumn 2005 citing both internal (delayed euro adoption and high budget deficit) and external (lower global risk appetite, rate hikes of the Fed and the ECB) factors. The central bank left the central bank base rate unchanged in the last months of 2005 amid a minor depreciation of the forint and a significant capital inflow.

Monetary conditions in 2005

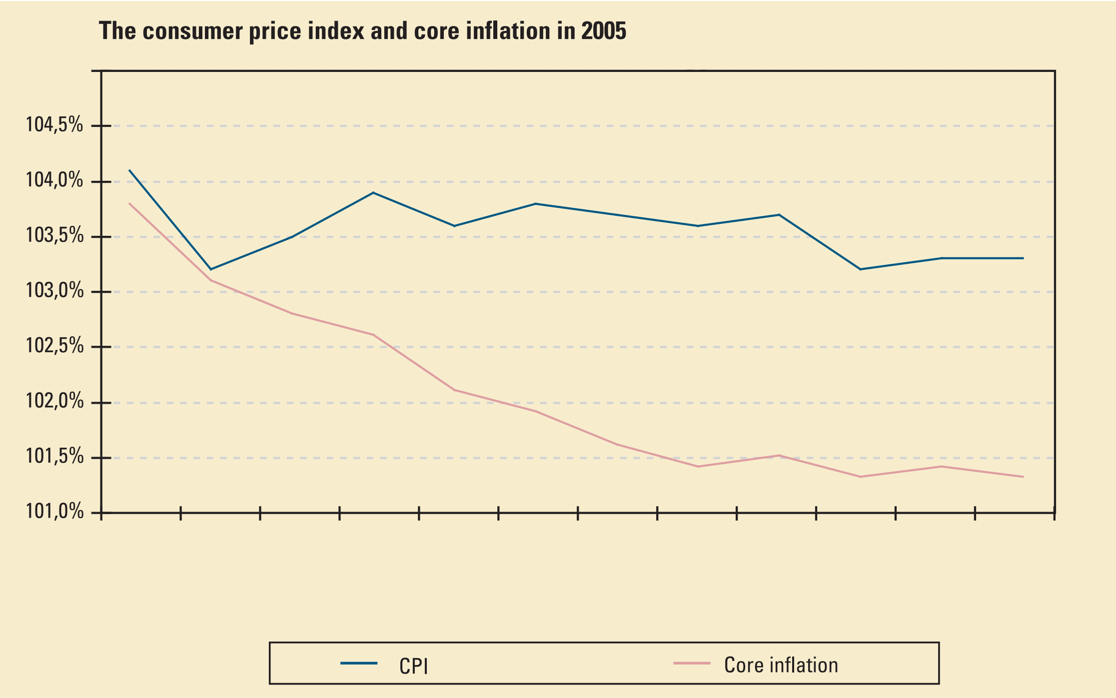


Source: NBH

The situation in the domestic money and foreign exchange market was stable in 2005. The volatility of exchange rates, yields and spreads did not change significantly compared to the previous year. This stability can be attributed primarily to the favourable global environment and the substantial difference between international and domestic interest rate levels.

During 2005 the inflation decreased slightly due to favourable global price environment, the stable exchange rate and declining food prices. The core inflation dropped significantly, whilst the booming oil prices pushed the inflation rate upwards. Average annual inflation was 3.6% in 2005, compared to 6.8% in 2004. Inflation decelerated in the last months of the year, and the 12-month price index fell to 3.3% by December due to the reduction of the VAT rate (effective on 1st January 2006 for most goods, but on 1st October 2005 for fuel). The moderate growth rate of the household consumption proved to be a significant anti-inflationary factor.

[3] *Components of the net financing requirement are presented in detail in Chapter V*



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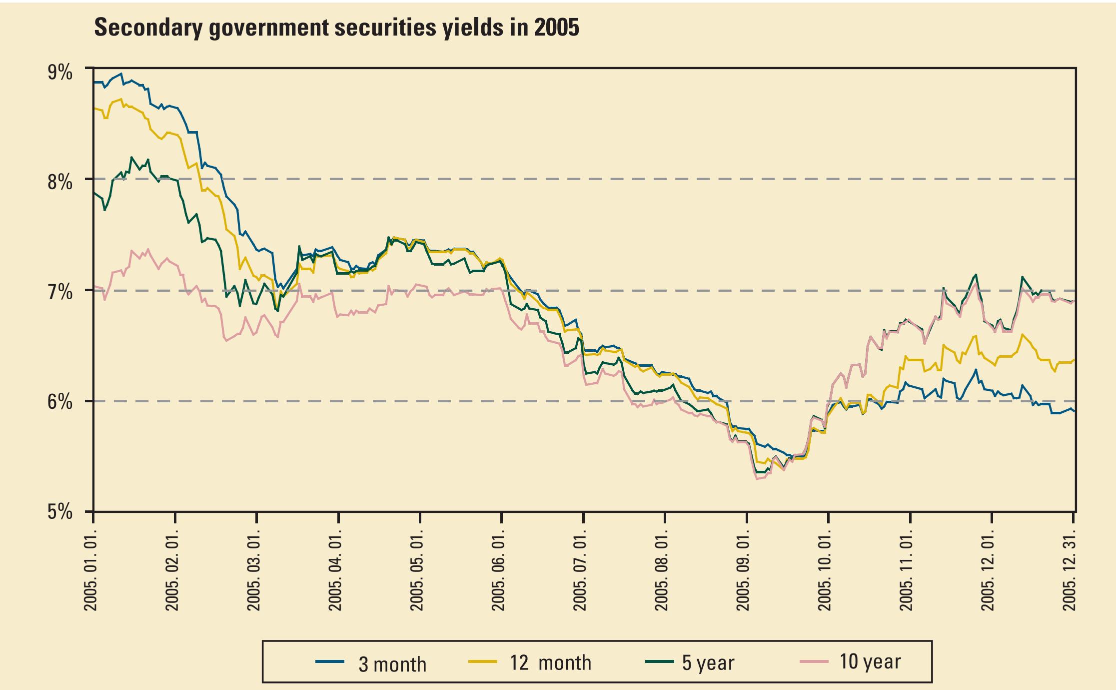
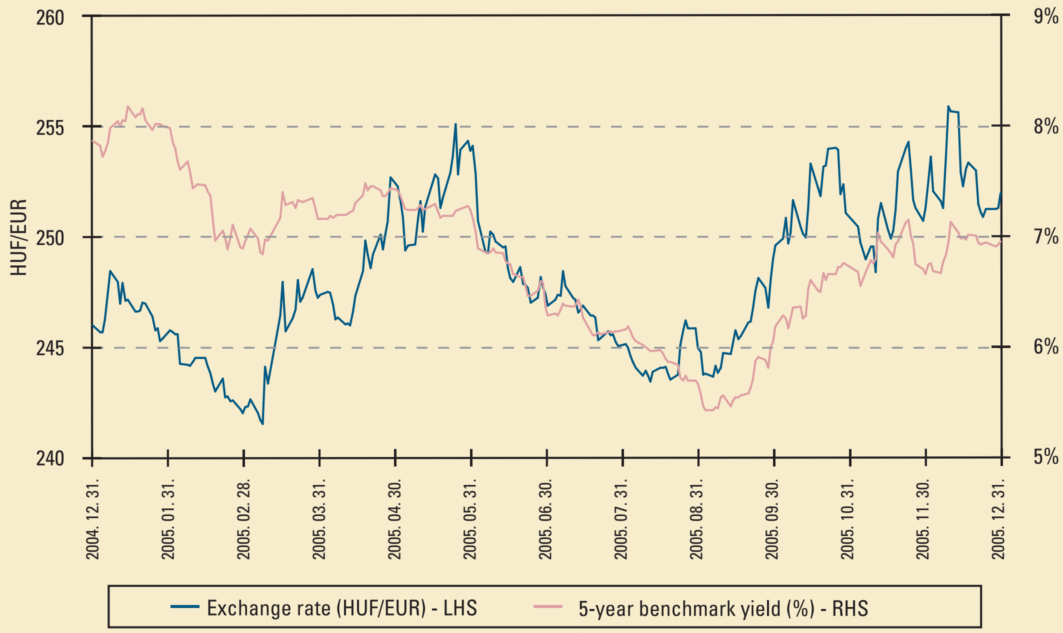
DEVELOPMENTS IN THE GOVERNMENT SECURITIES MARKET

There was a significant decrease in government securities yields in the course of 2005. At the end of the year, short-



term benchmark yields – following the interest rate cuts by the central bank – were 218-289 basis points lower than a year before. The decline in bond yields was more moderate, decelerating in accordance with the tenor; the 15-year maturity the benchmark yield even increased slightly (by 2 basis points) over the year.
Yields in the money market fell until September 2005. By this time the Ministry of Finance revised upwards the accrual-based general government deficit for the years 2004, 2005 and 2006 mainly as a consequence of a methodological change in the accounting rules concerning expenditures related to motorway construction. This had a negative effect on investors' confidence. In addition to internal events, the aforementioned external factors – lower global risk appetite, increasing yields in the US and the Eurozone – also played a notable role in the significant – on the long end higher than on the short end – yield increases that occurred in the last quarter of the year. The importance

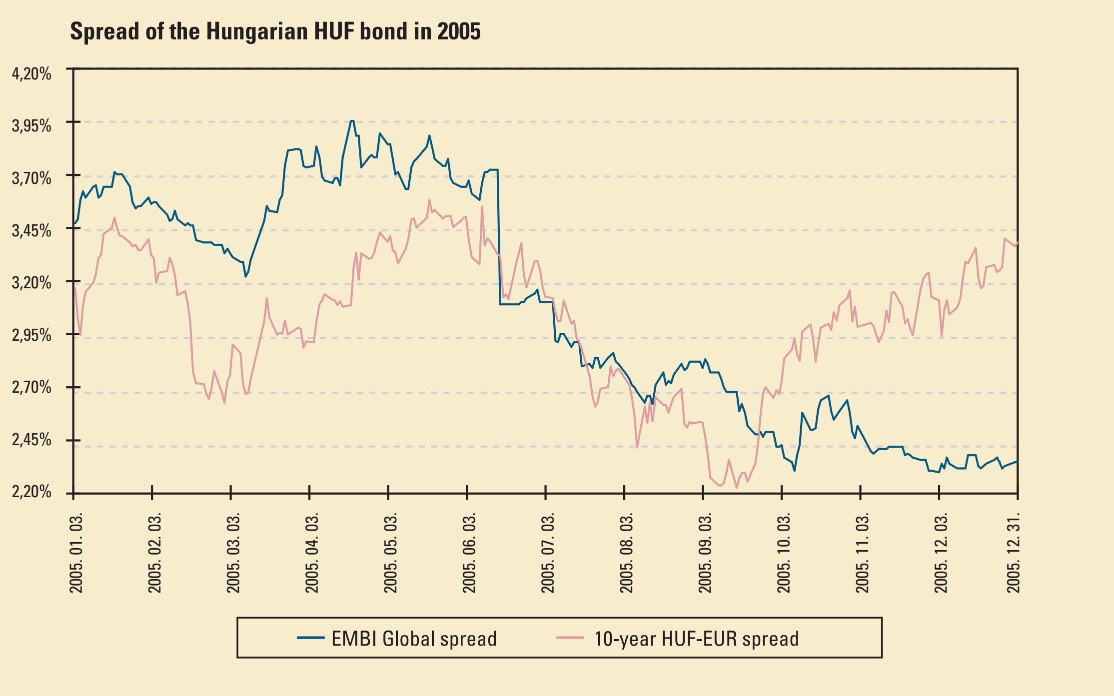
Government securities yield and the exchange rate



Source: NBH, ÁKK

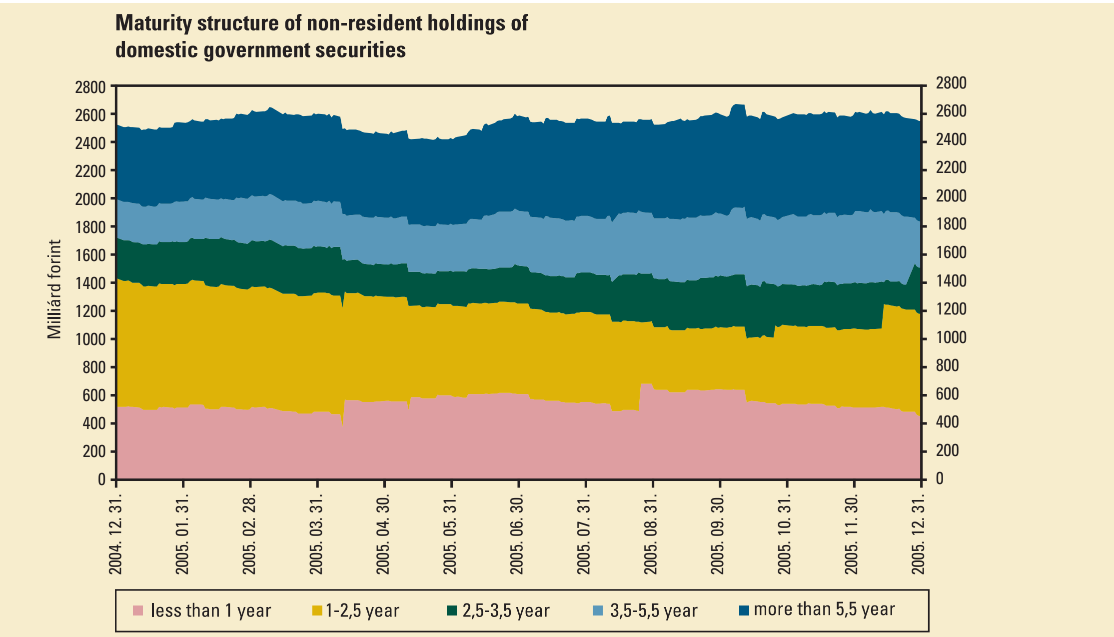
of international effects is reflected in the fact that – although at a lesser pace – yields of other countries of the region also rose during this time. Fading investor confidence was one of the main driving forces in the depreciation of the forint.

The forint premia and the compound premia of the emerging market bond indices (the EMBI Global spread) moved in parallel of the global capital markets. The Fed's interest rate policy and market expectations concerning this policy have a significant effect on global markets. This effect on both the EMBI spread and Hungarian yields was clearly seen during the first three quarters of 2005. Amid low interest rates and high liquidity worldwide the capital inflow into emerging markets jumped, and the risk premia in these markets dropped to record low levels. Since Summer 2005 the market expectations that the Fed's rate hike cycle would end earlier, and the ECB would start hiking rates cycle more cautiously than previously expected, decreased the interest rate premia on the emerging markets and Hungary. Emerging market spreads stabilised at this low level in the last quarter of 2005. In this period the Hungarian interest rate premia – the difference of the yields of the Hungarian and the Euro zone 10 year benchmark government bond – first diminished to 2.25% by the middle of 2005, but grew back to 3.38% – the level experienced by the end of 2004 – again by the end of 2005.



Source: NBH, ÁKK, Bloomberg

The volume of HUF government securities held by non-residents grew by HUF 29 billion in 2005, (i.e. by less than in previous years) and reached HUF 2,538 billion (EUR 10.0 billion) at the end of the year. The share of non-resident



Source: Central Clearing House and Depository (Budapest) Ltd. (KELER)

holdings within the forint denominated debt did not change significantly– from 29% to 28% – due to the low net issuance during the year 2005.

Performance of government bond and equity indices in 2005

Source: ÁKK, Bloomberg

STOCK MARKET

In 2005, the Hungarian stock market performed extremely well. The movement of Hungarian share prices was mainly driven by the favourable global environment. Due to the low interest rates on the market, share prices increased rapidly in the regional – among others the Hungarian – capital markets.

In the midst of the global boom, the BUX index – the composite index of the Budapest Stock Exchange (BSE) – soared in the first three quarters of the year — due to the rising risk appetite, the favourable investment attitude towards the region, and the beneficial global interest rate environment. Along with ample capital inflow, the strong performance of the industrial sector and the outstanding performance of the financial sector underpinned the rise of stock prices. Even though the BUX decreased in September as a consequence of anxiety concerning fiscal policy, sustainability of the debt path and high level of twin deficit, it granted a 41% yield during the whole year.

IV. THE DEBT MANAGEMENT STRATEGY IN 2005

Public debt and cash management activities of ÁKK are based on its debt management strategy. The debt management strategy for 2005 was developed and approved in December 2004 on the basis of a new risk management model. ÁKK's main objective is to meet the borrowing requirements of the central government in an integrated manner at the lowest possible costs in the long term while running acceptable risks.

The size of public debt for ÁKK is basically an external factor determined by the fiscal policy, similarly to the financing requirement of the budget. ÁKK cannot influence the deficit substantially; the selection of the actual cost-risk profile of the debt may have only a minimal effect on that.
Due to the trade-off between costs and risks, the objective is to develop a debt structure where the cost-risk ratio is optimized in the long run.

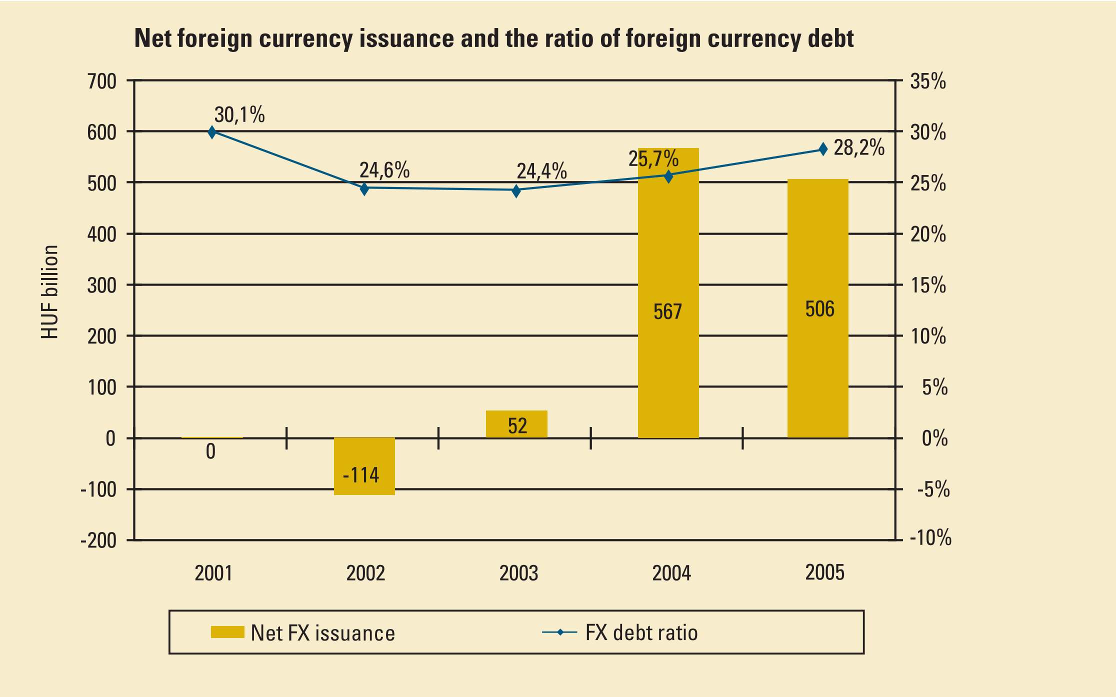
THE MOST IMPORTANT RISK FACTORS ARE:

- Renewal or refinancing risk arises out of renewal of maturing debt and meeting the net financing requirements. In extreme cases, the refinancing risk means liquidity (insolvency) risk, otherwise it translates to interest rate risk.
- The interest rate risk is associated with the change in the level of government securities yields.
- The liquidity risk appears in the fluctuation of the cash-flows of the central government and in the volatility of the money market operations of debt management.
- The exchange rate risk arises out of changes in the exchange rates of the HUF and the euro and in the cross exchange rate of various other foreign currencies.
- Starting from 2004, credit risk, i.e. counterparty risk became an important risk factor in case of hedging operations concluded directly with partners in the international capital market and the repo activity in the HUF market.

Between certain risks there is a trade-off, i.e. the increase of one type of risks leads to the decrease of an other (e.g. interest and exchange risk), or certain risk types can move in tandem, meaning that if one risk increases, the other risk also increases (for instance, between financing and interest risk). ÁKK developed benchmarks reflecting its strategic objectives for certain segments of its activities by taking into account risks and costs together. Benchmarks also help to quantify strategic objectives, i.e. they formulate intermediate targets.
In December 2004, ÁKK revised the debt management strategy based on (1) the change in investment environment and (2) a new optimum portfolio model developed in ÁKK, and made the necessary steps to bring the composition of government debt in conformity with these requirements during 2005.

1. RATIO OF HUF / FX DEBT

According to the revised debt management strategy and the results of the optimum portfolio model a target range (25-32% of the total) was established for the foreign currency composition of public debt.
The 2005 financing plan with EUR 3.9 billion foreign currency issuance - in excess of maturing foreign currency debt



- aimed to move this share to the middle of the target band.

The ratio of foreign currency debt was 28.2% at the end of 2005, in the middle of the targeted 25-32% benchmark range approved in December 2004.

2. CURRENCY BREAKDOWN OF THE FOREIGN EXCHANGE DEBT PORTFOLIO

In order to mitigate the exchange rate risk, ÁKK defined the currency composition of the FX debt portfolio to correspond to the composition of the currency basket of the Hungarian Forint, i.e. 100% EUR. This way only the HUF/EUR exchange rate affects the HUF value of the debt cross rates do not. If the Republic raises funds in a currency other than EUR, they are converted into euro using cross-currency swaps.
At the end of 2005, 100% of foreign currency debt was in EUR, in accordance with the benchmark.

3. FIXED/FLOATING RATE COMPOSITION OF THE FX DEBT

The fixed/floating mix of the foreign currency debt has an aim to optimize relationship between cost and risk, since floating rate debt is associated with low costs but higher interest rate risk, while fixed rate debt reduces interest rate risks but usually means higher interest expenditure. ÁKK uses interest rate swaps to set the appropriate interest rate mix of the FX debt, comprising of 66% fixed and 34% floating rate instruments with a tolerance band around those levels. The composition of the actual debt portfolio at the end of 2005 was 64%-36% and complied with this benchmark.

4. FIXED/FLOATING RATE COMPOSITION OF THE HUF DEBT

The fixed/floating mix of the HUF portfolio was defined for the first time in December 2004. According to this the fixed rate elements within the HUF-denominated debt should be between 61-83%. (Short-term instruments with a maturity of less than one year are also considered floating rate debt.) As demand for floating rate bonds, as well as the use of swaps in the domestic market is limited, ÁKK is able to influence the fixed/floating mix of the HUF portfolio by changing the weight of short- and long-term instruments. The 66.9% proportion of fixed-rate HUF debt at the end of 2005 was in conformity with this benchmark.

5. DURATION OBJECTIVES

The average term-to-maturity of government debt is important in two aspects: on the one hand, a large amount of debt maturing in a short period of time carries financing (renewal) risk; on the other hand, duration, the weighted average term-to-maturity indicates the re-pricing of debt and its sensitivity to interest rate changes. Short term-to-maturity and floating interest rate result in yield changes appearing sooner in interest expenditure, so higher interest rate volatility considerably increases the fluctuation of interest expenditure of the budget. Lengthening the duration reduces the interest rate sensitivity of the budget, so it may support the stability of fiscal policy. The strategic objective is to keep the duration of the HUF debt portfolio in the range of 2.5 +/- 0.5 years. At the end of 2005 the duration was 2.46 years.

6. OPTIMAL BALANCE OF THE SINGLE TREASURY ACCOUNT (STA)

The strategy provides for maintaining a liquidity – optimal - reserve on the STA, while liquidity management had been included into ÁKK's activities from 2004. As the optimal balance of the STA is set the objective is to keep the end-of-the-day actual balance within the range of +/- HUF 50 billion around the optimal level. (Liquidity management is presented in detail in Chapter VIII.)

7. PRINCIPLES

ÁKK uses financing instruments and sales techniques that meet the principles of simplicity, transparency and liquidity. In the framework of simplicity and transparency, ÁKK uses a small number of instruments that have plain vanilla and easy to handle structures in a transparent and market conform way.
As regards liquidity, ÁKK aims to maintain a liquid secondary market of government bonds. The establishment of the primary dealer system also served this purpose. Using the two- way price quotations of the primary dealers with a maximized spread, investors are able to buy and sell government securities continuously at real market prices during the trading session. ÁKK promotes appropriate liquidity also by building up large volume series of individual government securities. In order to achieve this, ÁKK re-opens series of bonds and discount Treasury bills that are fungible with already outstanding securities, until the volume reaches HUF 250-400 billion, corresponding to about EUR 1-1.5 billion.

In order to ensure transparency, ÁKK sells HUF bonds and discount Treasury bills at multiple-price auctions, based on an annual issuance schedule (calendar), fixed and published in advance for the current year.

V. THE FINANCING REQUIREMENTS IN 2005

ÁKK made its strategy and financing plan public in its Debt Management Outlook 2005 publication, which was based on the financing plan approved by the Minister of Finance in November 2004 and published in early 2005. The following two chapters summarise the outturn of these plans.

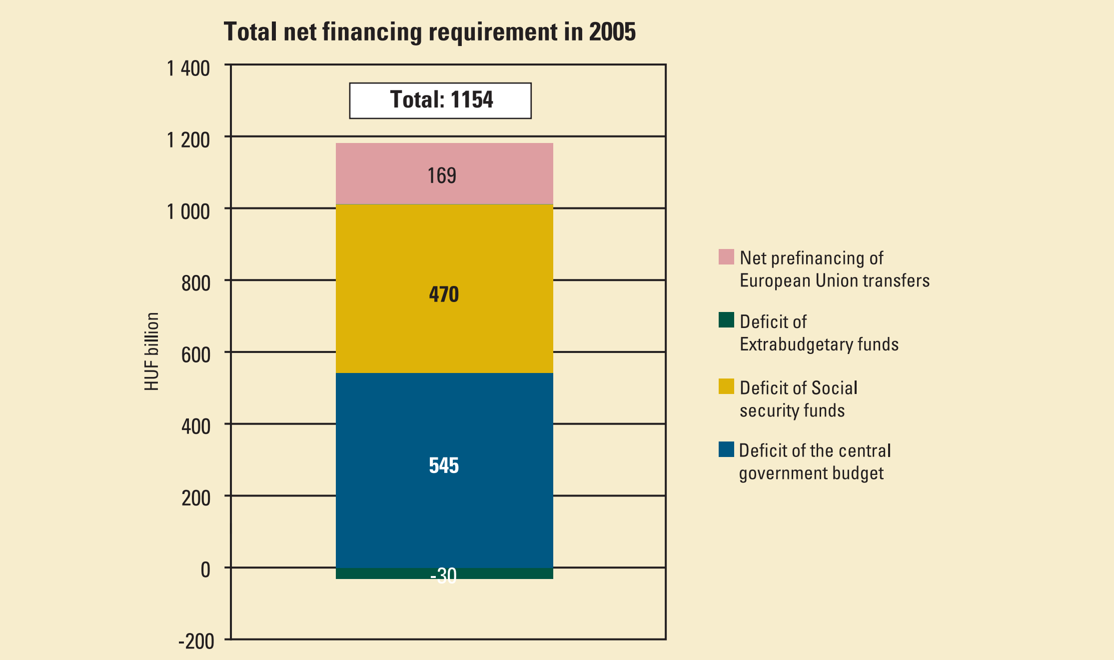
COMPONENTS OF THE FINANCING REQUIREMENT

The Budget Act for the year 2005 (Law no. CXXXV of 2004) planned a deficit of HUF 1022.7 billion of the central government for 2005 on a cash basis. The balance of the central government consists of the consolidated balance of the central government budget, the social security funds and the extrabudgetary funds. ÁKK is responsible for financing the deficit of the central government, excluding the financing of the local governments, as municipalities are responsible for their own budget, financing and debt management.
The total annual net financing requirement is made up of the balance of the central government and other payments and receipts like privatisation revenues, transfers to the central bank, EU funds etc. The total gross financing requirements, in addition, include renewal of maturing debt, which make up the largest item as a consequence of renewal of short-term debt (T-Bills).

For financing purposes, cash-flow based deficit figures are relevant as they show the actual financing requirements and these figures determine primarily the nominal growth of the government debt during the year. At the same time, given Hungary’s EU-membership, accrual-based deficit figures calculated according to the ESA’95 methodology are also presented. Accrual based data provide a better picture on the fiscal policy for economic analysis.

CASH-BASED AND ACCRUAL-BASED ACCOUNTING

Expenditures and revenues on a cash basis are accounted for in the period when they are actually paid or received, regardless of which period the economic contents of the transactions relate to. On the other hand, on accrual basis, the amount of an expenditure or revenue item that concerns several periods is divided pro rata among the periods.
From a debt management point of view, interest expenditures are the most important figures that are generally calculated according to these two methods. In the case of a bond with annual coupon payment, the total interest expenditure for the year on cash basis is stated for the year in which it was actually paid. On accrual basis, however, the interest is divided into two parts, and is charged to both years involved depending on the proportion of the interest period falling on one year and the other.



In 2005 the financing requirements on cash basis were as follows[4]:

Cash-flow based borrowing requirement in 2001-2005

	2001	2002	2003	2004	2005
Balance of the central government budget*	-402.9	-957.7	-733.6	-890.0	-544.7
Balance of the Social security funds	-28.8	-100.9	-342.9	-422.9	-469.8
Balance of the Extrabudgetary funds	-2.3	1.4	18.8	27.9	30.4
Balance of the central government*	**-434.1**	**-1057.1**	**-1057.7**	**-1285.1**	**-984.1**
Capital transfer to the NBH	0.0	-250.2	-82.9	0.0	-1.1
Privatisation revenues and capital transfers	0.0	0.0	42.0	166.5	0.0
Net pre-financing of European Union transfers	0.0	0.0	0.0	-12.8	-169.0
Net financing requirement	**-434.1**	**-1307.3**	**-1098.6**	**-1131.3**	**-1154.2**
Redemption of Treasury bills	-2004.5	-2888.6	-3635.2	-4277.7	-4265.7
Long term debt redemption	-990.9	-1053.4	-1809.6	-1253.2	-1885.0
Gross financing requirement	**-3429.4**	**-5249.3**	**-6543.4**	**-6662.2**	**-7304.9**

** Excluding debt assumptions and bond transfers of HUF 512 billion at the end of 2002*

NET FINANCING REQUIREMENT

The total cash-flow based deficit of the central government in 2005 – including debt assumptions – amounted to HUF 984.1 billion (which was 4.5% of GDP according to preliminary figures), while the total net financing requirement accounted to HUF 1,154.2 billion due to net-prefinancing of EU transfers. (Total government deficit according to ESA'95 methodology accounted to 6.1%).

Finally, in 2005, the actual net financing requirement on a cash basis was some 45% higher than the plan, however the total gross financing requirement was only 6.3% higher than the planned amount.

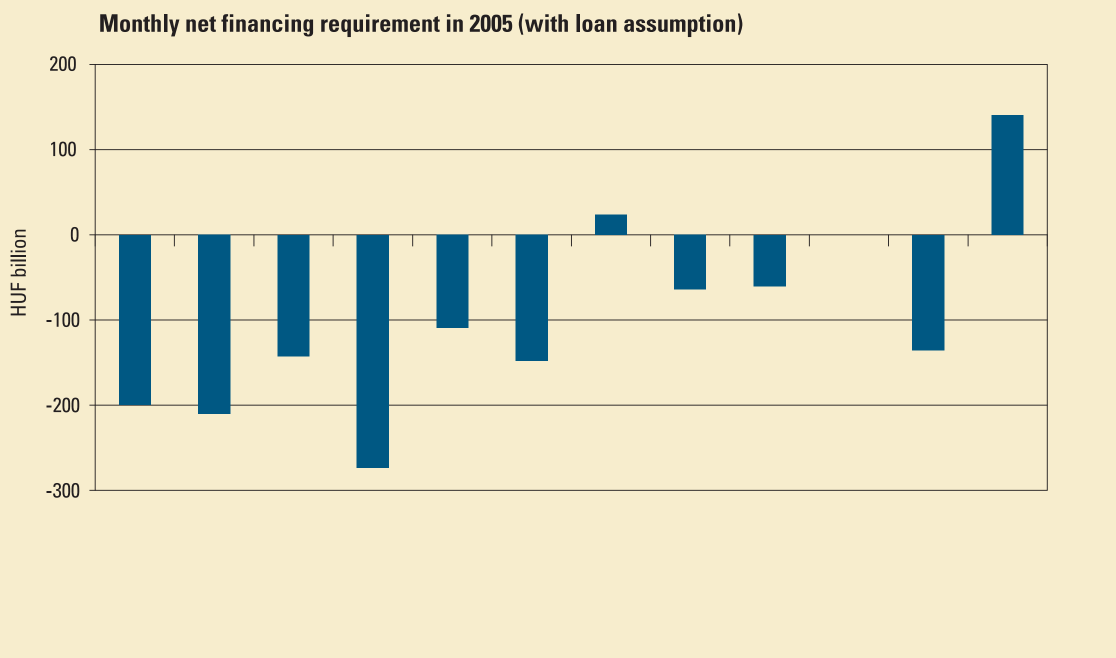
[4] *Both deficit and debt figures are considered to be preliminary until the Parliament approves the Act on Final Accounts i.e. the implementation of the annual budget. This typically takes place in the fourth quarter of the following year.*

Cash-flow based borrowing requirement in 2005 - projection and outturn

January 2005	**Plan in 2005 (HUF billion)**	**Outturn a tervekhez (HUF billion)**	**Changed compared to plan (percent)**
Balance of the central government budget*	-609.4	-544.7	89.4%
Balance of the Social security funds	-340.4	-469.8	138.0%
Balance of the Extrabudgetary funds	18.4	30.4	165.3%
Balance of the central government*	**-931.4**	**-984.1**	**105.7%**
Capital transfer to the NBH	-15.0	-1.1	7.3%
Privatisation revenues and capital transfers	101.3	0.0	0.0%
Net pre-financing of European Union transfers	48.3	-169.0	-350.2%
Net financing requirement	**-796.8**	**-1154.2**	**144.9%**
Redemption of Treasury bills	-4418.1	-4265.7	96.6%
Long term debt redemption	-1659.9	-1885.0	113.6%
Gross financing requirement	**-6874.8**	**-7304.9**	**106.3%**

The deficit of the central government budget was lower than planned; the overshooting of the projected central government deficit was caused by the increased financing requirement of the social security funds. The favourable outcome of the central government deficit was due to the high surplus in December 2005, which included concession revenues from the sale of Budapest Airport Ltd.

Certain items that influence the total net financing requirement are accounted for outside the central budget. For example, transfers from the European Union are pre-financed out of the Hungarian budget to Hungarian recipients and the European Union only effects payments a few months later. The end of year balance of these transfers exceeded significantly the expected volume. The planned privatisation revenues were not realised in 2005 since all revenues from the sale of Budapest Airport Ltd to the budget were accounted as concession revenue. Capital transfer to the National Bank of Hungary was also realised in an amount below plans. The balance of these flows is added to the total net financing requirement.



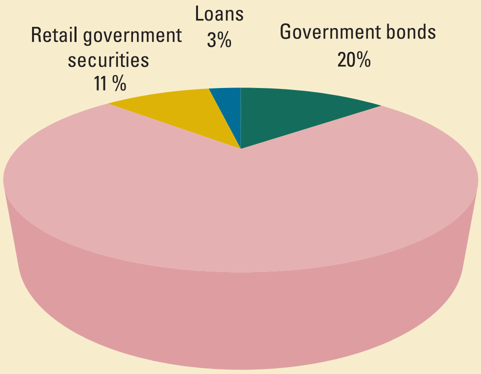
The net financing requirement was distributed unevenly over the year, as in the first half of the year each month closed with a considerable deficit. In the second half of the year, monthly financing requirements were much lower, and December saw a surplus of HUF 135 billion consisting concession revenues from the sale of Budapest Airport Ltd. Budgetary expenditures in December also included one-time loan assumptions of HUF 178 billion from NA Rt (National Motorway Ltd.).

REDEMPTIONS

Gross redemptions depend mostly on the type of debt issued earlier, especially on the issuance of short-term debt with a maturity of less than a year.

Within the domestic currency denominated debt, similarly to earlier years, Discount Treasury Bills that are renewed several time a year, accounted to about two-thirds of the repayments of HUF 5,582 billion, while other instruments had a much lower proportion.

Government debt redemptions in 2005



In 2005, all redemptions were lower than planned. The smaller than planned volume is due to the smaller redemptions of government securities, however, both domestic and foreign loan repayments exceeded plans, as a result of end-of-year extraordinary pre-repayments (see in para. Loan prepayments)

Government debt redemptions in 2005

HUF billion

	2004	2005 plan	2005 fact
Total domestic debt	**5,196.6**	**5,715.5**	**5,582.2**
Treasury bonds	741.0	1,221.6	1,100.4
Discount treasury bills	3,792.2	3,827.0	3,696.2
Retail securities	534.9	631.3	592.2
Loans	128.5	35.7	193.4
Redemption of FX currency debt	**333.1**	**361.9**	**568.5**
Bonds	127.0	254.5	249.6
Loans	206.1	107.4	318.9
Total redemptions	**5,529.7**	**6,077.4**	**6,150.7**

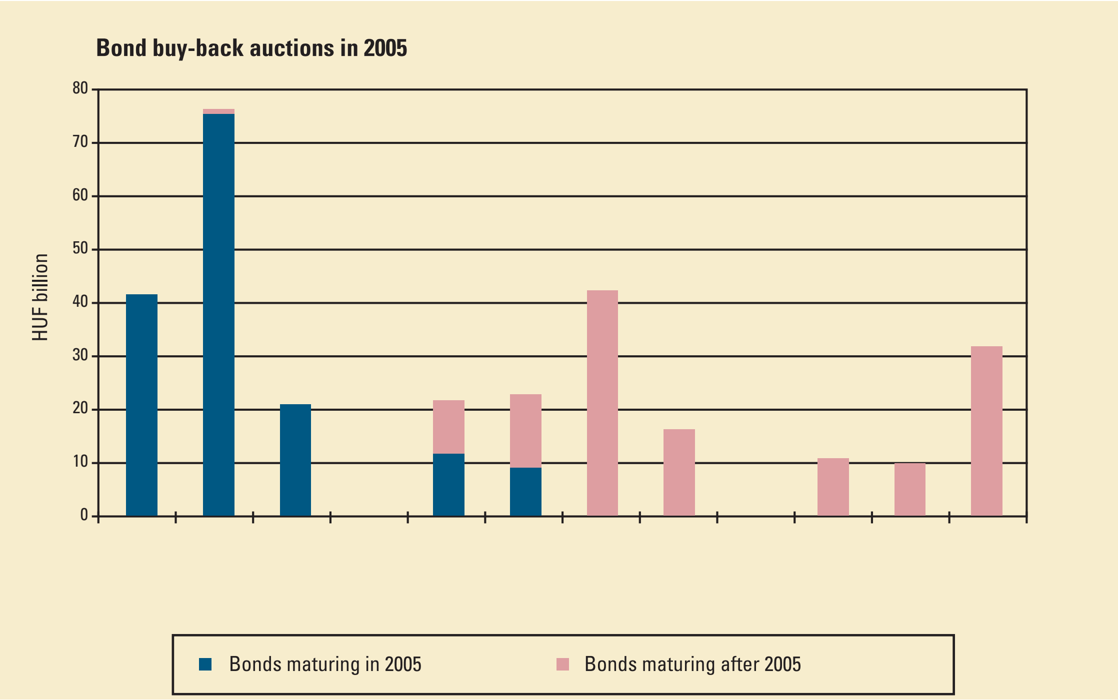
The fact that repayment of government bonds was lower than planned was primarily the result of bond buy-backs remaining below plans. What concerns Discount Treasury Bills, due to the favourable liquidity position at the beginning of the year ÁKK issued less liquidity T-bills and 3-month Discount Treasury Bills than planned, resulting in lower total discount T-bill redemptions during the year. Most of the domestic loan repayments of HUF 193 billion are the loan assumptions from the Hungarian Motorway Ltd (NA Rt) and their payback in December 2005.

The total foreign currency debt redemption of HUF 569 billion consisted of a EUR 1 billion (HUF 250 billion) bond and loans of about EUR 1.3 billion (HUF 319 billion). Out of total loan repayment HUF 266 billion was the repayment of the foreign currency loans from the National Bank of Hungary, mostly extraordinary repayment in December (see below).

To some extent ÁKK is able to manage actively debt repayments in the given year through its risk and liquidity management activities. ÁKK used both buy-backs in case of bonds and prepayments in case of loans in 2005 as well

BOND BUY-BACKS

Large bond series maturing in a lump sum represent high renewal risk. A partial solution to diminish this renewal risk is buying back some of the bonds of the given series at a time when there is surplus liquidity. This way, redemptions are not concentrated on one day but in a longer time period before maturity. Starting from 2004, as a part of its liquidity management activities, ÁKK conducted much more bond buy-backs than in previous years. ÁKK organized 18 reverse auctions in an amount of about HUF 299 billion in 2005, 60% more than in 2004. 46% of the buy-backs involved bonds maturing after 2005, thus evening out repayments between years.



Bonds bought back in 2005 included the gas utility bonds in an amount of HUF 3 billion, in line with legal obligations

LOAN PREPAYMENTS

Most loan agreements include the possibility of prepayment, which ÁKK uses primarily for cost saving purposes. In case of surplus liquidity, prepayment of loans is easier than bond buy-backs, because their amount is certain (decided by ÁKK), in contrast with bond buy-back auctions where the amount accepted depends on the bids submitted.

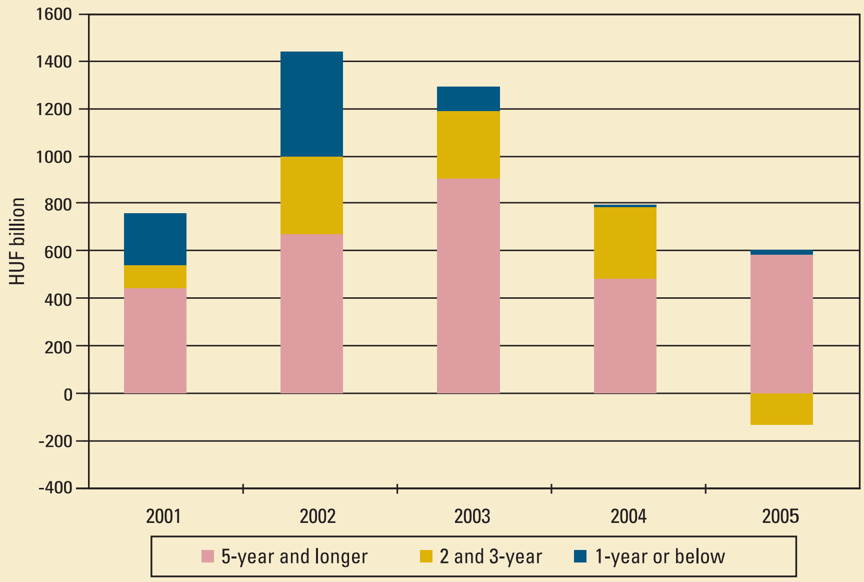
In December 2005 the STA balance showed a significant liquidity surplus, which ÁKK partly spent on reducing government debt. In this month HUF 192 billion of the loan, owed to the central bank since 1997 was prepaid, reducing the volume of redemptions in 2007-8 and 2011. Furthermore, prepayment of HUF loans – taken over from the Hungarian Motorway Ltd (NA Rt) and Budavári Kht - amounting to HUF 200 billion were carried out in the last month of the year.

VI. FINANCING

The issuance of government securities and the raising of loans were planned and implemented according to the approved debt management strategy and benchmarks. However, debt management activities were influenced by macro-economic and market developments and the change in net financial requirement.
As a consequence of the high proportion of foreign currency financing in 2005 like the previous year, net issuance in the domestic market was much lower than the total net borrowing requirement. Total net issuance in 2005 was HUF 970 billion; out of which net domestic issuance was HUF 464 billion and net issuance in foreign currencies was HUF 506 billion.

Similarly to previous years, the main instruments in financing were government bonds in 2005, both in the domestic and international markets. Retail securities also played an important part, as it is one of ÁKK's strategic objectives to maintain the outstanding amount of these securities. The use of retail securities reduces the financing risk, the particular features of which connection is presented later on in detail. However the outstanding stock of retail securities declined in 2005, due to the weak demand from retail investors. The outstanding amount of Discount Treasury bills increased by HUF 68 billion, meaning that these instruments – used primarily for liquidity management purposes – took part in financing the deficit in 2005.

Breakdown of net domestic securities issuance by tenor



The volume of both HUF and foreign currency loans decreased; ÁKK has not raised loans for financing purposes for a long time, with the only exception of loans granted by international financing institutions contributing to certain projects (e.g. financing public investments like flood protection). Special one-time operations were the loan assumptions of HUF 180 billion authorised by law and accounted for in the budget.

PLANNED AND ACTUAL GROSS AND NET DOMESTIC FINANCING

The total amount of gross HUF issuance was below the announced plans. HUF bonds issuance was slightly higher, and the gross sales of Discount Treasury bills and retail securities remained below the plan. Loan assumptions exceeded the planned level

Gross government debt issuance in 2005

	2004	2005 plan	HUF billion 2005 fact
Total domestic debt	**5,873.8**	**6,214.2**	**6,126.8**
Treasury bonds	1,515.1	1,528.2	1,620.9
Discount treasury bills	3,713.5	3,916.8	3,763.7
Retail securities	629.9	699.2	552.6
Loans	15.3	69.9	189.6
Redemption of FX currency debt	**917.5**	**969.6**	**1,074.2**
Bonds	813.49	882.4	974.8
Loans	87.63	87.2	99.4
Out of which: loan assumptions	16.36	0.0	0.0
Total issuance	**6,791.3**	**7,183.7**	**7,201.0**

GOVERNMENT BONDS

As a continuation of previous practices ÁKK issued fixed government bonds with 3, 5, 10 and 15-year tenor in 2005. Bond auctions were held every second week. A total of HUF 1,595 billion of bonds were sold via auctions. The total issuance of government bonds, including the capital adjustment of inflation linked bonds and the sales of the Treasury network, amounted to HUF 1,619 billion. Discounting the maturing HUF 1180 billion of government bonds, net HUF bond issuance amounted to HUF 440 billion, substantially below HUF 774 billion in 2004 (figures are rounded). In spite of the increased gross issuance, net domestic bond issuance declined by 40% in 2005 due to higher redemptions. .

ÁKK sold two series of 3-, 5- and 10-year bonds each, and only one series of the 15-year bonds in 2005. According to the strategy, the size of individual series of bonds was defined to ensure appropriate liquidity in the secondary market and the volume of all issued bonds reached about HUF 250-400 billion (ca. EUR 1-1.5 billion).

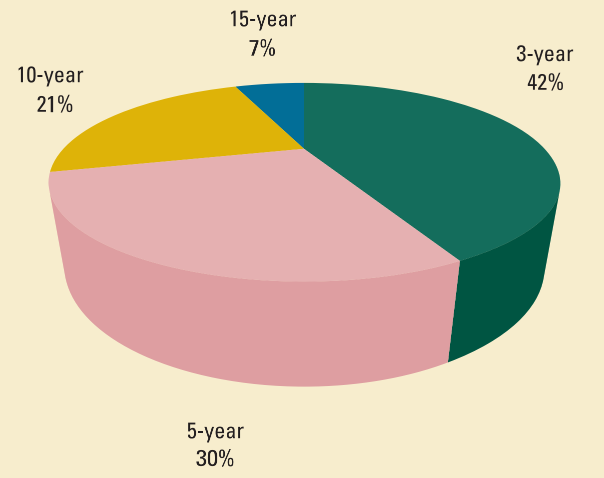
A 2005. év során kibocsátott kötvénysorozatok (mrd Ft)

	Maturity	No of auctions	Auctioned amount (HUF billion)	Size of bond* (end of 2005)
2008/D	3-year	6	315	319
2008/E	3-year	7	365	367
2009/D	5-year	3	105	365
2010/B	5-year	10	370	371
2015/A	10-year	9	230	411
2016/C	10-year	4	100	100
2020/A	15-year	7	110	96

** Excl. repos*

The structure of gross bond issuance by tenor corresponded to that of the previous year, i.e. the increase of the total sales volume was realised evenly among the different tenors.

Breakdown of gross domestic bond issuance by tenor in 2005



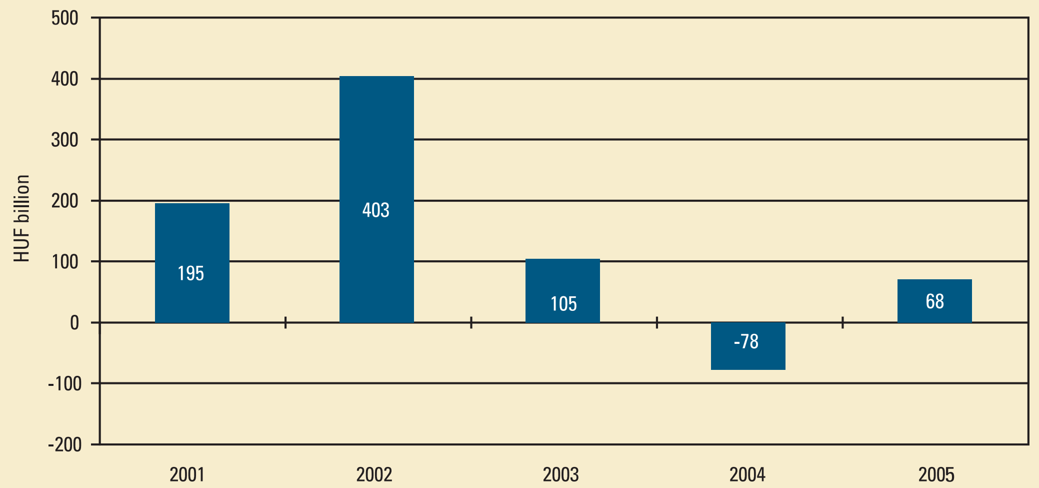
DISCOUNT TREASURY BILLS

Discount Treasury bills with 3, 6 and 12-month tenor are short-term instruments that are used primarily for liquidity management purposes. In 2004 ÁKK introduced auctions for the so-called liquidity Discount Treasury bills, i.e. a reopening of an existing T-Bill series with a term-to-maturity of 6 weeks. The characteristics of this new instrument are described in Chapter VIII.

In 2005, ÁKK sold Discount Treasury bills in a total amount of HUF 3,764 billion; HUF 3,566 billion of which were issued at auctions, HUF 196 billion were sold in the Treasury network, while the remaining HUF 2 billion consisted of technical trade related to benchmark quotations.

Due to their short tenor discount Treasury bills are renewed several times over the year, making net sale figures more useful for analysis than gross issuance. According to the original financing plan, the amount of outstanding Discount Treasury bills was to be increased by HUF 90 billion (net sales), while their end-2005 volume was finally higher by only HUF 68 billion.

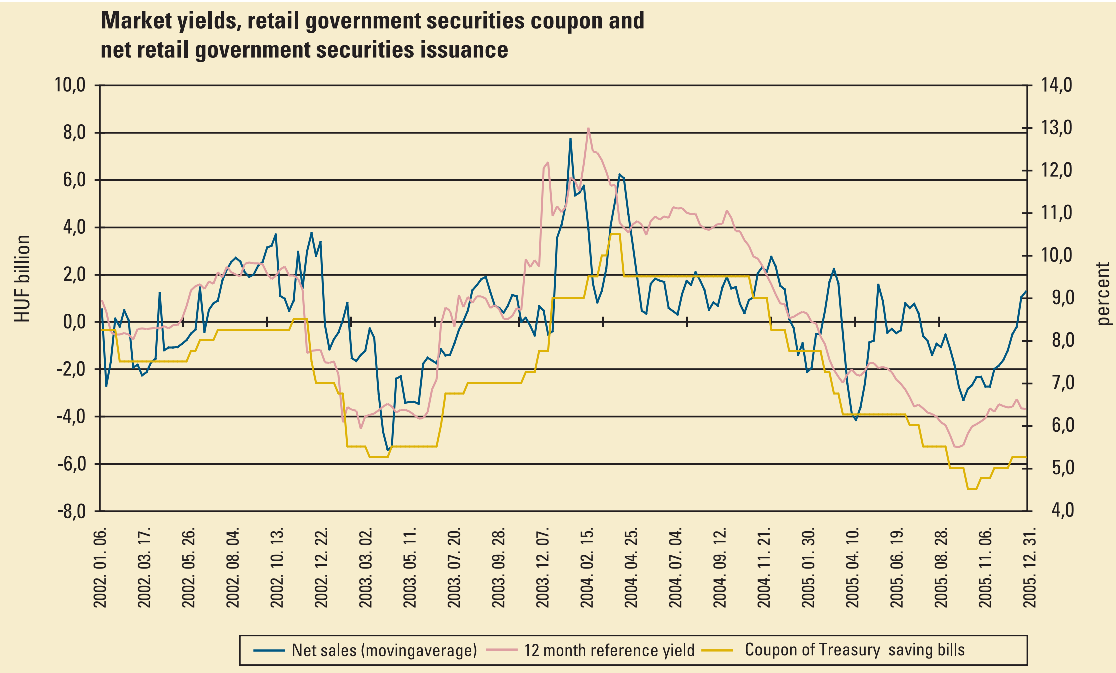
Net sales of discount treasury bills between 2001-2005



RETAIL SECURITIES

Issuing retail securities for retail investors is one of ÁKK's strategic objectives. With the help of these instruments, households can be involved more easily in financing than via wholesale securities (government bonds, discount Treasury bills), offering an alternative market for ÁKK. Using a special distribution network, retail securities are easily accessible all over the country.

According to past experience retail securities have strategic importance because demand for such securities moves opposite the demand for wholesale government securities. When yields start to increase, institutional investors usually become more cautious, resulting in lower than typical demand at auctions. At the same time, retail investors who are sensitive to nominal interest rates increase their demand for retail securities. When yields decline, their behaviour is just the opposite. Therefore, the combined use of the two different markets makes financing more balanced.



In the period between 2001-2005, the highest increase in the volume of retail securities (HUF 95 billion) was in 2004. In 2005 total net retail sale was negative. ÁKK sold HUF 221 billion of Interest Bearing Treasury Bills and HUF 332 billion of Treasury Savings Bills. Net sale of Interest Bearing Treasury Bills was HUF –63 billion and net sale of Treasury Savings Bills reached HUF 23 billion, the total net sale of HUF –40 billion much below the planned HUF 68 billion.

PLANNED AND ACTUAL GROSS AND NET FOREIGN CURRENCY FINANCING

In 2005, net foreign currency issuance amounted to HUF 506 billion (about EUR 1.8 billion), lower than the HUF 608 billion planned in January. The lower net issuance was the consequence of the pre-repayment of loans to the National Bank of Hungary decided at the end of 2005.

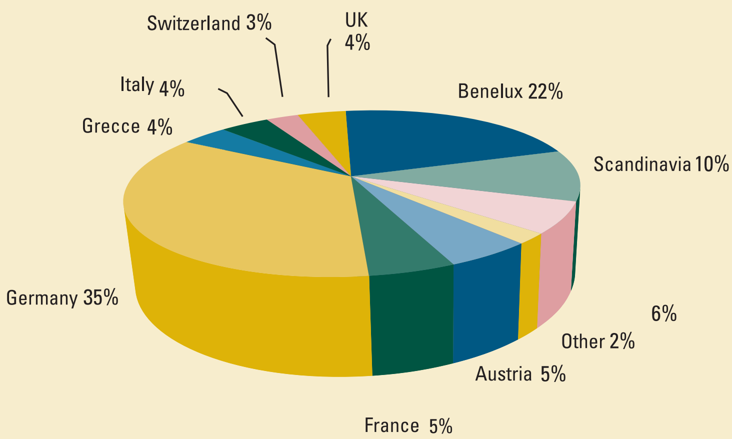
In the course of 2005, ÁKK on behalf of the Republic of Hungary issued six bonds in the international capital markets raising a total of HUF 975 billion (EUR 3.9 billion) equivalent.

FX currency bond issuance of the Republic of Hungary in 2005

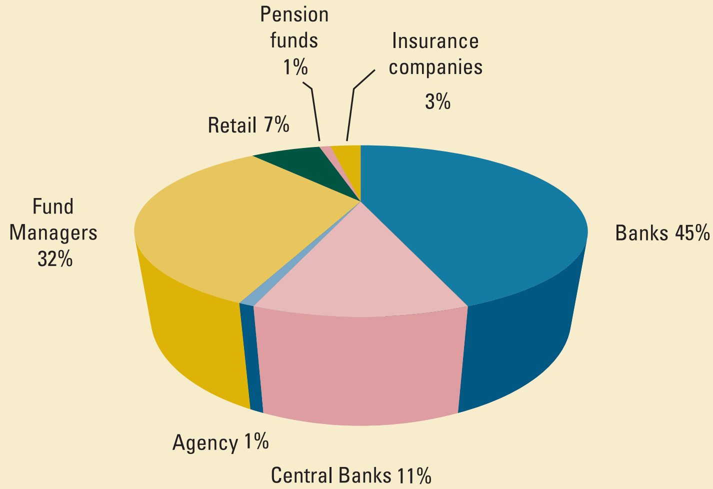
Currency	Size	Date of issue	Maturity date	Maturity (years)	Coupon
USD	1,500,000,000	03.02.2005	03.02.2015	10	4.8%
EUR	1,000,000,000	24.02.2005	24.02.2020	15	3.9%
GBP	500,000,000	09.05.2005	09.05.2017	12	5.0%
JPY	30,000,000,000	12.07.2005	12.07.2010	5	0.6%
JPY	45,000,000,000	12.07.2005	12.07.2012	7	1.0%
EUR	500,000,000	02.11.2005	02.11.2012	7	3-month EURIBOR+0.05%

The strategic objective of ÁKK is to broaden its investor base both geographically and institutionally.

Distibution by geography of the 2020 EUR bond issue - after allocation



Distribution by investor of the Global USD bond issue of RoH - after allocation



One way to acquire new investors is to issue securities in a currency and in a market other than euro. This objective was reached by the issuances in USD, GBP and JPY in 2005. In order to achieve the benchmark (100% euro) for the currency composition of the foreign currency portfolio ÁKK concluded cross-currency swaps for the non-euro denominated bonds.

Foreign currency bond-issues amounted to EUR 3.9 billion in 2004. As a result of EUR 2.1 billion redemptions, including pre-payments to the NBH, net issuance amounted to EUR 1.8 billion, below the planned EUR 2.2 billion.

Project financing loans from international financing institutions totalled HUF 99 billion (EUR 398 million) in 2005. The loans from the European Investment Bank (EIB) and the Council of Europe Development Bank (CEB) were aimed at financing projects for the railway and public road infrastructure, flood protection, etc.
Net borrowing from international financial institutions amounted to HUF 47 billion (about EUR 196 million).

VII. GOVERNMENT DEBT IN 2005

ÁKK manages the debt of the central government. Since the extrabudgetary funds have a surplus and the deficit of social security funds is automatically financed by the central government budget as provided for by law, the debt managed is the **debt of the central government** (hereinafter: government debt, debt).

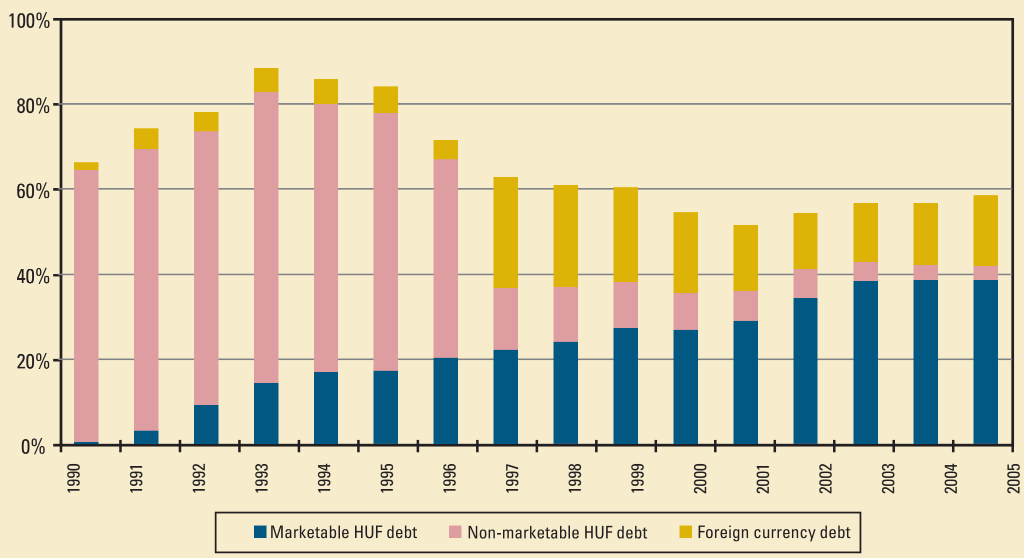
THE HUNGARIAN METHODOLOGY FOR CALCULATING GOVERNMENT DEBT

ÁKK records government debt on the basis of Hungarian accounting regulations, the principles of which can be summarised as follows:

- Government bonds and retail securities are recorded at nominal value, and the inflation-linked bonds (2005/D) are recorded with the capital adjustment.
- Discount Treasury bills are recorded at the average sales price – basically at discount value –, which is calculated daily, after the transactions.
- Active and passive repo transactions actually reduce or increase government debt.
- Foreign currency debt is presented after cross-currency swap transactions and converted to HUF at the official NBH exchange rate at the end of the month/year.
- The debt calculated by ÁKK covers the debt of the central government (i.e., it excludes that of municipalities) and is not consolidated (i.e., it does not include the debt of different state-owned enterprises).

The debt statistics published by ÁKK are based on the Hungarian and international accounting rules and differ from those of the European Union, due to differences in methodology. Debt figures according to the ESA '95 principles are calculated and published by the Ministry of Finance, the Hungarian Central Statistical Office (HCSO) and the NBH jointly, relying partly on ÁKK's figures.

The public debt/GDP ratio and its breakdown between 1990-2005



The debt /GDP ratio (debt ratio), which expresses the economic burden of public debt in comparison to the country's economic performance, reached its peak in 1993, and started to decrease following the economic policy stabilisation in the middle of the 1990s. The decline ended in 2001, and since there has been a modest increase year by year. In 2005, the debt/GDP ratio increased to 58.6% from 56.7% at the end of 2004.[5] By the end of 2005, government debt amounted to HUF 12,766 billion, which was less than the HUF 12,887 billion planned in January. In comparison with the end of 2004 – including debt assumptions, mark-to-market deposits and repos – government debt increased by HUF 1,173 billion (10%). Without mark-to-market deposits the change of government debt was HUF 1.152 billion, about the same as the annual financing requirement (HUF 1.154 billion).[6] The size of government debt is also influenced by exchange rate movements, debt assumptions and outstanding repo transactions. The difference between the annual financing requirement and the actual financing together with the balance of other transactions is reflected in the changes in the balance of the STA

Gross government debt (HUF billion)

	2004		2005		Változás
Domestic debt	**8,608.8**	**74.3%**	**9,153.5**	**71.7%**	**544.7**
Loans	4.7	0.0%	0.8	0.0%	-3.8
Bonds	6,512.5	56.2%	7,033.0	55.1%	520.5
Discount treasury bills	1,463.3	12.6%	1,530.9	12.0%	67.7
Retail securities	628.4	5.4%	588.7	4.6%	-39.7
FX currency debt	**2,983.5**	**25.7%**	**3,590.7**	**28.1%**	**607.2**
Loans	916.8	7.9%	720.6	5.6%	-196.1
Bonds	2,066.8	17.8%	2,870.1	22.5%	803.3
Total	**11,592.4**		**12,744.2**	**99.8%**	**1,151.8**
Mark-to-market deposits at ÁKK Rt	**0.0**		**21.4**	**0.2%**	**21.4**
Grand total	**11,592.4**	**100.0%**	**12,765.6**	**100.0%**	**1,173.3**

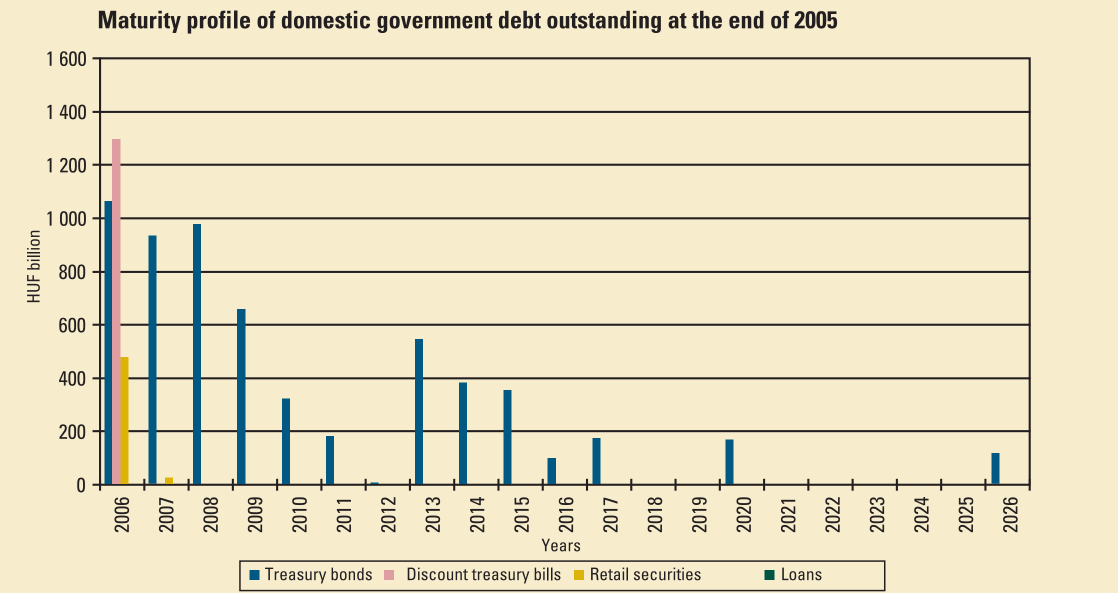
CHARACTERISTICS OF THE HUF DEBT

The HUF debt portfolio, which amounted to nearly three-quarters of government debt, increased by HUF 545 billion (6.3%) to HUF 9,154 billion in 2005. Over 76% of the HUF debt consisted of HUF government bonds at the end of 2005. During 2005 this type of securities experienced increase of HUF 521 billion. The volume of Discount Treasury bills also increased in 2005, however the volume of retail securities decreased.
The non-marketable HUF debt continued to decrease both in terms of amount and proportion in 2005. Non-marketable bonds amounted to HUF 734 billion, making up together with a small amount of HUF loans a mere 8% of the total HUF debt at the end of the year.

At the end of 2005 36.6% of the HUF debt portfolio was due within one year, another 12.3% had a term-to-maturity of between 1-2 years, and nearly one-third (30%) was due in at least five years.

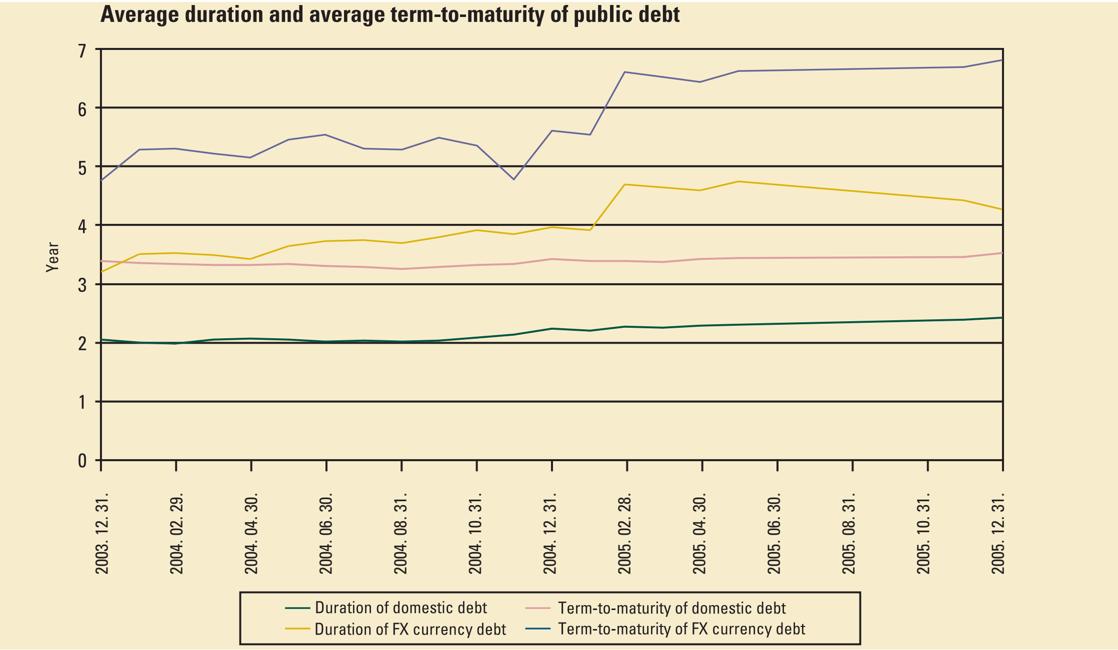
[5] *In the calculations according to the Maastricht methodology, certain other factors modify the value of the debt ratio; however, the scale of the Maastricht indicator was nearly the same as the Hungarian debt ratio between 2003-5, with pension fund contributions adjusted.*

[6] *From end of 2004 ÁKK directly concludes derivatives (swap) transactions in the international financial markets. In order to limit counterparty risks associated with those transactions, ÁKK uses MtM agreements, which include that counterparties may have to provide deposits at each other according to their net position to limit exposure. These deposits are not for financing purposes, however, according to accounting standards deposits provided for ÁKK are included in the government debt accounted by ÁKK*



At the end of 2005, the proportion of fixed-rate securities within HUF government securities was in line with the benchmark: the proportion of fixed-rate elements was 69%, and that of variable-interest elements 31%; the corresponding proportions at the end of 2004 were 67% and 33 %, respectively.

In the course of the year, the duration of the total HUF debt portfolio increased from 2.28 years to 2.46 years by the end of December 2005 and practically reached the targeted benchmark level (2.5 years). The average remaining term-to-maturity also increased from 3.46 years to 3.57 during 2005.

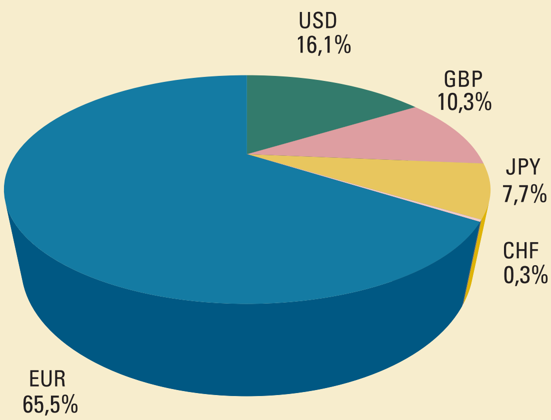


At the end of 2005, there were 42 marketable bond series outstanding (HUF 7,033 billion) accounting for about three-quarters of the total HUF debt. While the average bond series had a volume of HUF 167 billion, 15 series had a volume of more than HUF 250 billion (EUR 1 billion). For comparison, the portfolio of bonds, amounting HUF 6,216 billion one year earlier, consisted of 46 series with an average size of HUF 142 billion and only 12 series exceeded HUF 250 billion. At the end of 2005, there were 20 series of Discount Treasury bills outstanding, with an average size of HUF 77 billion. The intention of increasing liquidity also relates to discount Treasury bills, as 8 series exceeded HUF 100 billion.

CHARACTERISTICS OF THE FOREIGN CURRENCY DEBT

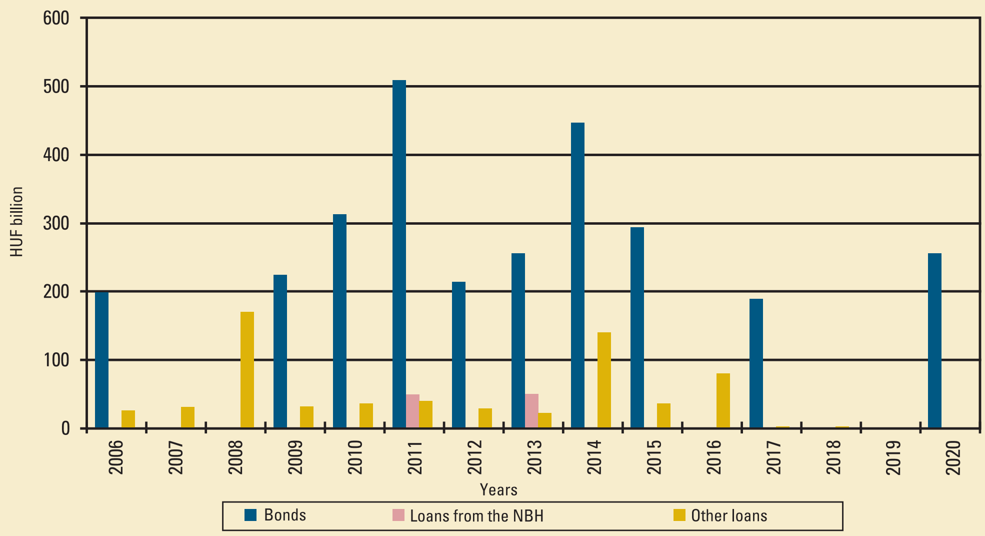
The HUF value of the central government's foreign currency debt portfolio increased by HUF 607 billion in 2005 and amounted to HUF 3,591 billion (EUR 14.2 billion) at the end of the year. Thus, the proportion of foreign currency debt constituted 28.2% of the total government debt without MtM deposits and was within the benchmark range.
The increase in foreign currency debt was due to the high net foreign currency issuance. As a consequence of the weakening of the exchange rate the Hungarian Forint value of the foreign currency debt increased by HUF 102 billion in 2005.
Foreign currency bonds amounted to HUF 2,870 billion at the end of the year, and their weight within foreign currency debt increased from 69% to 80% in 2005. On 31 December 2005, the portfolio of foreign currency bonds consisted of 16 bonds, 8 of which were denominated in euro, 3 in USD, 2 in GBP and 3 in Japanese yen.

Breakdown of the FX debt by currency before swaps at the end of 2005



The foreign exchange loan extended by the National Bank of Hungary in 1997 has a constantly decreasing proportion of foreign currency debt. At the end of 2005, this debt component – after swaps – amounted to HUF 96 billion, that is, 3% of the foreign currency debt.
The proportion of foreign currency loans within the foreign currency debt decreased from 18.8% to 17.4% in 2005. For liquidity management purposes ÁKK had a EUR 500 million revolving stand-by credit facility agreement in place, which did not have an outstanding amount at the end of 2005.

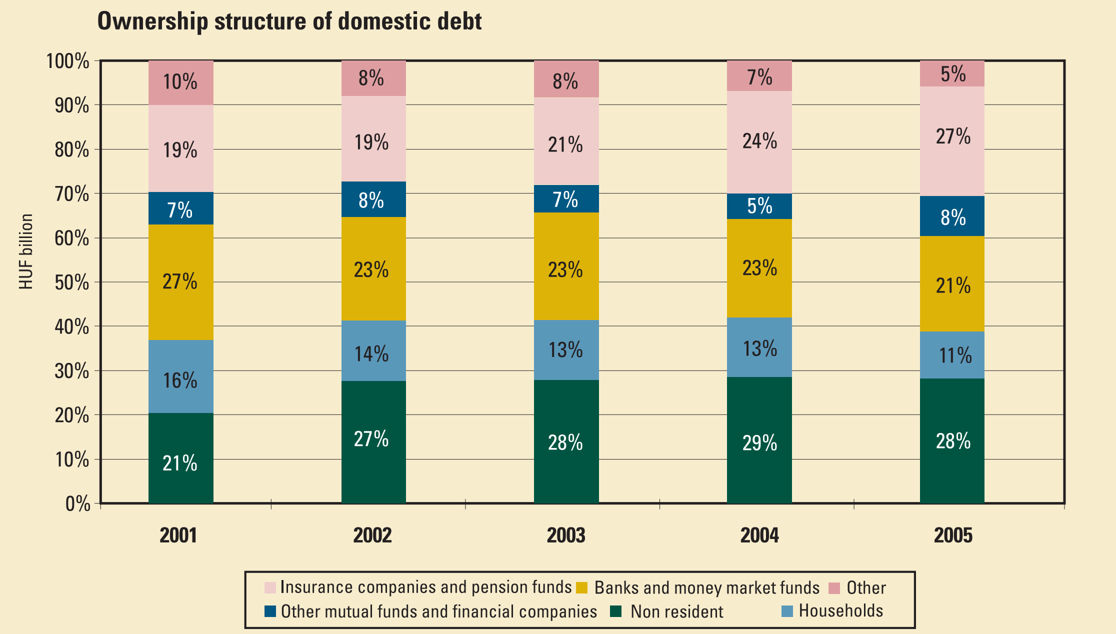
Maturity profile of FX currency government debt outstanding at the end of 2005



Similarly to the HUF portfolio, the duration of the foreign currency portfolio also increased in 2005 – mostly due to the high net foreign currency issuance during the year – from 4 to 4.3 years, while the average term-to-maturity rose from 5.6 years at the beginning to 6.9 years by the end of the year.

THE OWNERSHIP STRUCTURE OF THE DOMESTIC GOVERNMENT DEBT

Non-residents continue to hold the largest proportion of domestic government securities, in close competition with insurance companies and pension funds, with credit institutions and money market funds lagging behind. The share of retail investors declined in 2005, but still they continue to be the fourth largest group of government securities holders. According to the trend of past years the most stable investors are insurance companies and pension funds.



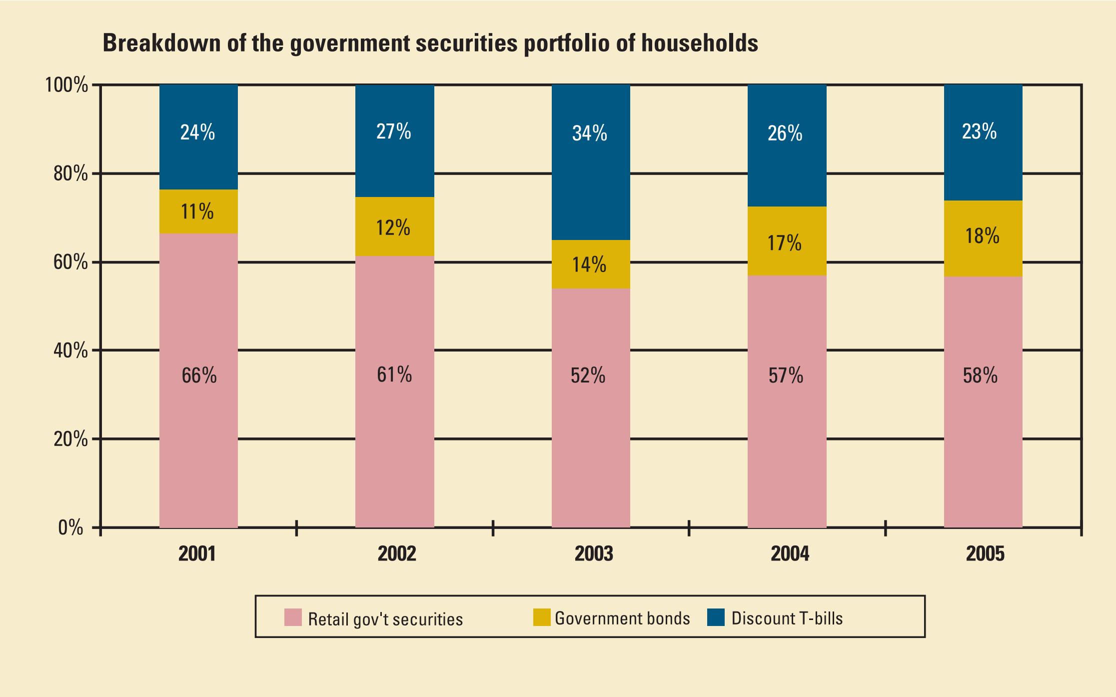
Source: NBH, KELER

During previous years non-resident investors increased their holdings of domestic securities steadily year by year. However in 2005 they shared their participation between the local and foreign currency bonds of the Republic of Hungary, therefore their activity in the local market declined a somewhat. Non-resident investors' holdings of domestic securities increased by HUF 29 billion (about EUR 110 million) to HUF 2,538 billion (about EUR 10 billion) in 2005. The duration of non-resident holdings increased from 2.8 years at the end of the 2004 to 3.3 years, and the average term-to-maturity also increased from 3.5 years to 4.2 years in 2005.

Non-resident holdings of HUF government bonds and Discount Treasury bills decreased to 29.6% in 2005, from 31.5% at the end of 2004.

Behind non-residents, insurance companies and pension funds are the second largest investor group in the domestic government securities market; their share had been increasing continuously and the securities held by them exceeded HUF 2,500 billion. Both insurance companies and pension funds traditionally hold a considerable part of their portfolios in government securities.

Since 2002, retail investors have been increasing their portfolio of government securities by HUF 80-100 billion per year. In 2005 however, they changed their portfolio and their total government securities holdings declined by about HUF 100 billion. Retail securities still had the largest share within their portfolios, but significant amounts of discount Treasury bills and government bonds were also owned directly by retail investors.



Source: NBH, ÁKK

The domestic market for Hungarian debt is well balanced in international comparison, the role and participation of long-term, strategic investors (like insurance companies, pension funds and mutual funds) is significant and increasing.

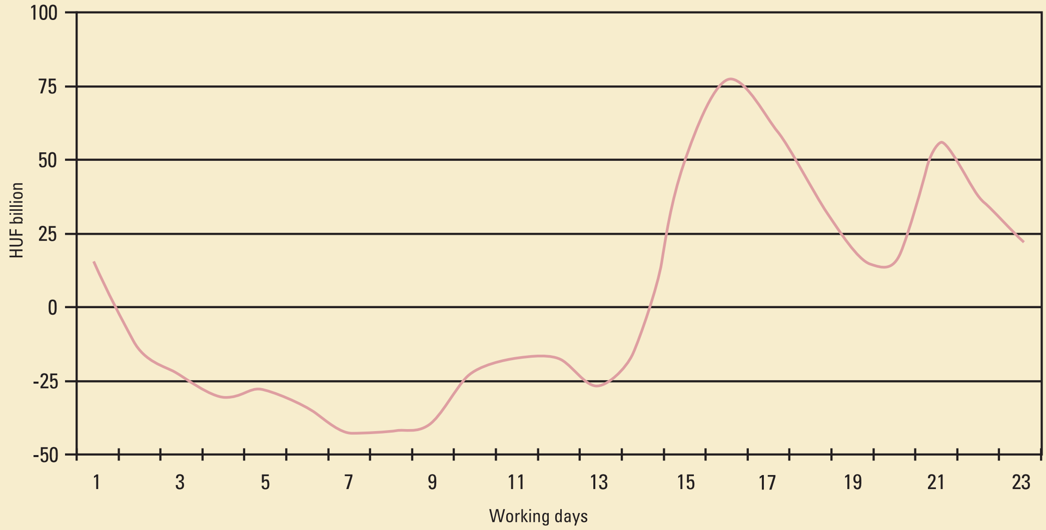
VIII. LIQUIDITY MANAGEMENT

The 2003 amendment to the Public Finances Act assigned the task of liquidity management of the central government to ÁKK and made the necessary instruments, such as repos, available for this purpose. ÁKK started this activity at the beginning of 2004 and its objective was to develop its liquidity management activity in 2005.

THE OBJECTIVES OF LIQUIDITY MANAGEMENT

Due to the cyclic nature of budget revenues and expenditures and debt transactions, the daily balance of the Single Treasury Account (STA) shows substantial daily fluctuation (in some cases as high as HUF 100 billion).[7]

Monthly movement of the STA balance relative to the average in 2001-2005, excluding debt transactions



This fluctuation has a considerable effect on the liquidity of the banking system as well. It is particularly important to reduce this fluctuation from the point of view of financing. Stable and predictable liquidity in the money market enhances the security of financing of the budget, and by stabilizing short-term interest rates the costs of financing may be reduced as well. In practice, the relationship between overnight money market interest rate levels and the STA balance is strong especially at the time of Treasury payments at the beginning of the month, and tax receipts in the second half of the month. When taxes are paid to the budget, free liquidity in the banking system is reduced while the STA balance increases, and as a result of liquidity shortage, overnight interest rates also increase. Thus, active liquidity management can reduce both the volatility of the STA and that of the money market.

Placing excess cash reserves at the end of the day in the money market in order to reduce volatility is a common practice in a number of Eurozone member countries. Keeping low amounts of cash on the STA is only a medium-term objective for ÁKK. For the first years – like in 2004 and 2005 as well – the interim target of cash management was to ensure that the end-of-day balance of the STA should be in a pre-set range around this benchmark. In order to keep to the target range, cash funds above the upper limit are placed in the market, and if additional funds are required for reaching the lower limit, ÁKK takes them from the market

.

[7] *The task of harmonising primary budget expenditures and revenues and forecasting their consolidated daily balance lies with the Hungarian State Treasury*

THE SET OF LIQUIDITY MANAGEMENT INSTRUMENTS

As one of ÁKK's benchmarks the target range was specified at +/- HUF 50 billion (ca. EUR 200 million) around the optimum STA balance which represented a considerable reduction of the fluctuations experienced in earlier years. However, in determining the target band, the effect of certain debt operations must be taken into account, such as foreign currency funding or transactions with the NBH, which increase the balance of the STA, yet do not have the corresponding influence on the liquidity of the banking sector.

Currently, in order to manage the fluctuations caused by debt operations and to tailor the end-of-day STA balance into the target range, ÁKK uses the following instruments:
- Active and passive repo transactions with government securities;
- The issuance of liquidity discount Treasury bills with usually 6-week tenor, issued as required for very short term money need;
- Active use of bond buy-backs (reverse auctions);
- Active adjustment of the volume of the 3-month and 6-month discount Treasury bills;
- A foreign currency stand-by facility.

These instruments have different time horizons in liquidity management. Bond buy-backs and 3-month and 6-month government securities are useful for smoothening fluctuations in the longer run, while liquidity discount Treasury bills are efficient for adjustments within a quarter. ÁKK uses repo transactions to achieve very short-term goals (namely, to keep the end-of-day STA balance within the target range). If the balance is above the upper limit, ÁKK concludes active repo transactions and if the volume is expected to be below the lower limit, it concludes passive repo transactions. The repo transactions have usually a tenor of one day (tom-next, spot-next) or a week.

Draw-downs from the standby facility serve mainly the purpose of bridging the time gap between foreign currency outflows and inflows on the STA, e.g. funds paid to and received from the European Union.

RESULTS AND EXPERIENCE IN 2005

Even though the tools used by ÁKK in liquidity management did not change in 2005, the effectiveness of this activity improved in many aspects.
In 2005, ÁKK sold liquidity Discount Treasury bills at 15 auctions in an amount totalling HUF 455 billion, up from HUF 388 billion a year before. Unlike the previous year the issuance of liquidity Treasury bills alone decreased the volatility of the primary balance of the STA by 16%.

The major tool for fine-tuning the STA balance into the target range is the liquidity repo. Repo tenders were concluded on 197 occasions in 2005. ÁKK used active repo on 124 days, passive ones less frequently (73 days). Total amount of repo transactions doubled in 2005 by reaching HUF 4,326 billion (EUR 17 billion) from HUF 2,209 billion in 2004.

The objective of liquidity management is to maintain the daily STA balance in the target range. In 2005 this aim was reached on 186 days out of the total of 256 working days (73%). The performance of smoothing improved even more in 2005 since the high daily volatility of the primary balance of the STA increased from 2004 due to the more volatile net financing need. Without liquidity management the volatility of the STA would have been HUF 133 billion, but after cash management, the volatility decreased by 32% to HUF 91 billion. Relative standard deviation decreased in 2005 to 24% from 27% a year before.

ÁKK's entry into the domestic repo market was successful: already in the first year of its repo activity it more than doubled the size of the domestic repo market (measured by daily average repo turnover), and this activity doubled in 2005 again. Based on the experience of liquidity management activities in 2005, ÁKK considers the further development of the market in order to improve the efficiency of repo transactions and to reach its objectives to a fuller extent, primarily by further developing this market and inviting more counterparties.
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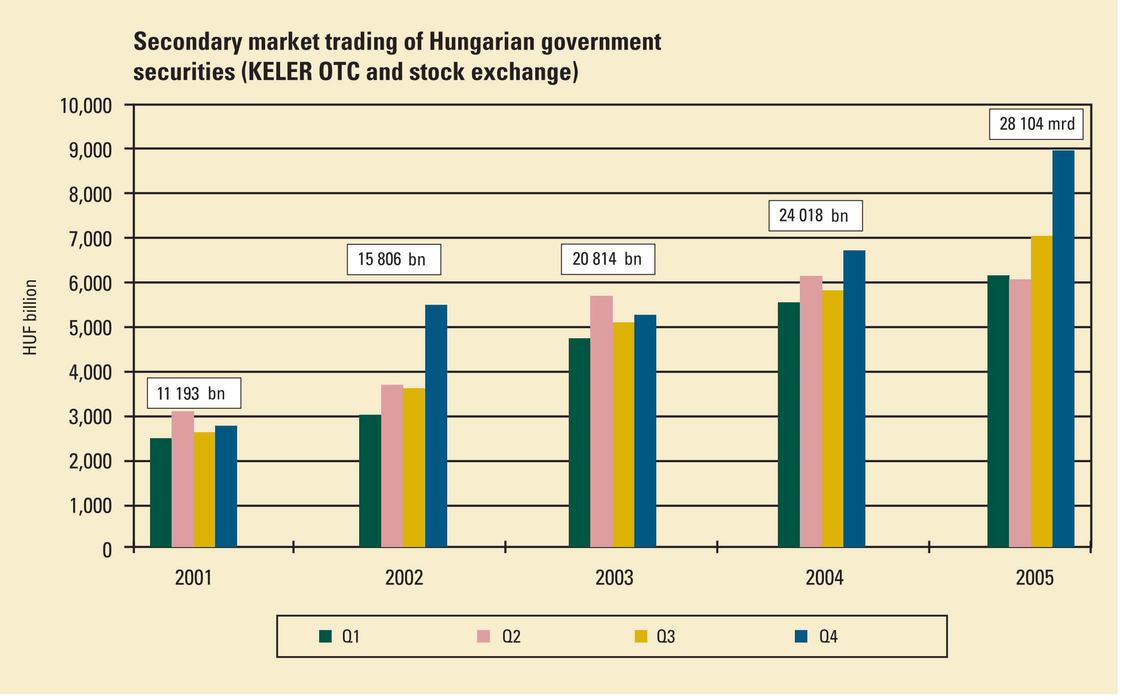
IX. THE SECONDARY MARKET OF GOVERNMENT SECURITIES

THE SECONDARY MARKET OF HUF GOVERNMENT SECURITIES

TURNOVER

Primary dealers quote two-way prices both in the Budapest Stock Exchange's trading system (MMTS) and directly to investors in the over-the-counter (OTC) market, and conclude government securities transactions on these markets.

Similarly to previous years, the vast majority of secondary trade in government securities in 2005 took place in the OTC market. Total OTC turnover of government securities amounted to HUF 28,006 billion, with government bonds accounting for 85% and discount Treasury bills for 15%. That means that the total outstanding government securities stock of HUF 8,600 billion was sold 3.3 times on average during 2005. OTC turnover in 2005 was 17% higher than in the preceding year. Government securities were traded at a much lower amount (ca. HUF 98 billion) on the Budapest Stock Exchange (BSE).



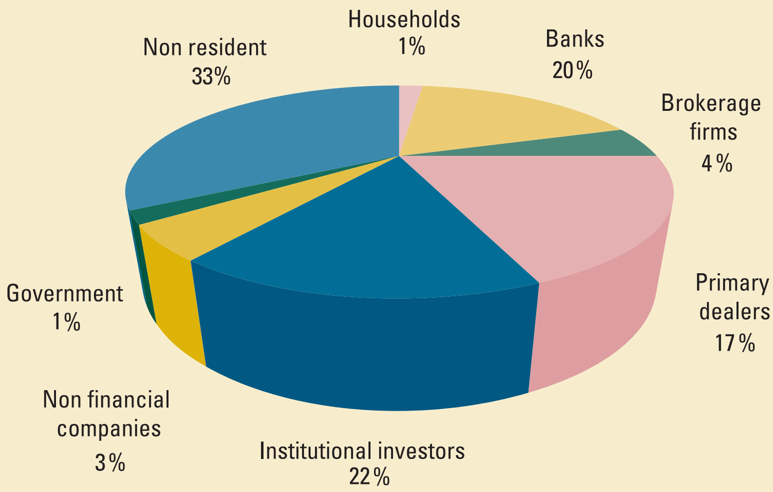
Source: KELER, BSE

[8] *Áht. 113/A. § (1) bekezdés b) pont.*

[9] *Az elsődleges költségvetési kiadások és bevételek összehangolása, valamint ezek összesített napi egyenlegének előrejelzése a Magyar Államkincstár feladata.*

Primary dealers made a turnover of HUF 25,867 billion in Hungarian government securities. About 31% of their government securities turnover involved non-resident investors, a somewhat lower ratio than a year before.

Breakdown of primary dealers' secondary market turnover in government securities by investors in 2005



The average size of primary dealers' secondary market deals – excluding those with retail investors – was HUF 415 million in 2005, a substantial increase from HUF 283 million a year ago. Non-resident investors had the largest average deal size, with HUF 744 million per deal.
In the course of the year, the 5-year 2010/B bond had the largest turnover with HUF 2,437 billion), followed by the 10-year 2015/A bond and the 5-year 2009/D bond.

In January 2006, ÁKK published the ranking of the primary dealers and its repo partners based on their activities in 2005. The list can be found on ÁKK's website under "Press releases". ÁKK awarded prizes in the following categories: the primary dealer with the largest market share in the primary market of Hungarian Government Bonds and that of Discount Treasury bills; the primary dealer with the highest secondary market share, ÁKK's repo partner with the largest repo turnover; and the primary dealer that increased its primary market share the most dynamically. The „Primary dealer of the year" prize was awarded for the second time, based on the rankings achieved in each category; for 2005, like in 2004, the prize went to ING Bank Rt.

MARKET DEVELOPMENT

In 2004 ÁKK introduced a stand-by repo facility to support primary dealers' price quotation and to promote smooth settlement. If a primary dealer needs government securities subject to price quotation but can not obtain them in the market or can obtain them only at an unreasonable cost, it may turn to ÁKK and ÁKK will make available the given government securities in a one-week repo transaction.

Stand-by repo facility transactions were concluded at a value of HUF 81 billion, in 382 transactions, up by 27% from 2004. This type of support from ÁKK is an important precondition for the further development of price quotation, as well as for narrowing the spread between bid and ask prices and for raising the volumes for which prices are quoted.

[10] *Az ÁKK Rt. által 2004-ben és 2005-ben alkalmazott likviditáskezelési eszköztár részletesebb leírása a 2004. évi Éves jelentés az államadósság kezeléséről című kiadványban található.*

THE SECONDARY MARKET OF GOVERNMENT SECURITIES ISSUED IN FOREIGN CURRENCY

As mentioned before, there is no special group of dealers in the secondary market for foreign currency bonds of the Republic of Hungary, unlike the primary dealers of HUF government securities. Similarly to the domestic market, ÁKK's objective is to issue series that are considered to be liquid in the given foreign capital market. The minimum size of a bond series in the euro market is EUR 1 billion, but large issuers prefer series that exceed EUR 5 billion. The latter volume is also the minimum requirement for sovereign European issuers to participate in the EuroMTS. Given that the 10 new EU Member States are not able to meet this requirement, the so-called NewEuroMTS had been launched for them. Here Euro-denominated bonds of sovereign issuers issued not more than two years earlier and with a size of at least EUR 1 billion are listed.

By the end of 2005, Republic of Hungary had 7 bonds traded in the NewEuroMTS. (Poland had 6, Cyprus, Czech Republic, Lithuania and Slovakia had 2 each and Slovenia had one.) Trading in Hungarian Eurobonds on the platform amounted to EUR 4 billion over the year.

[11] *A vizsgálatban nem tekintettük az év utolsó napjainak KESZ állományát, melyre hatással volt a BA tranzakció.*

X. INFORMATION SERVICE OF ÁKK

The Public Finances Act makes ÁKK responsible for informing the general public about the developments of government debt and the government securities market.
Therefore ÁKK publishes up-to-date, daily data on its Internet website and via other electronic communication systems

ÁKK'S INTERNET WEBSITE

As of 1 March 2004, the Government Debt Management Agency Ltd. developed its www.akk.hu website, giving it a new structure and renewing its contents. ÁKK's goal was to make sure that the most important data could be found easily on the home page, including the latest news, the volume of public debt, information on the most recent and upcoming auctions and the daily price quotations.
Other pages include information on ÁKK, the characteristics of government securities; a separate section is devoted to retail securities, and there is detailed information on the issuance and trading of government securities.
The „Government securities" section includes the cash flows of all outstanding government securities, and the most recent public offers of new issues. The „Market information" menu contains the issuance calendar for the current year; the results of auctions and a wide range of secondary market information. Since the website operates with data bases, historical data and data series can be queried on most of these pages.
ÁKK's publications in electronic (PDF) format are available in the „Analyses, statistics" menu, together with a number of statistical data series and the public analyses prepared by ÁKK.
A newsletter service is offered to the registered users of the website. By email newsletters users either receive certain contents attached as soon as they are published on the website, or they get a notification about the publication of the given contents. Registration on the website and newsletters are free of charge.

OTHER ELECTRONIC PLATFORMS

In addition to its web page, ÁKK publishes auction and price quotation data also on the information pages of Bloomberg and Reuters.

PRESS CONFERENCES, PUBLISHING IN THE PRESS

ÁKK also holds press conferences about annual financing, the ranking of primary dealers and other special topics. The promotion of retail securities sales is done by general marketing activities, and PR articles are published for informing non-resident investors.

PUBLICATIONS

ÁKK also informs interested readers regularly in publications free of charge. The following publications are available in hard copy or can be downloaded from the website:

- Annual reports (from the middle of the year that follows the given year)
- Debt Management Outlook publications (from the beginning of the given year)
- Quarterly reports (from the second month after the given quarter)
- Desktop issuance calendar (from December of the year preceding the given year)

Monthly publications are accessible only in electronic form as of 2004; they can be viewed and downloaded from ÁKK's website.

For further information concerning the publications, please contact:

Ms. Edit Huszti or Mr. Ádám Mohai

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ANNEX

1. CENTRAL GOVERNMENT DEBT

A központi költségvetés adósságának összetevői 2005. 12. 31-én (millió Ft-ban)

Domesti debt

Treasury bonds	Maturity	Coupon	Outstanding amount
2006/A	2006.02.28	Floating rate	38 572,57
2006/B	2006.01.24	Floating rate	77 968,17
2006/C	2006.07.24	Floating rate	77 968,18
2006/D	2006.08.12	Floating rate	1 767,56
2006/E	2006.05.12	8,50%	293 369,48
2006/F	2006.04.12	7,00%	384 737,27
2006/G	2006.08.24	6,50%	368 990,96
2007/A	2007.12.31	8,40%	8 000,00
2007/B	2007.12.12	Floating rate	24 000,00
2007/C	2007.08.12	Floating rate	1 897,54
2007/D	2007.06.12	6,25%	409 225,65
2007/E	2007.08.12	Floating rate	3 315,65
2007/F	2007.04.12	9,00%	300 784,56
2007/G	2007.10.12	9,25%	355 208,47
2008/A	2008.10.24	Floating rate	55 022,33
2008/B	2008.08.12	Floating rate	2 090,28
2008/C	2008.06.12	6,25%	405 396,33
2008/D	2008.04.24	7,25%	318 740,76
2008/E	2008.08.12	6,50%	367 465,51
2009/A	2009.08.12	Floating rate	2 17,27
2009/B	2009.02.12	9,50%	98 973,63
2009/C	2009.06.24	7,00%	303 220,96
2009/D	2009.10.12	8,25%	365 208,44
2010/A	2010.08.12	Floating rate	2 289,92
2010/B	2010.10.12	6,75%	371 961,27
2011/A	2011.02.12	7,50%	208 954,06
2012/A	2012.12.31	8,40%	7 132,15
2013/C	2013.12.20	Floating rate	127 928,00
2013/D	2013.02.12	6,75%	435 083,32
2014/A	2014.05.02	Floating rate	29 576,06
2014/B	2014.12.20	Floating rate	16 612,00
2014/C	2014.02.12	5,50%	400 598,59
2015/A	2015.02.12	8,00%	410 972,44
2016/A	2016.12.31	Floating rate	36 740,00
2016/B	2016.01.02	Floating rate	9 000,00
2016/C	2016.02.12	5,50%	100 304,88
2017/A	2017.11.24	6,75%	203 778,38
2020/A	2020.11.12	7,50%	196 000,00
2026/A	2026.02.28	Floating rate	51 165,00
2026/B	2026.04.24	Floating rate	80 000,00
2026/C	2026.10.24	Floating rate	3 975,04
Matured but unclaimed			167,98
Total			7 033 009,63
Out of which repo			3 400,00
Discount Treasury Bills			1 530 925,70
Interest Bearing Treasury Bills			219 683,27
Treasury Savings Bills			288 493,64
Treasury Savings Bills II			80 516,66
Loans			844,00
Other			18,59

Foreign currency debt

Foreign currency debt	in HUF million	in EUR million
Syndicated loan	**126,365.00**	**500.00**
Loans granted by International Financial Institutions	**419,213.74**	**1,658.74**
Loans assumed from the market	**78,994.29**	**312.56**

Bonds

Code	Currency	Maturity date	Maturity (years)	Coupon	Outstanding amount (HUF million)	Outstanding amount (EUR million)
105	EUR	16.02.2009	10	4.375%	126,365.00	500.00
109	USD	19.04.2006	7	6.50%	176,941.77	700.12
112	EUR	27.06.2011	10	5.625%	252,730.00	1000.00
113	EUR	06.02.2013	10	4.50%	252,730.00	1000.00
114	EUR	27.09.2010	7	4.00%	252,730.00	1000.00
115	EUR	29.01.2014	10	4.50%	252,730.00	1000.00
116	GBP	06.05.2014	10	5.50%	190,356.24	753.20
117	JPY	18.06.2009	5	1.09%	94,773.75	375.00
118	EUR	28.10.2011	7	3.625%	252,730.00	1000.00
119	USD	15.12.2006	2	3-month USD LIBOR +0.03%	19,007.82	75.21
120	EUR	24.02.2020	15	4.75%	290,850.78	1150.84
121	GBP	09.05.2017	12	3.88%	252,730.00	1000.00
122	JPY	12.07.2010	5	5.00%	186,464.19	737.80
123	JPY	12.07.2012	7	0.62%	56,968.12	225.41
124	EUR	02.11.2012	7	0.96%	85,503.61	338.32
125	EUR	18.07.2016	11	3-month EURIBOR+0.05%	126,365.00	500.00
Total					**2,869,976.29**	**8,403.53**
Out of which swaps						3,053.29

Loans from the National Bank of Hungary from the debt swap in 1997	**96,064.83**	
Out of which swaps	4,134.34	
Kingdom of Hungary 1924 bond issue	**69.07**	
Total central government debt	**12,744,174.72**	
Mark-to-market deposits at ÁKK Rt	21,423.03	
Grand total	**12,765,597.75**	

** Devizaswapokkal együtt*

2. CREDIT RATING HISTORY OF THE REPUBLIC OF HUNGARY

Foreign currency debt

Date of change	Moody's	Standard and Poor's	Fitch Ratings
1992. 04. 20.	-	BB+	-
1993. 12. 27.	Ba1	BB+	-
1996. 04. 25.	Ba1	BB+	BBB-
1996. 10. 28.	Ba1	BBB-	BBB-
1996. 12. 19.	Baa3	BBB-	BBB-
1997. 06. 24.	Baa3	BBB-	BBB
1998. 05. 08.	Baa2	BBB-	BBB
1998. 12. 11.	Baa2	BBB	BBB
1999. 06. 25.	Baa1	BBB	BBB
1999. 10. 29.	Baa1	BBB	BBB+
2000. 02. 02.	Baa1	BBB+	BBB+
2000. 11. 14.	A3	BBB+	BBB+
2000. 11. 29.	A3	BBB+	A-
2000. 12. 19.	A3	A-	A-
2002. 11. 12.	A1	A-	A-
2005. 12. 06.	A1	A-	BBB+

Outlook was stable for all three credit rating agencies.

HUF debt

Date of change	Moody's	Standard and Poor's	Fitch Ratings
1996. 04. 25.	-	-	BBB+
1996. 10. 28.	-	A-	BBB+
1997. 06. 24.	-	A-	A-
1998. 06. 22.	A1	A-	A-
1998. 07. 02.	A1	A-	A
1998. 12. 11.	A1	A	A
2000. 11. 29.	A1	A	A+
2000. 12. 19.	A1	A+	A+
2002. 11. 19.	A1	A	A+
2005. 01. 12.	A1	A	A
2005. 05. 27.	A1	A-	A
2005. 12. 06.	A1	A-	A-

Outlook was stable for all three credit rating agencies.

4. THE RELEVANT LEGISLATION GOVERNING ÁKK AND GOVERNMENT DEBT MANAGEMENT

ACT NO. XXXVIII OF 1992 ON PUBLIC FINANCES

(...)

18/F. § (1) The Government Debt Management Agency Ltd. (hereinafter: „ÁKK Rt.") is a single shareholder company (limited by shares). The company's shares are registered and non-negotiable securities.
(2) The Founder of ÁKK Rt. is the Minister of Finance.
(3) The establishment and operation of ÁKK Rt. – unless otherwise provided by the Act on Public Finances – are governed by the Companies Act (Act No. CXLIV of 1997).
(4) The shareholder's rights are exercised by the Minister of Finance, with the difference, that the shareholder is not entitled to withhold the rights of the Board of Directors.
(5) State officials as specified in the Act on the Status and Responsibilities of the Members of the Government and State Secretaries (Act No. LXXIX of 1997) may hold positions in ÁKK Rt.'s Board of Directors and Supervisory Board.

18/G. § (1) ÁKK Rt. manages its assets autonomously within the framework of the applicable laws and regulations, the decisions of the shareholder and the decisions of the Board of Directors.
(2) The revenues of ÁKK Rt. are:
a) The appropriation assigned for this purpose in relation with government debt management in the Annual Budget Act, which is to be placed at the disposal of the company in equal monthly instalments;
b) Other revenues.
(3)
(4) The interests, costs, fees and other payments associated with government debt management are booked and paid by ÁKK Rt. to the debit of the government debt chapter of the current Budget.
(5) ÁKK Rt. is the general legal successor of the Hungarian State Treasury Government Debt Management Agency as regards all rights and liabilities.
(6) ÁKK Rt. holds a current bank account at the National Bank of Hungary (hereinafter: „NBH") for its operations specified in paragraphs (1)-(3).
(7) ÁKK Rt. holds securities a securities custody account and a securities account at the Central Clearing House and Depository (Budapest) Ltd. (hereinafter: „KELER") for its operations specified in section 113/A of the Act on Public Finances.
(8) ÁKK Rt. may open a foreign currency current account at the NBH for its operations specified in section 113/A of the Act on Public Finances.

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(...)

THE GOVERNMENT DEBT

110. § All such payment liabilities based on credit relationship that are payable by any subsystem of the general government are considered to be government debt.

111. § The subsystems of the general government are responsible themselves for recording, managing and effecting the liabilities deriving from their debts.

112. § (1) The government debt is to be recorded and presented to the Parliament as per divided to each subsystem of the general government.
(2) The government debt payable by the budgetary central government within total government debt is to be managed and recorded in an integrated manner, after having executed the provisions rendered by paragraph (3) of section 124.
(3) The relationship and connection between the government debt of the subsystems of the general government and the public sector debt as specified by the Excessive Deficit Procedure of the European Union

(Maastricht debt ratio) is to be presented.

113. § The subsystems of the general government have to manage and record their debts separately.

113/A. § (1) The Minister of Finance through the ÁKK Rt.

a) Ensures the solvency of the so-called state budget on the basis of the annual Budget Act and by taking into account the forecast rendered in subsection p) of paragraph (1) of section 18/B;

b) Ensures that the central government deficit and debt redemptions are financed and the government debt and the temporarily free cash-funds of the state are properly managed;

c) Records the central government debt.

(2) In executing the above duties, the ÁKK Rt.:

a) Elaborates the annual and medium-term financing plan of the central government, develops the government debt financing strategy;

b) Issues government securities and raises loans in compliance with the annual Budget Act, and organises debt-assumptions from public institutions to the State;

c) Ensures that the government debt services are duly paid;

d) Organises the secondary market of government securities;

e) Executes secondary market security operations, sells, buys and lends government securities, executes repo transactions; in performing debt management duties concludes spot, forward and hedging transactions to reduce exchange rate and interest rate risks, and executes custodial and other security tasks;

f) Analyses the tendencies of the government debt service and the government securities market;

g) Provides information on the government debt and on the tendencies in the government securities market;

h) Is entitled to perform tasks related to the issuance and management of government guaranteed debt securities and loans;

i) Expresses opinions on the terms and conditions of government guaranteed debt securities and loans;

j) Performs loan and deposit operations.

(3) ÁKK Rt. may create debt securities on the separated sub-accounts of the accounts specified in paragraph (6) of section 18/G without outright issuance and underlying financial claims, which may become objects of transactions specified in subsection e) of paragraph (2).

(4) Related to the debt securities issued or guaranteed by the state, the ÁKK Rt. and the Treasury may trade them on client and own account, may participate in administering their placement, and may provide services related to the placement, custody, security deposit account keeping, security account keeping, client's cash account keeping and lending of these securities. The provisions of Act CXX of 2001 on the Capital Markets shall mutatis mutandis apply to the ÁKK Rt.'s and the Treasury's scope of activities in this regard.

SECTION 3 (1) OF ACT NO. CXXXV OF 2004 ON THE BUDGET OF THE REPUBLIC OF HUNGARY FOR THE YEAR 2005

(…)

(1) The Minister of Finance shall be entitled by the Parliament to finance the deficit of the central government, to continuously ensure the liquidity of the Single Treasury Account (STA) and to manage the debt of the central government and the assets thereof administered by the Hungarian State Treasury.

5. THE FINANCIAL STATEMENTS OF ÁKK RT. AND THE MEMBERS OF THE BOARD OF DIRECTORS AND THE SUPERVISORY BOARD

I. BALANCE SHEET

in HUF thousand

	Assets	2004	2005
A)	**Fixed assets**	**111 889**	**87 486**
I.	**Intangible assets**	**49 259**	**21 784**
II.	**Tangible assets**	**54 020**	**56 399**
III.	**Invested financial assets**	**8 610**	**9 303**
B)	**Current assets**	**308 061**	**266 580**
I.	**Inventories**		
II.	**Receivables**	**5 719**	**6 372**
III.	**Securities**		
IV.	**Cash and cash equivalents**	**302 342**	**260 208**
C)	**Assets of accruals**	**7 029**	**12 259**
	Total assets	**426 979**	**366 325**

adatok ezer forintban

	Liabilities	2004	2005
D)	**Capital and reserves**	**300,000**	**302,792**
I.	**Subscribed capital**	**300,000**	**300,000**
VII.	**Balance sheet profit or loss**		**2,792**
E)	**Provisions**		
F)	**Liabilities**	**118,462**	**55,026**
I.	**Subordinated liabilities**		
II.	**Long term liabilities**		
III.	**Short term liabilities**	**118,462**	**55,026**
G)	**Liabilities of accruals**	**8,517**	**8,507**
	Total liabilities	**426,979**	**366,325**

II. PROFIT AND LOSS ACCOUNT

		2004	in HUF thousand 2005
I.	Net sales revenues	773 000	764 400
III.	Other incomes	2 691	4 152
IV.	Material expenses	172 860	158 184
V.	Personnel expenses	521 238	569 334
VI.	Depreciation and amortisation	65 526	56 018
VII.	Other expenses	6 825	5 002
A)	Operating profit or loss	9 242	-19 986
B)	Profit or loss from financial transactions	38 180	23 338
C)	Profit or loss on ordinary activities	47 422	3 352
D)	Extraordinary profit or loss		
E)	Profit or loss before taxation	47 422	3 352
XII.	Tax payable	7 587	560
F)	Profit or loss after taxation	39 835	2 792
23	Approved dividends	39 835	
G)	Balance sheet profit or loss	0	2 792

** Az információk a kiadvány szerkesztésének lezárásakor aktuális állapotot tükrözik*

MEMBERS OF ÁKK RT.'S BOARD OF DIRECTORS AND THE SUPERVISORY BOARD AT THE END OF 2005:

Board of Directors:

Dr. Tamás Katona chairman
Dr. György Radnai
Ferenc Pichler
Álmos Kovács
Dr. Tibor Draskovics
Ferenc Szarvas
Dr. László András Borbély

Supervisory Board:

Zoltán Sághy chairman
Balázs Romhányi
Dr. Béla Jónás
Dr. István Várfalvi
Mrs. Imréné Karácsony

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