Tisza Chemical Group Public Limited Company and Subsidiaries

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

31 December 2011

This is a translation of the Hungarian Report

Independent Auditors' Report

To the Shareholders of Tisza Chemical Group Public Limited Company

Report on financial statements

1.) We have audited the accompanying 2011 consolidated annual financial statements of Tisza Chemical Group Public Limited Company ("the Company"), which comprise the consolidated statement of financial position as at 31 December 2011 - showing a balance sheet total of HUF 209,030 million and a loss for the year of HUF 11,226 million -, the related consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

2.) Management is responsible for the preparation and presentation of consolidated financial statements that give a true and fair view in accordance with the International Financial Reporting Standards as adopted by EU, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

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

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

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

Opinion

6.) We have audited the elements of and disclosures in the consolidated annual financial statements, along with underlying records and supporting documentation, of Tisza Chemical Group Public Limited Company in accordance with Hungarian National and International Auditing Standards and have gained sufficient and appropriate evidence that the consolidated annual financial statements have been prepared in accordance with the International Financial Reporting Standards as adopted by EU. In our opinion the consolidated annual financial statements give a true and fair view of the equity and financial position of Tisza Chemical Group Public Limited Company as at 31 December 2011 and of the results of its operations for the year then ended.

Emphasis of matter

7.) We draw the attention to Note 29 to the consolidated financial statements that describe the environmental aspects of the Company's operations and highlights the risk of additional significant decontamination expenses that might incur over the current amount of the provision in relation to past environmental damage as may be identified by future environmental surveys. Our opinion is not modified in respect of this matter.

Other reporting requirement - The consolidated business report

8.) We have reviewed the consolidated business report of Tisza Chemical Group Public Limited Company for 2011. Management is responsible for the preparation of the consolidated business report in accordance with the Hungarian legal requirements. Our responsibility is to assess whether the consolidated business report is consistent with the consolidated financial statements for the same financial year. Our work regarding the consolidated business report has been restricted to assessing whether the consolidated business report is consistent with the consolidated annual financial statements and did not include reviewing other information originated from non-audited financial records. In our opinion, the consolidated business report of Tisza Chemical Group Public Limited Company for 2011 corresponds to the disclosures in the 2011 consolidated annual financial statements of Tisza Chemical Group Public Limited Company.

Budapest, 21 March 2012

Havas István
Ernst & Young Kft.
Registration No. 001165

Havas István
Registered Auditor
Chamber membership No.: 003395

Tisza Chemical Group Public Limited Company and Subsidiaries

Consolidated financial statements
prepared in accordance with International Financial Reporting Standards

31 December 2011

Tiszaújváros, 21 March 2012

Zsolt Pethő	**Gyula Hodossy**
Chief Executive Officer	Chief Financial Officer, Deputy CEO

Consolidated balance sheet

31 December 2011

	Notes	2011	2010
ASSETS		HUF million	HUF million
Non-current assets			
Intangible assets	4	2,351	2,648
Property, plant and equipment	5	122,465	128,480
Investments in associated companies	6	132	132
Other non-current assets	8	238	202
Total non-current assets		**125,186**	**131,462**
Current assets			
Inventories	9	11,848	10,136
Trade receivables, net	10	50,881	49,942
Other current assets	11	15,246	13,945
Prepaid taxes		154	107
Cash and cash equivalents	12	5,715	5,080
Total current assets		**83,844**	**79,210**
TOTAL ASSETS		**209,030**	**210,672**
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Share capital	13	24,534	24,534
Reserves	14	109,644	112,877
Net income attributable to equity holders of the parent		(11,226)	(1,170)
Equity attributable to equity holders of the parent		**122,952**	**136,241**
Non-controlling interests		-	-
Total equity		**122,952**	**136,241**
Non-current liabilities			
Long-term debt, net of current portion	15	16,248	15,191
Provisions for liabilities and charges	16	2,312	2,321
Deferred tax liabilities	26	862	1,421
Other non-current liabilities	17	5	2,558
Total non-current liabilities		**19,427**	**21,491**
Current liabilities			
Trade and other payables	18	58,411	51,271
Provisions for liabilities and charges	16	458	407
Short-term debt	19	6,623	286
Current portion of long-term debt	15	1,159	976
Total current liabilities		**66,651**	**52,940**
TOTAL EQUITY AND LIABILITIES		**209,030**	**210,672**

The notes are an integral part of these consolidated financial statements

Consolidated income statement

31 December 2011

	Notes	2011	2010
		HUF million	HUF million
Net sales (revenue)	20	411,462	365,185
Other operating income	21	3,364	2,279
Total operating income		**414,826**	**367,464**
Raw materials and consumables used	22	397,300	342,150
Personnel expenses	23	9,404	9,646
Depreciation, amortization and impairment	4,5	13,331	13,012
Other operating expenses	24	4,170	4,361
Change in inventories of finished goods and work in progress		(2,092)	(1,461)
Work performed by the enterprise and capitalized		(1,385)	(1,044)
Total operating expenses		**420,728**	**366,664**
Profit from operations		**(5,902)**	**800**
Financial income	25	276	225
Financial expense	25	(5,257)	(3,032)
Net financial expense	**25**	**(4,981)**	**(2,807)**
Gain / (Loss) from associates		-	18
Profit before tax		**(10,883)**	**(1,989)**
Income tax expense/(benefit)	26	343	(819)
Profit for the year		**(11,226)**	**(1,170)**
Attributable to:			
Equity holders of the parent		(11,226)	(1,170)
Non-controlling interests		-	-
Basic and diluted earnings per share attributable to ordinary equity holders of the parent (HUF)	27	**(462)**	**(48)**

The notes are an integral part of these consolidated financial statements

Consolidated Statement of comprehensive income

31 December 2011

	Notes	2011 HUF million	2010 HUF million
Profit for the year		**(11,226)**	**(1,170)**
Other comprehensive income			
Exchange differences on translating foreign operations		(66)	24
Available-for-sale financial assets, net of deferred tax		-	-
Cash-flow hedges, net of deferred tax		-	-
Share of other comprehensive income for associates		-	-
Other comprehensive income for the year, net of tax		**(66)**	**24**
Total comprehensive income for the year		**(11,292)**	**(1,146)**
Attributable to:			
Equity holders of the parent		(11,292)	(1,146)
Non-controlling interest		-	-
Basic and diluted earnings per share (calculated from comprehensive income) attributable to ordinary equity holders of the parent (HUF)	27	HUF (465)	HUF (47)

The notes are an integral part of these consolidated financial statements

Consolidated statement of changes in equity

31 December 2011

	Share capital	Share premium	Retained earnings	Translation reserve	**Total reserves**	Net income attributable to equity holders of the parent	**Total equity attributable to equity holders of the parent**	Non-controlling interest	**Total equity**
	HUF million	HUF million	HUF million	HUF million	**HUF million**	HUF million	**HUF million**	HUF million	**HUF million**
Opening balance 1 January 2010	**24,534**	**15,022**	**106,959**	**64**	**122,045**	**(9,192)**	**137,387**	**-**	**137,387**
Currency translation differences	**-**	-	-	24	**24**	-	**24**	-	**24**
Total comprehensive income and expense for the year recognized directly in equity	**-**	-	-	24	**24**	-	**24**	-	**24**
Retained profit for the year	**-**	-	-	-	**-**	(1,170)	**(1,170)**	-	**(1,170)**
Total comprehensive income and expense for the year	**-**	-	-	24	**24**	(1,170)	**(1,146)**	-	**(1,146)**
Transfer to reserves of retained profit for the previous year	**-**	-	(9,192)	-	**(9,192)**	9,192	**-**	-	**-**
Dividends	**-**	-	-	-	**-**	-	**-**	-	**-**
Closing balance 31 December 2010	**24,534**	**15,022**	**97,767**	**88**	**112,877**	**(1,170)**	**136,241**	**-**	**136,241**
Currency translation differences	**-**	-	-	(66)	**(66)**	-	**(66)**	-	**(66)**
Total comprehensive income and expense for the year recognized directly in equity	**-**	-	-	(66)	**(66)**	-	**(66)**	-	**(66)**
Retained profit for the year	**-**	-	-	-	**-**	(11,226)	**(11,226)**	-	**(11,226)**
Total comprehensive income and expense for the year	**-**	-	-	(66)	**(66)**	(11,226)	**(11,292)**	-	**(11,292)**
Transfer to reserves of retained profit for the previous year	**-**	-	(1,170)	-	**(1,170)**	1,170	**-**	-	**-**
Dividends	**-**	-	(1,992)	-	**(1,992)**	-	**(1,992)**	-	**(1,992)**
Other	**-**	-	(5)	-	**(5)**	-	**(5)**	-	**(5)**
Closing balance 31 December 2011	**24,534**	**15,022**	**94,600**	**22**	**109,644**	**(11,226)**	**122,952**	**-**	**122,952**

The notes are an integral part of these consolidated financial statements

Consolidated statement of cash-flows

31 December 2011

	2011 HUF million	2010 HUF million
Profit before tax	*(10,883)*	*(1,989)*
Adjustments to reconcile profit before tax to net cash provided by operating activities		
Depreciation and impairment	12,918	12,599
Amortization and impairment	413	413
Write-off of inventories, net	545	151
Increase/(decrease) in environmental provisions	284	59
Increase/(decrease) in provisions	5	57
Net (gain) / loss on sale of tangible assets	(88)	(673)
Net (gain) / loss on sale of subsidiary	(506)	-
Assigned receivables	-	1
Write-off of receivables	45	22
Write-off dividend liabilities	(5)	-
Other non cash items	(1)	-
Unrealised foreign exchange (gain) / loss on receivables and payables	(284)	(242)
Interest income	(143)	(192)
Interest on borrowings	1,990	1,288
Net foreign exchange (gain)/ loss excluding foreign exchange differences on receivables and payables	2,987	1,181
Other financial (gain) / loss, net	41	379
Share of net (profit)/loss of associates	-	(18)
Operating cash flow before changes in working capital	*7,318*	*13,036*
(Increase)/ decrease in inventory	(2,257)	(2,535)
(Increase)/ decrease in debtors	(986)	(6,244)
(Increase)/ decrease in other receivables	(2,088)	(1,464)
Increase/(decrease) in accounts payable	5,665	5,206
Increase/(decrease) in other current liabilities	(1,331)	2,816
Income taxes paid	(940)	1,534
Net cash provided by operating activities	**5,381**	**12,349**
Purchase of Property, Plant and Equipments	(5,590)	(7,594)
Proceeds from disposals of fixed assets	92	698
Loans and long-term bank deposits	655	893
Liabilities by CO2 emission quotas	(2,362)	-
Proceeds from liquidation of investments	215	-
Interest received and other financial income	152	206
Net cash used in investing activities	**(6,838)**	**(5,797)**
Proceeds from issue of new debts	17,866	42,995
Repayments of long-term debt	(17,667)	(56,964)
Increase/(Decrease) in short-term debt	4,805	7,387
Increase/(Decrease) in other financial liabilities	1	-
Interest paid and other financial costs	(1,026)	(1,860)
Dividends paid	(1,991)	-
Other	(5)	-
Net cash provided by financing activities	**1,983**	**(8,442)**
(Decrease)/increase in cash and cash equivalents	**526**	**(1,890)**
Cash and cash equivalents at the beginning of the year	5,080	6,942
Cash and cash equivalents at the end of the year	5,606	5,052

The notes are an integral part of these consolidated financial statements

1. Presentation of The Group Structure

Background to the consolidated companies

TVK Plc.

Tiszavidéki Vegyi Kombinát, TVK's legal predecessor was founded in 1953. In 1961 it was transformed into a state-owned company called Tiszai Vegyi Kombinát (the "state-owned company"). Prior to its privatisation, the state-owned company was incorporated as a public limited liability company on 31 December 1991 (the "Company"). In accordance with the law on the transformation of unincorporated state-owned enterprises, the assets and liabilities of TVK were revalued as at that date.

As at 31 December 1995, the Company was 99.92% owned by the Hungarian State Privatisation and Holding Company ("ÁPV Rt.") and the remaining 0.08% was owned by local municipalities.

In 1996, the Company was privatised through an offering of shares owned by ÁPV Rt. to foreign and domestic institutional and private investors.

Following this privatisation, shares of the Company were listed on the Budapest Stock Exchange and Global Depository Receipts ("GDRs") representing the shares were listed on the London Stock Exchange. As of 31 December 2011, MOL Plc. holds the majority of the shares.

The Company, with its registered seat in Tiszaújváros (H-3581 Tiszaújváros, TVK-Ipartelep TVK Központi Irodaház 2119/3. hrsz. 136. épület), produces chemical raw materials including ethylene, propylene and polymers of these products for both domestic and foreign markets.

The Group had 1,116 and 1,140 employees as at 31 December 2011 and 2010, respectively.

Consolidated subsidiaries

Company name	Country	Range of activity	Ownership 31 Dec 2011	Ownership 31 Dec 2010	Consolidation Method 31 Dec 2011
TVK Ingatlankezelő Kft.	Hungary	Property leasing, management	100%	100%	Full consolidation
TVK Italia Srl*	Italy	Wholesale and retail trade	-	100%	-
TVK UK Ltd.**	United Kingdom	Wholesale and retail trade	100%	100%	Full consolidation
TVK Inter-Chemol GmbH***	Germany	Wholesale and retail trade	-	100%	-
TVK France S.a.r.l.	France	Wholesale and retail trade	100%	100%	Full consolidation
TVK Erőmű Kft.****	Hungary	Electricity production and distribution	26%	26%	Full consolidation
TVK Polska Spzoo	Poland	Wholesale and retail trade	100%	100%	Full consolidation
TVK Ukraina tov	Ukraine	Wholesale and retail trade	100%	100%	Full consolidation
Tisza WTP Kft.*****	Hungary	Feed water and raw water	0%	0%	Full consolidation

*TVK Italia S.r.l was sold on December 12, 2011, but only its accumulated profit until November 30 was fully consolidated.
**Dissolution started on 1 July, 2009
***TVK Interchemol GmbH was sold on December 20, 2011, but it was fully consolidated until December 31, 2011.
**** The ownership of TVK Plc. is 26%. Based on the syndicated agreement TVK Plc. fully consolidated it - as a special purpose entity - in 2011 and 2010.
***** Tisza-Wtp Kft. was formed in 2002 specifically for providing feed water and raw water to TVK Plc. and TVK Erőmű Kft. under a long-term co-operation agreement. Tisza WTP Kft. has been consolidated by the Company since 1 January 2006 in accordance with SIC 12. According to service agreement Tisza WTP Kft. provides services that is consistent with the Group's ongoing major operations and TVK Group is the exclusive purchaser of services provided by Tisza WTP.

2. Authorization, statement of compliance and basis of preparation

i) Authorization and Statement of Compliance

These consolidated financial statements have been approved and authorized for issue by the Board of Directors on 21 March 2012.

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

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

ii) Basis of preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards and IFRIC interpretations issued and effective on 31 December 2011.

TVK Plc. prepares its statutory unconsolidated financial statements in accordance with the requirements of the accounting regulations contained in Law C of 2000 on Accounting (HAS). Some of the accounting principles prescribed in this law differ from International Financial Reporting Standards (IFRS).

For the purposes of the application of the Historical Cost Convention, the consolidated financial statements treat the Company as having come into existence as of 1 October 1991, at the carrying values of assets and liabilities determined at that date, subject to the IFRS adjustments.

The financial year is the same as the calendar year.

iii) Principles of Consolidation

Subsidiaries

The consolidated financial statements include the accounts of TVK Plc. and the subsidiaries that it controls. This control is normally evidenced when the Group owns, either directly or indirectly, more than 50% of the voting rights of a company's share capital and is able to govern the financial and operating policies of an enterprise so as to benefit from its activities. As required by IAS 27, immediately exercisable voting rights are taken into account when determining control.

The acquisition 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 date of obtaining control. The cost of an acquisition

is measured at the aggregate of the consideration transferred and the amount of any non-controlling interest (formerly known as minority interest) in the acquiree. The income and expenses of companies acquired or disposed of during the year are included in the consolidated financial statements from the date of acquisition or up to the date of disposal.

Intercompany balances and transactions, including intercompany profits and unrealised profits and losses - unless the losses indicate impairment of the related assets - are eliminated. The consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances.

Non-controlling interests represent the profit or loss and net assets not held by the Group and are shown separately in the consolidated balance sheet and the consolidated income statement, respectively. For each business combination, non-controlling interest is stated either at fair value or at the non-controlling interests' proportionate share of the acquiree's fair values of net assets. The choice of measurement basis is made on an acquisition-by-acquisition basis. Subsequent to acquisition, the carrying amount of non-controlling interests is the initially recognised amount of those interests adjusted with the non-controlling interests' share of consecutive changes in equity. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interests having a negative balance.

Changes in the Group's interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to the owners of the company.

Joint ventures

A joint venture is a contractual arrangement whereby two or more parties (ventures) undertake an economic activity that is subject to joint control. Joint control exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the ventures. A jointly controlled entity is a joint venture that involves the establishment of a company, partnership or other entity to engage in economic activity that the Group jointly controls with its fellow ventures.

The Company's interests in its joint ventures are accounted for by the proportionate consolidation method, 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. The joint venture is proportionately consolidated until the date on which the Group ceases to have joint control over the venture.

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. Losses on intragroup transactions are recognised immediately if the loss provides evidence of reduced net realisable value of current assets or impairment loss.

When the joint control is lost, the Group measures and recognises its remaining investment at its fair value unless the joint control does not become a subsidiary or associate. The difference between the carrying amount of the joint entity and the fair value of the remaining investment together with any proceeds from disposal is recognised in profit or loss.

Investments in associates

An associate is an entity over which the group is in a position to exercise significant influence through participation in the financial and operating policy decisions of the investee, but which is not a subsidiary or a jointly controlled entity.

The Group's investments in its associates are accounted for using the equity method of accounting. 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 recognized directly in the equity of the associate, the Group recognizes its share of any changes and discloses this, when 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 assessed to determine whether there is any objective evidence of impairment. If there is evidence that the recoverable amount of the investment is lower than its carrying value, then the difference is recognised as impairment loss in the income statement. Where losses were made in previous years, an assessment of the factors is made to determine if any loss may be reversed.

When the significant influence over the associate is lost, the Group remeasures and recognises any retaining investment at its fair value. The difference between the carrying amount of the associate and the fair value of the retaining investment together with any proceeds from disposal is recognised in profit or loss

Other consolidated entities

Special purpose entities are fully consolidated. Special purpose entities are companies which operate substantially in compliance with the Company business needs. It provides a supply of goods or services that is consistent with the Company's ongoing major or central operations. The substance of the relationship between an entity and the SPE indicates that the SPE is controlled by that entity.

2.1 Changes in Accounting Policies

The accounting policies adopted are consistent with those applied in the previous financial years, apart from some minor modifications in the classification of certain items in the balance sheet or the income statement, none of which has resulted in a significant impact on the financial statements except for reclassifying costs related to bank loans from Operating to Financial expenses. While the comparative period has been restated, an opening balance sheet has not been included as the reclassifications made were not considered material.

The Group has adopted the following new and amended IFRS and IFRIC interpretations during the year. Except 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 24 Related Party Disclosures (amendment) effective 1 January 2011*
- *IAS 32 Financial Instruments: Presentation (amendment) effective 1 February 2010*
- *IFRIC 14 Prepayments of a Minimum Funding Requirement (amendment) effective 1 January 2011*
- *Improvements to IFRSs (May 2010)*

The principal effects of these changes are as follows:

IAS 24 Related Party Transactions (Amendment)

The amendments to IAS 24 Related Party Disclosures become effective for financial years beginning on or after 1 January 2011 and must be applied retrospectively. The revised standard simplifies the disclosure requirements for entities that are controlled, jointly controlled or significantly influenced by a government and clarifies the definition of a related party. As a result, such a reporting entity is exempt from the general disclosure requirements in relation to transactions and balances with the government and government-related entities.

IAS 32 Financial Instruments: Presentation (Amendment)

The amendment to IAS 32 is effective for annual periods beginning on or after 1 February 2010 and requires that rights, options and warrants to acquire a fixed number of an entity's own equity instruments for a fixed price of any currency are equity instruments if certain criteria are met.

IFRIC *14 Prepayments of a Minimum Funding Requirement (Amendment)*

The amendment to IFRIC 14 Prepayments of a minimum funding requirement was issued to remove the unintended consequence in IFRIC 14 that in some cases entities are not permitted to recognize as an asset some voluntary prepayments for minimum funding contributions. The amendment becomes effective 1 January 2011.

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments

This interpretation addresses the accounting by an entity that issues equity instruments to settle financial liability. The equity instrument is measured at fair value and the financial liability is derecognized, fully or partly, based on the "consideration paid". The interpretation is effective for annual periods beginning on or after 1 July 2010.

Improvements to IFRSs

In May 2010, the IASB issued its third omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. The adoption of the following amendments resulted in changes to accounting policies, but no impact on the financial position or performance of the Group.

IFRS 1 First-time Adoption of International Financial Reporting Standards

The annual improvements to IFRS 1 include: a) accounting policy changes in the year of IFRS adoption - if a first-time adopter changes its accounting policies or the use of exemptions in IFRS 1 after it has published its interim financial report in accordance with IAS 34 but before its first IFRS financial statements, it should explain those changes; b) revaluation basis as deemed cost – clarifies that a first-time adopter is permitted to use event-driven fair value as deemed cost during the first IFRS period and c) use of deemed cost for operations subject to rate regulation for certain items of property, plant and equipment or intangibles.

IFRS 3 Business Combinations:

Amendment to IFRS 3 specifies that the option to measure non-controlling interests either at fair value or at proportionate share of the acquiree's net identifiable assets applies only to non-controlling interests that are present ownership interests. All other components of non-controlling interests should be measured at their acquisition date fair value, unless another measurement basis is required by IFRSs.

IFRS 3 specifies that requirements to measure awards of the acquirer that replace acquiree share-based payment transactions with regards to IFRS 2 applies also to such transactions of the acquiree that are not replaced. The amendment also clarifies that market-based measurement of replacement awards applies to all replacement awards regardless of whether the acquirer is obliged to replace the awards or does so voluntarily.

The last amendment to IFRS 3 clarifies that IAS 32, IAS 39 and IFRS 7 do not apply to contingent consideration from a business combination which occurred before the effective date of the revised standard IFRS 3 in 2008.

All amendments to IFRS 3 are effective for annual period beginning on or after 1 July 2010.

IFRS 7 Financial Instruments — Disclosures:

The improvement to IFRS 7 clarifies disclosure requirements regarding credit risk and collateral held in order to enable users better to understand the nature and extent of risks arising from financial instruments.

IAS 1 Presentation of Financial Statements:

The amendment to IAS 1 clarifies that the entity may elect to present the analysis of other comprehensive income by item either in the statement of changes in equity or in the notes to the financial statements.

IAS 27 Consolidated and Separate Financial Statements

The amendment to IAS 27 clarifies that amendments made to IAS 21, IAS 28, and IAS 31 as a result of IAS 27 revisions in 2008 should be applied prospectively with some exceptions. The amendment is effective 1 July 2010.

IAS 34 Interim Financial Statements

Amendments to IAS 34 clarify how significant events and transactions in interim periods should update the relevant information presented in the most recent annual financial report.

IFRIC 13 Customer Loyalty Programmes

Amendment to IFRIC 13 specifies that fair value of award credits should consider the discount or incentives that customers who have not earned award credits would otherwise received as well as any expected forfeitures.

2.2 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 Hungarian Forint (HUF).

ii) Business Combinations

Business combinations are accounted for using the acquisition method. This involves assessing all assets and liabilities assumed for appropriate classification in accordance with the contractual terms and economic conditions and recognising identifiable assets (including previously unrecognized intangible assets) and liabilities (including contingent liabilities and excluding future restructuring) of the acquired business at fair value as at the acquisition date. Acquisition-related costs are recognised in profit or loss as incurred.

When a business combination is achieved in stages, the Group’s previously held equity interest in the acquiree is remeasured to fair value as at the acquisition date and the resulting gain or loss is recognised in profit or loss.

Contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration are adjusted against the cost of acquisition, only if they qualify as

period measurement adjustments and occur within 12 months from the acquisition date. All other subsequent changes in the fair value of contingent consideration are accounted for either in profit or loss or as changes to other comprehensive income. Changes in the fair value of contingent consideration classified as equity are not recognised.

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 acquiree's identifiable assets, liabilities and contingent liabilities. If the consideration transferred is lower than the fair value of the net assets of the acquiree, the difference is then recognised in profit or loss. 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 IFRS 8 Operating Segments.

Where goodwill forms part of a cash-generating unit (or group of cash generating units) and part of the operation within that unit (or group) 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 un-amortized goodwill is recognized in the income statement.

iii) Investments and Other Financial Assets

Financial assets within the scope of IAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held to maturity investments, or available for sale financial assets, as appropriate. When financial assets are recognized initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group considers whether a contract contains an embedded derivative when the entity first becomes a party to it.

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

The Group's financial assets are classified at the time of initial recognition depending on their nature and purpose. Financial assets include cash and short-term deposits, trade receivables, loans and other receivables, quoted and unquoted financial instruments and derivative financial instruments.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit and loss.

Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments or a financial guarantee contract. Gains or losses on investments held for trading are recognized as finance income or finance expense in the income statement.

Financial assets may be designated at initial recognition as at fair value through profit or loss if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognising gains or losses on them on a different basis; or (ii) the assets are part of a group of financial assets which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or (iii) the financial asset contains an embedded derivative that would need to be separately recorded. Such financial assets are recorded as current, except for those instruments which are not due for settlement within 12 months from the balance sheet date and are not held with the primary purpose of being traded. In this case all payments on such instruments are classified as non-current.

As at 31 December 2011 and 2010, no financial assets have been designated as at fair value through profit and loss.

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets which carry fixed or determinable payments have fixed maturities and which the Group has the positive intention and ability to hold to maturity. After initial measurement held to maturity investments are measured at amortised cost. This cost is computed as the amount initially recognized minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initially recognized amount and the maturity amount, less allowance for impairment. This calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. Gains and losses are recognized in the income statement when the investments are derecognized or impaired, as well as through the amortisation process.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement loans and receivables are subsequently carried at amortised cost using the effective interest method less any allowance for impairment. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognized in the income statement when the loans and receivables are derecognized or impaired, as well as through the amortisation process.

Available-for-sale financial investments

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. After initial measurement, available for sale financial assets are measured at fair value with unrealised gains or losses being recognized as other comprehensive income in the fair valuation reserve. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recorded as other comprehensive income is recognized in the income statement.

After initial recognition available-for-sale financial assets are evaluated on the basis of existing market conditions and management intent to hold on to the investment in the foreseeable future. In rare circumstances when these conditions are no longer appropriate, the Group may choose to reclassify these financial assets to loans and receivables or held-to-maturity when this is in accordance with the applicable IFRS.

Fair Value

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 without any deduction for transaction costs. 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.

iv) 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 asset takes place when the Group no longer controls the contractual rights that comprise the financial asset, 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. When the Group neither transfers nor retains all the risks and rewards of the financial asset and continues to control the transferred asset, it recognises its retained interest in the asset and a liability for the amounts it may have to pay.

v) Derivative Financial Instruments

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

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

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.

vi) Hedging

For the purpose of hedge accounting, hedges are classified as

- fair value hedges
- cash flow hedges or
- hedges of a net investment in a foreign operation.

A hedge of the foreign currency risk of a firm commitment is accounted for as a cash flow hedge. At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Hedges which meet the strict criteria for hedge accounting are accounted for as follows:

Fair value hedges

Fair value hedges are hedges of the Group's exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment, or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk that could affect the income statement.

For fair value hedges, the carrying amount of the hedged item is adjusted for gains and losses attributable to the risk being hedged, the derivative is remeasured at fair value and gains and losses from both are taken to the income statement. For fair value hedges relating to items carried at amortised cost, the adjustment to carrying value is amortised through the income statement over the remaining term to maturity. Any adjustment to the carrying amount of a hedged financial instrument for which the effective interest method is used is amortised to the income statement.

Amortisation may begin as soon as an adjustment exists and shall begin no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged.

When an unrecognized firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognized as an asset or liability with a corresponding gain or loss recognized in the income statement. The changes in the fair value of the hedging instrument are also recognized in the income statement.

The Group discontinues fair value hedge accounting if the hedging instrument expires or is sold, terminated or exercised, the hedge no longer meets the criteria for hedge accounting or the Group revokes the designation.

Cash-flow hedges

Cash flow hedges are a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction that could affect the income statement. The effective portion of the gain or loss on the hedging instrument is recognized directly as other comprehensive income, while the ineffective portion is recognized in the income statement.

Amounts taken to other comprehensive income are transferred to the income statement when the hedged transaction affects the income statement, such as when hedged financial income or financial expense is recognized or when a forecast sale or purchase occurs. Where the hedged item is the cost of a non-financial asset or liability, the amounts previously taken to equity are transferred to the initial carrying amount of the non-financial asset or liability.

If the forecast transaction is no longer expected to occur, amounts previously recognized in equity are transferred to the income statement. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, amounts previously recognized in other comprehensive income remain in other comprehensive income until the forecast transaction occurs. If the related transaction is not expected to occur, the amount is taken to the income statement.

<u>Hedges of a net investment</u>

Hedges of a net investment in a foreign operation, including a hedge of a monetary item that is accounted for as part of the net investment, are accounted for in a way similar to cash flow hedges. Gains or losses on the hedging instrument relating to the effective portion of the hedge are recognized as other comprehensive income while any gains or losses relating to the ineffective portion are recognized in the income statement. On disposal of the foreign operation, the cumulative value of any such gains or losses recognized as other comprehensive income is transferred to the income statement. The Company had no derivative financial instrument and hedging transactions in 2011 and 2010.

vii) Impairment of financial assets

The Group assesses at each balance sheet date whether a financial asset or group of financial assets is impaired. Impairment losses on a financial asset or group of financial assets are recognised only if there is an objective evidence of impairment due to a loss event and this loss event significantly impacts the estimated future cash flows of the financial asset or group of financial assets.

<u>Assets carried at amortised cost</u>

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The amount of the loss is recognized in the income statement.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for financial assets, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

<u>Available-for-sale financial investments</u>

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 recognized in the income statement, is transferred from other comprehensive income to the income statement. Impairment losses recognized on equity instruments classified as available for sale are not reversed, increases in their fair value after impairment are recognised directly in other comprehensive income. Impairment losses recognized on debt instruments classified as available-for-sale are reversed through income statement, if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognized in the income statement.

viii) Cash and Cash Equivalents

Cash includes cash on hand and cash at 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.

ix) Trade Receivables

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. A provision for impairment is made 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 derecognized when they are assessed as uncollectible.

If collection of trade receivables is expected within the normal business cycle which is one year or less, they are classified as current assets. If not, they are presented as non-current assets.

x) Inventories

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

xi) Property, Plant and Equipment

Property, plant and equipment are stated at historical cost (or the carrying value of the assets determined as of 31 December 1991) 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 upon initial recognition or, if decision on decommissioning is made subsequently, at the time of the decision. Changes in estimates thereof adjust the carrying amount of assets. Expenditures incurred after the property, plant and equipment have been put into operation, such as repairs and maintenance and overhead costs (except form periodic maintenance costs), are normally charged to income statement in the period in which the costs are incurred. Periodic maintenance costs are capitalized 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 asset is available for use.

xii) Intangible Assets

Intangible assets acquired separately are capitalized at cost and from business acquisitions are capitalized at fair value as at the date of acquisitions. Intangible assets are recognized 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. Amortization is charged on assets with a finite useful life over the best estimate of their useful lives using the straight line method. The amortization period and the amortization method are reviewed annually at each financial year-end. Intangible assets, excluding development costs, created within the business are not capitalized and expenditure is charged against income 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.

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 can not 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.

xiii) Depreciation, Amortization

Depreciation of each component of an intangible asset and property, plant and equipment is computed on a straight-line basis using the following rates:

Software	20 – 33%
Buildings and infrastructure	2 – 10%
Production machinery and equipment	5 – 14.5%
Office and computer equipment	14.5 – 50%
Vehicles	10 – 20%

Amortization 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 costs are depreciated until the next similar maintenance takes place.

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

The base of the depreciation of security and strategic spare parts is the average depreciation rate of technical equipments and vehicles relating to the production.

xiv) Impairment of Assets

Property, plant and equipment and intangible assets are reviewed for impairment 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 recognized 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 fair value less costs to sell and value in use. The fair value 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 net 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.

The Group assesses at each reporting date whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. A previously recognised impairment loss is reversed only if there has been a change in the impairment assumptions considered when the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset neither exceeds its recoverable amount, nor is higher than its carrying amount net of depreciation, had no impairment loss been recognised in prior years.

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 recognized. 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 monitored for impairment indicators throughout the year and are tested for impairment at least annually as of 31 December either individually or at the cash generating unit level, as appropriate.

Cash generating units

The Company identified two cash generating units (CGU) which are the ethylene production of Olefin plants for sales and the production of Olefin plants for internal use for the production of polymers.

The recoverable amount of each CGU has been determined based on a value in use calculation using cash flow projections based on financial budgets approved by senior management covering a 15-year period. The average pre-tax discount rate applied to cash flow projections is 9.28% (2010: 9.43%).

The calculation of value in use for cash generating units are most sensitive to the following assumptions:

- Raw materials price;
- Product price;
- Exchange rate;
- Material balance; and
- Discount rates.

With regard to the assessment of value in use of these cash-generating units, the management believes that no reasonably possible change in any of the above key assumptions would cause the carrying value of the units to materially exceed its recoverable amount.

xv) Interest-bearing loans and borrowings

All loans and borrowings are initially recognized 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 recognized in net in the income statement when the liabilities are derecognized, as well as through the amortisation process, except to the extent they are capitalized as borrowing costs.

xvi) Provisions

A provision is recognized 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. When the Group expects some or all of the provision to be reimbursed; the reimbursement is recognised as a separate asset but only when the reimbursement is actually certain. 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 the provisions increases in each period to reflect the unwinding of the discount by the passage of time. This increase is recognized as interest expense.

Provision for Redundancy

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

Provision for Environmental Expenditures

Environmental expenditures that relate to current or future economic benefits are expensed or capitalized as appropriate. Expenditures that relate to an existing condition caused by past operations and do not contribute to current or future earnings are expensed. Liabilities 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 litigations

TVK Group entities are parties to a number of litigations, proceedings and civil actions arising in the ordinary course of business. Management uses estimations when the most likely outcome of these actions is assessed and provision is recognized on a consistent basis.

Provision for Retirement Benefits

The Group operates long term employee benefit program. None of these schemes requires contribution to be made to separately administered funds. The cost of providing benefits under those plans is determined separately for each plan using the projected unit credit actuarial valuation method. Actuarial gains and losses are recognized as income or expense immediately. Past service costs, resulting from the introduction of, or changes to the defined benefit scheme are recognized as an expense on a straight-line basis over the average period until the benefits become vested.

Provision for Old Team benefits

Based on the valid Collective Agreement , the Company pays Old Team benefits to its employees as follows:
Every five years, the Company pays a fix set amount to all employees who had worked at least 10 years for the Company. Based on actuarial calculations, the Company made provision for Old Team benefits of current employees that reflects the expected payments based on their past service levels.

xvii) Greenhouse gas emissions

The Group receives free emission rights in Hungary 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 net liability approach to the emission rights granted. 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, whereby they are matched to the emission liabilities and remeasured to fair value.

xviii) Share-based payment transactions

Certain employees (including directors and managers) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares ('equity-settled transactions').

Equity-settled transactions

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by applying generally accepted option pricing models (usually by the binomial model). In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the parent company ('market conditions').

The cost of equity-settled transactions is recognized, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ('vesting date'). The cumulative expense recognized for equity settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the number of awards that, in the opinion of the directors of the Group at that date, based on the best available estimate of the number of equity instruments that will ultimately vest.

No expense is recognized for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognized as if the terms had not been modified. An additional expense is recognized for any increase in the value of the transaction as a result of the modification, as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognized for the award is recognized immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

Cash-settled transactions

The cost of cash-settled transactions is measured initially at fair value at the grant date using the binomial model. This fair value is expensed over the vesting period with recognition of a corresponding liability. The liability is remeasured at each balance sheet date up to and including the settlement date to fair value with changes therein recognized in the income statement.

xix) Leases

The determination whether an arrangement contains or is a lease depends on the substance of the arrangement at inception date. If fulfilment of the arrangement depends on the use of a specific asset or conveys the right to use the asset, it is deemed to contain a lease element and is recorded accordingly.

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

xx) Government grants

Government grants are recognized 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 recognized 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.

xxi) Reserves

Reserves shown in the consolidated financial statements do not represent the distributable reserves for dividend purposes. Reserves for dividend purposes are determined based on the company-only statutory earnings of TVK Plc.

<u>Translation reserves</u>

The translation reserve represents 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 other comprehensive income 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 recognized as income or expenses in the same period in which the gain or loss on disposal is recognized.

<u>Fair valuation reserves</u>

The fair valuation reserve includes the cumulative net change in the fair value of effective cash flow hedges and available for sale financial instruments.

<u>Equity component of debt and difference in buy-back prices</u>

Equity component of compound debt instruments includes the residual amount of the proceeds from the issuance of the instrument above its liability component, which is determined as the present value of future cash payments associated with the instrument. The equity component of compound debt instruments is recognized when the Group becomes party to the instrument.

xxii) Treasury Shares

The nominal value of treasury shares held is deducted from registered share capital. Any difference between the nominal value and the acquisition price of treasury shares is recorded directly to share premium.

xxiii) Dividends

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

xxiv) Revenue Recognition

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

Interest is recognized on a time-proportionate basis that reflects the effective yield on the related asset. Dividends due are recognized 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.

xxv) Borrowing Costs

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

xxvi) Income and Sales Taxes

The income tax charge consists of current and deferred taxes.

The current income tax is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because of items of income or expense that are never taxable or deductible or are taxable or deductible in other years. The Group's current income tax is calculating using tax rates that have been enacted or substantively enacted by the end of the reporting year.

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 enterprise expects, at the balance sheet date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and tax losses when it is probable that sufficient taxable profits will be available against which the deferred tax assets can be utilized, except:

- where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred income tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax liabilities are recognized for all taxable temporary differences, except:

- where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

At each balance sheet date, the Company re-assesses unrecognized deferred tax assets and the carrying amount of deferred tax assets. The enterprise recognizes a previously unrecognized deferred tax asset to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered. The Company conversely reduces the carrying amount of a deferred tax asset to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of the 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.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities which relate to income taxes imposed by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Sales tax

Revenues, expenses and assets are recognised net of the amount of sales tax, except:

- when the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case, the sales tax is recognised as part of the cost of acquisition of the asset or as part of the expense item, as applicable
- receivables and payables that are stated with the amount of sales tax included

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position

xxvii) 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 recognized in the consolidated income statement in the period in which they arise. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. Items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Foreign exchange differences on trade receivables and payables are included in operating profit, while foreign exchange differences on borrowings are recorded as financial income or expense.

Financial statements of foreign entities are translated at year-end exchange rates with respect to the balance sheet, and at the weighted average exchange rates for the year with respect to the income statement. All resulting translation differences are included in the translation reserve in other comprehensive income. On disposal of a foreign entity, the deferred cumulative amount recognized in other comprehensive income relating to that particular foreign operation shall be recognized in the income statement. Any exchange differences that have previously been attributed to non-controlling interests are derecognised, but they are not reclassified to profit or loss.

In case of a partial disposal of a subsidiary without any loss of control in the foreign operation, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other disposals such as associates or jointly controlled entities not involving a change of accounting basis, the proportionate share of accumulated exchange differences is reclassified to profit or loss.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

xxviii) 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.

The calculation of diluted earnings per share is consistent with the calculation of basic earnings per share while giving effect to all dilutive potential ordinary shares that were outstanding during the period, that is:

- the net profit for the period attributable to ordinary shares is increased by the after-tax amount of dividends and interest recognised in the period in respect of the dilutive potential ordinary shares and adjusted for any other changes in income or expense that would result from the conversion of the dilutive potential ordinary shares.

- the weighted average number of ordinary shares outstanding is increased by the weighted average number of additional ordinary shares which would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

xxix) Segmental Disclosure

The Group has two major divisions (Petrochemicals – Corporate and other) that serve as the primary basis for the Company's segment reporting purposes. The Group shows net sales by geographical area.

xxx) Contingencies

Contingent liabilities are not recognized 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 recognized in the consolidated financial statements but disclosed when an inflow of economic benefits is probable.

2.3 Significant accounting judgments and estimates

Critical judgments in applying the accounting policies

In the process of applying the accounting policies, which are described in note 2.2 above, management has made certain judgments that have a significant effect on the amounts recognized 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:

- Outcome of certain litigations
- assessment of control (over operation) of TVK Erőmű Kft. and Tisza WTP (Note 1)

Sources of estimate uncertainty

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

- Scope of environmental provision and quantification and timing of environmental liabilities (Note 16, 29)
- The availability of taxable income against which deferred tax assets can be recognized (Note 26)
- Actuarial estimate applied in the calculation of retirement benefit obligations (Note 16)
- Determination of useful lives of property, plant and equipment and intangibles
- Impairment of tangible assets and intangibles (Notes 4, 5)

2.4 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 Financial Statement Presentation – Presentation of Items of Other Comprehensive Income

The amendments to IAS 1 change the grouping of items presented in other comprehensive income. Items that could be reclassified (or 'recycled') to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. The amendment affects presentation only and has therefore no impact on the Group's financial position or performance. The amendment becomes effective for annual periods beginning on or after 1 July 2012.

IAS 12 Income Taxes – Recovery of Underlying Assets

The amendment clarified the determination of deferred tax on investment property measured at fair value. The amendment introduces a rebuttable presumption that deferred tax on investment property measured using the fair value model in IAS 40 should be determined on the basis that its carrying amount will be recovered through sale. Furthermore, it introduces the requirement that deferred tax on non-depreciable assets that are measured using the revaluation model in IAS 16 always be measured on a sale basis of the asset. The amendment becomes effective for annual periods beginning on or after 1 January 2012 and will have no impact on the Group.

IAS 19 Employee Benefits (Amendment)

The IASB has issued numerous amendments to IAS 19. These range from fundamental changes such as recognition of unvested past service cost and transferring the remeasurement component of the defined benefit cost to Other comprehensive income to simple clarifications and re-wording. The Group is currently assessing the full impact of the amendments but expects those not to be material. The amendment becomes effective for annual periods beginning on or after 1 January 2013.

IAS 27 Separate Financial Statements (as revised in 2011)

As a consequence of the new IFRS 10 and IFRS 12, what remains of IAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. The Group does not present separate financial statements prepared in accordance with IFRS. The amendment becomes effective for annual periods beginning on or after 1 January 2013.

IAS 28 Investments in Associates and Joint Ventures (as revised in 2011)

As a consequence of the new IFRS 11 and IFRS 12, IAS 28 has been renamed IAS 28 Investments in Associates and Joint Ventures, and describes the application of the equity method to investments in joint ventures in addition to associates. The amendment becomes effective for annual periods beginning on or after 1 January 2013.

IAS 32 Financial instruments: Presentation and IFRS 7 Financial Instruments: Disclosures - Clarification on asset/liability offsetting

The IAS 32 amendments clarify some of the requirements for offsetting financial assets and financial liabilities in the statement of financial position, ie. that the right of set-off must be available today and legally enforceable for all counterparties in the normal course of business, as well as in the event of default, insolvency or bankruptcy. Consequent change to IFRS 7 intends to enhance current offsetting disclosures. The amendments become effective for annual periods beginning on or after 1 January 2014 and 1 January 2013, respectively.

IFRS 7 Financial Instruments: Disclosures — Enhanced Derecognition Disclosure Requirements

The amendment requires additional disclosure about financial assets that have been transferred but not derecognised to enable the user of the Group's financial statements to understand the relationship with those assets that have not been derecognised and their associated liabilities. In addition, the amendment requires disclosures about continuing involvement in derecognised assets to enable the user to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognised assets. The amendment becomes effective for annual periods beginning on or after 1 July 2011. The amendment affects disclosure only and has no impact on the Group's financial position or performance.

IFRS 9 Financial Instruments: Classification and Measurement

IFRS 9 as issued reflects the first phase of the IASBs work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard is effective for annual periods beginning on or after 1 January 2015. In subsequent phases, the IASB will also address hedge accounting and impairment of financial assets. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but will potentially have no impact on classification and measurements of financial liabilities. The Group will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

IFRS 10 Consolidated Financial Statements

IFRS 10 replaces the portion of IAS 27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC-12 Consolidation — Special Purpose Entities. IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgement to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the

requirements that were in IAS 27. Based on the preliminary evaluation of the Group, the amendment will have no material impact. This standard becomes effective for annual periods beginning on or after 1 January 2013.

IFRS 11 Joint Arrangements

IFRS 11 replaces IAS 31 Interests in Joint Ventures and SIC-13 Jointly-controlled Entities — Non-monetary Contributions by Venturers. IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. The application of this new standard will impact the financial position of the Group. This is due to the cessation of proportionate consolidation of jointly controlled entities (see note 9) meeting the definition of joint ventures in IFRS 11 to equity accounting for these investments. Based on the preliminary evaluation of the Group such impact will not be significant. This standard becomes effective for annual periods beginning on or after 1 January 2013.

IFRS 12 Disclosure of Involvement with Other Entities

IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. This standard becomes effective for annual periods beginning on or after 1 January 2013.

IFRS 13 Fair Value Measurement

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The Group is currently assessing the impact that this standard will have on the financial position and performance. This standard becomes effective for annual periods beginning on or after 1 January 2013.

3. Segmental information

2011	Petrochemicals	Corporate and other	Inter-segment transfers	**Total**
	HUF million	HUF million	HUF million	**HUF million**
Net Revenue				
Sales to external customers	410,712	750	-	**411,462**
Inter-segment sales	266	1,894	(2,160)	**-**
Total revenue	**410,978**	**2,644**	**(2,160)**	**411,462**
Results				
Profit/(loss) from operations	(4,117)	(1,785)	-	**(5,902)**
Net finance costs	(2,992)	(1,989)	-	**(4,981)**
Income from associates	-	-	-	**-**
Profit before tax	(7,109)	(3,774)	-	**(10,883)**
Income tax expense/(benefit)	1,525	(1,182)	-	**343**
Profit for the year	(8,634)	(2,592)	-	**(11,226)**

2010	Petrochemicals	Corporate and other	Inter-segment transfers	**Total**
	HUF million	HUF million	HUF million	**HUF million**
Net Revenue				
Sales to external customers	364,490	695	-	**365,185**
Inter-segment sales	218	1,950	(2,168)	**-**
Total revenue	**364,708**	**2,645**	**(2,168)**	**365,185**
Results				
Profit/(loss) from operations	2,961	(2,161)	-	**800**
Net finance costs	(1,533)	(1,274)	-	**(2,807)**
Income from associates	-	18	-	**18**
Profit before tax	1,428	(3,417)	-	**(1,989)**
Income tax expense/(benefit)	712	(1,531)	-	**(819)**
Profit for the year	716	(1,886)	-	**(1,170)**

2011 Assets and liabilities	Petrochemicals HUF million	Corporate and other HUF million	Inter-segment transfers HUF million	**Total HUF million**
Property, plant and equipment, net	117,460	5,005	-	**122,465**
Intangible assets, net	2,113	238	-	**2,351**
Inventories	11,779	69	-	**11,848**
Trade receivables, net	50,792	89	-	**50,881**
Investments in associates	-	132	-	**132**
Not allocated assets				**21,353**
Total assets			**-**	**209,030**
Trade payables	47,643	245	-	**47,888**
Not allocated liabilities				**161,142**
Total liabilities			**-**	**209,030**

2010 Assets and liabilities	Petrochemicals HUF million	Corporate and other HUF million	Inter-segment transfers HUF million	**Total HUF million**
Property, plant and equipment, net	123,525	4,955	-	**128,480**
Intangible assets, net	2,451	197	-	**2,648**
Inventories	10,129	7	-	**10,136**
Trade receivables, net	49,809	133	-	**49,942**
Investments in associates	-	132	-	**132**
Not allocated assets				**19,334**
Total assets				**210,672**
Trade payables	40,384	236	-	**40,620**
Not allocated liabilities				**170,052**
Total liabilities				**210,672**

2011 Other segment information	Petrochemicals HUF million	Corporate and other HUF million	Inter-segment transfers HUF million	**Total** **HUF million**
Capital expenditure:	6,256	239	-	**6,495**
Property, plant and equipment	6,218	160	-	**6,378**
Intangible assets	38	79	-	**117**
Depreciation and amortization	12,950	381	-	**13,331**
From this: impairment losses and reversal of impairment recognized in income statement	79	-	-	**79**

2010 Other segment information	Petrochemicals HUF million	Corporate and other HUF million	Inter-segment transfers HUF million	**Total** **HUF million**
Capital expenditure:	5,838	1,247	-	**7,085**
Property, plant and equipment	5,837	1,183	-	**7,020**
Intangible assets	1	64	-	**65**
Depreciation and amortization	12,620	392	-	**13,012**
From this: impairment losses and reversal of impairment recognized in income statement	207	-	-	**207**

The operating profit of the segments includes the profit arising both from sales to third parties and transfers to the other business segments. Petrochemicals transfers various by-products to the Corporate. The subsidiaries of the Corporate segment provide other services to the Petrochemicals. The internal transfer prices used are based on prevailing market prices. Divisional figures contain the results of the fully consolidated subsidiaries engaged in the respective divisions.
Value of assets relating to foreign locations amounts to HUF 6 million. It is not significant to the total amount of assets.

4. Intangible assets

The Group's intangible assets as of 31 December 2011 and 2010 were as follows:

	Goodwill HUF million	Property rights HUF million	Software HUF million	Total HUF million
At 1 January 2010				
Gross book value	92	2	7,020	7,114
Accumulated amortization and impairment	-	-	(4,116)	(4,116)
Net book value	**92**	**2**	**2,904**	**2,998**
Year ended 31 December 2010				
- additions	-	-	65	65
- amortization for the year	-	-	(413)	(413)
- impairment	-	-	-	-
- transfers	-	(2)	-	(2)
Closing net book value	92	-	2,556	2,648
At 31 December, 2010				
Gross book value	92	-	7,073	7,165
Accumulated amortization and impairment	-	-	(4,517)	(4,517)
Net book value	**92**	**-**	**2,556**	**2,648**
Year ended 31 December 2011				
- additions	-	18	99	117
- amortization for the year	-	-	(413)	(413)
- impairment	-	-	-	-
- transfers	-	-	(1)	(1)
Closing net book value	92	18	2,241	2,351
At 31 December, 2011				
Gross book value	92	18	7,159	7,269
Accumulated amortization and impairment	-	-	(4,918)	(4,918)
Net book value	**92**	**18**	**2,241**	**2,351**

Goodwill

Goodwill acquired in a business combination is allocated, at acquisition, to the cash generating units (CGUs) that are expected to benefit from that business combination. Before recognition of impairment losses, the carrying amount of goodwill had been allocated as follows:

	31 December 2011			31 December 2010		
	Net book value before impairment HUF million	Impairment HUF million	Net book value HUF million	Net book value before impairment HUF million	Impairment HUF million	Net book value HUF million
TVK Polska Spzoo	92	-	92	92	-	92
Total goodwill	**92**	**-**	**92**	**92**	**-**	**92**

The Company recognized goodwill of HUF 92 million relating to TVK Polska Spzoo, which is subject to annual impairment test according to the requirements of IAS 36 – Impairment of Assets.

5. Property, plant and equipment

The Group's tangible assets as of 31 December 2011 and 2010 were as follows:

	Land and buildings HUF million	Technical equipment, vehicles HUF million	Other equipment and vehicles HUF million	Capital projects HUF million	Total HUF million
At 1 January 2010					
Gross book value	45,101	174,144	20,109	1,993	241,347
Accumulated depreciation and impairment	(12,965)	(81,000)	(13,722)	-	(107,687)
Net book value	**32,136**	**93,144**	**6,387**	**1,993**	**133,660**
Year ended 31 December 2010					
- additions	-	-	-	7,020	7,020
- capitalization	587	6,171	919	(7,677)	-
- depreciation for the year	(1,416)	(9,811)	(1,165)	-	(12,392)
- impairment	(10)	(179)	(18)	-	(207)
- disposals	(23)	-	(2)	-	(25)
- transfers and other changes	-	(1)	425	-	424
Closing net book value	31,274	89,324	6,546	1,336	128,480
At 31 December, 2010					
Gross book value	45,639	178,030	21,345	1,336	246,350
Accumulated depreciation and impairment	(14,365)	(88,706)	(14,799)	-	(117,870)
Net book value	**31,274**	**89,324**	**6,546**	**1,336**	**128,480**
Year ended 31 December 2011					
- additions	-	-	-	6,378	6,378
- capitalization	910	3,637	800	(5,347)	-
- depreciation for the year	(1,418)	(10,324)	(1,097)	-	(12,839)
- impairment	(10)	(66)	(3)	-	(79)
- disposals	(4)	-	(2)	-	(6)
- transfers and other changes	(131)	(42)	704	-	531
Closing net book value	30,621	82,529	6,948	2,367	122,465
At 31 December, 2011					
Gross book value	46,367	180,146	22,578	2,367	251,458
Accumulated depreciation and impairment	(15,746)	(97,617)	(15,630)	-	(128,993)
Net book value	**30,621**	**82,529**	**6,948**	**2,367**	**122,465**

Impairment

	31 December 2011 HUF million	31 December 2010 HUF million
Scraps*	79	168
Effect of rescheduled periodic maintenance	-	39
Impairment on the basis of market price	-	-
Total	**79**	**207**

* In 2011 impairment expense was recorded in the amount of HUF 79 million. Significant part of it related to the accounted part scrapping, which belonged to olefin reconstruction.

Leased assets

Property, plant and equipment includes machinery under finance leases:

	31 December 2011 HUF million	31 December 2010 HUF million
Gross value	478	478
Accumulated depreciation	453	441
Net book value	**25**	**37**

Pledged assets

None of the assets of the Company were pledged as of 31 December 2011 and 2010. Assets of TVK Erőmű Kft. (HUF 9,380 million) and assets of Tisza-WTP Kft. (HUF 1,185 million) are pledged as collateral for long-term investment loans.

Borrowing Costs

Property, plant and equipment include borrowing costs incurred in connection with the construction of certain assets. There were no capitalised borrowing costs in 2011 and 2010, that are directly attributable to the acquisition, construction or production of a qualifying asset.

6. Investment in associated companies

The Group's financial investments as of 31 December 2011 and 2010 were as follows:

Company name	Country	Date of foundation	Range of activity	Ownership 31 Dec 2011	Ownership 31 Dec 2010	Net book value of investment 31 Dec 2011 HUF million	Net book value of investment 31 Dec 2010 HUF million
Associates							
TMM Tűzoltó és Műszaki Mentő Kft.	Hungary	1995	Fire prevention, technical rescue, technical supervision	30%	30%	132	132
Total associates						**132**	**132**
Total						**132**	**132**

Financial information on associates

Main financial data of the Group associates at 31 December 2011 (These amounts represent 100% of the values of the companies reported by those companies in accordance with IFRS):

	Total assets HUF million	**Liabilities** HUF million	**Total operating revenues** HUF million	**Profit and loss for the year** HUF million
TMM Tűzoltó és Műszaki Mentő Kft.	514	74	550	0

Main financial data of the Group associates at 31 December 2010 (These amounts represent 100% of the values of the companies reported by those companies in accordance with IFRS):

	Total assets HUF million	**Liabilities** HUF million	**Total operating revenues** HUF million	**Profit and loss for the year** HUF million
TMM Tűzoltó és Műszaki Mentő Kft.	505	66	537	31

7. Sale of subsidiaries

Carrying amount of disposed assets and liabilities of TVK Italia S.r.l (on 12 December 2011) and TVK Interchemol GmbH (on 20 December 2011) and analysis of net cash inflow on sales of the subsidiary was the following:

	TVK Italia Srl	TVK Inter-Chemol GmbH	Total
	HUF million	HUF million	HUF million
Property, plant and equipment	1	1	2
Trade receivables	86	305	391
Other current assets (excluding cash)	46	59	105
Total assets (excluding cash)	**133**	**365**	**498**
Provisions	48	227	275
Other non-current liabilities	27	69	96
Trade payables	2	290	292
Other current liabilities	117	9	126
Total liabilities	**194**	**595**	**789**
Net assets	**(61)**	**(230)**	**(291)**
Net gain (loss) on sale of subsidiaries	**302**	**204**	**506**
Cash inflow / (outflow)	**241**	**(26)**	**215**

8. Other non-current assets

The Group's other non-current assets as of 31 December 2011 and 2010 were as follows:

	31 December 2011 HUF million	31 December 2010 HUF million
Government bonds*	210	200
Advances for construction in progress	26	-
Loan to Plastico S.A.**	-	-
Other***	2	2
Total	**238**	**202**

*Long-term securities include type 2013/C government bonds maturing in December 2013. Government bonds bear a floating interest rate equivalent to the Treasury Bonds previous 6 month average interest rate. These bonds are accounted for as held to maturity instruments.

**In 2002, TVK Plc. sold its investment in Plastico S.A. In 2006, based on a legal opinion, the Company reassessed the recoverability of its outstanding loan receivable from Plastico S.A. and decided to fully write it off. Net of impairment of HUF 575 million as of 31 December 2011 and 2010, respectively (See Note 11.).

*** It contains loans given which are interest free in the amount of HUF 2 million in 2011 (HUF 2 million 2010).

9. Inventories

Inventories as of 31 December 2011 and 2010 were as follows:

	At cost	Net book value	At cost	Net book value
	31 December 2011		31 December 2010	
	HUF million			
Work in progress and finished goods	9,208	8,625	6,661	6,533
Raw-material	2,381	2,381	2,546	2,546
Other materials	1,073	800	1,036	788
Purchased goods	42	42	269	269
Total	**12,704**	**11,848**	**10,512**	**10,136**

The Group believes that the level of provision as of 31 December 2011 is sufficient to cover potential future losses on sale of inventories.
As of 31 December 2011 and 2010, no inventory owned by TVK Plc. was pledged as collateral.

The total amount of impairment was HUF 856 million and HUF 376 million as of 31 December 2011 and 2010, respectively (as cumulative figures).

Inventories are regularly reviewed for impairment.

10. Trade receivables, net

Receivables as of 31 December 2011 and 2010 were as follows:

	31 December 2011 HUF million	31 December 2010 HUF million
Domestic debtors	26,977	26,763
- of which: MOL Group members	7,454	8,988
Borsodchem	4,153	3,222
Export debtors	24,115	23,368
- of which: MOL Group members	960	1,061
	51,092	50,131
Less: provision for doubtful debts	(211)	(189)
Total	**50,881**	**49,942**

Movements in the provision for doubtful receivables were as follows:

	31 December 2011 HUF million	31 December 2010 HUF million
At 1 January	189	198
Additions	28	3
Reversal	(6)	(12)
At 31 December	**211**	**189**

As at 31 December 2011 and 2010 the analysis of trade receivables that were past due is as follows:

	31 December 2011 HUF million	31 December 2010 HUF million
Neither past due nor impaired	49,595	48,176
Past due but not impaired	1,286	1,766
Within 90 days	1,081	1,754
91 - 180 days	7	4
Over 180 days	198	8
Total	**50,881**	**49,942**

The Group recorded a write-off on doubtful debts of HUF 18 million and HUF 30 million in 2011 and 2010, respectively. Income from bad debts and written off receivables amounted to HUF 1 million and HUF 5 million in 2011 and 2010, respectively.

To assess provision for doubtful debts, the Company estimated incurred losses that arise due to the liquidity problems of certain major debtors. The provision has been determined by reference to past default experience.

Export receivables are denominated primarily in EUR, USD and PLN and are recorded at the exchange rate as of 31 December 2011 and 2010. The resulting gain or loss is classified in a net amount either as other income or other expense, respectively (see notes 21, 24) in the accompanying income statements.

11. Other current assets

Other current assets as of 31 December 2011 and 2010 were as follows:

	31 December 2011 HUF million	31 December 2010 HUF million
Reclaimable VAT	14,407	12,380
Loan to MOL	325	1,000
Energy sector extra tax	165	65
Advances to suppliers	133	40
Prepayments	113	94
Loans to employees and other receivables	15	21
Interest receivables	5	6
Accrued income	2	140
Loan to Plastico S.A.*	-	-
Other	81	199
Total	**15,246**	**13,945**

*The long-term part of the loan receivable from Plastico S.A. reduced by the proportionate impairment loss has been recorded as other non-current asset (See Note 8).
In 2006, based on a legal opinion, the Company reassessed the recoverability of its outstanding loan receivable from Plastico S.A. and decided to fully write it off.

Analysis of loans receivable

	31 December 2011 HUF million	31 December 2010 HUF million
Loan to Plastico S.A.	323	323
Write off doubtful receivables	(323)	(323)
Total	**-**	**-**

Movements in the provision for doubtful loans receivable were as follows:

	31 December 2011 HUF million	31 December 2010 HUF million
At 1 January	323	323
Additions	-	-
Reversal	-	-
Amounts written off	-	-
Currency differences	-	-
At 31 December	**323**	**323**

12. Cash and cash equivalents

Cash and cash equivalents as of 31 December 2011 and 2010 were as follows:

	31 December 2011 HUF million	31 December 2010 HUF million
Cash at bank – EUR	3,095	3,731
Cash at bank – HUF	1,984	1,007
Cash at bank – USD	455	205
Cash at bank – PLN	145	121
Cash at bank – other currencies	33	12
Cash on hand – other currencies	2	3
Cash on hand – HUF	1	1
Total	**5,715**	**5,080**

13. Share capital

Share capital as of 31 December 2011 was as follows:

Shareholder	Number of shares	Face value (HUF)	Total (HUF million)	Shareholding %
Domestic entities	21,401,032	1,010	21,615	88.10
International entities	2,231,796	1,010	2,254	9.20
Domestic private investors	314,443	1,010	318	1.29
International private investors	7,227	1,010	7	0.03
Unregistered investors	336,345	1,010	340	1.38
Total	**24,290,843**		**24,534**	**100.00**

Shareholders with a shareholding above 5% registered in the Share Register as of 31 December 2011:

Shareholder	Shareholding %
MOL Hungarian Oil and Gas Company	86.79
Slovnaft a s	8.07

MOL is the parent company of Slovnaft a s., it is the ultimate parent company of TVK.

MOL's direct and indirect influence over the Company is 94.86%.

Share capital by type of shares as of 31 December 2011:

Type of share	Number of shares	Share capital (THUF)
Ordinary shares representing equal and equivalent rights of members (face value of one share is HUF 1,010)	24,290,843	24,533,751
Total	**24,290,843**	**24,533,751**

Share capital as of 31 December 2010 was as follows:

Shareholder	Number of shares	Face value (HUF)	Total (HUF million)	Shareholding %
Domestic entities	21,690,707	1,010	21,908	89.30
International entities	2,237,133	1,010	2,260	9.21
Domestic private investors	288,245	1,010	291	1.19
International private investors	6,190	1,010	6	0.02
Unregistered investors	68,568	1,010	69	0.28
Total	**24,290,843**		**24,534**	**100.00**

Shareholders with a shareholding above 5% registered in the Share Register as of 31 December 2010:

Shareholder	Shareholding %
MOL Hungarian Oil and Gas Company	86.79
Slovnaft a s	8.07

MOL is the parent company of Slovnaft a s., it is the ultimate parent company of TVK.

Share capital by type of shares as of 31 December 2010:

Type of share	Number of shares	Share capital (THUF)
Ordinary shares representing equal and equivalent rights of members (face value of one share is HUF 1,010)	24,290,843	24,533,751
Total	**24,290,843**	**24,533,751**

14. Reserves

The total amount of reserves legally available for distribution based on the statutory separate financial statements of TVK Plc. is HUF 94,266 million and HUF 105,577 million as of 31 December 2011 and 2010, respectively.

15. Long-term debt, net of current portion

Long-term debt, net of current portion as of 31 December 2011 and 2010 were as follows:

	Weighted average interest rate 2011	Weighted average interest rate 2010	31 December 2011	31 December 2010
	%	%	HUF million	HUF million
Secured bank loan of TVK Erőmű Kft. in EUR*	2.17%	1.62%	7,246	7,318
Secured bank loan of Tisza-WTP Kft. in EUR**	2.17%	1.63%	1,211	1,234
Unsecured loan in EUR from MOL Plc. (majority stakeholder)***			5,519	4,169
Other****			3,431	3,446
Total long term debt			**17,407**	**16,167**
Current portion of long-term debt			1,159	976
Total long-term debt, net of current portion			**16,248**	**15,191**

*On 26 July 2002, TVK Erőmű Kft. signed a project financing agreement with OTP Bank Rt., and the facility, that amounted to HUF 9,810 million (EUR 40 million), had been fully drawn by 31 December 2004. The loan is secured by a pledge on TVK Erőmű Kft's assets. At the end of 2011 the short-term part of the loan amounts to HUF 989 million (EUR 3,180 thousand) reported as short-term loan payable.

** In order to implement a water treatment plant to be operated by Tisza WTP Kft., on 17 December 2002, the Kft. signed a long-term project and development loan agreement for HUF 1,883 million (EUR 8 million) with OTP Bank Rt. By the end of the availability period (29 December 2003), the Kft. had drawn down a total of EUR 7,340,000 from the facility. The project loan is secured by the Company's assets. At the end of 2011, Tisza WTP Kft. reclassified an instalment of HUF 175 million (EUR 562 thousand) due in 12 months to current liabilities.

*** On 21 December 2009, a revolving loan contract was made between TVK Plc. and MOL Plc. in an amount of EUR 100 million. The company modified the loan contract and divided the credit the credit line into long term part (EUR 70 million) and short term part (EUR 30 million) during 2011.

**** According to service agreement the shareholding of the majority owners of the capital of TVK Erőmű Kft. and Tisza WTP Kft. is to be reimbursed during the lifetime of the project, and is recorded as other long-term debt in accordance with IAS 32, as it qualifies as a financial liability.

Secured loans were obtained for specific capital expenditure projects and are secured by the assets financed from the loan.

According to maturity the long-term debts were as follows:

	31 December 2011	31 December 2010
	HUF million	HUF million
Maturity two to five years	10,923	8,725
Maturity over five years	5,325	6,466
Total	**16,248**	**15,191**

16. Provision for liabilities and charges

Provisions for expected liabilities and charges as of 31 December 2011 and 2010 were as follows:

	Environ-mental	Severance	Long term employee retirement benefits	Old Team benefit	Early Retirement benefits	Provision for litigation	Total
	HUF million	HUF million	HUF million	HUF million	HUF million	HUF million	HUF million
Balance as of 1 January 2010	**1,971**	**56**	**307**	**206**	**64**	**-**	**2,604**
Provision made during the year and revision of previous estimate	139	17	25	27	112	13	333
Unwinding of the discount	138	-	6	7	-	-	151
Provision used during the year and revision of previous estimate	(218)	(6)	(38)	(34)	(64)	-	(360)
Balance as of 31 December 2010	**2,030**	**67**	**300**	**206**	**112**	**13**	**2,728**
Provision made during the year and revision of previous estimate	279	19	40	85	49	16	488
Unwinding of the discount	97	-	4	5	-	-	106
Provision used during the year and revision of previous estimate	(92)	(31)	(18)	(24)	(112)	-	(277)
Acquisitions, divestitions	-	(48)	(183)	(15)	-	(29)	(275)
Balance as of 31 December 2011	**2,314**	**7**	**143**	**257**	**49**	**-**	**2,770**
Current portion 31 December 2010	194	32	33	23	112	13	407
Non-current portion 31 December 2010	1,836	35	267	183	-	-	2,321
Current portion 31 December 2011	363	7	13	26	49	-	458
Non-current portion 31 December 2011	1,951	-	130	231	-	-	2,312

Environmental provision
The amount of provision contains the discounted value of amounts estimated for 12 years. The environmental provision might further increase subject to the completion of an ongoing environmental survey. (See Note 29) The amount of the provision has been determined on the basis of existing technology at current prices by calculating risk-weighted cash flows discounted using estimated risk-free real interest rates.

Provision for severance
The provision for severance equals to the amount of severance payments due but not yet paid as at 31 December 2011.

Provision for long term employee retirement benefits
TVK operates benefit schemes that provide lump sum benefit to all employees at the time of their retirement. TVK employees are entitled for maximum of 2 months of final salary respectively, depending on the length of 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 TVK. Principal actuarial assumptions state an approximately 2% difference between the discount rate and the future salary increase. As of 31 December 2011 the Company has recognized a provision of HUF 143 million to cover its estimated obligation regarding future retirement benefits payable to current employees expected to retire from group entities.

Provision for Old Team benefits
Every five years, TVK pays a fix set amount to all employees who had worked at least 10 years for the Company. On 31 December 2011, based on actuarial calculations, the Company made HUF 257 million provision for the future Old Team benefits of current employees.

The following table summarises the main financial and actuarial variables and assumptions based on which the amounts of retirement benefits were determined:

	2011	2010
Discount rate in %	2.5-4.1	2.0-4.3
Average wage increase in %	0.5-2.1	0-2.3
Mortality index (male)	0.02-0.84	0.06-3.45
Mortality index (female)	0.01-0.35	0.02-1.50

17. Other non-current liabilities

	31 December 2011 HUF million	31 December 2010 HUF million
Loans granted by MOL/parent company and secured by CO2 emission quotas*	-	2,552
Other	5	6
Total	**5**	**2,558**

*At the end of 2011 the short-term part of the forward of CO2 emission quotas reported as trade and other payables. (See Note 18)

18. Trade and other payables

The Group's payables and other current liabilities as of December 2011 and 2010 were as follows:

	31 December 2011 HUF million	31 December 2010 HUF million
Domestic trade creditors	41,981	36,532
- of which: MOL Group members	36,461	30,570
Associates	1,224	53
Suppliers related to capital projects	3,260	1,468
- of which: MOL Group members	1,645	556
Import creditors	2,647	2,620
- of which: MOL Group members	556	283
Discount payable to customers	4,017	4,950
Loans granted by MOL/parent company and secured by CO2 emission quotas *	2,996	2,083
Accrued expenses	1,916	2,659
Dividend payable to the majority owner of TVK Erőmű Kft.	881	277
Amounts due to employees and related contributions	315	330
Dividend payable to owner of Tisza-WTP Kft.	91	94
State budget taxes	53	94
Deferred other revenues	39	28
Dividends payable**	4	8
Other	211	128
Total	**58,411**	**51,271**

* See Note 17
** Dividend payable in 2011 are related to 2007's, 2008's and 2010's dividends which have not been paid yet.

19. Short-term debt

	31 December 2011 HUF million	31 December 2010 HUF million
Revolving loan in EUR from MOL Plc. (majority shareholder)*	6,623	286
Unsecured loans	-	-
Total short term debt	**6,623**	**286**

* On 21 December 2009, a revolving loan contract was made between TVK Plc. and MOL Plc. in an amount of EUR 100 million. The company modified the loan contract and divided the credit line into long term part (EUR 70 million) and short term part (EUR 30 million) during 2011.

20. Net sales by geographical area

Net sales by geographical area as of 31 December 2011 and 2010 were as follows:

	2011 HUF million	2010 HUF million
Hungary (reduced by quantity discount)	210,977	189,295
Italy	34,275	26,279
Germany	33,004	31,347
Poland	30,557	29,550
Czech Republic	20,641	10,247
Slovakia	11,970	12,729
Austria	9,230	7,622
Ukraine	8,050	6,650
Romania	7,885	7,554
Switzerland	5,867	5,152
France	5,100	4,827
United Kingdom	3,257	3,558
Other European Countries	28,532	23,773
Non-European Countries	4,676	9,233
Less: Quantity discount of foreign sales	(2,559)	(2,631)
Total	**411,462**	**365,185**

21. Other operating income

Other operating income as of 31 December 2011 and 2010 were as follows:

	2011 HUF million	2010 HUF million
Foreign exchange gain on receivables and payables, net	2,113	1,417
Default interest received, indemnity, penalties	533	111
Net gain (loss) on sales of subsidiaries	506	-
Gain on sale of CO2 emission quota received free of charge	73	612
Donations received	16	12
Gain on the disposal of tangible assets	15	60
Retrospective discount	-	7
Other	108	60
Total	**3,364**	**2,279**

22. Raw materials and consumables used

Raw materials and consumables as of 31 December 2011 and 2010 were as follows:

	2011 HUF million	2010 HUF million
Material costs	*356,885*	*299,332*
Naphta, AGO and other raw materials	321,257	268,025
Energy	28,477	24,491
Other indirect and auxi. materials	4,678	4,413
Other materials	2,434	2,391
Impairment of materials	39	12
Material type services	*15,462*	*14,742*
Transportation, loading, storage	6,739	6,497
Maintenance costs	4,493	4,032
Other costs	3,012	2,971
Sundry sales costs	599	568
Information technology service	204	221
Technical development cost	198	230
Other postal service cost	155	153
Hiring cost of labour	31	37
Other administration cost	31	33
Cost of goods sold	*24,554*	*14,786*
Cost of services sold	*399*	*13,290*
Total	**397,300**	**342,150**

23. Personnel expenses

Personnel expenses as of 31 December 2011 and 2010 were as follows:

	2011 HUF million	2010 HUF million
Wages and salaries	6,284	6,590
Social security	1,941	1,975
Other personnel expenses	1,179	1,081
Total	**9,404**	**9,646**

24. Other operating expenses

Other operating expenses as of 31 December 2011 and 2010 were as follows:

	2011 HUF million	2010 HUF million
Insurance premium	969	1,088
Rental costs, leasing	439	422
Property protection and fire prevention	418	424
Local and other taxes	284	262
Administrative charges and duties	221	307
Consulting, advisory and auditing costs	202	175
PR and promotion	176	159
Public sanitation	164	212
Damages, default interest, penalties, fines	143	132
Energy sector extra tax	138	303
Elimination of waste	135	140
Bank charges	91	105
Donations, contributions to set off costs and expenses	66	69
Receivables impairment, net	44	16
Debt forgiven	-	1
Other*	680	546
Total	**4,170**	**4,361**

*Including environmental costs and provisions.

25. Financial income / (expense)

The financial income / (expense) as of 31 December 2011 and 2010 was as follows:

	2011 HUF million	2010 HUF million
Interest received	143	192
Impairment, reverse impairment and revaluation of securities	9	16
Other	124	17
Total financial income	**276**	**225**
Foreign exchange losses of loans and other financial assets	(2,987)	(1,181)
Interest expense*	(1,990)	(1,288)
Interest on provision	(106)	(151)
Commitment fee of bank loans	(96)	(113)
Discounts given for early payment of receivables	(69)	(292)
Other	(9)	(7)
Total financial expenses	**(5,257)**	**(3,032)**
Total financial income / (expense), net	**(4,981)**	**(2,807)**

* Interest expense of the Group for 2011 includes HUF 925 million (2010: HUF 357 million), being the share from the net income of TVK Erőmű Kft. of its majority shareholder (ÉMÁSZ Nyrt.), and Tisza WTP Kft. of shareholder (Sinergy Kft.).

26. Income taxes

Corporate income tax:

In 2011, TVK Plc. had a negative profit before taxation, which was further decreased by the tax base corrections, thus no corporate income tax occurred. The current corporate income taxes contain the consolidated companies' corporate income taxes. TVK Plc. deferred the occurred loss.

Income taxes:

Total applicable income taxes reported in the consolidated financial statements for the years ended 31 December 2011 and 2010 include the following components:

	2011 HUF million	2010 HUF million
Local trade tax	599	757
Current corporate income taxes	254	490
Robin Hood tax	35	48
Innovation fee	14	12
Deferred income taxes	(559)	(2,126)
Total income tax expense / (benefit)	**343**	**(819)**

Deferred tax:

The deferred income/expense consisted of the following items as of 31 December 2011 and 2010:

	Balance sheet		Effect on profit and loss	
	2011 HUF million	2010 HUF million	2011 HUF million	2010 HUF million
Depreciation	13,042	6,301	6,741	(4,307)
Environmental provision	(440)	(203)	(237)	171
Statutory tax losses carried forward	(11,375)	(4,348)	(7,027)	1,106
Impairment losses and other provisions	(544)	(491)	(53)	889
Differences due to capitalisation according to IFRS	20	15	5	(22)
Capitalized periodic maintenance cost	159	147	12	37
Other	-	-	-	-
Total deferred tax liability	**862**	**1,421**	**(559)**	**(2,126)**

The Group recognized HUF 11,375 million deferred tax assets from tax losses of HUF 60,612 million (of which TVK Plc. HUF 58,014 million, TVK-Erőmű Kft. HUF 1,329 million, TVK Ingatlankezelő Kft. HUF 1,268 million) that are available indefinitely for offset against future taxable profits of the companies in which the losses arose. The amount of such tax losses was HUF 43,482 million as of 31 December 2010. Deferred tax assets arising from negative profit before tax at group companies shall be recognized if it is probable that future taxable income will be available to offset these deferred tax assets. In 2011 the Group has recognized deferred tax effects in respect of losses at Group companies.

The temporary difference relating to foreign subsidiaries have not been recognized because of the xxvi.) section of the accounting policy. Deferred tax of the foreign subsidiaries was not significant.

A numerical reconciliation between tax expense and the product of accounting profit multiplied by the applicable tax rates is as the follows:

	2011 HUF million	2010 HUF million
Profit before tax per consolidated income statement	(10,883)	(1,989)
Tax at the applicable tax rate	(2,068)	(378)
Impact of changes in Hungarian tax legislation	1,157	(1,314)
Robin Hood tax	35	39
Differences not expected to reverse	241	340
Effect of different tax rates	81	87
Local tax	486	614
Other	411	(207)
Total income tax expense / (benefit)	**343**	**(819)**

27. Earnings per share (EPS)

The Group's earnings per share based on consolidated information for 31 December 2011 and 2010 are as follows:

	2011	2010
Net income/(loss), IFRS (million HUF)	(11,226)	(1,170)
Weighted average of shares outstanding in the period (pieces)	24,290,843	24,290,843
EPS (HUF 1,010 face value)	HUF (462)	HUF (48)

The Group's earnings per share (calculated from comprehensive income) based on consolidated information for 31 December 2011 and 2010 are as follows:

	2011	2010
Comprehensive income/(loss), IFRS (million HUF)	(11,292)	(1,146)
Weighted average of shares outstanding in the period (pieces)	24,290,843	24,290,843
EPS (HUF 1,010 face value)	HUF (465)	HUF (47)

The average number of ordinary shares was determined based on the weighted mathematical average method. Employee shares were also considered in the calculation as employees are also entitled to dividends.

Diluted EPS is the same as basic EPS as the Company has no diluting instruments or purchase options.

28. Financial instruments

Financial instruments in the balance sheet include associated investments, other non-current assets, trade receivables, other current assets, cash and cash equivalents, short-term and long-term debt, other non-current liabilities, trade and other payables. The financial assets and liabilities are carried at amortized cost.

The following tables sets out the carrying amount, by maturity of the Group's financial instruments that bear interest as of 31 December 2011:

	Within 1 year HUF million	1-2 years HUF million	2-3 years HUF million	3-4 years HUF million	4-5 years HUF million	Over 5 years HUF million
Floating rate						
Cash and cash equivalents*	5,715	-	-	-	-	-
Government bonds**(2013/C)	-	210	-	-	-	-
Loan to MOL	325	-	-	-	-	-
Borrowing from MOL Plc.*	(6,623)	-	-	(5,519)	-	-
Capital project loan	(1,346)	(1,396)	(1,465)	(1,515)	(1,560)	(1,934)
Forward quota	(2,996)	-	-	-	-	-

* Carrying amount of cash and cash equivalents and borrowing from MOL Plc. equals to the contracted amounts.

** Contracted amount of the government bonds (2013/C) is HUF 231 million.

	Within 1 year HUF million	1-2 years HUF million	2-3 years HUF million	3-4 years HUF million	4-5 years HUF million	Over 5 years HUF million	Total HUF million
Capital project loan							
Net book value	(1,159)	(1,231)	(1,307)	(1,390)	(1,476)	(1,894)	(8,457)
Interest	(187)	(165)	(158)	(125)	(84)	(40)	(759)
Undiscounted contractual amounts	(1,346)	(1,396)	(1,465)	(1,515)	(1,560)	(1,934)	(9,216)

The following tables sets out the carrying amount, by maturity of the Group's financial instruments that bear interest as of 31 December 2010:

	Within 1 year HUF million	1-2 years HUF million	2-3 years HUF million	3-4 years HUF million	4-5 years HUF million	Over 5 years HUF million
Floating rate						
Cash and cash equivalents*	5,080	-	-	-	-	-
Government bonds** (2013/C)	-	-	200	-	-	-
Loan to MOL	1,000	-	-	-	-	-
Borrowing from MOL Plc.*	(286)	-	-	(4,169)	-	-
Capital project loan	(1,148)	(1,223)	(1,288)	(1,351)	(1,388)	(3,162)
Forward quota	(2,083)	(2,552)	-	-	-	-

	Within 1 year HUF million	1-2 years HUF million	2-3 years HUF million	3-4 years HUF million	4-5 years HUF million	Over 5 years HUF million	Total HUF million
Capital project loan							
Net book value	(976)	(1,038)	(1,102)	(1,171)	(1,245)	(3,020)	(8,552)
Interest	(172)	(185)	(186)	(180)	(143)	(142)	(1,008)
Undiscounted contractual amounts	(1,148)	(1,223)	(1,288)	(1,351)	(1,388)	(3,162)	(9,560)

The net book value and fair value of financial instruments as the follows:

	Net book value		Fair value	
	2011 HUF million	2010 HUF million	2011 HUF million	2010 HUF million
Financial assets				
Loans given (notes 8,11)	330	1,009	330	1,009
Trade receivables (note 10)	50,881	49,942	50,881	49,942
Cash and cash equivalents (note 12)	5,715	5,080	5,715	5,080
Other current assets (excluding loans given and prepaid and recoverable taxes) (note 11)	511	558	511	558
Total	**57,437**	**56,589**	**57,437**	**56,589**

	Net book value		Fair value	
	2011 HUF million	2010 HUF million	2011 HUF million	2010 HUF million
Financial liabilities				
Interest-bearing loans and borrowings:				
Floating rate long-term bank loans (note 15)	8,457	8,552	8,457	8,552
Floating rate other long-term loans (note 15)	5,519	4,169	5,519	4,169
Floating rate other short-term loans (note 19)	6,623	286	6,623	286
Other (notes 15,19,)	3,431	3,446	3,431	3,446
Liabilities from emission allowances	2,996	4,635	2,996	4,635
Trade and other payables (note 18)	58,411	51,271	58,411	51,271
Total	**85,437**	**72,359**	**85,437**	**72,359**

Capital management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholder value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years 2011 and 2010.

The Group monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. Three different strategies are followed based on the level of Net Gearing. In the three various scenarios, Risk Management focuses on the followings:

- High Gearing situation is declared when the Net Gearing ratio will exceed 40% for any of the next consecutive four business quarters according to actual 12 month rolling forecast. In a high gearing situation, the prime objective of risk management is to reduce the probability of breaching debt covenants, where a breach would seriously impair the company's ability to fund its operations.

- Moderate Gearing situation is triggered when the Net Gearing ratio is between 20% and 40%. In Moderate Gearing situation, risk management aims to enhance the commitment in maintenance of investment grade credit rating. Having public investment grade credit rating ensures significant financial flexibility as capital market sources are also available at reasonable cost level.

- Low Gearing status occurs if the Net Gearing ration is below 20%. In this status, the focus of risk management shall be directed more toward guarding of shareholder value by maintaining discipline in CAPEX spending, ensuring risk-aware project selection.

	31 December 2011	31 December 2010
	HUF million	HUF million
Long-term debt, net of current portion	16,248	15,191
Current portion of long-term debt	1,159	976
Short-term debt	6,623	286
Less: Cash and cash equivalents	5,715	5,080
Net debt	18,315	11,373
Equity attributable to equity holders of the parent	122,952	136,241
Non-controlling interest	-	-
Total capital	122,952	136,241
Capital and net debt	141,267	147,614
Gearing ratio (%)	12.96	7.70

Financial risk management

Foreign exchange and commodity price risks

The prices of the most important raw materials and those of olefin and polymer products produced by TVK Plc. fluctuate according to international market rates. Sales are significantly affected by the EUR/HUF exchange rate, while purchases are primarily USD based. In 2011 TVK Plc. did not have any forward or option contract nor had other derivatives to hedge FX risks. The loan granted to the Company is denominated in EUR in order to reduce exchange rate risks.

Sensitivity analysis for key exposures

In line with the international benchmark, Group Risk Management prepares sensitivity analysis. According to the Financial Risk Management Model, the key sensitivities are the following:

Effect on profit from operations	2011 HUF billion	2010 HUF billion
Petrochemical		
Brent crude oil price (change by +/- 10 USD/bbl; with fixed crack spreads and petrochemical margin)	- / +4.4	- / +5.9
Integrated petrochemical margin (change by +/- 10 EUR/t)	+ / - 2.0	+ / - 2.0
Exchange rates (change by +/- 10 HUF/USD; with fixed crack spreads)	- / + 12.4	- / + 10.0
Exchange rates (change by +/- 10 HUF/EUR; with fixed crack spreads / targeted petrochemical margin)	+ / - 10.8	+ / - 9.8

Credit risk

Credit risk arises from the possibility that customers may not be able to settle their liabilities to the Company within the normal terms of trade. Credit risk arises from the risk of late payment by another party. In order to mitigate these risks, the Company carefully assesses each debtor and the debtor's ability to repay its debt on a regular basis. The company covers a significant part of trade receivables by credit insurance. Management is of the opinion that the maximum credit risks approximate the carrying amounts of the respective assets.

Interest rate risk management

As a chemical company, TVK has limited interest rate exposure.

As of 31 December 2011 and 2010, 100% of the Company's debt was at variable rates respectively.

As of 31 December 2011 and 2010, there was no open interest rate swap transaction.

Liquidity risk

The Company is to maintain sufficient cash and cash equivalents or have available funding through an adequate amount of committed credit facilities to cover the liquidity risk in accordance with its financing strategy. The amount of undrawn facilities as of 31 December 2011 consists the followings:

	2011 HUF million	2010 HUF million
Short - term facilities available		
- bank	3,000	3,000
- majority stakeholder	2,711	5,289
Long - term facilities available		
- majority stakeholder	16,261	19,131
Total loan facilities available	**21,972**	**27,420**

29. Commitments and contingency liabilities

NAV revision

In 2011, the National Tax and Customs Administration (NAV) conducted a full scope tax audit at the Company with respect to the year 2006 to 2008. The result of the tax audit was tax difference of HUF 15.7 million, which generated HUF 5.3 million tax penalty and HUF 2.8 million default surcharge, of which, the amounts that weren't appealed (HUF 5.3 million) recognized in January, 2012.

Operating leases

The operating lease commitments of TVK Ukraina tov. are as follows:

	31 December 2011 HUF million	31 December 2010 HUF million
Due not later than 1 year	3	-
Over 1 year	-	-
Total	**3**	**-**

Capital and contractual commitments

The total value of capital commitments as of 31 December 2011 is HUF 2,527 million, which is fully attributable to TVK Plc.

Gas Purchase Obligation, Take or Pay Contract

The TVK Erőmű Kft. has concluded long-term gas purchase contract with MOL Energiakereskedő Zrt. in order for continuous operation of equipments in the power plant. As of 31 December 2011, 566 million cubic meters of natural gas will be purchased during the period ending 2018 based on this contract. (from which 481 mcm under take-or-pay commitment calculated with a contractual average price)

TVK Plc. signed a long-term natural gas purchase contract with MOL Plc. and MOL Energiakereskedő Zrt.. The buyers (TVK Plc. and MOL Plc.) engage themselves to receive and pay the annual minimum quantity, which is the 85 % of the contractual annual quantity. As of 31 December 2011, 281 million cubic meters of natural gas will be purchased during the period ending 2015 based on this contract

Environmental protection

In 1996, before the privatisation of TVK Plc., an environmental audit of the Company had been carried out. Based on the findings of the audit, the restoration of the contaminated soil in the area of the Olefin plant began. The restoration on the area of the Paint Factory continued. The restoration of contaminated soil and water in other areas started in 1999, for which the Company contracted external expert company.

Based on the findings of this environmental audit, the Company recorded a provision for the estimated total environmental expenses to clean up existing pollution in 1996. As a full-scale assessment of the Company's potential environmental obligation is still outstanding, the amount of provision has been updated every year based on the results of the original study, the actual cleanup work performed and on management estimate.

The management of the company regularly assessed the measures and/or investments necessary in order to meet new Hungarian environmental requirements issued based on applicable EU directives.

In connection with this, an assessment of the underground pollution of the areas under decontamination began in the second half of 2002. Further to the findings of an environmental review carried out by an external consultant, HUF 2,101 million additional environmental provisions were created for expected extra restoration costs in 2002. The amount of provisions covers only those expenses that could be assessed and properly quantified at the time of reporting.

In 2003 the Company continued the survey of the underground pollution in order to get sufficient information about extension of environmental pollution and determine the most applicable technology for environmental restoration. The surveys found extensive underground pollution caused in the past. The Company submitted the summary report on the environmental survey completed at the end of 2003 to the North-Hungary Area Environment Authority (ÉMIKÖTEVIFE) by the required deadline in 2004.
The environmental authority requested further additions to the closing document. All the requested additions were prepared by TVK Plc. and have been submitted to the authority. Based on the documentation submitted, the North-Hungary Authority for the Environment, Nature and Water issued a note to TVK Plc. to prepare and submit a technical action plan by 30 September 2005.

The submitted Technical Intervention Action Plan has been prepared in accordance with relevant legislation in force and contains, in a scheduled manner, all the strategic measures and actions to be taken in the short and middle-term to achieve standard management of environmental responsibilities and to ensure compliance with environmental regulations with respect to the entire area of the TVK-TIFO industrial site. The Company manages liabilities and commitments related to past operations as part of an integrated project in co-operation with MOL Plc. The joint liability was agreed to by both TVK Plc. and MOL Plc. in their Co-operation Agreement signed in July 2006.

In its decision dated in December 2006 in relation to the complex Technical Intervention Plan, the Authority issued a decontamination order to both TVK and MOL with respect to the entire area of the TVK-TIFO industrial site. The decision approved the companies' short and middle-term action plan that aims to manage decontamination commitments on a risk and exposure basis while focusing on the continuous optimisation of environmental expenses and on decontamination solutions. On the basis of the action plan, as a major milestone, we drew a complete pollution risk map in 2009. The map will then be used to re-define middle-term environmental goals and to prioritise implementation.

Within the TVK Plc's site, work is carried out to avoid further pollution on the southern part of the plant and the Company is making significant efforts to gauge the extent of the pollution as well as to identify and map the possible movement of the pollutants.

Resulted from the complexity and the extent of the polluted areas, the Company initiated along this project continued the common risk based concept strategy approach of recognizing environmental liability at TVK-TIFO plant participating by contracted external expert company.
In line with strategic environmental planning, the highest priorities at the TVK-TIFO industrial site are to protect human ecological receptors and to minimise environmental exposures (i.e. to identify and prevent both horizontal and vertical spread of pollution).

In order to gauge the deep pollutant towards the south-east of the Company's premises, the boundaries of the polluted area (both vertically and horizontally) were identified with a so called "pollutant dynamism monitoring system". Sampling and analysis already in progress need to be finalised in order to understand the pollutant's movement and dynamics.
Pollution is unchanged or is receding at the Emergency storage facility area of the Olefin container park.
The results of risk assessment reviews first started in 2006 have already limited the number of risks. Health hazards reviews of farmland in 2006 and 2007 found that crops produced in farmland at the eastern boundary of the TVK-TIFO site as reviewed in phase 1 and phase 2, did not represent over-the-limit health hazard for breeding stock or for humans.

We made a quantitative risk assessment in 2008 whose instantaneous findings showed that no agricultural, human exposure and ecological risks are expected to turn up that could be attributed to a contaminated subsoil under the industrial complex. Given that the information creating the input data for risk analyses need continuous updating, we added biological monitoring to our chemical analytical testing and monitoring programme in 2009 in order to explore any quantity of soil gas, which has a significant impact on human health and long-term impact on living organisms.

The TVK-TIFO site's exploration and establishment of facts and its complementary information were prepared and submitted to ÉMIKÖTEVIFE in 2009. On the basis of these documents, the Authority prescribed the continuation of the exploration and the actual technical tasks of restoration with joint responsibility. The filing deadline of the exploration's closing documents is on December, 2012.

During 2011, the mapping up of the resources was finished, geological structure of the site and the water streams were further specified and we completed their integration into the hydrodynamic transport model. On the basis of surveys, the extension of environmental pollution was determined and its quantity isolation was done. We have begun identifying the technical intervention for damage elimination, which is potentially required because of the exploration processes, and begun studying the potential impacts and efficiency analysis of such intervention through a hydrodynamic transport model.
To prevent any pollution from escaping from the area, the Company spent HUF 92 million in 2011 and HUF 130 million in 2010 on actions associated with monitoring and the exploration of the facts performed as part of the additional tests.

Concerning the closing actions required for the slag and ash deposit built in 2000, we raised a special reserve worth HUF 170 million. To cover the costs of after-management actions, a yearly budget of HUF 3 million shall be separated as a special reserve for the subsequent 30 years. The Company had negotiations about the future of the slag deposit. Based on previous coordination, the Company initiated the enlargement of the deposit. The actions and licensing procedures required for the expansion will begin in 2012. The procedures associated with the expansion do not require any special reserve for the possible actions of environmental protection.

TVK Plc. and MOL Plc., involving outsider specialists, set up a research project, and as a consortium successfully applied for the tender „ For a Liveable Environment" invited by the National Research Technological Agency. The main objective of the research programme is to prevent the transport of contaminants in the 16-32 m deep water-bearing zone and to study the methods of the reduction of their concentration. The Company received subsidy in the amount of HUF 65 million, of which it utilized HUF 30 million until 2011. Under this project, we had good results in studying the removal of independent phase hydrocarbons heavier than water, as well as in the landscape rehabilitation program aimed to draw the decontaminated areas under agricultural cultivation. In 2011, MAG Zrt, being the support organisation to the project, successfully prepared the technical and financial report on the project.

ÉMI-KTVF ordered a partial assessment of pollution in the surrounding area of well T-15 at AKZO's premises. The area was decontaminated in 2002 and the situation has been regularly followed-up ever since. An increased concentration of contaminants led us to conclude that AKZO has re-contaminated the area.

We prepared a closing report on the follow-up process and sent it to both the authority and AKZO. In response to the report, the authority issued decision N° 10431-14/2011 and required both TVK Nyrt. and AKZO NOBEL Co., under several and joint liability, to make a factual assessment of the situation. We appealed against the decision on the grounds that proof is presented in our earlier documents submitted to the authority that TVK Nyrt. is not responsible for the increased concentrations of pollutants. No response to our appeal has been received as yet.

The Company recognized – in consideration of the above-mentioned risks - environmental provision based on the currently available quantifiable future expenses in the amount of HUF 2,314 million as of 31 December 2011 (HUF 2,030 million as of 31 December 2010).

Beyond the provision recognized in the Balance Sheet, there are further contingent environmental liabilities whose amount may exceed HUF 4 billion. However, the probability of having these tasks completed is less than 50% due to the fact that there is no legal obligation to carry them out and that their exact technical content is uncertain.

30. Related party transactions

Transactions with associated companies in the normal course of business

MOL Group has been TVK Plc's main raw material supplier and buyer of TVK products ever since the Company was established. The contract, which was signed by the Company with MOLTRADE-Mineralimpex Zrt. in 2001 and related to the long-term raw material supply and by-product repurchase between 2004 and 2013, was modified in 2011. It granted supply both the division of raw material supply between MOL Plc. and MOLTRADE-Mineralimpex Zrt. and the continuous supply of the Company. The Company signed a contract with MOL Plc. in 2011 about the naphtha and light pyrolysis raw material supply and by-product repurchase. The atmospheric gasoline was supplied mainly by MOLTRADE-Mineralimpex Zrt., which was complemented with a small quantity from MOL Plc.

	2011 HUF million	2010 HUF million
Sales		
- of which: to MOL Group companies	84,014	91,881
of which Moltrade-Mineralimpex Zrt.	-	52,786
Slovnaft Pethrochemicals s.r.o.	11,736	12,651
MOL Plc.	71,895	25,530
MOL Commodity Trading.	73	614
Petroszolg Kft.	152	140
Slovnaft a.s.	-	62
to other related parties	2	3
of which Tűzoltó és Műszaki Mentő Kft.	2	3
Purchases		
- of which: from MOL Group companies	357,110	287,540
of which Moltrade-Mineralimpex Zrt.	10,697	216,309
MOL Plc.	320,428	52,969
MOL Energiakereskedő Kft.	11,731	6,050
Petroszolg Kft.	6,593	5,838
Slovnaft Pethrochemicals s.r.o.	5,240	4,851
MOL Commodity Trading	1,314	1,165
from other related parties	268	264
of which Tűzoltó és Műszaki Mentő Kft.	268	264

31. Share-based payment plans

General Incentive Schemes for management

The incentive scheme involves 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 System of Performance Management (TMR), and competencies. Expenses incurred by this scheme were HUF 250 million, and HUF 118 million in 2011 and 2010, respectively.

The liabilities related to incentive scheme as of 31 December 2011 and 2010 were as follows:

	31 December 2011 HUF million	31 December 2010 HUF million
Short term incentive	254	256
	254	**256**

Share-option incentive from 2006

The incentive system based on stock options and launched in 2006 ensures the interest of the management of the MOL Group in the long-term increase of MOL stock price.

The incentive stock option is a material incentive disbursed in cash, calculated based on call options concerning MOL shares, with annual recurrence, with the following characteristics:

- covers a 5-year period starting annually, where periods split into
  - a 3-year waiting period and a 2-year redemption period in case of managers staying in the previous system for 2009,
  - a 2-year waiting period and a 3-year redemption period in case of managers choosing the new system already for Y2009, and it is valid for all of the entitled managers from Y2010.
- its rate is defined by the quantity of units specified by MOL job category
- the value of the units is set annually (in each year since the initiation of the scheme, 1 unit equals to 100 MOL shares).

According to the new system it is not possible to redeem the share option until the end of the second year (waiting period); the redemption period lasts from 1 January of the 3rd year until 31 December of the 5th year.

The incentive is paid in the redemption period according to the declaration of redemption. The paid amount of the incentive is determined as the product of the defined number and price increase (difference between the redemption price and the initial price) of shares.

Details of the share option rights granted during the year are as follows:

	Number of shares						
	2011 Share	2010 share	2009 share	2008 share	2007 share	2006 share	**Total**
Outstanding at the beginning of 2006	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Granted during the year						13,000	13,000
Forfeited/Exercised during the year							0
Outstanding at the end of 2006	**0**	**0**	**0**	**0**	**0**	**13,000**	**13,000**
Granted during the year					14,939		14,939
Forfeited/Exercised during the year					(1,512)	(583)	(2,095)
Outstanding at the end of 2007	**0**	**0**	**0**	**0**	**13,427**	**12,417**	**25,844**
Granted during the year				15,000			15,000
Forfeited/Exercised during the year							0
Outstanding at the end of 2008	**0**	**0**	**0**	**15,000**	**13,427**	**12,417**	**40,844**
Granted during the year			14,500				14,500
Forfeited/Exercised during the year				(600)			(600)
Outstanding at the end of 2009	**0**	**0**	**14,500**	**14,400**	**13,427**	**12,417**	**54,744**
Granted during the year		7,500					7,500
Forfeited/Exercised during the year						(12,417)	(12,417)
Outstanding at the end of 2010	**0**	**7,500**	**14,500**	**14,400**	**13,427**	**0**	**49,827**
Granted during the year	4,111						4,111
Forfeited/Exercised during the year		(2,500)	(5,996)	(4,400)	(13,427)		(26,323)
Outstanding at the end of 2011	**4,111**	**5,000**	**8,504**	**10,000**	**0**	**0**	**27,615**

As required by IFRS 2, this share-based compensation is accounted for as cash-settled payments, expensing the fair value of the benefit as determined at vesting date during the vesting period. Expense incurred by this scheme was HUF (80) million, and HUF 93 million in 2011 and 2010, respectively, recorded as personnel-type expenses with a corresponding increase in Trade and other payables.
Liabilities (without payroll related contributions) in respect of the share-based payment plans amounted to HUF 75 million as at 31 December 2011 (31 December 2010: HUF 224 million), recorded in Trade and other payables.

Fair value as of the balance sheet date was calculated using the binomial option pricing model. The inputs to the model were as follows:

	2011	2010	2009 (2 years waiting period)	2009 (3 years waiting period)	2008
Weighted average exercise price *	72.94	58.69	41.88	41.88	104.82
Weighted average share price *	56.1	56.1	56.1	56.1	56.1
Expected volatility based on historical data	46.42%	42.16%	36.89%	36.89%	37.57%
Expected dividend yield	1.23%	1.23%	1.23%	1.23%	1.23%
Expected life (years)	4.0	3.0	2.0	2.0	1.0
Risk free interest rate	0.51%	0.29%	0.16%	0.16%	(0.04)%
Weighted average fair value of the options	13.2	13.5	17.5	17.5	0.0

** The units of measurement of values are EUR/share.*

Key management compensation

	2011	2010
	HUF million	HUF million
Salaries and other short-term employee benefits	241	201
Termination benefits	59	-
Post-employment benefits	-	-
Other long-term benefits	-	-
Share-based payment	(17)	69
Honoraria	87	126
Total	**370**	**396**

Loans to the members of the Board of Directors and Supervisory Board

No loans have been granted to Directors or members of the Supervisory Board.