





setting the pace from New Europe



TVK Sustainable Development Report, 2007



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# A letter from the CEO

**Dear Partner,**

In 2007, our company broke almost every previous economic and production record and we outperformed even the record breaking year of 2006. We are glad to let you know that Tisza Chemical Group Public Limited Company booked sales over HUF 337 billion and close to HUF 33 billion worth of operating profit last year. These outstanding results emanated from both internal and external factors.

An external factor to mention first is that market conditions worked in our favour overall, except in the last quarter, when feedstock and energy costs started to soar whilst quoted polymer prices showed a downturn. However, our theoretical potential to generate margin rose by 2 percent during the year as a whole. There was a fortunate interplay between external circumstances, which were on average favourable throughout the year, and the measures taken to improve our internal efficiency.

The process modifications implemented in our Olefin-2 and HDPE-2 plants in response to the experiences of trial operation and repairs under warranty brought a noteworthy year on year increase in our production capacities compared to 2006. Rolling out Advanced Process Control (APC), which we had operated successfully in other TVK operations, to the aforementioned two plants contributed to increasing capacity and improving the stability of managing operations. We were truly pleased with being able to improve our specific production ratios simultaneously with implementing these developments without additional leverage. All of these factors propelled our ability to improve continuously the utilisation of our production capacities, including both the plants commissioned in 2005 and the ones brought on line earlier.

High utilisation rates of production capacity coupled with improving sales efficiencies, hence unprecedented production volumes were matched by record breaking volumes sold. Seeking to reap market benefits, we continued to harmonize petrochemical production and sales cooperation between TVK and Slovnaft, both members of MOL Group Petrochemical Division.

We are aware that plain-cut economic ratios are not the only measures of success and social acceptance nowadays. We are being judged more heavily by the activities we perform to reduce our environmental footprint. At TVK, we have been working for years at setting a good example in this respect both nationally and when benchmarked

against international standards. In addition to the steps taken to protect the environment, to promote customer satisfaction and confidence, partnerships with our more immediate and wider environment, including Tiszaújváros and other municipalities in the region of Southern Borsod County or the civil communities and cultural organisations of the region and the county and the employees of our company, feature high among our priorities. The satisfaction of our partners is an indispensable condition precedent to eliciting a favourable judgment over our business activities and is evaluated by our shareholders as a significant factor, despite their primary focus on profitability.

We are publishing our Sustainable Development Report in the spirit of the above for the fifth time now to give account of the efforts we have exerted to live up to the principles of sustainable development and the results we have achieved. The report covers the objectives set for 2007 in the areas of Health, Safety and Environment (HSE) and how they were realized; it outlines the challenges of 2008 and discusses the operating environment, which influenced our corporate operations heavily also in 2007.

Even if judged by international standards, our HSE achievement is noteworthy in that there has been no lost time injury in our company since June 2006. Of the measures taken in the area of health and safety, mention must be made of the successful roll out (along with other MOL Group companies) of a program called "Take a STEP for your health".

The American Chamber of Commerce (AmCham) Hungary also recognized the steps we took for the creation of healthy workplaces. TVK received the special award of the adjudication board, as one of 11 contestants in the category of large corporations for the "AmCham Prize for Creating Healthy Workplaces" contest announced by the Chamber once again for 2007.

Emission metering demonstrated that process emissions from our plants were fully compliant

with effective control limits, which is owing to the installation of a piece of equipment which utilises the plasmatic principle to reduce below the required threshold the ethylene containing emissions from the homogenizing outgas silos of the LDPE-2 plant.

As planned, we completed the construction of the industrial waste water line between the industrial parks of TVK and TIFO in 2007 and closed the operation of the pond system in October last year. Simultaneously, the inlet point of purified waste water was moved from the River Tisza to a location along the Sajó Canal in the TVK premises.

In the longer run, using an integrated approach to preventing pollution in line with EU environmental requirements combined with the application of environmental policies based on those requirements is the most efficient, which is why we aspire to using the best available practices required under law. We must reduce our "ecological footprint" to be able to improve the quality of our environment. That concept motivated the creation of a framework for Biodiversity and Life-cycle Analysis in 2007. As part of these projects, we are surveying and optimising the environmental impacts of our company as well as the use of energy and water and pollutant emissions relating to the production of goods.

I would like to thank all the members of staff for the responsible work performed last year, which contributed to our record breaking economic performance and helped us give account of pleasing results and outstanding achievements to our partners and shareholders in this Sustainable Development Report.



**Árpád Olvasó**  
**Chief Executive Officer**



# About us

Seated in Tiszaújváros, Tisza Chemical Group Public Limited Company (TVK Plc.) is a leading participant of the polyethylene and polypropylene market in Eastern Central Europe and Hungary's key integrated petrochemical company.

#### Core business:

- Olefin production (the production and wholesale distribution of ethylene and propylene monomers and olefin-production co-products)
- Polymer production, i.e. the production and wholesale distribution of low, medium and high density polyethylene (LDPE, MDPE and HDPE) and polypropylene (PP copolymer and homogeneous polymer)

TVK supplies feedstock to several Hungarian, Central European, Western and Eastern European small and medium sized plastic processing operations. Based on its capacity features and strategic plans the company had developed a proprietary sales network to cover several countries in Western Europe. TVK operates an independent office in nine countries, including six fully owned subsidiaries. Its products are present in more than forty countries.

As a member of the MOL Group of companies, TVK plays an active and successful role in the efforts pursued by MOL, Slovnaft and TVK to utilize synergies. It was exactly this idea that motivated the establishment of the Petrochemical Division in early 2004 to create the eighth largest participant of the European market of polyethylene and polypropylene in terms of production capacity. The Division includes the businesses held by TVK Plc. and Slovnaft Petrochemicals s.r.o., which is in turn a fully owned subsidiary of Slovnaft.

Slovnaft's polymer products are also marketed via TVK's sales network under the brand names Tatren and Bralen as part of the cooperation between TVK and Slovnaft.

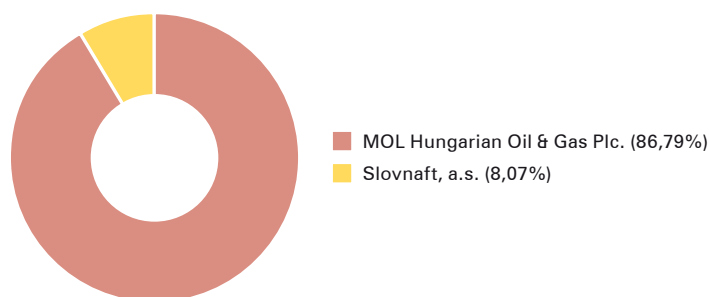
TVK shares are traded on the Budapest Stock Exchange and on the International Order of Book of the London Stock Exchange.



## Changes in Ownership Structure

Ownership structure	Holdings (%)	
	December 31, 2006	December 31, 2007
Hungarian institutional/corporate	46.16	87.09
Foreign institutional/corporate	52.80	8.14
Hungarian private investors	0.77	0.27
Foreign private investors	0.02	0.00
Employees, senior officers	-	-
Treasury shares	-	-
Unidentified holders of equity shares	0.25	4.50
TOTAL	100	100
Number of shares	24,290,843	24,290,843

### Shareholders with More Than 5% Interest



In the Equity Capital Total  
on December 31, 2007

## Vision and values

Our corporate Vision is inseparable from our Core Values and the Mission superimposed on those values.

### Vision

We will retain our regional leadership role in the petrochemical business by continuously improving our efficiency, competitiveness and profitability, by exploiting the growth of regional polymer consumption, by forging a mutually beneficial system of partnerships and by widening, optimizing and diversifying our portfolio of products.

### Mission

- Our customers should associate the name of TVK with quality and reliability.

- Our employees should be proud of being part of dynamic development in an environment of dignity.
- We keep increasing the value of the company and are held in confidence by our shareholders.

### Core Values

The core values that make our mission attainable are:

- Highly qualified, creative and motivated employees.
- Commitment through a sense of responsibility for health, safety and the natural environment.
- Business relations based on mutual benefits.
- Quality consciousness immersing the operation of the company.

# How we achieve our goals

We continuously develop and review our processes. Quality is pivotal to our operations. Our business activities show the highest level of integrity and transparency.

## Policies and strategies

### **Our Strategy for 2006-2010**

The strategy of TVK focuses on realizing economic performance targets, environmental and social goals simultaneously.

As an economic target, TVK continues to pursue the aim of continuously increasing its efficiency, competitiveness and profitability, seeks to maintain its petrochemical leadership in the region by exploiting the regional growth of polymer consumption.

The strategy of TVK is aligned to the strategy of MOL Group, which has targeted asset development and the creation of partnerships, in that it focuses on reaping the benefits emanating from the TVK – Slovnaft Petrochemicals (SPC) integration and on value creation at TVK and MOL Group level.

Major petrochemical success factors continue to include safe feedstock supply, a strong regional position, an efficient asset base and growth.

Growth relies on efficiency improvement, upgrading and optimization programs relating to the asset portfolio and in terms of the market, on the new methods of market analysis, a flexibly responsible product portfolio and the increased efficiency of sales owing to the new sales concept along with our customer focus approach.

Our market strategy calls for meeting the rapidly increasing demand for polymer from countries east and south of Hungary whilst retaining our market share in Western Europe.

The environmental and social goals attached to our business performance objectives are upheld in our HSE policy and through the quality, environmental, health and safety systems we apply.

New potential markets include countries to the East and South of Hungary (see maps below).

## Our Quality and HSE Policy

Policies:

- Quality policy
- HSE policy
- Core HSE values

Standardized management systems, such as the Environmentally Oriented Management System (EOMS), the Quality Management System (QMS) and the Labour Health and Safety Management System (LHSMS) guarantee compliance with the relevant regulations (laws, regulatory requirements, standards, etc.).

The company maintains an Integrated Management System (IMS), which is certified under ISO 9001, ISO 14001 and OHSAS 18001. The system serves to support the profitability and the efficiency of operations, and is in line with quality and HSE policies and the goals set based on those.

Our senior management defined our HSE policy on the basis of the Management Declaration of MOL Group and in line with the TVK's statement of its vision, mission, core values and strategy. The quality policy contains a commitment by management to the implementation and continuous improvement of quality and HSE processes. These processes mean more than the excellent quality of our products, the high-level fulfilment of customer requirements and the exacting expectations imposed on suppliers. We positioned quality and HSE awareness as core values of the highest priority in managing and operating the company and in its relationship with its social and economic environment.

We have defined measurable quality, environmental, labour health and safety targets for each level of the organization on the basis

of the guidelines set in the policy documents. Corporate level targets are approved by the Chief Executive Officer of TVK, whilst the senior managers set targets for their respective business units and check implementation. In 2007, we continued to convert our previous organization based system of controlling to a new process oriented system of controls in line with MOL Group expectations. This transformation process is still in progress and is expedited to ensure that integrated processes are mapped swiftly into control procedures using the new methodology.

TVK looks upon its proactive strategy as a key component and a road to follow. To aid implementation and to maintain proactive approaches, TVK openly communicates its past achievements and future aspirations so as to be able to maintain safer working conditions for all of its employees through an awareness of set targets.

We are committed to protecting health and conserving the environment, to labour safety and to community values. This commitment is published in our HSE policy.

"TVK is aware that the creation and development of corporate approaches characterized by environmental consciousness and giving priority to safety at work are fundamental requirements on the way to achieving its long term goals under the token of sustainable development.

In October 2005, the company developed its basic HSE principles, which it disseminates to all parties concerned as a tool designed to promote the culture of safety at work.

"Our philosophy claims that all HSE incidents can be prevented!"

## Code of Ethics

The first group-level Code of Ethics (CoE), which has replaced formerly separate member company codes, was launched in 2007. When preparing the Code, we took international best practice and standards into account the better to reflect stakeholder expectations and to strengthen our practices and compliance. The Code of Ethics, a collection of norms and rules, seeks to offer guidelines for the resolving of ethical issues.

The Code of Ethics communicates ethical risks to employees, provides guidance to recognizing and managing ethical problems and sets forth a procedure for reporting instances of unethical conduct.

As the lack of integrity of the actions of even a single person will jeopardize the hard-earned reputation of the Group and will compromise public confidence, every MOL Group employee is expected to be familiar with the entire Code. The Code has been adopted by the Company's Executive Board and represents a commitment to promote an organisational culture that encourages ethical conduct and compliance with the law.

The scope and effect of the CoE covers all MOL Group companies, their boards of directors, and every subsidiary over which the MOL Group has direct or indirect majority control

as well as the executives and employees of the Group. Partners acting on behalf of the Group and its member companies and all their contracted individuals and organisations are equally expected to adhere to the CoE.

The Code of Ethics is structured to cover the standards and rules of evaluating important ethical problems by main stakeholder groups. The Code covers the following stakeholder groups and ethical issues in detail

- customers;
- shareholders (Transparency of Financial and Accounting Information; Company property; Intellectual property and other protected information; insider trading; digital systems);
- employees (Non-discrimination; Harassment; Privacy and employee confidentiality; Child and forced labour);
- health, safety and the environment;
- government affairs and political involvement;
- local communities and civil society;
- suppliers, business partners (conflicts of interest);
- competitors.

An Ethical Council is operated to ensure compliance with ethical standards that go beyond legal requirements. The Committee works according to its own rules of procedure when investigating revealed ethical offences and recommending sanctions.



Accordingly, our corporate governance system complies with the requirements of the Budapest Stock Exchange, the guidelines of the Hungarian Financial Supervisory Authority and effective capital market regulations.

## Corporate governance structure

TVK attaches high priority to applying a corporate governance system that meets even the most exacting expectations. Accordingly, our corporate governance system complies with the requirements of the Budapest Stock Exchange, the guidelines of the Hungarian Financial Supervisory Authority and effective capital market regulations. Operating in a group is interpreted by TVK to involve the parent company itself and all of the subsidiaries of strategic importance controlled (in varying degrees) by TVK. The stake held by TVK in its subsidiaries varies but it normally provides majority control. Some of the controlled businesses are formerly outsourced business units, acquisitions or trading joint ventures that became part of the portfolio of TVK companies upon incorporation in a foreign country.

### **Main corporate governance bodies at TVK Plc.**

The General Meeting (GM) is the supreme body of the company and comprises all of the shareholders. The GM has the power to pass resolutions about key issues affecting the operation of the company and reserved for the exclusive competence of the General Meeting.

The governing body of TVK is the Board of Directors, which is collectively responsible for every corporate operation. The Board represents the Company in its relations with third parties, courts and other authorities, shapes and governs the work organisation of the public limited company, governs the business activities and finances of the Company and is responsible for ensuring that the organisations, personal and physical resources are available as required for successful operations. The Board of Directors passes its resolutions in the framework of law, the Articles of Association of the Company and the resolutions of the General Meeting on issues not reserved for the exclusive competence of the General Meeting. The Board keeps analysing and evaluating the operating environment and the performance of the group of companies to ensure maximum fulfilment of shareholder expectations.

Commissioned by the shareholders, the Supervisory Board exercises control over the management of the Company on behalf of the General Meeting, reviews all the essential business policy reports placed on the agenda of the General Meeting and every submission concerning

matters reserved for the sole competence of the supreme body of the Company. The Supervisory Board also performs other duties as required under law.

### Fundamental operating principles

The TVK Plc. model of organization and operation aims to develop the optimum between centralization and decentralization. The functional model intends to ensure on the one hand central governance of and control over the functions required to operate the company and the group successfully and on the other hand the ability of its production branches to accommodate to market requirements rapidly and flexibly and to enjoy an appropriate level of independence.

In performing its governance and control function, the Company manages the independent businesses in blocks in line with the operating model designed for the TVK Group especially as regards issues related to markets, operations and development and to the provision of services to, and to other entities by, these businesses.

Some of the central units provide support in addition to having a central governance and control function. The Company exercises strict centralized control over the economic, financial, communications, legal and human resources functions. Important technical functions, such as safety engineering, quality management and environmental protection units, support the work of production and sales and help those areas meet the expectations of both society and the marketplace. These units promote the application and development of standards and guidelines recognised by TVK Plc. as binding upon itself.

Central specialist units perform corporate services, including activities related to procurement, warehousing and capital expenditure, and other service related operations in general for the Company and group affiliates.

Production units perform centralised quality control and business functions in support of their production and they also integrate the activities of maintenance supervision

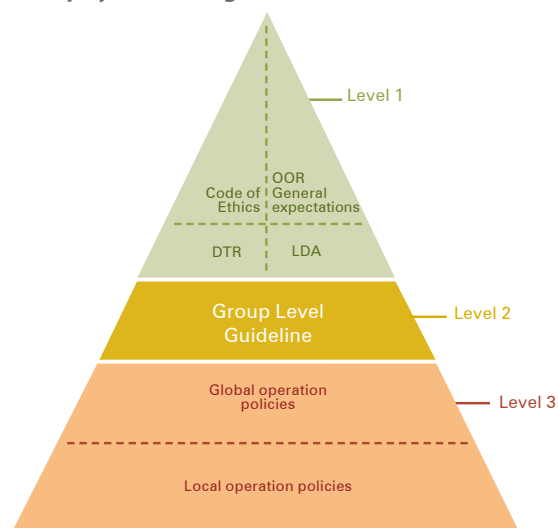
and energy supply to the degree such are related closely to their operations. Separate units within the organisation are responsible for polymer sales and the related support functions.

## Corporate Governance and Regulation System

The regulation system of TVK has been developed and is operated in full compliance with external requirements and with MOL Group rules.

The new governance and regulation system developed at MOL Group level has been designed to put into action a uniform governance model, which supports efficiently the group level implementation of business control processes. The system is also geared to operating a uniform, flexible and transparent internal environment, to ensuring harmony between processes and to providing a flexible vbackground for organisations and quality assurance systems.

### Structure and Components of the New MOL Group System of Regulation:



#### The Regulation System has three levels:

- Level I:** Main Corporate Governance Documents (OOR, Code of Ethics, DTR, LDA)
- Level II:** Group Level Guidelines corresponding to level of integration and unification
- Level III:** Operation Policies – Global and Local Operational Policies

## Main Corporate Governance Documents

### **Rules of Corporate Operations (RCF)**

The RCF lays down the general rules for operating the organizational units of TVK and offers guidelines regarding the operation of, division of labour and connections between the companies controlled by way of ownership rights.

### **Operational & Organisational Rules (OOR)**

The OOR is the highest level component in the hierarchy of rules governing corporate operations, and as such determines MOL Group corporate governance philosophy, the model of Group operations, the key rules and governance principles governing operations, the vision of the Group as well as the key rules and principles of functional decision making and control mechanisms and organization planning. The OOR provides a general governance framework for developing the various types of regulatory components.

### **Description of Tasks and Responsibilities (DTR)**

The DTR breaks down the rules of corporate governance and organization planning set forth in the OOR into organizational structure (organization chart and brief description of the organization). It specifies the key responsibilities of each unit in the organization and the decision support mechanisms of organizational coordination (committees and decision support teams) along with the operating bylaws of MOL Group integrated organisations and member companies.

### **List of Decision Making Authorities (LDA)**

The LDA specifies the most important decision making points and management competencies in respect of operations. Accordingly, it identifies the main control points necessary for operating MOL Group processes efficiently. The objective of the LDA is to maximise the shareholder value of the Company and to capture unambiguously the decision-making powers and competencies so as to reach operational and financial excellence.

### **Group Level Guidelines**

These guidelines are consensus based rules determined by a MOL Group level (integrated) manager in cooperation with the affected Executive Business Council. Group level policies capture both the operating requirements of the area an integrated manager is responsible for and mandatory rules applied across the whole of the MOL Group (provided activities of such nature are performed).

### **Operation Policies**

Operation policies capture in detail the tasks and responsibilities needed for operating efficiently. They also provide a breakdown of the requirements laid down in the guidelines and complement them with specifications necessary for the performance of day-to-day operating duties. Operation policies may be of two different types: Global Operation Policies, which are determined at group level and are set forth in the Group Level Guidelines for each target group (specific groups of subsidiaries) and Local Operation Policies that set forth minimum requirements and are drafted upon the request of an integrated manager or a local manager.

### **Global Operation Policies**

MOL Group level guidelines lay down operational requirements and the responsibilities related to performing activities. Global Operation Policies set forth the detailed rules of doing business (in the manner identified in Group Level Guidelines) and take into account several individual components (e.g. region, company groups, legal requirements, integrated organisational units, systems and technology).

### **Local Operation Policies**

These are policies determined by local management for a specific MOL Group member company or for several MOL Group subsidiaries operating in a specific country. Local Operation Policies are developed at group level and are drafted by group level managers by taking into account the provisions of Global Operation Policies in capturing local processes (along with the related organisational responsibilities) and methodological solutions.

### **Process Related Documents**

These documents contain the methods/ descriptions of process related technological solutions applied in the oil industry and the petrochemical sector (CH research, production, product and process development, petrochemical production, logistics, retail sale) and of IT systems (types in use include: technology, operations, treatment, maintenance, control, eliminating disorders, commitments, measurements, calibration, equipment specification and technical manuals, related plans, licenses).

### **Technical Manuals**

These are manuals drafted in response to specific technical considerations (e.g. Corporate Governance Manual, HSE Manual, etc.) and offer a processed set/collection of effective policies arranged in accordance with technical considerations.

In addition to the aforementioned elements of the new regulation system, TVK operations are also regulated by process regulations, CEO instructions, work instructions and orders. These are being replaced as the new regulation system is rolled out.

### **Power to sign**

A collective term for registering the company (authorizing the holder to sign on behalf of the company) and the power to sign based on power of attorney.

### **Right to register the company**

This term means acting on behalf of a company in writing and the right to sign on its behalf. The right to register a company takes effect upon entering a company in the official company register at the Court of Registration. The right to register a company also covers the right to act on behalf of the company.

### **Right to sign with authorization**

The right to sign with authorization is a global term for substituting a person with the right to act on behalf of a company when an official written representation is made on behalf of the company. The right to sign with authorization takes effect upon signing a power of attorney and recording the holder on the list of persons having the right to sign with authorization.



TVK management is aware of its basic duty of representing and promoting shareholder interests and recognises its accountability for the company's performance and activities.

# Management systems

## Risk Management

The goal for risk management in TVK calls for making corporate operations as secure as possible. The priorities of the risk management policy of the company involve all the risks associated with its business. The risk policy covers for instance the management of currency rate and world market price risk, as well as property, business interruption, business, liability, customer, technical, safety and environmental risks.

Since 2006, the Enterprise Risk Management (ERM) system has been used to manage risks at MOL Group level. The ERM is a modern risk management concept that also contributes to boosting corporate value. The central idea behind the concept is the need to apply a common method and a consolidated way to calculate, manage and disclose in the reports a variety of (financial, operating and strategic) risks. During the ERM process potential risks are identified and the risk benefit relationships of individual divisions, projects and decisions are rendered comparable, which contributes to developing a culture of risk awareness within the organization. The measurement of risks facilitates the identification of the root causes of risks and contributes to a greater awareness of different risk types. As a result, senior management can get a firmer grip on the risks that influence corporate profits the most and can determine the elements of risk to retain and the ones that require a variety of risk mitigation methods.

The results of ERM and the experiences of insurance management also set the framework for developing business continuity plans, crisis management and other risk management activities. The development of a Business Continuity Management (BCM) framework started in late 2007 in the Petrochemical Division of MOL (as one of the business units exposed to high operational risk) and the first phase is expected to get completed during the first half of 2008. Preparing for operational contingencies will not only shorten the time it takes to restart plant level operations after a problem emerges, but will also highlight areas that need to be developed.

Moreover, if risk appetite is well-defined, ERM helps set up a business portfolio with optimum risk benefit features by taking risk survey results into account in the decisions on capital allocation.

The prices of the most important feedstock used by the company and the olefin and polymer products produced by TVK are pegged to the global market prices of the same products. Sales income depends heavily on the position of the HUF in the band of intervention, i.e. the EUR/HUF rate, whilst purchases are determined first of all by the USD rate.

In 2007, TVK did not conclude any forward, option or other derivative transactions to hedge against exchange rate risk. The loan taken out by the company was denominated in EUR to reduce the exchange rate risk.

The company had no open foreign exchange futures positions on December 31, 2006.

The company covers most of its trade accounts receivable with credit insurance to mitigate liquidity risk and it carefully examines the conditions of the prospective customer and assesses whether or not the conditions for continuous payment are given before signing a new contract.

## Involving stakeholders

Processes with multiple stakeholders call for the involvement and cooperation of each affected party. This is indispensable to the successful development of a common understanding of Sustainable Development issues, and the application of its principles to everyday practice. Moreover, cooperating parties also have the option to formulate and advocate their views and interests. Shareholders, customers,

employees, contractors, NGOs and local authorities and communities comprise the main TVK stakeholders, among whom we must build trust and credibility by acting as a “good corporate citizen”.

### Shareholders

Creation of shareholder value is the most important mission of a modern corporation. We are the employees of our shareholders, who need to be assured that the current corporate structure and operations provide the best value for them. TVK management is aware of its basic duty of representing and promoting shareholder interests and recognises its accountability for the company’s performance and activities. Therefore, performance and development are continuously analysed and evaluated, both in the broader external environment and within the operations of TVK itself.

TVK shareholders are mainly domestic and international institutional investors. Our share register is managed by the Board of Directors of TVK and the administrative jobs related to TVK equities are performed at the head office of the company. We communicate with our shareholders through various channels. At the TVK Annual General Meeting, where we give account of our performance and strategies, our shareholders approve our latest financial statements and the level of dividends. In addition, we publish quarterly flash reports and make them accessible for market participants at our corporate website. We publish our annual report at the end of April. It comprises the audited financial statement of the TVK Group and a review and analysis by management of the past business year. The documents are available for downloading in electronic format at our website:

[http://www.tvk.hu/en/about\\_tvk/investor\\_relations/financial\\_reports/TVK](http://www.tvk.hu/en/about_tvk/investor_relations/financial_reports/TVK)

has always regarded on-going communications with the financial community a top priority. Investors may contact TVK with interim questions throughout the year and we are pleased to entertain their queries at our General Meetings. The company notifies shareholders of each corporate event (general meetings, conversion of shares, distribution of dividends, etc.). To ensure that our communication with shareholders is fully comprehensive, we also publish all our announcements and reports on our website.

### **Increasing shareholder value**

Our core strategic goal calls for the increasing shareholder value and competitiveness incessantly by creating the conditions for efficient operations, by exploiting MOL Group synergies and business opportunities, by strengthening our market positions market and by optimizing our product portfolio. To achieve performance benefits we have implemented a dynamic development strategy that integrated proactive responses to market challenges, boosting capacity and the continuous exploration of internal capacity reserves.

Managing and mitigating risk is an inherent part of the process of creating long-term shareholder value. To enhance the culture of risk awareness and facilitate decision making at different levels, MOL Group introduced a new framework, Enterprise Risk Management (ERM). The basic concept is to treat different (financial, operating and strategic) classes of risk using a common methodology. The strategic planning process relies on the results of strategic risk assessment. Our strategic planning processes rely on the outcomes of strategic risk surveys.

The Board of Directors is aware of its responsibility for TVK Group results, performance and for operations as a whole. The Board is also fully aware of shareholder expectations and does its utmost to have corporate operations match those. It analyses and evaluates the operating environment and the performance of the group on an ongoing

basis to ensure maximum fulfilment of shareholder expectations.

TVK recognizes and understands that its commitment to SD is one of the key conditions of remaining successful in business in the long run.

We recognise the importance of the relationship and interdependence between the economy, the environment and society in general. Accordingly, our principles and values are applied to all activities in these areas, using an interdisciplinary approach. We are aware of our responsibility for the environment and society and towards TVK employees and stakeholders. Therefore, we strive to maximise improvement everywhere so that any negative impact arising from our operations is kept to the minimum.

We continuously improve our performance in every area so as to get higher operating efficiencies, more competitive products and services, which lead on to enhancing our competitiveness and improving our market position. We offer excellent quality at competitive prices. We aspire to reach quality in our products and services and to act professionally during our daily work to ensure that our partners in business return time and time again.

As TVK is a MOL Group affiliate, its stakeholders have free access to a new Group-level internet site that offers high quality information. The site contains a separate, regularly updated section on Corporate Responsibility, covering Sustainable Development issues and the efforts in the field of Health, Safety and Environment. The site provides users several ways to express their opinion, and feedback thus received is analysed and taken into account in the development of further processes

Our website: [www.tvk.hu](http://www.tvk.hu)

## **Customers**

TVK Customer Services can be contacted to make enquiries, to give feedback or to request assistance, and the unit is more than a simple façade of the company as it is a key customer information tool. The service is available for information-sharing on any special or general issue concerning TVK in person, by telephone, e-mail, fax or post round the clock on any day of the year. Help desk staff is furnished with up-to-date information on TVK products and services. In addition, calls are recorded for later analysis to improve customer satisfaction and the quality of services. If contacted, Customer Service staff must respond to immediately in a form that is most appropriate to the specific question at hand.

We launched a new program called Open Doors designed to solidify long term relations and to improve cooperation with customers, to engage in tailored communication with key customers and to acquire new clients.

In 2007, we managed to improve substantially the share of direct customer relations in our total sales. We managed to make major strides forward in terms of volume sold by strengthening direct customer relations through our newly established commercial offices in Romania and the Ukraine.

We have been measuring customer satisfaction for years now and surveyed over 500 partners at the end of 2007. The survey was aimed at exploring the strengths and weaknesses of our company and at following up on the improvement measures taken in response to earlier surveys. After analysing the information, we will develop new programs designed to strengthen customer satisfaction.

Costs incurred by handling customer complaints dropped substantially in 2007. The distribution of complaints received across product groups and plants was as follows: the plants LDPE-1, LDPE-2 and HDPE-1 incurred a larger share of complaint related costs due to quality problems, whilst the number of complaints received regarding the HDPE-2 plant was substantially lower as product quality improved in the main. All in all, the latter reduced the total cost incurred by complaints concerning PE products. Polypropylene products outperformed PE products last year as both plants managed to reduce the cost of complaints to a fraction of the level recorded a year earlier.

## **Customer satisfaction survey**

We conducted a customer satisfaction survey on a sample including 284 of the most important Hungarian and European customers of TVK. The study was designed to reveal corporate strengths and weaknesses and to follow-up development.

TVK demonstrates substantial development and the capacity to retain strengths across 2005, 2006 and 2007. (E.g. although product development continues to be a target for criticism, it has shown a positive trend over the years. This observation is also valid with regard to discounts. We seem to have made progress in keeping delivery times, which used to trigger complaints in the previous year and the average of this year bounced back to the high level recorded previously.)

All in all, TVK can be said to have definitely developed substantially not only in the face



of its competitors but also as measured by its own standards.

We responded to the results of the survey conducted in the previous year by embarking on a differentiated system of providing services, which involved focussing our resources on delivering services to customers that truly need and reward our services. We expect that these projects will improve customer loyalty, will help us acquire new business and drive costs down through operating at higher levels of efficiency.

The steps we have taken to improve the standard of customer service include:

- a proprietary sales network of commercial offices in Austria, Germany, France, Italy, the UK, Poland and Russia. Opened new sales offices to ensure better services to Romanian and Ukrainian customers and to boost sales in the region of Central and Eastern Europe.
- Products sold directly to end-users represent about 90% of total polymer sales.
- Broader product portfolio including cutting-edge types.
- Larger volumes: In 2007, the total annual capacity of the MOL Group to produce plastic feedstock was 1.281 million tons.
- Customer satisfaction: operated as part of the quality management system and seeks to deepen the commitment to quality across and outside the group and to reduce losses emanating from delivering inferior products/services as a result.
- Development of the portfolio of products: develop the product portfolio in a manner to support long term market position, the improvement of the level of customer satisfaction and the proper diversification of product sales.

- Differentiation of services: the continuous review and development of the quality of services and making better use of resources

### **Partners**

We preserve our corporate values so that we can realize our vision: growth coupled with value creation is a key factor for our shareholders and also creates new opportunities for our employees and business partners. Auditors supervise our activities regularly and we give account of our performance in our annual reports and SD reports.

We conduct our business with the highest level of integrity and flexibility, whilst our operations are fair and ethical. Our responsibility dictates that we monitor and keep reducing the intrinsic risks associated with our business activities.

It is a top priority that we keep all of our shareholders informed of our efforts and achievements.

- We attach importance to the ability to influence the life of the communities of the Southern Borsod region, which explains why our social relations focus on this area first of all.
- We try to improve the quality of life of people employed by, residing near or associated with TVK through a variety of activities and donations.
- We entertain excellent and fruitful relations with the local offices and authorities of Tiszaújváros.
- We regularly rate our suppliers by a variety of HSE and financial aspects and use these surveys comprehensively while they are at work.
- Management engages in continuous dialogue with employee representatives.

## Employees

We have repeatedly organized our traditional Month of Safety, which in its new form includes a series of events spanning the longest period at the company. The programs of the event held in March 2006 also covered quality and environment related issues, included quizzes and prizes to motivate employee participation, and created an efficient channel for disseminating HSEQ information.

The most important events of the Month of Safety included:

- Introducing HSE process novelties,
- Examinations relating to protecting health and staying healthy,
- A presentation on road safety,
- HSE specific training,
- A labour safety forum,
- Presenting the archive of failures,
- An exhibition of protective gear,
- Analyses of the moral of work accidents,
- Study trips,
- HSE quiz and forum.

## Business Excellence

We have been using the EFQM (European Foundation for Quality Management) Model of self-evaluation since 1996. The 1998 National Quality Award and the grant of the "Excellence in Europe" title in the European Quality Award competition in 2001 have been superior achievements of the quality function of the company. In 2006, we participated in the MOL Group Chairman's Quality Award for HSE

and were awarded first prize in the category of MOL Group Integrated Organizations.

## Quality Management Systems

In 2002, we recertified under ISO 9001:2000 the Quality Management System we have been operating since 1993. We introduced in our Environmentally Oriented Management System in 1997 and certified it under the ISO 14001:1996 standard. In 2003, we introduced and certified our Occupational Health and Safety Management system under OHSAS 18001:1999. Our Integrated Management System (IMS), which is certified under ISO 9001:2000, ISO 14001:1996 and OHSAS 18001:1999 was introduced in the second half of 2004. We focussed heavily on developing and operating the IMS in 2006. During the review of our IMS system in 2005, we certified the new EMS component under the new ISO 14001:2004 system.

In 2007, we continued the project aimed at revamping and upgrading our regulation system. The project was implemented in accordance with a strictly controlled schedule to ensure management without interruption. As the project is still in progress, it has allowed and still allows us

- to upgrade management systems,
- to deepen integration,
- to take new requirements into account,
- to increase process-orientation, and
- to add clear and specific processes.

In April 2007, SGS Hungária Kft. conducted a successful regulatory audit (under ISO 9001, ISO 14001 and OHSAS 18001) of the IMS of the company. For the first time in the country and in the history of the MOL Group our quality management system was audited using the "Progress for ISO 9001" methodology, which facilitates more objective measurement of the current system and more exact identification of the areas that need to be developed.

The regulatory audit of our Technical Testing Laboratory and the renewal audit of the Central Laboratory under the MSZ EN ISO/IEC 17025:2005 standard comprised major tasks concerning the operation of our accredited laboratories. Both audits were performed by the National Accreditation Board and were successful.

The system of integrated management and the operation and development of our accredited laboratories under standard requirements are subject to recurring internal integrated systems audits. We hold external audits to control the performance of outsourced activities that are connected with running the Company. Measures have been taken to improve identified deviations and to develop the system. We continue to develop ISOFFICE, the software that supports the operation of our Integrated Management System. The software contains a electronic database that helps us run analyses and evaluations of several years of historical data, and it also serves as a basis for launching developments.

TVK has been measuring customer satisfaction for years. As part of this program, we surveyed over 500 partners at the end of 2007. The survey was aimed at exploring the strengths and weaknesses of our company and at following up on the improvement measures taken in response to earlier surveys. After

analysing the information, we will develop new programs designed to strengthen customer satisfaction.

We gave high priority to professional upgrading and to internal and external communication. We implemented TQM pilot projects and held Statistical Process Control (SPC) training sessions to ensure that we can meet customer requirements.

## Supplier Management

The qualification of suppliers (of materials and feedstock) and contractors (service providers) is an important component supporting the QMS.

The qualification of suppliers is a two-stage process. The first stage covers the prequalification of contractors. A prequalification form is attached to each request for quotation targeted at evaluating the level of development of the supplier's quality system. The suppliers of hazardous substances or contractors using such substances in their business, whose operations require a licence, are also sent an environmental questionnaire. Based on the responses given, suppliers are pre-qualified as category A, B, C or D, which will also be taken into account when their quotations are processed.

Contracts are concluded with suppliers short-listed after prequalification. The questionnaire gives priority to suppliers/contractors with EMAS and ISO 14001 certification. We monitor the validity of certificates held.

As a MOL Group affiliate, we orchestrate our prequalification system with other group members and accept the category designation of suppliers pre-qualified by other group affiliates.

The second stage includes the regular evaluation of suppliers/contractors. Scores assigned during prequalification are assigned high weights in this stage. Environmental aspects feature heavily among the evaluation parameters.

We devote extra attention to compliance with environmental regulations in purchasing processes.

- We request producers to submit Safety Forms regarding certain products listed in the regulations in accordance with the rules set forth under law. These forms are stored and accessible on a common server. Only materials accompanied by such documents may be used or consumed at the company site.
- We participate in the REACH working group of MOL Group, which is responsible for the classification of hazardous substances with a view to EU regulations.
- To minimize the volume of waste generated, we require uniform packaging of purchased substances, if possible, and reduce the volume of packaging.
- Before selecting a supplier, we verify compliance with legal provisions (existence of licences and permits) and perform validity checks. The failure of a supplier to renew a licence or permit (for instance for the transportation of hazardous waste) triggers contract termination (which is also provided

in supply contracts).

- Contractors that perform work and are physically present at the TVK site are required to accept and sign the "HSE rules applicable to the TVK site". These rules are also integrated into our contracts.

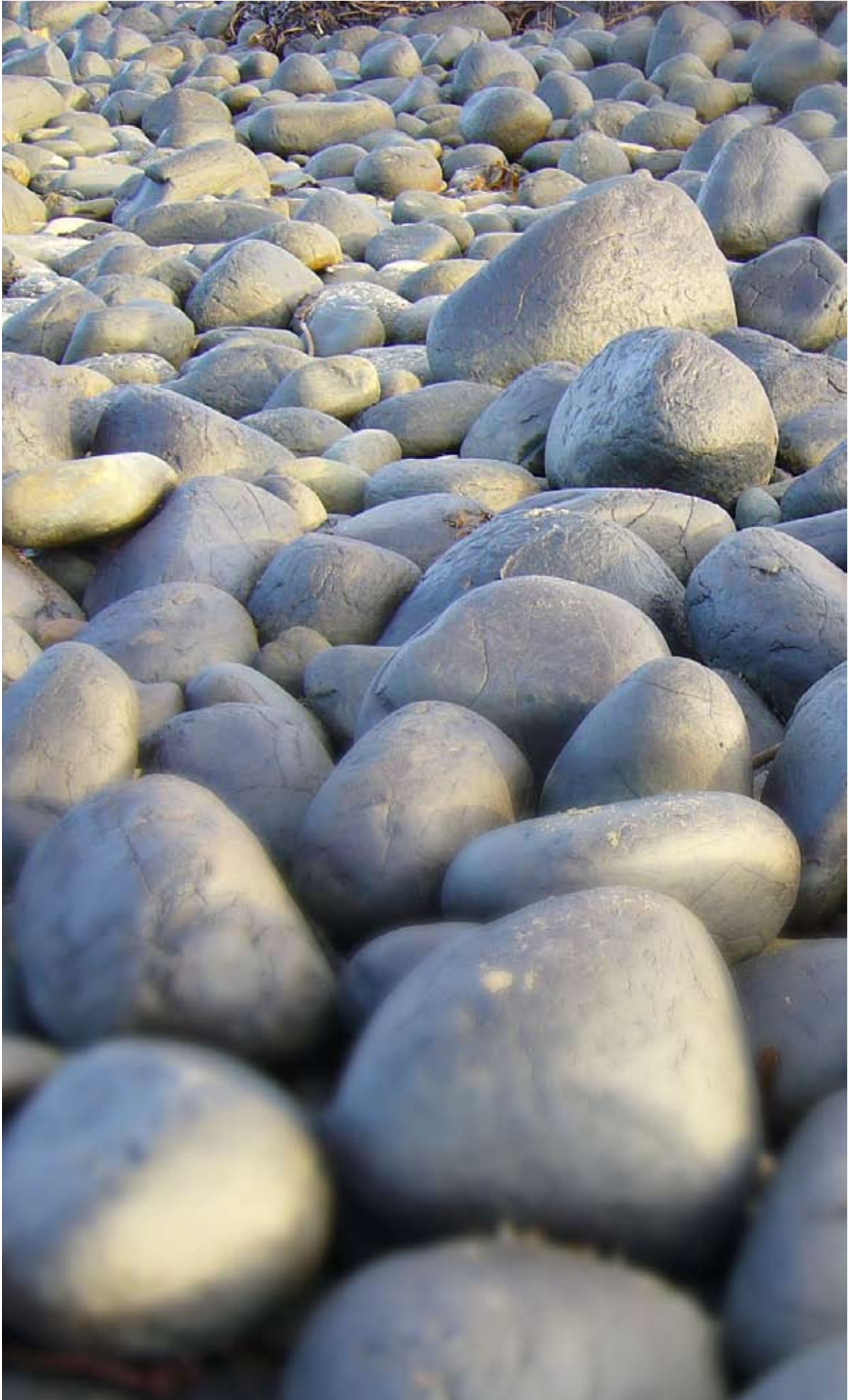
## Brand management

We distribute our polymer products under three brand names depending on type.

The application areas of low density polyethylene products distributed under the brand name TIPOLEN include foils, blown hollow objects and moulded products.

HDPE feedstock is used in a variety of ways. Accordingly, film, blown hollow objects of different sizes, split fibres and polyethylene grades for gas and water pipes feature among the applications of the products marketed under the brand name TIPELIN.

Our cutting edge polypropylene plant uses the MONTELL (now Basell) process to produce polypropylene products branded TIPPLEN, which covers homo-polymers, hetero-phase and random copolymers. The product mix is associated with an extremely broad range of applications, including injection products, pipes and profiles, moulded and blown film, biaxially oriented film, film yarn and monofilaments and fibre grade products.





## **Hungarian Chemists Association (MKE)**

MKE was established in 1907 with a program to promote the development of chemical science and industry.

The Association seeks to facilitate the exchange, evaluate and publish technical information, to promote the knowledge of its members and to facilitate their in Hungary and internationally. A group of TVK professionals has participated in the work of the Association for 40 years. The Chairman of the Mineral Oil and Petrochemical Chapter of the Hungarian Chemists Association is TVK CEO, Mr. Árpád Olvasó.

## **Hungarian Chemical Industry Association (MAVESZ)**

MAVESZ was established in 1990 to promote the development and to protect and advocate the interests of businesses active in petrochemical production in Hungary.

MAVESZ is a member of the European Chemical Industry Council (CEFIC) and the European Chemical Employers Group (ECEG). TVK is a founding member of MAVESZ and has also delegated the present chairman of the Association, TVK CEO Mr. Árpád Olvasó.

## **Association of Petrochemical Producers in Europe (APPE)**

Acting as the voice of petrochemical industry in Europe, APPE is a forum where close to 70 member companies can shape and advocate the common position of the industry in issues related to health, labour safety and protecting the environment and in the areas of commerce, competition law, energy management, logistics, market research and integrating Eastern and Western European petrochemical activities.

TVK has been a member of APPE since 1995, and Mr. Árpád Olvasó, CEO, is also a member of the board of the Association.

## **European Chemical Industry Council (CEFIC)**

TVK was the first to get invited to CEFIC from among the companies of the region of "New Europe" (including the 10 accession states of the 2004 enlargement) in autumn 2005, which provides MOL Group with a direct link to decision making and legislative processes, whilst advocating the business interests of the petrochemical sector. CEFIC seeks to help the chemical sector remain viable, successful and develop in Europe and to promote continuous development and the best possible economic, social and environmental performance. CEFIC represents 29 thousand European chemical businesses. Its member organisations employ 1.3 million people and produce one third of the global output of the chemical sector. In this light, it is particularly valuable that the General Meeting of CEFIC held in autumn 2006 elected TVK CEO Árpád Olvasó as one of the 22 Board members of CEFIC.



# Results and objectives

# Overview of 2007 performance

## **Production**

- Both Olefin plants broke historical records of ethylene production.
- Plant availability improved substantially in the Olefin-2 plant after warranty repairs and the trial operation of APC
- Ethylene production in the Olefin-2 plant surpassed nominal capacity continuously
- Successful pilot operations conducted in the Olefin-2 plant in 2007 set the stage for running the plant continuously with 4 furnaces starting 2008.
- Preparations were started in 2007 and will continue in 2008 for the turnaround of the Olefin-1 plant scheduled for 2009.
- The HDPE-2 plant set a historical record by its annual output of 221 kt of polyethylene. Surpassing the original nameplate capacity is owing partly to the successful introduction of an APC system in the HDPE-2 plant.
- After the reconstruction of the former steam heating system, the waste heat of the exhausted flue gas of the TVK power plant operated by TVK Er \_ m \_ Kft. is put to use in an efficient hot water system used for space heating, which allows us to provide the steam necessary for TVK operations at higher efficiency.
- To boost the rate of utilisation at TVK's CHP power plant, we operate two of the boilers only to cover demand during peak consumption hours and during maintenance.

## **Sales**

- We continued to expand our sales network by opening new commercial offices in Kiev and Bucharest.
- We improved the rate of direct services in our main markets, particularly in the Czech Republic.
- We elaborated a new portfolio of services to improve customer satisfaction.
- We introduced a new program called Open Doors to enhance customer relations.
- At 783 kt, the volume of polymer sales set a new record.
- We strengthened our leadership of the domestic market.
- Our sales in Central and Eastern Europe grew at a faster rate than the market as a whole, which strengthened our position in the region.

## **Health and safety**

- We have had no lost time injuries since June 3, 2006.
- We have successfully rolled out the program called STEP "Take a step for your health".
- The internal road network has been renovated and we have also expanded the number of parking places available at the site.
- The bicycle lane connecting the plant to the intersection of Highway 35 was completely renewed.
- A project was started to modernise the drainage of quench oil.
- A project to modernise the water supply operation was completed.
- A contract was concluded with the Municipal Polyclinic about an alternative solution to replace visit fees.

- We have reviewed our protecting drink supply contracts and invited a new tender.
- We upgraded our service of providing glasses to ensure clear vision when working in front of screens.
- We have replaced first-aid boxes across the whole TVK site with modern ones meeting all requirements.

#### **Environment**

- To eliminate emissions above control limit from the outgassing silos of the LDPE-2 plant, we commissioned a plasma catalytic unit on October 30, 2007.
- We constructed an industrial waste water pipeline between the sites of TVK and TIFO.
- We stopped operating the pond system used for secondary purification on October 31, 2007.
- TVK moved the point of discharging purified waste water into live water from a location along the Tisza River to a point inside the TVK site along the Sajó Canal.
- We installed an automatic sampler for continuous operation in the pumping unit located at the terminal point of the Sajó Canal at the inlet into the Tisza River.
- The pumping unit at the Tisza River has been modernised.
- The design and licensing jobs of a central waste collection yard were completed and the construction of the yard will be finished during H1 2008.
- We lived up to our environmental commitments by performing jobs as scheduled.
- We installed 2 continuously operated TOC gauges to control the two incoming waste water streams of the Olefin-1 plant and the

Olefin2/HDPE-2 plants.

#### **Fire safety**

- The number of fires dropped.
- A site has been developed for fire drills upon a recommendation from our insurers.
- We have modernised the mobile flare of the Technical Rescue unit.
- We have converted the bundle of nitrogen flasks need for the mobile flare into a portable unit.
- We have purchased new trunk based radios and gas detectors.
- Smoke detectors have been installed to protect cable ducts.
- The project to line the fire water network with plastic pipes has been started and is still in progress.
- Our volunteer firemen participated successfully in the municipal and county-wide competitions organised by the Fire Department of the County.

#### **Human resources**

- We continued to improve the efficiency of labour utilisation, and were one of the best in class among floated Hungarian companies in terms of per capita earnings in 2007.
- We have successfully completed rolling out our performance evaluation system.
- We continued and expanded our RELAY program, which currently covers 47 participants.
- We spent HUF 142 million on HR development programs and the average training time per employee is 52 hours.
- We involved 173 employees into competence development in personal and group sessions.

# Attainment of targets set for 2007

<b>Environmental</b>	<b>Targets</b>	<b>Results</b>
Clean air	Reduce pollutant emissions from the LDPE-2 and the quench oil draining unit.	A plasmatic post-combustor is now installed in the LDPE 2 Plant. The installation of a new exhaust system is in progress in the quench oil drainage unit.
Water management	Final termination of the operation of the pond system used for follow-up purification.	The operation of the pond system has been terminated.
Waste management	Improve the efficiency of waste management to achieve a HUF 20 million, year-on-year reduction in the costs incurred by hazardous waste decontamination with 2006 as reference year.	Cost have been cut by HUF 22 million.
Hazardous waste	The aggregate volume of hazardous waste generated by normal operations and in connection extraordinary cases not to exceed 1500 tons.	1800 tons of hazardous waste was generated.
<b>Social</b>	<b>Targets</b>	<b>Results</b>
Fatalities	No work related fatalities among employees and subcontractors.	No work related fatalities among employees and subcontractors in 2007
Accidents	Lost time injury frequency (LTIF) not to exceed 2.04.	LTIF: 0
Occupational diseases	Total Reportable Occupational Illness Frequency (TROIF) not to exceed zero.	TROIF: 0
Road safety	Keep road accident ratio (RAR) below 5.4 by promoting the culture of defensive driving.	RAR: 2,43
Investigation of incidents	Use TRIPOD methodology of investigating at least 40% of all reportable HSE events.	TRIPOD methodology used in investigating 2 out of 3 fires.
Fire incidents	Number of fires not to exceed two.	Number of fires: 3, value of damage: HUF 25.8 million.
Fire protection	Hold 15 fire and hazard prevention drills.	Fire drills conducted as planned.

# Our Prizes

In 2007, the American Chamber of Commerce (AmCham) Hungary continued its "AmCham Prize for Creating Healthy Workplaces" programme. Prizes were awarded in December 2007, when TVK, as one of 11 contestants, received the special award of the adjudication board in the category of large corporations.

TVK continues its tradition of open communication with citizens. This is truly reflected by its Environmental Report, which TVK published annually, its HSE report and the SD report, which has been compiled every year since 2004. We sent our SD report to the Deloitte, the organiser of the contest, but we refrained from nominating for the Green Frog Award this year. Our Sustainable Development Report of 2006, however, won a Green Frog Award memorial plaque.

In 2007, the American Chamber of Commerce (AmCham) Hungary continued its "AmCham Prize for Creating Healthy Workplaces" programme. The Prize intends to offer guidelines for the creation of healthy workplaces and to motivate employers to deliver added value in this area. Prizes were awarded in December 2007, when TVK, as one of 11 contestants, received the special award of the adjudication board in the category of large corporations.

## 2008 and long term economic performance targets

Our goals call for the continuous improvement of shareholder value and competitiveness.

- Creating the circumstances for efficient operations,
- Reaping the benefits of MOL Group synergies, economic and partnership opportunities,
- Continuous strengthening of our market positions,
- Widening, optimising and diversifying our product portfolio even further

To improve profitability, we are implementing a dynamic development strategy of

- approaching market challenges proactively,
- shaping partnerships,
- increasing capacity and
- exploring internal efficiency reserves continuously.

Our production targets for 2008 include:

- the continued widening and optimisation of our product portfolio,
- maximising plant availability and optimized capacity utilisation, and
- continuing our modernisation and efficiency improvement projects.

## 2008 sales targets

- Achieve growing market penetration and recognition; focus on segments where we enjoy competitive advantages.
- Retain leadership position in the region (targeted customer acquisition strategy, service packages tailored to the target group, continuous reduction of the role of spot markets, cutting transportation costs).
- Manage product mix and customer portfolio actively (continuous analysis of product and portfolio profitability, efficient production planning).
- Develop a reliable and stable customer base (strengthening our presence in strategic markets via proprietary sales network, continuous improvement of the professional skills and product knowledge of our sales team).
- Improve customer loyalty (developing tailor made products, continuous analysis and development of the quality of products and services, improving the accessibility of our customer service unit).
- Improve cooperation between TVK and SPC (harmonizing the product mix of our plants, improving the quality of services and the efficiency of delivering shipments).



## 2008 production and technology targets

- Reduce the ratio of energy consumption to purchased feedstock by 2% by introducing a system of performance monitoring in the olefin line.
- Promote the reduction of CO<sub>2</sub> emissions and the keep environmental load to the possible bare minimum by reducing specific energy consumption.
- An ambitious target requires that we increase by 2% the volume of monomers (ethylene + propylene) produced from a unit of feedstock.
- To help achieve the targets listed above, firstly we intend to run Olefin-2 with 4 furnaces on a stable basis (instead of the current 3 live and 1 stand-by arrangement). Preparations are already in progress.
- A priority task that goes beyond 2008 involves active cooperation during the preparation for the reconstruction and capacity upgrade of our olefin plants.
- A target for the polymer area requires that we cooperate with Chevron Phillips Co. and investigate the options for renewing and revamping the process of our HDPE-1 plant, which came online in 1986. In tandem with the envisaged modernisation project, we wish to create opportunities for making new products and to reduce the energy consumption of the process.
- Seeking to reduce environmental impacts, we identified studying the options available for re-cracking plastic waste in cooperation with independent institutions.

## 2008 environmental targets

### Environmental protection

- As part of waste management looking to support sustainable development we have

committed ourselves to bring the ration of recycled waste to 30% by the end of 2008.

- Hazardous wastes generated during normal operation and emergency situations may not exceed 1800 tons.
- We will reduce our environmental liabilities, which were known and identified by the end of 2007, by implementing efficiently the tasks listed in the Technical Intervention Plan.
- We will continue to reduce the VOC emissions of our operations.
- We will perform the tasks set forth in the GHG strategy developed in respect of the second phase of carbon dioxide trading in line with the approved schedule.
- We will continue the jobs required for pre-registration under REACH as scheduled.

## 2008 social targets

### Labour and fire safety

- Lost time injury frequency (LTIF) may not exceed 0.58.
- Total number of fires not to exceed two incidents.
- Keep road accident ratio (RAR) below 2.18 by promoting the culture of defensive driving.
- Investigate 100% of accidents, fires and near misses.
- Use HSE pre-qualification of contractors employed for at least a year.
- Perform the tasks set forth in the PSM implementation plan of TVK Plc. in order to reduce the likelihood of occurrence of extraordinary events.

### Health

- No work related fatalities among employees and subcontractors.
- Total Reportable Occupational Illness Frequency (TROIF) not to exceed zero.
- Reduce time lost due to sickness by 1% from the level recorded in 2007 by increasing the rate of employee participation in illness prevention programs.





# Integrating the sustainability approach

There is growing evidence that responsible behaviour by companies with regard to social and environmental issues can contribute to their long-term business success.











# Walking the talk

## TVK and sustainable development

The holistic concept of sustainable development appears to have become the new long-term model of development, integrating and balancing environmental and social issues with economic considerations in decision-making processes. This model has replaced traditional corporate approaches and offers a solution to problems related the environment and social equity.

The business community has a crucial role to play in the furtherance of SD. There is growing evidence that responsible behaviour by companies with regard to social and environmental issues can contribute to their long-term business success. Consequently, our ultimate objective is to establish a new systemic approach. We have to adopt a behaviour which goes way beyond local issues since SD requires international thinking and action to integrate its three pillars equally into corporate strategy and programmes in all operating areas. However, there is no one-size-fits-all solution to the implementation of sustainable development. Branches of industry and companies have different sets of objectives, traditions and practices and therefore each of us have to identify and develop our very own specific tasks and objectives.

## Our key priorities

The social pillar of SD covers all those areas and topics that relate to stakeholders i.e. those directly affected by a company's operations, such as local communities, employees, or the general public. This pillar therefore comprises respect for human rights and cultures, the promotion of cooperation and the sharing of knowledge, as well as the assurance of equal opportunities, ongoing training and safe job for every employee.

A fenntartható fejl\_és gazdasági pillére rendkívül fontos a piacgazdaságban m\_köd \_TVK számára. The economic pillar is naturally of outstanding importance to companies like TVK operating in a market economy. Maintenance of a strong financial position and credibility among investors are crucial components of a sustainable business model and a fundamental precondition to becoming a "good corporate citizen". In addition, long-term business thinking strengthens our ability to adapt to changes affecting our core activities. The most important challenges we have to face are related to the life-cycle of our products: reducing their environment impact, increasing product quality, providing safe products and production processes, and increasing the rate of renewables in our long term portfolio, all improvements based on available scientific evidences and best available technologies.

We are all part of the Earth's ecosystem which provides us with all the crucial elements we need to exist and survive. The efficient use and protection of our natural resources, such as water, minerals or soil, therefore, are among the fundamental duties of MOL Group. This also implies, the urgent need for emission reduction with special attention to climate change, waste-minimisation and the clean-up of past environmental harm.

The social pillar of SD covers all those areas and topics that relate to stakeholders i.e. those directly affected by a company's operations, such as local communities, employees, or the general public. This pillar therefore comprises

respect for human rights and cultures, the promotion of cooperation and the sharing of knowledge, as well as the assurance of equal opportunities, ongoing training and safe job for every employee.

## Risk management related to SD issues

Recent international trends show that top management of leading international companies has become more sensitive to environmental and social issues. Effects of climate change (e.g. extreme weather conditions, natural disasters) and consequences of economic or political distresses – especially in less developed countries – (e.g. social turmoil, migration of workforce, falling of purchasing power) are directly affecting the profitability of companies, either through increased costs or because of lower revenues.

In addition, companies are more vulnerable to reputational losses than ever before, so – besides honest conscientious care by some – all of them should look out for those risks which may have a significant impact on their reputation in the eyes of their customers, investors, employers, local communities, regulators, etc. Such risky areas are quite widespread, from product stewardship through employee satisfaction, compliance with emission-, transparency- and many other requirements through regulatory changes due to environmental issues or the mere market price increase of CO2 emission quotas.

MOL Group aims to take into account all of these various long term factors in its risk management practices. If the likely impacts of such risks are more or less measurable, we explicitly integrate them into a comprehensive model (called Enterprise Risk Management model) – thus even having an effect on the capital allocation of the Group. The least measurable risks are not forgotten either and we strive to find solutions to incorporate them into our integrated risk management system.



Our main objectives and clear guiding core values form the basis of TVK governance and operations. As a member of the MOL Group TVK is a part of MOL's culture, an ethical mindset, clear values and the highest standards of corporate behaviour have been developed to enable the company to strive for sustainability effectively.

## Our position taken

For TVK, sustainable development means a corporate commitment to the balanced integration of economic, environmental and social factors into our everyday business operations to maximise long-term stakeholder value and to safeguard the "operating licence" granted to us by society.

## Our core values in SD

- Based on the interdisciplinary approach, we strive to integrate and balance between economic, environmental and social considerations in our decision-making and everyday operations management.
- We strive to maximise improvement and follow the precautionary principle in environmental and social issues so that any negative impact arising from our operation is kept to the minimum.
- We assume full responsibility for our actions at every level and follow our commitment to ensure equal opportunities for present and future generations.
- We employ the multi-stakeholder approach and long-term thinking in our operations and in decision-making processes.
- We pioneer in developing and implementing innovative solutions to support the development of sustainable operation.
- We undertake the responsibility to continuously increase the awareness of our employees and other stakeholders with regards to sustainable development.

We want to achieve these by

- translating global challenges into local solutions
- incorporating sustainable development principles and best practices into our business strategy and processes as well as into our corporate culture using a systemic approach
- adopting a proactive approach to managing risk and to grasping opportunities
- analysing available solutions and selecting those that best establish an optimum balance between environmental, social and economic factors
- increasing stakeholder involvement and enhancing transparency

In 2005, MOL Group announced its commitment to sustainable development in its five-year business strategy. To support this ambitious commitment, 7 Group-level strategic SD initiatives were identified, to take place up to 2010, based on key areas identified during the first Company sustainability screening exercise.

These initiatives, with precisely measurable targets, and covering 25 topics such as climate change, product liability and employment issues. They embrace all the Company's activities and are indeed considered to be "key success factors" in the achievement of our strategic corporate business objectives. Strategy implies action; therefore MOL Group Business and Functional Units have conceived almost 100 projects for the period between 2007 and 2010. These will bring the Company closer to its long-term goal: sustainable operations.

## **Strengthen good governance and risk management (I.)**

MOL corporate governance is a multi-faceted concept. It deals with the way the company is directed, administered and controlled. It involves the implementation of guidelines and mechanisms to ensure transparency, accountability and good behaviour throughout MOL Group.

Good governance cannot exist without effective risk management. To enhance the culture of risk awareness and to facilitate decision-making at different levels, a new framework, Enterprise Risk Management (ERM), has been launched in MOL to handle different classes of risk, using a common methodology. Ethical issues are strongly related to good governance and proper risk management. Our Code of Ethics supports the recognition of basic human values and rights at all levels and in all geographical areas and covers such issues as the stamping out of bribery and corruption, the provision of equal opportunities and diversity, underpinned by a monitoring system to ensure on-going compliance.

## **Focus on future portfolio steering to increase competitiveness (II.)**

The striving for long-term economic viability is the driving force behind future product portfolio navigation. This is all related to strategic decisions and opportunities in our core businesses.

### **Focus on internal and external customer relations (III.)**

One of MOL Group's most important objectives is to satisfy its customer needs to the highest possible degree. All issues related to customer services, customer satisfaction and feedback as well as performance monitoring and the consequent integration of results into development projects belong to the sphere of Customer Relationship Management (CRM). Keeping the "customer in focus" is a key feature of our business strategy and to serve our customers best we have to segment them so as to recognise and meet their different needs effectively – the core of CRM. Tracking our Brand Equity and further increasing brand loyalty is the responsibility of strong strategic Brand Management.

### **Enhance trust & credibility among stakeholders (IV.)**

All companies need to pay close attention to stakeholder dialogue, which involves identifying those affected by Company operations. It is about continuously keeping them informed, listening to their points of view, and then integrating the results into the decision-making process. This leads to increased transparency as a basic principle in achieving success in this vital area. Accordingly, MOL Group is committed to the ongoing process of multi-stakeholder dialogue i.e. open and transparent communication with our stakeholders. We

would like our stakeholders to perceive us through the quality of the products and services we offer and the values we hold dear. In addition, through our Social Investment Programmes, we constantly strive to preserve the cultural heritage and diversity of local and national communities and make every effort to be a reliable partner by supporting public activities, outstanding programmes, children, those in need, and talented people.

### **Reduce our environmental footprint (V.)**

The protection of the environment has become one of the most impassioned issues of the 21st century. As a direct result, MOL Group needs urgently to identify all those areas where it can make a difference and take measures to reduce the environmental footprint of its production facilities and products. Emissions reduction, water and waste management and the protection of natural resources are some of the areas where we can and where we must act each year in line with international best practices to satisfy the energy demands of society whilst minimising our environmental footprint. To offer a speaking example, in 2002, MOL Group, in line with our commitment to reduce our environmental impact, adopted the concept of "carbon thinking" and has integrated it into each of our investment projects, ever since. In addition, the Company has implemented a very effective greenhouse gas emission management strategy, with the ultimate goal of decreasing carbon-dioxide emissions.

The long-term success of a company depends to a large degree on the quality and commitment of its workforce.

## Manage opportunities, risks & liabilities in the value chain (VI.)

Product stewardship is the never-ending responsibility of all those involved in product life cycles to share accountability for minimising the environmental and social impacts of products. It is closely related to the implementation of life cycle management, where the potential negative impact of a product is monitored and mitigated from “womb to tomb” and covers product development, biodiversity impact, health and safety issues and procurement process standards. MOL Group, as a producer and retailer, recognises its responsibility to reduce the environmental and social impact of its products. Thus, we are committed to integrating the stewardship concept into our management processes by adopting the best available methods. By re-thinking the characteristics of our products, our relationships with the supply chain, and with the ultimate customer, we have become more and more capable of providing better products

and services, reducing costs in certain cases, and providing customers with better value, but smaller impact.

## Capitalize on human resources (VII.)

The long-term success of a company depends to a large degree on the quality and commitment of its workforce. Attracting, developing and retaining the most talented individuals are activities of the highest priority in TVK’s efforts to strengthen its market position and to progress further towards sustainable operations. Therefore to maximise employee engagement, TVK makes every effort to develop its human capital and provide employees with challenging tasks and opportunities as well as the best available working conditions and compensation in all its operating areas. In addition, our regular employee job satisfaction survey and the monitoring of human-resources related indicators give us continuous feedback on our performance in this vital area and help us identify future development opportunities.

# Governing integration



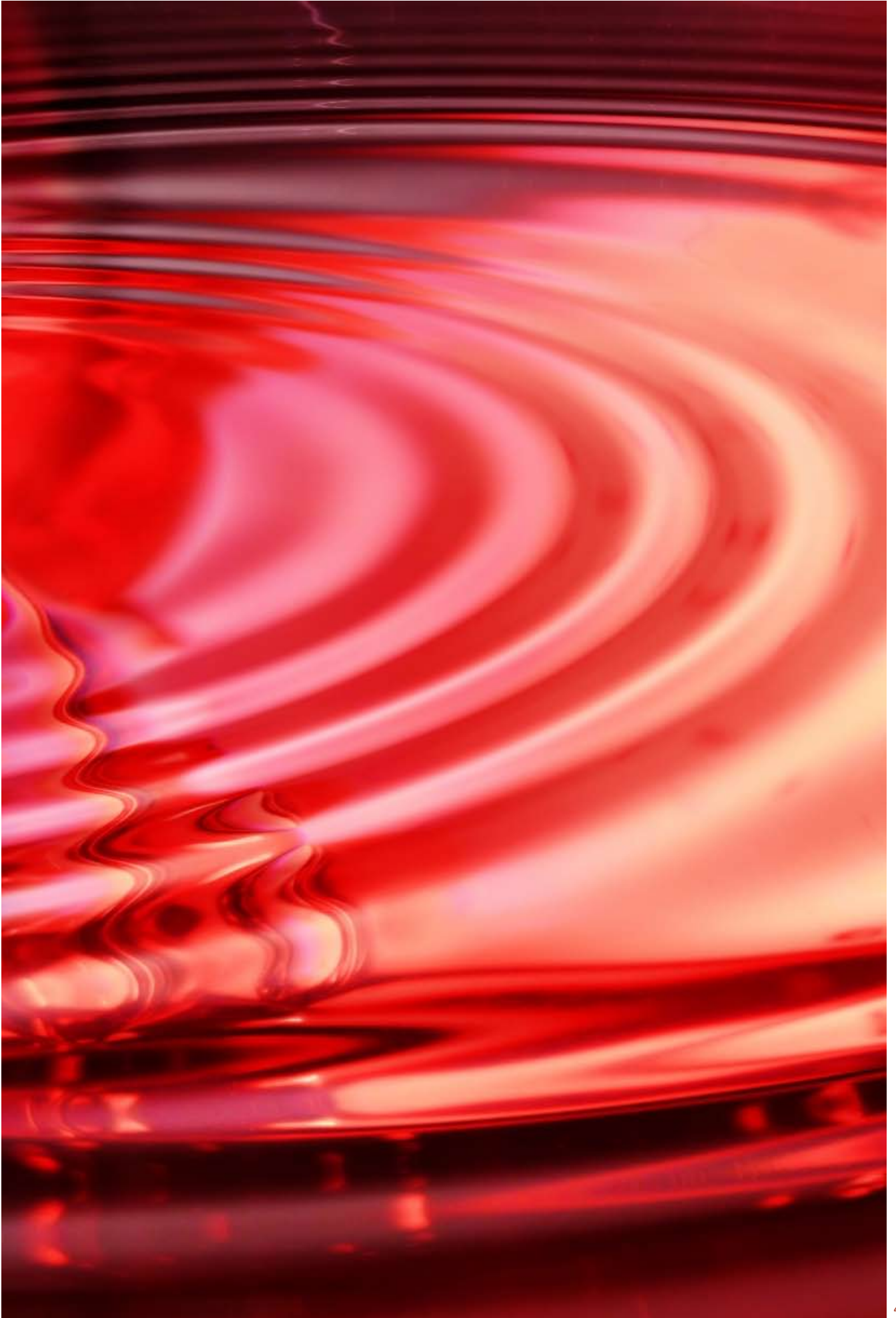
**Governance structure of MOL Group SDMS**

Our main objective of integration requires a proper governance system that provides guidance and an efficient control of the implementation of sustainable development principles and strategic initiatives. Therefore, MOL Group set up a clear structure with dedicated responsibilities at all level of the organisation.

In the Sustainable Development Management System (SDMS), the most senior body in MOL, the Sustainable Development Committee of the Board of Directors, is chaired by MOL Group's CEO, with three non-executive members, thus ensuring the highest commitment to and representation of sustainability issues, both in internal and external MOL Group relations.

The implementation of SDMS objectives is carried out by the Sustainable Development Working Team, made up of MOL Business and Functional Unit representatives, thus guaranteeing the integration of sustainability into day-to-day Group-level operations and the development of new behavioural patterns throughout the company. In addition, the Working Team sets targets, proposes development opportunities, coordinates assessments and monitors results achieved. Working team members are selected based on their position and professional competencies to ensure that Units are properly represented at Group-level and that the promotion of sustainable development is efficiently managed at Unit-level. Unit-level performance is evaluated quarterly in the normal business review process and annual performance is reviewed during the regular annual workshop of the Working Team. Actions related to SD issues and defined within the SDMS are integrated into the annual business planning process of the company.

The SD Chief Advisor is responsible for coordinating and guiding the Teams' activities, and for reporting on its operations to the SD Committee, therefore acting as a bridge between Management and the Business and Functional Units.





We seek to be in harmony with international best practices and requirements, on one hand, and to develop sustainable operations within the company as a long-term objective, on the other.

# Sustainable Development Management System

Based on its commitment and its integration into MOL Group, TVK adopted the Sustainable Development Management System (SDMS) MOL developed in 2006. We seek to be in harmony with international best practices and requirements, on one hand, and to develop sustainable operations within the company as a long-term objective, on the other. This new framework provides MOL Group companies, including TVK, with an effective monitoring system and a soundly-based and appropriate planning and decision making-process.

The SDMS task is based on the principle that SD should be an integral part of TVK's day-to-day operations, which implies that it should be integrated into prevailing business strategies and recognised as a normal part of our business operations, embracing environmental and social considerations not just economic ones. There is, therefore, no separate "sustainability strategy" or "sustainability budget" since all business strategies and budgets should be underpinned by this principle.

As part of this new system, TVK carries out an annual Company screening to review current practices and missing elements in the light of benchmark documents; the basic requirements of international conventions, so as to see "where we are".

The SDMS ensures the efficient achievement of our clearly stated strategic objectives and specific goals and, furthermore, acts as a powerful stimulus for ongoing group and unit-level continuous development efforts, as well as for the strengthening of sustainability awareness and greater transparency.

## Working of the system

The core of the system's operation is a cycle of several important steps geared to integrating the three SD pillars and the implementation of Sustainability principles in day-to-day operations.

Continuous interaction between the units of the Company and its external environment produces information about best practices, international trends, important issues and events, changes in regulations or policies as well as stakeholder needs. This information is collected and sent to the Working Team.

Working Team members analyse and discuss the tasks identified from the information, consider development opportunities and solutions, compare them with international trends and available options and propose the best available and effective options to the management. The final action plan is presented

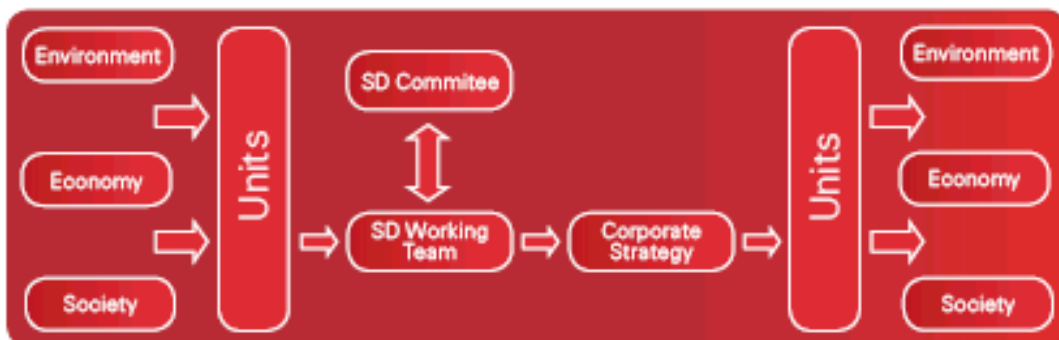
to the SD Committee and integrated to the normal annual business plan of the company and directly pursued through development programmes at unit-level.

Such programmes, for example, may comprise the reduction of emissions, the development of sustainable procurement, investment in renewable energy, monitoring of employee commitment, or the strengthening of stakeholder involvement.

All the actions thus taken have a direct or indirect impact on the outside world, in terms of the environment, the economy and society. The outside world, in turn, reacts to such changes and provides new feedback and challenges which MOL has to face time and again.

Additional web content:

[www.molgroup.hu/en/sd/managing\\_the\\_group](http://www.molgroup.hu/en/sd/managing_the_group)



# Transparency and disclosure

## Reporting scope

As a member of the MOL Group, TVK reports annually on the performance and achievements of its member companies with regard to sustainable development issues. Following previous years' practice, TVK has taken note of the Global Reporting Initiative (GRI), updated with G3 Guideline recommendations, and adapted them to suit the Company's market position and operations to comply with latest reporting requirements. Our first SD Report based on the GRI guidelines, was published in 2003 and the last one in 2007 covering the performance of the company in 2006.

Thus TVK reports, therefore, cover more topics and data than previous SD Reports to stay at par with international best practice. In line with the MOL Group, TVK strives to report on all topics and issues that are not only relevant from the point of view of the company but also important from the point of view of its stakeholders. There are two important changes in TVK reporting practices compared to previous years. The publication covers only topics and information that are relevant for the given year or changes concerning fundamental or general issues. The Corporate Sustainability page at the MOL Group website covers all general, structural or operational issues that are basically not subject to change from one year to the next. We only publish one integrated English language version in hard copy, and disclose TVK specific achievements



in English and Hungarian in electronic format on the Internet. In addition, the MOL Group and TVK websites provide all the latest Company news and more detailed information about the topics covered in annual SD Reports. The website also contains main publications such as the Code of Ethics and the HSE policy.

The other important change involves the inclusion of a new "spotlight" section into each major chapter of the SD Report with the aim to highlight a few important topics, projects or areas in the life of TVK. Spotlights help readers get a closer look at and a better understanding of how sustainable development is implemented within the company. This fifth is time TVK publishes an SD Report to give account of its performance, development, and achievements in the 2007 calendar year. The annual average exchange rate of National Bank of Hungary was used in respect of economic/financial data. The report indicates each instance of deviation from a general rule.

The Annual Report is used to disclose issues of economic or financial nature in detail. Moreover, the Annual Report contains detailed information on major acquisitions and changes in the operations of the company, as well as a list of TVK Group companies.

TVK reports are dedicated to stakeholders interested in the performance of the company. That is why we do our best to use plain language and style intended for the general public rather than for professionals only. Our shareholders, customers, business partners, official institutions, professional and academics are considered to be

the most important readers of our publications.

## Principles & practices

We are aware that TVK is liable for the information it shares with stakeholders. In contrast with traditional practices, our communications are based on a proactive strategy, that is to say we seek to meet the need for both general and specific information, whilst keeping our stakeholders fully up-to-date. We have taken several basic reporting principles as well as the guidelines of the G3 Manual into consideration during the preparation of our reports.

To ensure the highest level of transparency, we have committed ourselves to communicating openly any information that reflects and evaluates our actual performance.

We make every effort to reach the ultimate in transparency by providing the maximum amount of detailed and accurate sector specific information so as to minimise the risks associated with changes and developments in the economy, the environment and society.

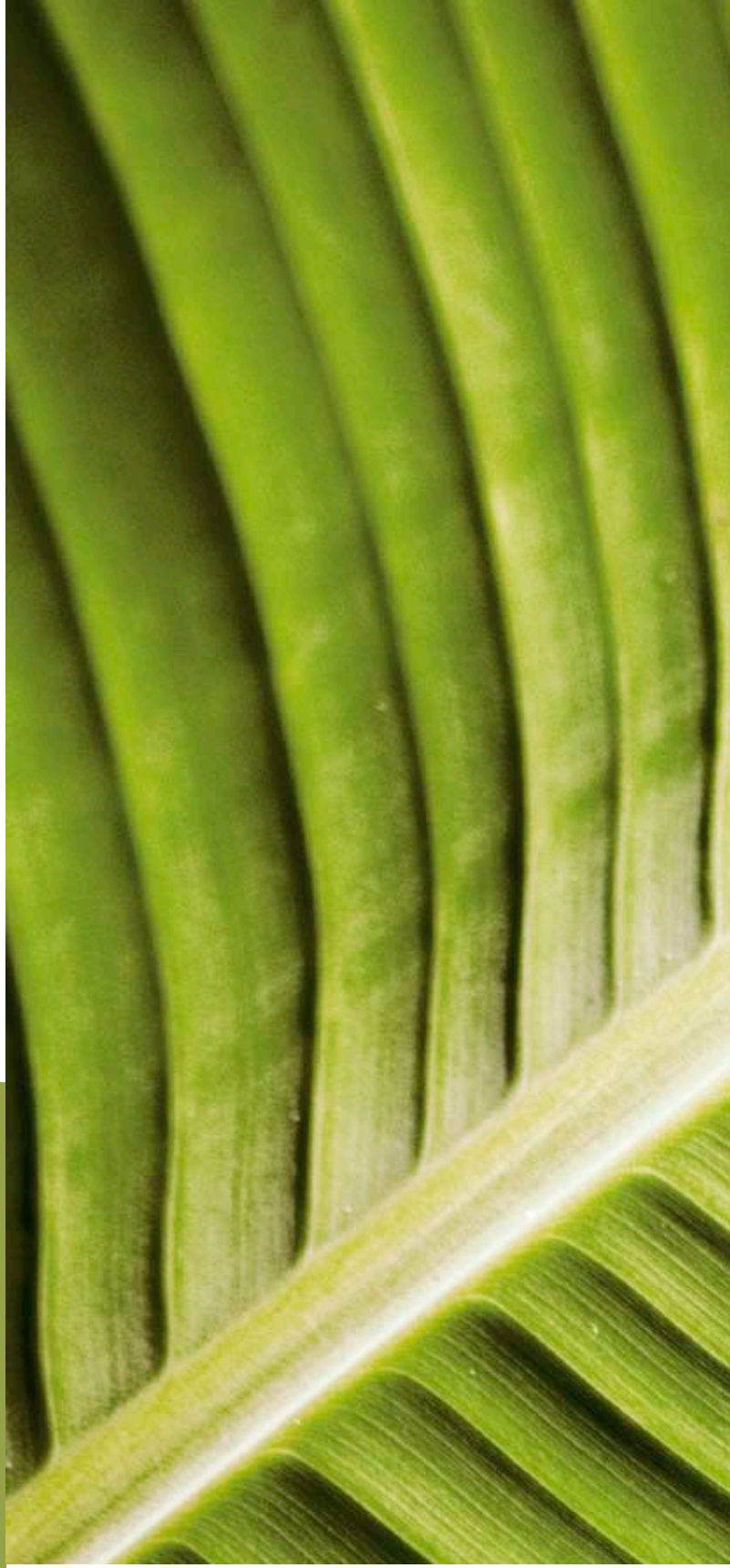
We developed a general structure of our reports that we follow each year to facilitate comparison across reports. We will keep this structure and data coverage unchanged unless we are forced to introduce modifications due to a significant change in our operations or data collection systems.

Finally, to support and ensure the improvement of our reporting processes and the reliability of content, MOL Group, and inclusively, TVK reports are reviewed by an independent party.



# The sustainability of our business model

The strategy and day-to-day operations of TVK reflect the tri-dimensional nature of sustainable development, which can only be achieved through creating harmony among economic development, social integration and protecting the environment.











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Adopting a strategy of following the trends of the sector, TVK engages in business among global pressures on the chemical sector and performs the commitments the European Union accepted in response to the same. Global pressures are directed first of all at reducing the load on the environment and increasing profit expectations.

The goal TVK intends to achieve is the continuous improvement of its efficiency, competitiveness and profitability and the retention of its petrochemical leadership in the region by exploiting the rise in regional polymer utilization.

TVK intends to meet the challenges of the future by achieving environmental and social goals as well as by reaching economic targets. The continuous development of these activities finds support in benchmarking against the performance of competitors and in direct participation in the efforts of European chemical industry organizations as well as the contribution to the development of the MOL Group System of Managing Sustainable Development.

# Adherence to EU policy on chemicals

Whilst pursuing financial and market goals which ensure long term development in an intensely competitive economic environment, TVK adheres to the sustainable development oriented chemicals policy of the EU both in its strategy and in day-to-day operations.

Acting as a body representing Europe's chemical sector, the European Chemical Industry Council (CEFIC) seeks to promote the viability and development of the sector as well as continuous improvement and the achievement of the best possible performance in economic, social and environmental terms.

TVK is a member of CEFIC and the Association of Petrochemical Producers in Europe (APPE), which represents one of the industrial sectors in CEFIC. The CEO of TVK is a member of the board of both CEFIC and APPE and heads the program group set up to 'Build Trust' towards the chemical sector. Other TVK staff members contribute creatively to programs active in the field of competitive infrastructure and assets and the improvement of the regulatory environment. That way TVK is directly involved in the process of decision making over and above representing the interests of the industry and fostering relations with the representatives of the leading companies of the sector.

Of the activities orchestrated by CEFIC and APPE in 2007, important cooperation assignments included the tasks associated with the introduction of REACH (the regulation of chemical substances), climate change and the social recognition of chemical industry.

TVK responded to these aspirations by drafting its GHG emissions strategy for the period between 2008 and 2012 and by making commitments in the strategy to:

- monitor process innovations that reduce specific CO<sub>2</sub> emissions and investigate the potential application of such innovations in its own plants,
- seeking to review the options available for reducing its own emissions  
TVK will give high priority to the aspects of CO<sub>2</sub> emissions in its new projects.

To promote the social acceptance of the chemical sector and to help eliminate the problems burdening Hungary in secondary and higher education in engineering and the development of a second line of technical experts, TVK launched a pilot project and held presentations at a variety of forums.

# Joining the MOL Group System of Managing Sustainable Development

In addition to sustainable development, TVK's connection as a member of Group to the Sustainable Development Management System operated at MOL Group level. The SDMS provides a regulated framework for measuring the downstream activities of TVK and benchmarking its operations against the SD performance of other industry participants. The SDMS also helps attain continuous improvement in this area.

The Sustainable Development Management System:

- provides a planning system and a decision making process for SD related issues,
- integrates and manages existing SD oriented activities,
- introduces new measurements for the sake of improving SD related activities,
- increases the transparency of activities and improves the reputation and communication of the Company,
- helps gain approval/contribution from key stakeholder groups,
- increases shareholder value and ensures sustainable development in the long term.

(For details see the previous chapter on "Integrating the sustainability approach".)

## Security of supply

New transformers and auxiliary equipment were installed in the receiving stations to increase the security of supplying electric power to TVK Plc. This way, the company has the capacity to avoid disorders in power supply and process unit stoppages even if a transformer is subjected to maintenance for months and the some of the operating transformers fail. The feasibility study of this program was completed in 2007.

## Capital Expenditure

An innovative plasma catalytic afterburner commissioned in the LDPE-2 Plant reduced ethylene emissions substantially from the ethylene adsorbed on the surface of the granules produced.

By the end of 2007, we had prepared and concluded an agreement for the refurbishment of our quench oil drainage unit. As a result, the unit will be renewed by mid 2008. The project also covers the replacement of our existing rail unloading equipment, which was installed decades ago, with state-of-the-art counterparts.

We managed to reduce the likelihood of defects and the potential for leakage by carefully and professionally checking and repairing, if necessary, process pipes and auxiliary energy lines during the fourth phase of the project designed to review the system of interconnecting pipes.

Both process efficiency and reliability improved substantially after completing a project aimed at developing process control (through the installation of Advanced Process Control (APC)) in the Olefin-2 Plant. Identical goals were achieved by lining a 2500 m section of a large diameter cast iron industrial water pipe.

The development of the waste water purification system was completed, new pipes were laid and pumps were replaced as part of 2007 development projects.

The program to refurbish tanks continued in 2007, when the renewal of a 10,000 m<sup>3</sup> tank was started.

We spent HUF 1.5 billion in 2007 on the projects listed above.



# Product Stewardship

We do not interpret product stewardship to mean liability for the product itself; rather it involves the liability to compensate for the damages caused by a defective product. Product stewardship covers everyone that participates in the life cycle of a product (manufacturers, resellers, distributors and end users). The liability of the manufacturer will be ascertained only in case the product is defective. While being used a defective product will not deliver the level of security normally expected of a product designated for the purpose and causes damage due to its defect.

Reaching business excellence through focussing our operations on quality has been identified as one of TVK's strategic goals. We continuously improve the quality of our products and services in response to customer expectations, legislation, EU requirements and the challenges of our competitive market environment.

We operate a quality management system certified by an independent party in each business area of our company from the production of monomers and polyolefins through product development to sales.

Our development projects give high priority to applying secure technologies and solutions, which are friendly to human health and the environment and to distributing products that have equal merits, and in doing so we pay close attention to meeting the needs of our customers.

We provide customer support to processing our products, and our customer service delivers technical assistance on-site if problems arise.

We regularly have our products checked by independent rating institutions to certify that our products abide by the domestic and international requirements of food processing.

## Product development

We continued to cooperate with Norwegian Nor-X Industry AS in the



area of developing environmentally friendly technologies. Together, we embarked on the development of special master batches that promote the biological degradation of polymers. Starting 2008, we will involve the Department of Organic Chemistry of Pannon University in the project to study the mechanism of degradation initiator additives.

## Controlling risks

### **Risk analysis of job locations**

Continuous, daily, weekly and monthly monitoring and audits were performed in 2007 to review the risk surveys of job locations with a large potential exposure to risk. We drafted company level action plans broken down to unit level actions geared to eliminating the sources of risk. We expect that the stringent enforcement of labour safety rules and safety awareness coupled with job monitoring and the development of a set of incentives for unit managers will improve our accident rates.

### **REACH**

REACH, the new legislation of the EU concerning the registration, evaluation and approval of chemicals took effect on June 1, 2007 and covers all the companies engaged in chemicals in any manner from the producers of chemical substances, through importers to end users. Non-compliance with REACH may drive a company into serious business losses and may even bar a company from producing or distributing the same material afterwards. As the system is extremely complex, companies must start out now to fulfil the tasks associated with introducing REACH, not to mention the financial savings and benefits that doing so might bring.

### **We have started preparing for pre-registration.**

- To reach compliance with the legislation, we have modified some of the bullet points of our Safety datasheets.
- We used data from the previous year to compile a list of substances covered by REACH.

- We have reconciled the CAS (Chemical Abstracts Service) and EC (Enzyme Commission) numbers in our databases of substances and preparations that need to be registered.
- We used data from the previous year to analyse the missing information of substances subject to REACH. With this information and the accredited test results available we can identify the types of test results that we will need to be able to compile the registration dossier.
- We have participated in a IUCALID5 (International Uniform Chemical Information Database software) course organised by CEFIC.
- We embarked on reviewing our product portfolio and the production of new substances and we also need to register planned products.

## Secure purchasing

All of our strategic feedstock is supplied by MOL Group, mostly from stocks produced by the Downstream (DS) Division and import sources, if necessary. The planning staff of SCM organizations apply an optimization procedure to perform a monthly roll-over review of contracted volumes, which are identical to volumes budgeted in the annual operating plan (this involves the identification of the boundary parameters of quantities, specifics, markets and prices) and document the final material and product flows at meeting convened to approve them. Material and product managers check and analyse daily any variation of the source/consumption values from budget. This extremely close cooperation ensures the stability and security of feedstock supply to the olefin plants, which serve as a basis for petrochemical processing.

When we put MOL Group synergies to work for us, the use of a local supplier is efficient only in case procurement from such a supplier at optimum cost may possibly be arranged for other MOL Group companies. Security stock levels and guaranteeing continuous availability and security of supply are top priorities for TVK.

# Caring for the environment

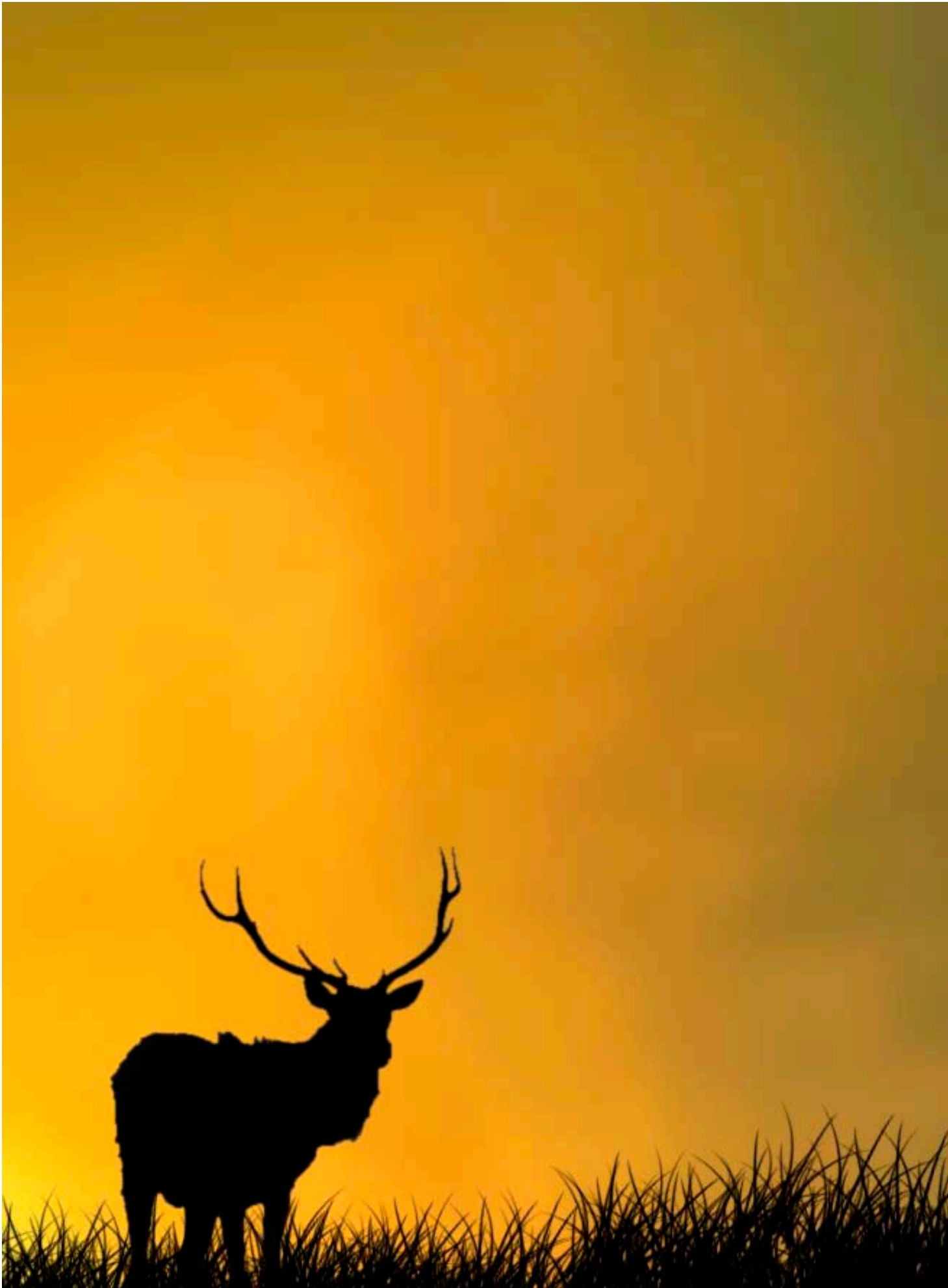
As we are active in the chemical sector, our operations are associated with a significant environmental footprint, which we keep trying to minimize.











# Our ecological footprint

TVK pays special attention to achieving a cleaner environment as well as to providing safe and healthy working conditions, following the principles of precaution and responsible care. As we are active in the chemical sector, our operations are associated with a significant environmental footprint, which we keep trying to minimize. The principles of environmental awareness and sustainability are also integrated into the long term corporate strategy.

Integrated Pollution Prevention and Control (IPPC set forth in Directive 96/61 EC) is a high priority environmental achievement of the EU. Integrated approach is one of the basic principles of modern environmental protection and it requires that the load and pollution of different components of the environment must be studied jointly rather than separately. The treatment of emissions into air, water or soil separately, for instance, may motivate more heavily the transfer of pollution from one component of the environment to another component, whilst ignoring the protection of our environment as a whole.

Giving effect to this integrated approach may be ensured by the legislative requirement of using the best available technology (BAT), which practically means that our processes (planning, licensing, implementation, operation and abandoning an activity) must be geared to using natural resources efficiently and to minimising emissions at the source.

This approach falls in line with the objectives of TVK, as we think we should not only engage in reducing emissions, rather we should be concerned with energy efficiency, optimized water consumption, waste minimisation and the risk based management of events with environmental consequences and of the condition of the environment.

We seek to improve the quality of our environment. To monitor the quality of the environment, we started the implementation of a biodiversity approach in 2007, to contribute to the principles of sustainability. Our projects surveyed and optimised the environmental impacts of our company as well as the consumption of energy and water and pollutant emissions arising from making our products.

To decrease our ecological footprint, we also pay close attention to greenhouse gas emissions with the ultimate goal of reducing emissions and increasing energy efficiency.

Recycling and reuse have come to play an increasingly important role in our waste management strategy and represent a preferred option over incineration.



# Spotlight on climate change

TVK and MOL have fully harmonized their activities pertaining to green house gases.

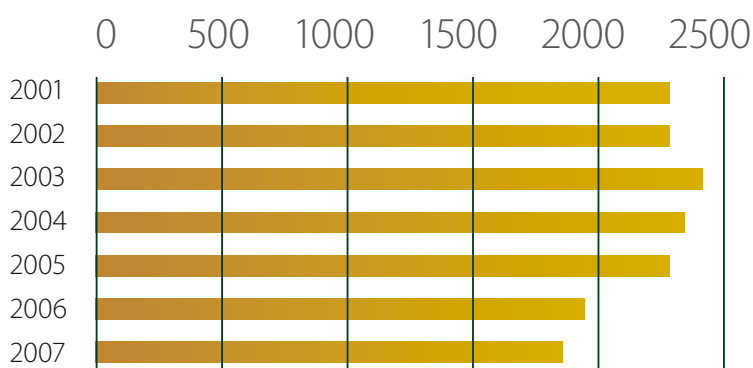
CO<sub>2</sub> emissions from the TVK facility, which holds licence (No UHG5479-1) to emit green house gases, amounted to 69 tons in 2006. TÜV Reinland InterCert Kft. certified our emissions report of 2006 and we have returned the quota corresponding to the certified volume of emissions to the State of Hungary. The 2007 emission quota has been credited to the operating account of TVK. Carbon dioxide emissions are expected to reach 27 tons in 2007.

The TVK steam cracker plant will also be subject to emission trading starting January 1, 2008 under the applicable law. Coordination with the Ministry of Environment and Water Management identified the group of equipment covered by CO<sub>2</sub> trading during the second period of trading. These include furnaces, boilers and flares.

The Ministry accepted our CO<sub>2</sub> emissions of 2005 as a point of reference for determining the emission quota, which corresponds to about 1.2 million tons of CO<sub>2</sub> and calculations based on material balance.

Government regulation 213/2006 (X.27.) provides that thermal decomposition (pyrolysis, cracking) is a process that requires an emission licence. The company obtained the licence on January 12, 2007.

**CO<sub>2</sub> emissions per 1 kt of ethylene output (tons/year)**



Every segment of the business, including the Petrochemical Division, was given the assignment to develop its own GHG strategy for the second phase of carbon dioxide trading, which lasts from 2008-2012. These strategies will be used for developing a MOL Group level strategy of green house gas emissions.

### The main objective of our GHG strategy

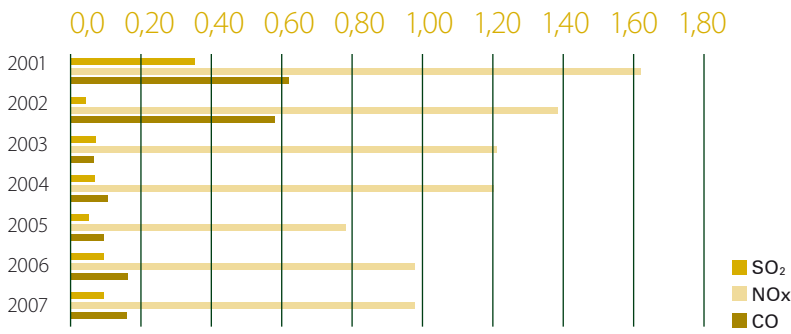
The strategic goal of the Petrochemical Division for the period between 2008 and 2012 is to reach at least a breakeven position in quota assignment across the units of the Division (TVK, SPC, TVK Power Plant) during the second phase of quota trading and to give priority to the potential reduction of emissions. It is not possible to develop a long term strategy due to the lack of a group level concept (Only a cut of 1% in 2008 has so far been identified for the Group as a whole).

### The composition of the GHG strategy of TVK Plc.

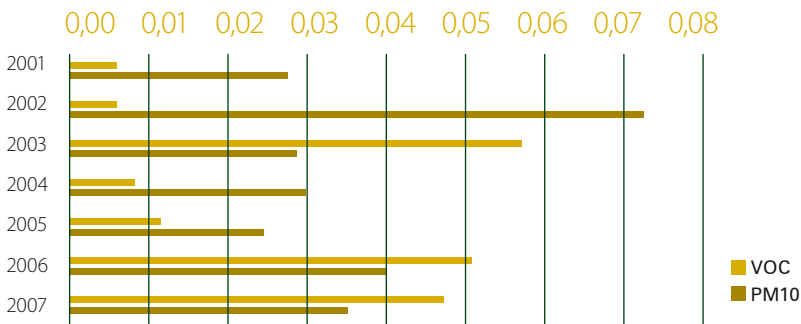
The strategy was developed with the external and internal circumstances that have a bearing on the strategy taken into account and evaluated. Next we determined our goals for the second phase of quota trading and an action plan to achieve them covering the areas listed below:

- Influencing the development of the regulatory environment;
  - The strategic goal of the Petrochemical Division for the period between 2008 and 2012 is to reach at least a breakeven position in quota assignment across the units of the Division (TVK, SPC, TVK Power Plant) during the second phase of quota trading and to give priority to the potential reduction of emissions;
  - Monitor and influence the definition of BAT,
  - Monitor the process of legislation in the EU, getting prepared for changes,
- A review of options to reduce own emissions.
- During the Q1 2008 review of the strategy the changes forecast in the APPA background document for the 3rd trading period and their expected impacts must also be examined.

**Flue gas emissions per 1 kt of ethylene output (tons/year)**



**VOC and particulate matter emissions per 1 kt of ethylene output (tons/year)**



### Emissions

Emission monitoring data suggest that plant process emissions of pollutants complied with the effective control limits except for the ethylene component of the homogenization and degassing silos of the LDPE- 2 Plant. To eliminate the emissions in excess of the control limit, we commissioned a plasma-catalytic unit on October 30, 2007.

We spent HUF 1.2 million on monitoring point sources of air emissions in 2007.

We use the intermittent measurement method envisaged in legal provisions and regulatory requirements at the required frequency to control local point sources. The tests are performed by our accredited laboratories.

A project aimed at eliminating the VOC emissions from the quench oil drainage unit and the pre-heater and modernizing the drainage unit is now underway. The tender was invited and the general contractor was selected in 2007. Implementation will start in 2008 and will involve the conversion of the drainage unit and the pre-heater into a closed system, sending exhaust fumes to a flare, installing 2 new draining stations suitable for draining coal-tar and the replacement of old the old aprons and drainage hoses with new draining arms. The project will be completed by August 2008.

### Immission

The National Air Pollutant Monitoring Network performs regular checks of the presence pollutants in the ambient air near TVK and evaluates air quality. Air pollution levels are recorded by the immission measurement stations located in neighbouring settlements and the recorded levels are read and checked by the Northern Hungarian Directorate of Environmental Protection, Nature Conservation and Water Management (ÉKTVF).

# Water and soil

## Surface waters

A common water intake unit has been built to provide water to TVK, MOL-TIFO and the power plant at Tiszapalkonya and is still operated by the thermal power plant. TVK and MOL-TIFO purchases the water they need from the plant (The power plant Tisza II has its own water intake unit).

After water was used it was purified and discharged into the River Tisza via what is known as the secondary purification system. A project of abandoning and revitalizing the secondary purification system of TVK Plc. and modifying the location of the inlet into the Tisza River was implemented by October 31, 2007 and a connection was also constructed between the buffers of the treatment plants at TVK Plc. and TIFO.

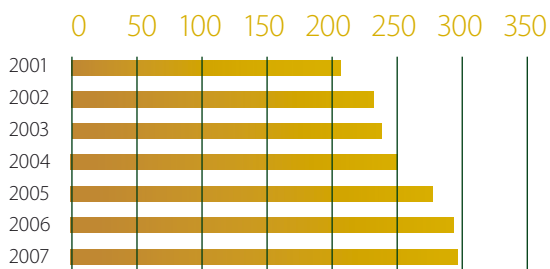
Another urgent task involves modernising the pumping facilities at the River Tisza and adjusting them to the current design flood level, because the facility could not perform the function it was designed for during the flood of the River Tisza in 2000 (the units have to pump water from the Sajó Canal into the River Tisza, when the water level of the latter is high). The facility failed during the recent flood as water levels surpassed the design flood level used in the dimensioning of the facility (forty years ago). The necessary studies were completed in the preceding years and a theoretical permit for water rights was also issued to TVK. During 2007, the plans for the facility were drawn up in line with the theoretical permit, the construction permit was obtained and the facility was built.

To abide by the conditions of the theoretical permit for water rights issued for abandoning the pond system used for secondary purification and for moving the point of discharging purified waste water into the Sajó Canal, we installed 2 continuously operated TOC gauges to control the two incoming waste water streams of the Olefin-1 plant and the Olefin2/HDPE-2 plants.



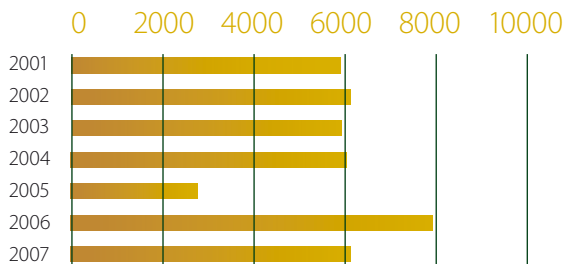


**Sewage treatment (HUF million, Year)**



We spent HUF 292 million on the treatment of polluted waters in 2007.

**Volume of discharged purified waste water per 1 kt of ethylene output, (m<sup>3</sup>/year)**



We installed an automatic sampler for continuous operation in the pumping unit located at the terminal point of the Sajó Canal at the inlet into the Tisza River to ensure constant monitoring of the quality of the water discharged into the Tisza.

The 2 continuously operated TOC gauges of the Central Sewage Treatment Plant have been connected to the system of process control. The 2 installed TOC gauges will be integrated into the process control system of the Central Sewage Treatment Plant (to complement the existing pH gauges), so the system will automatically separate incoming waste water from the process and send it to tank OKT 10001 if control limits are exceeded. This solution protects the waste water purification process.

Rainwater and non-polluted used water is discharged into the Sajó Canal and in turn into the River Tisza via a network of rainwater collecting channels at the TVK site. The part of the rainwater that is exposed to pollution at certain locations in the site is purified before it is discharged; otherwise it is collected by the channel network without treatment.

No pollutant emissions in excess of control limit have been identified in the waste water discharged into the recipient during the sewer inspections by the supervisory authority; hence no penalty is expected for 2007.

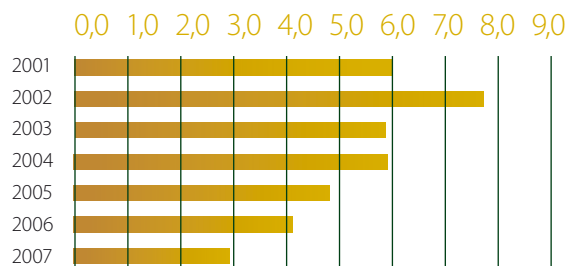
**Subsurface medium**

The modernization of the storage tanks in the Olefin Plant tank farm was completed in 2007 as these are the structures that have the most serious potential to influence subsurface media. The tanks have been reconstructed and refitted with a security feature (vacuum monitoring system), which allows the detection of even the smallest leakage before the stored substances could escape into the environment.

A comparison of the results of the monitoring of subsurface waters and the control limit excesses recorded for 2006 and 2007 demonstrated that there were fewer components involved in the excesses in 2007 and the degree of exceeding control limits was also smaller.

There is no cause and effect relationship between the properties of the materials used and stored by the affected processes and the observed instances of pollution.

**Volume of hazardous waste per 1 kt of ethylene output (tons/year)**



The procedures regarding the coding and classification of hazardous wastes and the allocation of waste types to code categories comply with the standards in effect in the European Union.

The environmental authority (ÉKTVF) approved the A TVK Waste Management Plan for 2003-2008 on September 15, 2004. The Waste Management Plan must be reviewed and updated every second year, and the results must be reported to the local government and ÉKTVF. The 2006 review of the plan was completed.

#### **Variances in the volume of hazardous waste generated and stored, 2005-2007**

	<b>Opening (tons)</b>	<b>Increase (tons)</b>	<b>Decrease (tons)</b>	<b>Closing (tons)</b>
2005	331	2778	3081	28
2006	28	2426	2444	10
2007	10	1857	1862	5

The chart above provides a more refined reflection of the changing volume of waste through specific ratios that demonstrate the tangible positive effect of BAT technologies.

The costs incurred by managing hazardous wastes amounted to HUF 128 million in 2005, HUF 58 million in 2006 and HUF 36 million in 2007.

In 2007, we continued a project started in the previous year for the central coordination of waste management. The project helped us achieve major cost savings.

We have reviewed the process of waste collection and storage at TVK and embarked on a centralisation project in this area too. The design, licensing and construction of a central waste collection yard were started and the yard will be up and running during H1 2008.

We have developed the waste management policy of TVK, which covers all the activities relating to waste management comprehensively.

No penalties are expected in connection with the waste management activities of the company in 2007.

# Environmental remediation

(Managing past environmental liabilities)

We drafted the Technical Intervention Plan (TIP) required by the authorities in line with the effective regulations a submitted it. The TIP documentation covers the practical steps envisaged for the short and medium term in our strategy of managing environmental liabilities uniformly across the whole TVK-TIFO industrial site and for reaching environmental compliance, along with the related schedule. The Company takes steps to manage past environmental liabilities as part of an integrated MOL project. Joint and several liability was stipulated in Cooperation Agreement signed between TVK and MOL in July 2006.

Starting 2006, the localization of ground water pollution was given top priority. A project to prevent additional pollution from being discharged is in progress inside the TVK site along the southern fence.

We cooperated with an independent advisor in the development of a risk based strategic concept for managing environmental liabilities uniformly across the whole TVK-TIFO industrial site. Uniform management is justified by the dimensions of the polluted area and the size of the problem. We have taken significant steps to learn more about the quality and quantity parameters of the pollution, its spread and the dynamism of the diluted plume. The Company spent HUF 85 million in 2006 and HUF 150 million in 2007 on this assignment.

An independent auditor reviewed the environmental liabilities of the Company and the work plan for managing them and found that the liabilities of the Company were thoroughly identified and surveyed.

The Company analyses environmental remediation jobs continuously and intends to invest substantial financial and intellectual resources to reaching compliance by resolving its legacy of problems. Additional studies are needed before we can quantify the degree of future

financial expenditure, which is expected to be substantial, as at present we have no exact knowledge of the size of pollution and cannot identify the method of mitigation.

Taking into account the foregoing, the Company provisioned funds for the next 12 years to cover its known and quantifiable environmental liabilities. The amount provisioned for the purpose equalled HUF 3.398 billion on December 31, 2007 (and HUF 3.721 on December 31, 2006).

The total value of contingent environmental liabilities amounted to HUF 4.612 billion. The Company has not received an order from the authorities pertaining to the environmental issues classified as contingent liabilities and the technical content of mitigation is also uncertain due to the reasons described above. Consequently, the probability of actually performing these jobs is less than 50%.

Our known environmental liabilities are listed below:

- Ongoing waste management projects,
- Ongoing soil and ground water remediation projects,
- Performing supplementary examinations,
- Follow-up of closed remediation projects.

#### **1. Ongoing waste management projects**

Ongoing waste management projects include:

- Sanitation of caustic sludge reservoirs.
- Sanitation of the emergency waste water reservoirs the Olefin and pigment plants.

**A/.** The authorities issued an order requiring TVK to rehabilitate the lime slurry storage facilities and to drain and separate the emergency waste water storage areas of the olefin and pigment plants. The rehabilitation of the lime slurry storage facilities progresses in accordance with the methodology approved by the authorities. The project started with the western pool in 2004 and the removal and utilization of the lime slurry have since been completed. The drainage of the northern and eastern pools and the shipping the lime slurry for industrial utilization are in progress. The contractor (BÉM Zrt.) had to complete the removal and utilization of the estimated 110,000 tons of lime slurry by the end of 2007. Altogether 111,426.41 tons of caustic sludge was removed during the project, which terminated on December 31, 2007. The contractor utilised the full volume stored at its premises.

In 2007 a total of 16,383.31 tons of caustic sludge was removed from the northern and eastern sites as non-hazardous waste under the identification number EWC190814 and as a total of 14,927.96 tons as hazardous waste under the identification number EWC 190813\*

**B/.** The in situ treatment of the sludge in what are known as the "former emergency reservoirs of the pigment and olefin plants" began in 2006 under a regulatory permit issued to liquidate the site. The project was in progress during the whole year in 2007. We drafted and submitted to the Northern Hungarian Environmental Authority the documentation necessary to close the project.



## **2. Ongoing soil and groundwater remediation projects**

The following soil and groundwater remediation tasks are in progress at present:

- Technical intervention in the TVK Plc. area lying south of the Sajó Canal.
- Remediation of the area of the emergency reservoir at the Olefin Plant tank farm.
- Technical intervention at the railway load-unload site.

A remediation project is in conducted by Elgoscár-2000 Kft. in the area south of the Sajó Canal (near the Tank Farm and the Emergency Reservoirs) with the technical content identified in the TIP.

A technical intervention project is in progress with reduced technical content near the railway trays in the railway load-unload area.

## **3. Performing supplementary examinations**

Starting 2006, the localization of ground water pollution was given top priority. A project to prevent additional pollution from being discharged is in progress inside the TVK site along the southern fence.

We cooperated with an independent advisor in the development of a risk based strategic concept for managing environmental liabilities uniformly across the whole TVK-TIFO industrial site. Uniform management is justified by the dimensions of the polluted area and the size of the problem. We have taken significant steps to learn more about the quality and quantity parameters of the pollution, its spread and the dynamism of the diluted plume. The Company spent HUF 85 million in 2006 and HUF 150 million in 2007 on this assignment.

In December 2006, the Environmental Authority issued an decision applicable to the entire TVK-TIFO industrial site in connection

with the complex Technical Intervention Plan with jointly binding effect (for TVK and MOL). The Decision approved the short and medium term work plan of both companies, which gives top priority to the risk based management of liabilities. The work plan optimises environmental expenditure and the solutions for managing pollution on a continuous basis, and, as the first important milestone, it creates a comprehensive map of risks for early 2009.

The map of risks can be used in the medium term to redefine environmental objectives, the priorities of implementing them and the quantification of liabilities.

- other projects planned in connection with implementing the TIP;
- clean wells by pumping, well refurbishment;
- identify geodesic coordinates for remaining wells;
- license and implement the backfilling of wells;
- obtain water permit for the subsistence of remaining wells;
- study the options for optimising the removal of the CH phase, which is heavier than water;
- morphological analysis of foot wall surface – forecasting LNAPL, DAPL, DNAPL migration;
- perform/complete the program for geophysical tests of the surface;
- implement the program of hydrological observation;
- construct new structures of plume dynamics;
- perform program of CPT-MIP tests;
- identify natural types of pollutant degradation;
- review innovative mitigation technologies;
- design the tests of selected innovative mitigation technologies.



- Implement stage II of the program of quantitative risk survey:
  - program for surveying risks associated with farmland
  - first step of identifying the risks to which parties effected by industrial activities are exposed to,
  - first step of estimating ecological risks
  - identify water extractions in the vicinity of TVK-TIFO industrial complex.
- Monitoring:
  - Monitoring plume dynamics
  - Monitoring the rail load/unload area and the north-western plume
  - Monitoring tank farm and emergency storage area at the Olefin plant
  - Monitoring at the AKZO Nobel site.
  - Other monitoring.

#### **4. Follow-up of closed remediation projects**

- Follow-up of the new water demineralization area,
- Follow-up of the fuelling area.

The competent environmental authority (ÉMI-KTVF) closed the follow-up projects conducted at sites of Geo-Tiptex Kft. and Tiszatextil Kft. We had planned to liquidate the production and observation wells used there during remediation and the authority consented to backfilling the wells, accepted the water plans we submitted and the wells were finally backfilled.

We submitted to the competent authority the closing documentation of the follow-up project conducted in respect of the environmental remediation of the “new water demineralization” area at the end of October and the closing documentation of the follow-up of fuelling area at the end of November. We are already in possession of the decision issued by the authority in approval of the follow-up of fuelling area, and payment was effected in Q2 2007. We have also received decision issued by the authority in approval of the follow-up of the new water demineralization area and have integrated the follow-up monitoring specified in the decision into our monitoring program.



# Energy efficiency

The steam needed for the operation of TVK is provided from a power plant owned partially (26%) by TVK which uses the best available technology as regards CO<sub>2</sub> emissions. We have converted our former steam heating systems and use the waste heat of the exhausted flue gas to heat the water of the space heating system, which operates more efficiently and with lower losses.

To boost the rate of utilisation at TVK's CHP power plant, we operate two of the boilers only to cover demand during peak consumption hours and during maintenance.

Seeking to reduce heat losses and to improve the safety of operations, we continued our program of pipe rack reconstruction. In 2007 the section along the road U3, the sections between roads K2-K7 and K6-K7, the section on top of main building 502, the section along road K4 and the sections around PP-II were refurbished. During reconstruction, we surveyed the present status of the pipes, performed urgent jobs, tore down unused pipes and the remaining pipes and steel supports were recoated. Insulated pipes were reinsulated with mineral wool and old asbestos containing insulation was also replaced.

The new annular lining of the main industrial water pipe of TVK increased the security of supply and eliminated seepage.

No restriction had to be imposed on energy consumption at the TVK Industrial site in 2007. There were no outages leading to loss of output due to human error.

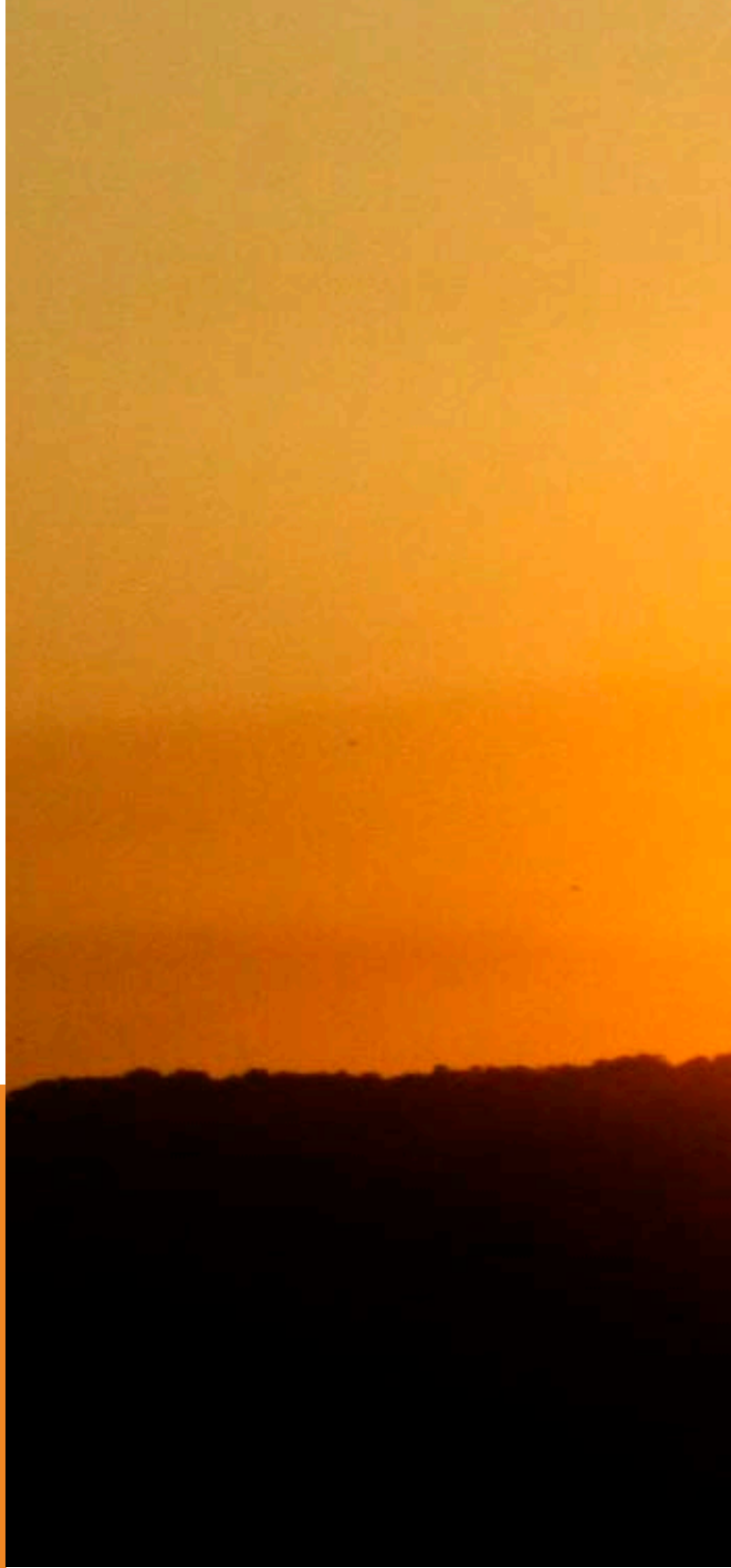
<b>Energy efficiency</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>
<b>Steam</b>					
Total purchased steam (GJ)	1,143,797	2,110,138	2,532,226	2,453,248	2,419,978
Total produced steam (GJ)	453,819	302,996	229,674	200,365	199,422
Total consumed steam (GJ)	1,388,705	2,263,764	2,686,140	2,570,061	2,550,517
<b>Natural gas</b>					
Total purchased natural gas (GJ)	2,482,526	2,796,537	3,254,032	2,836,225	2,799,430
Total produced natural gas (GJ)	0	0	0	0	0
Total consumed natural gas (GJ)	2,075,175	2,312,101	2,746,434	2,340,511	2,320,535
<b>Electric power</b>					
Total purchased electric power (GJ)	2,057,870	2,270,153	2,673,513	2,628,944	2,796,133
Total produced electric power (GJ)	14,045	2,794	0	0	0
Total consumed electric power (GJ)	1,653,204	1,795,616	2,177,127	2,100,393	2,214,618
<b>Total</b>					
Total purchased energy (GJ)	5,684,193	7,176,828	8,459,771	7,918,417	8,015,541
Total produced energy (GJ)	467,864	305,790	229,674	200,365	199,422
Total consumed energy (GJ)	5,117,084	6,371,481	7,609,701	7,010,965	7,085,670

After reviewing the condensate system and refurbishing the drainage system in the TVK power plant, the volume of process water consumed dropped to a bare minimum.



# Focussing on people

It is our goal to ensure that our employees enjoy the benefits of equal opportunity, continuous training and safe working conditions for their daily work. We support the education of younger generations, research and the arts.











# Social responsibility

The company attaches high priority to its staff commitments, to creating safe working conditions, to its environmental commitments, to quality awareness, to commitment to its employees and to its social responsibility.

The strategy of TVK brings the simultaneous achievement of business performance objectives, environmental and social goals into sharp focus. The environmental and social goals attached to our business performance objectives are upheld in our HSE policy and through the quality, environmental, health and safety systems we apply. The company attaches high priority to its staff commitments, to creating safe working conditions, to its environmental commitments, to quality awareness, to commitment to its employees and to its social responsibility.

We also act responsibly in respect of our employees. We respect human rights as well as the values and diversity of local and national cultures. It is our goal to ensure that our employees enjoy the benefits of equal opportunity, continuous training and safe working conditions for their daily work.



# Spotlight on stakeholders

TVK continues its tradition of open communication with citizens. This is truly reflected by TVK' annual publication of an Environmental Report, which was replaced by its HSE report and then by the SD report since 2004. We sent our SD report to the Deloitte, the organiser of the contest, but we refrained from nominating for the Green Frog Award this year. Our Sustainable Development Report of 2006, however, won a Green Frog Award memorial plaque.

In 2007, the American Chamber of Commerce (AmCham) Hungary continued its "AmCham Prize for Creating Healthy Workplaces" programme, which seeks to offer guidelines for the creation of healthy workplaces and to motivate employers to deliver added value in this area.

Prizes were awarded in December 2007, when TVK, as one of 11 contestants, received the special award of the adjudication board in the category of large corporations.



TVK is committed to strengthening the culture of labour safety and security continuously, which means in plain terms that we try to avoid any and all work related injuries.

In 2007, we made yet another quantum leap in reducing the number of work related injuries: the number of lost time injuries (LTI) dropped to zero, which made 2007 the first year in the history of when no time was lost due to a work related injury.

TVK has records of work related accidents going back to 1961. In addition to the indicators used across the MOL Group for the analysis of accidents, we also use to a specific value calculated (for one thousand blue collar workers) from reportable incidents (injuries healing over three days) as a benchmark as it allows comparison with other employers and sectors.

The positive trend of our accident statistics observed since 2000 has remained despite a short period of faltering due to the reduction of head count after outsourcing projects completed in 2006 (which worsened our specific value) and the number of reportable accidents dropped to zero.

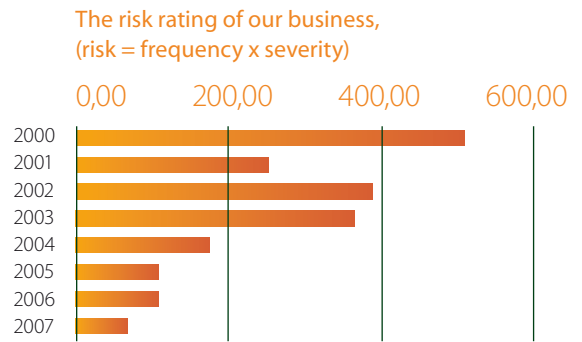
As both the number and severity of accidents shows a positive trend, the risk rating of our business (risk = frequency x severity) subsided substantially.

A comparison with the chemical sector in Hungary and Germany shows a striking difference in favour of our indicators of accident frequency and in the rate of improvement.

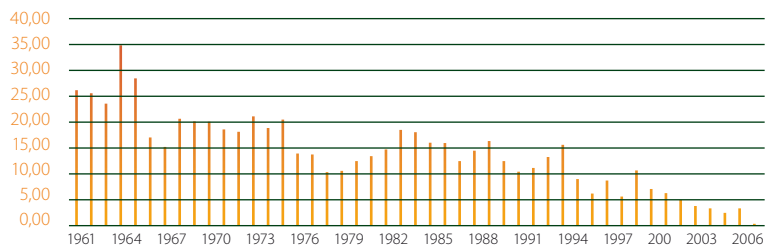
Lost Time Injury Frequency (LTIF, i.e. the number of lost time injuries calculated for one million hours worked), which is an indicator used widely across the MOL Group, also speaks of improvement.

We continued to investigate work related accidents in compliance with the relevant laws and professional expectations. Analysts involved in analysing accidents performed research into the causes of each incident to explore cause-and-effect relationships. This methodology is suitable for revealing causes completely and for formulating comprehensive measures.

Starting 2007, we introduced what is known as the TRIPOD method of analysing incidents with software support.



Work related accidents (Injuries healing over 3 days/1000)



We also took measures to improve our accident statistics in the course of the year:

- unit managers were provided monthly updates of accident ratios,
- we took concrete measures to increase the security of traffic (by improving road conditions, installing traffic lights, controlling and warning);
- there were regular (monthly) surveys of the condition of public roads.

Behavioural audits, which we adopted as common practice as part of our "Safe jobs project", improved our accident statistics considerably. Rolling the achievements of this project out to managerial staff in general promises securer job performance and is likely to prevent near misses from becoming actual accidents.

TVK published intranet case studies so as to help everyone learn the lessons from incidents.

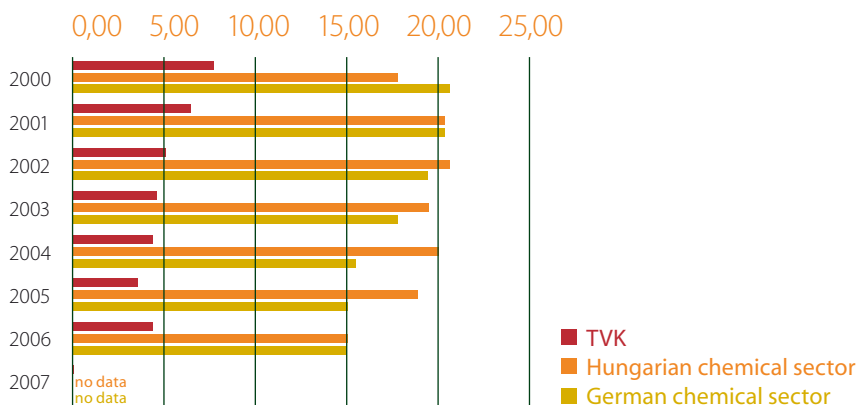
Our Incident Reporting & Investigation System (IRIS) tries to identify mistakes and the methods

of correction that will help avoid future losses and the interruption of operations by changing the system of management and organisation culture that allowed an incident to occur. It is by the same token that we continued to roll out what is known as the Tripod Beta method of investigating and analysing incidents and developed IRIS process control for the whole group. Coupled with making this policy mandatory, we introduced all or our IRIS related requirements and launched an electronic incident notification system within the IT system of our HSE function. While rolling out the new IRIS process control we published our IRIS Manual, which describes the basics of IRIS to managers and staff and helps our investigations and analysis unit perform its important job.

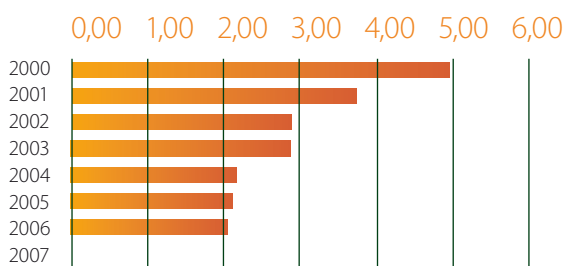
We used the TRIPOD methodology to investigate incidents of major impact (fires) and explored root causes and cause and effect relationships. After researching the causes we identified potential preventative actions. Each investigation culminated in formulating a clear cut and detailed action plan.



Reportable work related accidents  
Calculated for 1000 blue collar staff



LTIF trend



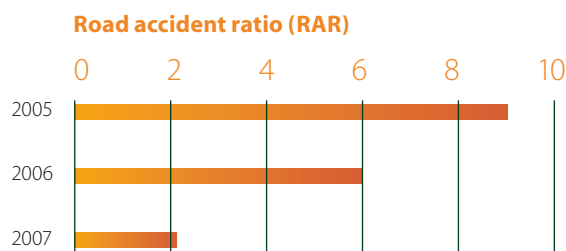
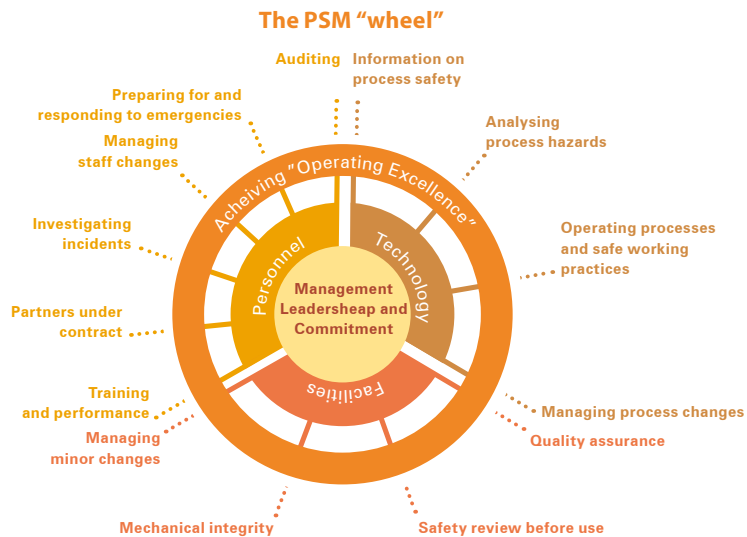
**Developing a culture of job safety  
(SAFE JOBS PROJECT)**

We managed to reduce the number and the consequences of unwanted events substantially by focussing heavily on the "human factor" and by eliminating violations, ignorance and mistakes, each of which plays a key role in the security issues of workplaces and in extraordinary events materializing. Our Safe Workplaces Project, which we had launched in 2005, serves the same end and helped our staff participate in dual-tier (employee and management) training courses held by the excellent and professionally outstanding trainers of DuPont up to the end of Q3, 2007. The courses helped us become familiar with best practices and experiences already applied and to use our own resources for laying the foundations of a high level culture of labour safety. Eight of our colleagues, who had participated in the program, are scheduled to attend further train-the-trainer courses, as they will be responsible for delivering in-company courses to staff who had not taken part in the DuPont program. Our trained trainers will replace DuPont

advisors and continue the program in-house starting late 2007. These courses are recurring (every second year) and training materials are updated continuously. In addition to creating a culture of labour safety, a major section of the project involves the development of Process Safety Management (PSM). It is our definite intent to prevent every extraordinary event that might relate to our technological processes and could exert a harmful effect on the health and physical integrity of our employees, on the public, the environment, or could threaten with substantial financial loss or property damage. To realize these objectives, we have embarked on the introduction of our PSM system, which includes 14 components and encompasses every area that might influence the safety of production processes.

**Process Safety Management System  
(PSM):**

Under a decision issued by MOL Group management, a complex management system capable of identifying and reducing in the main the threats emanating from our processes, equipment and the actions of our operators and maintenance staff in a period



of 3 years between 2007 and 2009. This assignment will be implemented at the level of the Petrochemical Division. In 2007, we completed the survey of our present status, set up our expert teams and drafted a detailed implementation plan for 2008, which has been issued by our CEO for execution.

**Safety on our roads (SAFE TRAFFIC PROGRAM)**

The commitment of our company to reduce the number of job related accidents also triggered a survey of the possible options for minimising traffic risks and a series of measures designed to reduce the same to practice. In addition to the publication of and checking the adherence to documents pointing out the threats associated with pedestrian and bicycle traffic, we provide our drivers with practical information on defensive driving in the framework of a special program.

Relying on basic agreement in effect inside MOL Group, our Company joined the program of defensive driving in mid-2006 by signing

an accession agreement. In 2007, 41 of our colleagues participated in the program, which comprised a theoretical, an on-line refresher and a test driving module. After receiving instruction in the theory of defensive driving, our employees are scheduled to take part in additional driving skills training. That course imparts practical skills of driving and handling vehicles in special traffic and road conditions and seeks to prepare drivers for such situations. These measures proved to have been instrumental in the diminishing trend of traffic incidents causing physical injury.

To evaluate our traffic safety performance, we introduced an indicator called Road Accident Ratio (RAR), which we monitor monthly.

We recorded 6 road accidents during the year, which corresponds to a year on year reduction of 66.67%. We were responsible for half of the accidents. The total property damage amounted to HUF 4.1 million or 61.73% of the amount recorded for last year. None of the road accidents involved physical injury.

# SEVESO II compliance



Risk curve envelopes of peak events  
(Apparently, threats hardly penetrate beyond the TVK fence)

Based on 5 years of discretionary preparations, TVK drafted its Safety Report under Government Regulation 2/2001 (1.17.), which qualified the Company as the first one among MOL Group affiliates for a hazardous operations license issued by the National Emergency Directorate without objections or deviations on October 30, 2006.

In 2007, we analysed and calculated the risks emanating from the extension of the cycle time of major overhauls. We found that switching from a cycle of 2 years to 3 years will not increase in merit either the mortality risk or the social risks of the civilian inhabitants of the neighbourhood of our site (see figure).

We have prepared our PRO \_ PET \_ 3 policy for publication. It regulates the establishment of a SEVESO team, its business and the execution of the jobs set forth in our Safety Report.

# Fire safety

The strategy of TVK attaches high priority to preventing fires and emergencies. To achieve that, the company lays heavy emphasis on observing the necessary personal and technical requirements.

There were 3 fires at the TVK site during 2007. Both the number of fires and the financial damage dropped year on year. The fires caused no personal injury.

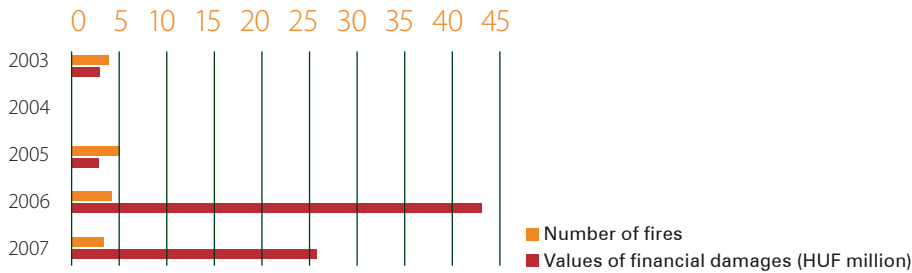
We applied the TRIPOD methodology for investigating two major fires. Relying on the findings of these investigations, we took the necessary measures to reduce the number of fires in the future. The members of the technical rescue team of our Voluntary Fire Brigade took part with a Mobile Flare in managing the emergency situation triggered by the damage of an ethylene pipe.

We have held 14 loss prevention drills simulating a variety of events at units with extreme fire and explosion hazard with employees and partner organisations participating so as to study the actions required in an emergency. After the drills, participating units evaluated the actions taken and took the necessary measures to eliminate deficiencies. The annual drill required by the Internal Safety Plan was also conducted.

To improve our safety, we enhanced the operability of the protection system of our plants. Certain sections of the firewater network received plastic lining. The firewater system of our Olefin 1 plant was fitted with



### Fire cases and values of financial damages



mechanical pressure breakers. The cable ducts of our electric substations were fitted with smoke detectors to ensure early warning in the case of fire. A site has been developed for fire drills upon a recommendation from our insurers. We have also purchased new gas detectors. We have procured new trunk based radios to improve our capacity to communicate in emergency conditions. We have modernised the mobile flares we use for managing emergencies by installing pilot burners and by converting the connecting battery of nitrogen flasks to a container to improve portability.

We took part in developing the new group level fire protection strategy. Participation in fire protection conferences helped us keep abreast with the progress of our profession. We administered the new type of fire safety examinations smoothly.

As planned, we have documented all the Job Stations with Explosion Potential in our production plants. An identical document is being prepared for service units with the deadline for completion in Q1 2008. The recommendations listed in the completed

documents were taken into account in planning FMB jobs. Some of the jobs will be completed already in 2008.

During 2007, the Professional Fire Department of the Local Government held 6 fire protection audits, which identified some minor discrepancies. No penalty was charged. The audit conducted by National Emergency Directorate of the Ministry of the Interior arrived at similar conclusions regarding the issue of Safety Reports.

We continued to pay close attention training the volunteer firemen of our facility. We conducted the theoretical courses and practical drills envisaged in the training plan and prepared our firemen for fire fighting contests. The fire squads of TVK also won several gold silver and bronze medals at a competition organized by the Firemen's Association of B.A.Z. County, which also helped us practice rapid and professional intervention in the case of fire.

We participated in the work of the national and county level organisations of the Firemen's Association in our capacity as firemen employed by a facility.



# Health protection

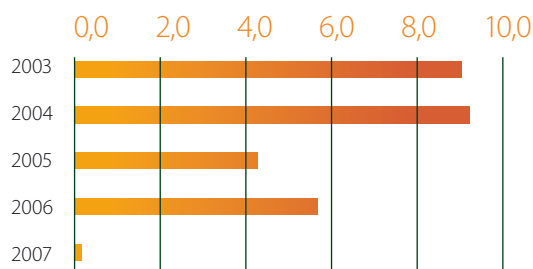
As an employer, TVK performs its duties related to occupational health via a contracted service provider.

Professional medical control is especially important because of the large number of potential hazards employees may get exposed to and the severity of potential consequences. It is ascertained by administering (preliminary, periodical or extraordinary) job aptitude tests that cover checking general health status heart, blood, urine, hearing, vision and respiratory functions in line with the protocol specified in an agreement and depending on the job position filled. Employee health status is characterized by the fact that 1500 periodical health checks identified only 2 persons (0.14%) who did not meet the aptitude requirements of their job.

Biological monitors serve to study the impact of risks associated with the use of hazardous substances. The number of these health checks was substantial in 2007, as planned (456 people, 1558 health checks). However, we only registered a single case of intensive exposure due to chemical factors of aetiology. This may be seen as the result of both disciplined and regular job performance and environmental monitoring performed at 39 measurement locations (including air measurements in workplaces).

We have archived the data of intensive exposures since 1994. We consider monitoring such exposures important because knowing the background of occupational illnesses helps us engage in efficient prevention.

### Exposures trend



To ensure the provision of professional and rapid first aid, unit managers had to make sure that a person trained in providing first aid is available in each work area and in each shift: at present there are 240 trained first aid providers at 48 locations.

Employees receive basic training and professional upgrading from professional ambulance officers specialising in first aid.

After careful preparations we replaced our old first aid boxes last year and every first aid station is now equipped with more modern boxes than required under law. 18 organizational units also have additional equipment (tourniquets, aluminium coated elastic adhesive plaster, eye-bath, resuscitation mask, bandages for burns) to help efficient first aid.

### STEP (TAKE A STEP FOR YOUR HEALTH PROGRAM)

The Health Development Program (known as STEP) was launched as part of the New Europe program in Q3 2006. The whole program will be rolled out in three stages over a period of 5 years. The budgeted cost of the program at the Company is HUF 45 million for the period between 2006 and 2009. Staying healthy requires a change of culture first of all, and we wish to help the employees of TVK Plc. become familiar with and improve their health status.

The area of health development shows major achievements. We surpassed legislative requirements by:

- performing additional health checks to survey health status and to start the necessary therapies. We administered:
  - mammography for 9 persons
  - dermatology tests for 124 persons
  - gynaecological tests for 78 persons
  - urological tests for 13 persons
  - ocular tests for 17 persons
  - long screening for 721 persons
- performing general status checks (blood pressure, blood sugar, body weight and body mass) three times (May, June, Day of Health) institutionally on a large number of interested employees and receiving;
- drafting 44 health plans designed to educate employees in healthy ways of living;
- holding relaxation training for altogether 31 people in two rounds to reduce psychosocial risks (the training may help respond to and treat stress);
- awarding sums of money under our STEP Active tender to four teams to help them finance the realisation of their ideas, the funds were used for improving the health status of 60 people;
- delegating four TVK employees to a team of 5 nominated by the MOL Group to take part in the current body weight optimization project called "It is easier together";
- vaccinating 1 person.

# Labour practices and decent working conditions

## Human capital development

The company operates a HAY system. It means that job positions will always be used as the basis for the remuneration system. The largest benefit of the system, which also explains its widespread use across Europe, is that it makes different remuneration systems used by different companies easy to compare. Our wage policy measures are determined by basic wage increases in line with the projected rate of inflation as well as by case by case wage increases associated with evaluating individual job positions taking labour market income levels into account and by the recognition of exceptional performance.

The company is unquestionably one of the most attractive employers in the region. We recognized the performance of our employees by paying fair, equitable and competitive wages. Our income policy rests upon the idea that we remunerate our employees above the median of the labour market in the Q3±20% band because we believe that the achievement of our objectives depends upon the availability of trained, creative and motivated staff.

The average wage of TVK employees is substantially higher than both the wages paid by the petrochemical sector and Hungarian average wages in general.

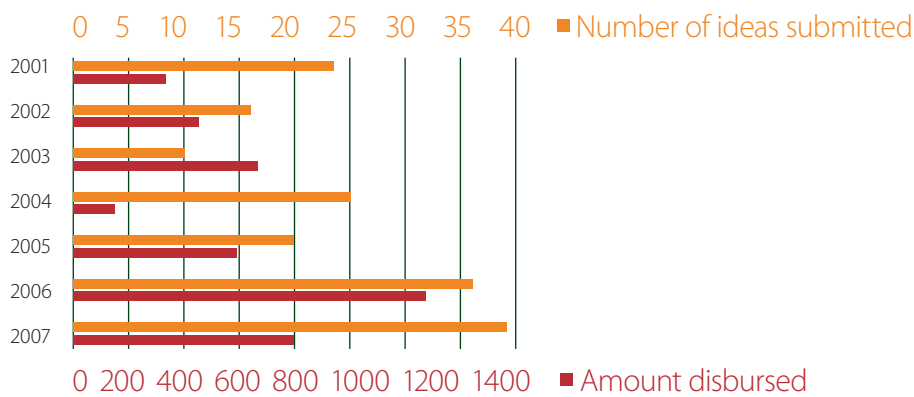
Each employee receives a bonus at Christmas in the form of a benefit corresponding to 1 month's basic wage.

In 2007, all employees continued to receive considerable benefits through a cafeteria system.

In addition to ensuring proper conditions for people to perform their jobs safely without disturbance, our Career Management System provides employees with the opportunity to advance by continuously



### Working of System of Supporting Ideas at TVK



increasing their skills and practical experience, by disciplined and industrious efforts and by good work performance.

We believe that the performance of a company is influenced heavily by what the employees think of the circumstances among which they work. Surveying the opinion of employees is a means of improving our knowledge of each other, but it also offers guidance for the management of the company. Consequently, TVK regularly conducts employee satisfaction surveys and the results are taken into account when we develop our human resources strategy and are also published in the company newsletter.

To develop and strengthen a culture of innovation, we have been operating a System of Supporting Ideas (SSI) for several years now. The SSI recognizes and rewards financially every employee who submits ideas and proposals that are instrumental for the company in providing impulses, technical, organizational or other solutions.

We operate a performance evaluation system geared to increasing employee job satisfaction, motivation and to promoting successful adaptation to the rapid changes of our economic environment.

When we analyse our competitors, we recognize several good examples of more efficient operations. But human beings, conscious of the importance of their individual achievements and personal responsibility,

are the most important ingredients to every solution. A second important recognition suggests that a “best practice” will only work effectively if it is not imposed on an organisation by an external force, but are rather the outcome of organic development inside a company.

It is not by chance that TVK also shows a preference for proprietary methods and solutions of improving operational efficiency. This is what our Relay program (of finding a second line of shift foremen) is all about. The reorganisation of production and the newly introduced Performance Evaluation System (PES) also serve the same end.

The goal of the PES is to demonstrate existing relationships between corporate and individual performance. That requires dialogue and common thinking, first of all. We need to become conscious of what makes us successful as individuals and as a company. We also have to become aware of the areas the need to be developed, changed or improved so as to ensure future success.

You can work successfully:

1. if you know precisely what you are expected to do
2. if your manager gives you regular and concrete feedback about your work
3. if you are do no simply execute but your opinion and individual motivation also matter,
4. if you receive financial and moral recognition for performing well.

The PES is a tool designed to implement these four basic principles: It specifies precise responsibilities and the expected level of performance; evaluating discussions provide an opportunity for manager and employee to provide information and feedback to help achieve objectives; and a job well done deserves recognition.

The most important feature of the PES is that it is not a fossilized system that has to be run, rather it is a tool designed to realise business objectives. And more importantly: being objective does not start at the time of evaluation, it begins at the time objectives are set.

The most important benefit of the PES lies in the targeted discussions between managers and staff rather than in the fair and just distribution of performance incentives. During these discussions information is provided, expectations are clarified, joint decisions are made about development opportunities, and the focus is on strengths and positive features rather than on mistakes.

In 2007, 5.5% of basic annual wages were budgeted for use in a contract system of remuneration paid to recognize individual performance in the course of the year. The same ratio will increase to 7% and 9% in 2008 and 2009, respectively.

We have developed a separate system of performance evaluation for management and the sales force. In their case quantified ratios are used to give more emphasis to the financial and efficiency indicators of the company and to increase employee loyalty.

We are trying to assign local professionals to senior management positions. This aspiration is reflected by actual figures as the ratio of qualified local staff is 50% among senior managers and 80% among line managers.

## Employing young talents

Like other MOL Group companies, TVK also launched a program for fresh graduates in 2007. Several (mostly engineering and business school) graduates are hired each year as part of this program. The young recruits are rotated around the company to become familiar with the various areas of TVK. Once these young people acquire this fundamental knowledge and demonstrate success in the program, TVK offers them longer term opportunities.

## Training and development

It is our basic philosophy that highly qualified and motivated labour fully committed to the company is one of the most factors contributing to the successful attainment of our strategic goals. The development of the company requires an increasing number of well-trained, well-informed and talented professional people. The rapid changes of technology and the constant modification of job responsibilities require employees to acquire new trade related knowledge and skills much faster now than at any time in the past.

TVK has a stake in developing strategic human resources, i.e. in getting the right people with right training to be at the right place at the right time, which forms the basis of sustaining

the efficiency of a company in the long run. Also, as time passes most individuals in an organisation become increasingly interested in their own development, in acquiring new skills and competences, which leads to continuous personal growth and long term satisfaction. Career management is a key process that integrates individual goals with the objectives of an organisation. The company operates a program of systematic career planning which seeks to ensure proper preparations for, and to develop the people affected by, succession by creating challenging advancement opportunities.

We have maintained our strategic goal of ensuring the availability of highly trained staff. Accordingly, our employees participate in professional training and competence building courses for individuals and teams. We give priority to conscious development programs, which explains why 173 people participated in assessment centres in 2007. The role of these centres is to define the directions of development. Individual training programs are complemented with simultaneous workshops focussing on organisation and group development.

In 2007, 89 of our future employees took part in labour and fire safety, environmental, quality and IT training courses. Our HR training programs, which we conducted with a total budget of HUF 142 million, were attended by altogether 1,392 people in 2007. Total training time reached about 60 thousand hours and the average training time per employee amounted to 52 hours last year. Average per employee training costs reached HUF 124,000.

We had launched our RELAY program in 2006 and continued it successfully in 2007. The program is a conscious and orchestrated effort by the company to develop a second line of foremen and chief systems operators in our polymer and olefin plants. Volunteers go through a selection process of 3 steps. Program participants receive training in management development and change management. In 2007, we launched yet another training course for chemical technicians in cooperation

with Erdey-Grúz Tibor Vocational School. At present 35 students attend the course.

## Decent working conditions

### **Relationship between labour and management**

The elected members of the Works Council represented three trade unions at the Works Council elections held in November 2007. The management of the company and the Works Council meet regularly. We hold HR coordination meetings to discuss topics related to wages, collective bargaining and the observations made by advocacy organisations. These forums are attended regularly by the Works Council and the Labour Safety Committee is also present depending on the agenda.

TVK employees are free to set up organisations to ensure higher level representation of their interests. As the level of trade union penetration is high, they play a major role in advocacy activities.

(2001: 64%, 2002: 67%, 2003: 69%, 2004: 64%, 2005: 64,3%, 2006: 64,5%, 2007: 56,1%).

The Company supports the activities of trade unions over and above the letter of the law (through forms such as organising training courses and participation in conferences).

The representation of employees is subject to local agreements and conventions with trade unions. Conventions create more favourable conditions than laws. TVK has a Collective Bargaining Agreement in place for an indefinite term and we concluded a medium term agreement with interest advocacy organs about the wage and benefit system applicable from 2007 to 2009.

Employees may communicate their opinion on decisions to management in an organised manner via the aforementioned organisations. The management of the company coordinates all matters with the trade unions that have a bearing on the social and working conditions of employees. We hold Human Coordination meetings once or twice a month, which serve

as a forum for advocacy organisations. This solution goes beyond the statutory obligations of the company. If any of the parties raise a matter, it will be discussed with the HR function as well as the managers of the affected areas. Moreover, forums are organised to discuss all human resources programs, regardless of level. At these meetings employees may ask management to respond to questions directly.

The Works Council organises quarterly forums with the CEO and employees can submit their questions in advance.

We decentralized the power to exercise employer's rights in the company in August 2007, and made unit managers fully responsible for exercising the rights concerning employment.

#### **Equal opportunity and diversity**

These rights are guaranteed under the Collective Bargaining Agreement, the MOL Group Code of Ethics and agreements with the trade unions. Although there is no system of supervision, there were no problems in this area in 2007. We developed all of the relevant corporate processes in a manner to minimize the likelihood of discrimination. TVK does not tolerate any form of discrimination.

In its capacity as employer TVK pays maximum attention to the human dignity of employees in the connections between employer and employees by following the principles of equal opportunity and through management attitude towards employees.

The company reviews the Code of Ethics and related publications annually with a view to the changes of the domestic and international legal environment, international standards and the shifts in MOL Group strategy and vision.

#### **Human rights**

Our human rights regulations are subject to the Collective Bargaining Agreement, the MOL Group Code of Ethics and agreements concluded with the trade unions in line with legal provisions. A stakeholder may contact the Ethics Committee, the Works Council (as

in-company forums) and to trade unions (as forums outside the structure of the company). We are committed to human rights and our results show that the organisation has not faced a problem of this nature.

In its capacity as employer TVK ensures the protection of and respect for the fundamental human rights of its employees by systematically observing and causing all parties to observe the related laws (Constitution, Labour Code, Act on Labour Safety, Act on the Confidential Nature of Personal Information, Act on the Freedom of Association) and internal rules (Collective Bargaining Agreement and Code of Ethics).

Protecting and giving effect to fundamental human rights are manifested particularly in the following areas:

- TVK consistently avoids any form of discrimination or negative discrimination in awarding employment contracts and maintaining employment and seeks to uphold the requirements of equal treatment.
- All TVK employees have the right to set up or join a trade union to defend their interests and to give voice to their opinions. TVK respects the rights of interest advocacy organisations.
- TVK supports protecting the physical and spiritual health of its employees by implementing a variety of measures. It seeks to apply state-of-the-art technical solutions to ensure safe working conditions without health hazards. It has organised its labour safety, health service and medical care functions to achieve the aforementioned goals.
- TVK observes the rules governing working time and recognises the right of employees to rest, to have leisure time and to regular paid holidays. Black labour and sham contracts are unknown phenomena at TVK.
- The right to keep personal information confidential inures to the benefit of all TVK employees.
- All employees may seek remedy under law against employer actions that violate an employee right or legitimate interest. TVK operates an independent legal assistance service to help employees assert and give effect to their rights.





## Social investment

We have traditionally attached high priority to educating future generations and to promoting healthy ways of living, to committing to our natural and social environment, to sciences and the arts. The company is proud to represent these values and bends over backwards to share resources with people who are capable of exceptional individual or team achievements based on professional work, expertise and excellence.

The publicly visible results of our social investment fall in line with the basic principles of our sponsorship policy. The order of magnitude of our annual spending on sponsorship and support is one hundred million. The sponsorship agreements and support contracts of the company look back on several years of successfully connections and cooperation projects. In sponsorship, we also give effect to the principle laid down among our core values: we seek to entertain long term business relations based on mutual benefits.

To ensure the availability of properly skilled professionals, TVK maintains a variety of close contacts with secondary and tertiary training institutions and helps their teaching efforts and research work with significant funds. As in previous years, three universities and five vocational schools continued to receive altogether HUF 39 million worth of development support in 2007.

As a committed supporter of culture and sciences, we aim first of all to act as a supporter of the high ranking events and institutions of our region. By supporting the National Theatre of Miskolc, the Piano Festival of Tiszadob and the International Opera Festival of Miskolc, the company contributes heavily to enriching the region with excellent cultural events year after year.

The utility of supporting Herman Ottó Museum and the Hungarian Museum of Chemical Science for years has now been confirmed by the award of the Prima Primiissima prize to the director of the Herman Ottó Museum in 2007.

The 11th TVK Triathlon World Cup and the 9th Triathlon Holy Week were the highlights of our sponsorship program. By awarding the right to organise the 2010 Triathlon World Cup to Budapest and the Hungarian Triathlon Association, the International Triathlon Association acknowledged the success of the events supported by TVK and the good work performed for several years on end by the organisers of the TVK Mali Triathlon Club.

The sportsmen and women and the clubs supported by the Company continued to achieve good results in 2007. Figure skater,

Júlia Sebestyén was placed 4th at the European Championship and 11th at the World Championship organised during the 2007-2008 season; the juvenile competitors of the Tiszaújváros Aquatic Sports Club won two gold medals and the adults were awarded three bronze medals at the European Championship. In addition to excelling as competitors, Sándor Végh and the TVK Balloon Team also worked hard in Debrecen to turn the 7th MOL Cup into a success. The international association responded to their efforts by recognising the event as a Category I race.

The Foundation for the Future of Tiszaújváros united forces with the local government to support outstanding programs and personalities that determine the life and reputation of the town. Established in 2000, TVK's Foundation for the Development of the Southern Borsod Sub-region aims to help the sub-region close its fundamentally social, training and health related backlog. Since 2000, the foundation has supported altogether 357 students with fellowships as part of its application project called "For talented children with good academic performance and handicaps" and provided assistance to 382 projects in 31 regional settlements to help improve the living conditions of local citizens.

## Economic performance indicators

Description	2003	2004	2005	2006	2007
Net profit (HUF million)	5,278	8,947	6,409	17,271	23,684
ROACE - %	5.7	13.3	9.5	11.8	15.3
Total return on investment - % TVK Plc.	0.4	27.9	4.4	2.0	n.a.
Earnings taxes (HUF million)	(1,220)	2,943	1,677	878	7,011

## Environmental performance indicators

Environmental impact	2003	2004	2005	2006	2007
Environmental CAPEX (HUF million)	12	78	79	49	293.7
Provisions used (HUF million)					
Treatment of polluted water (HUF million)	235	251	276	288	292
Management of hazardous wastes (HUF million)	74	94	124	59	36
Clean-up of polluted areas (HUF million)	556	516	525	487	504.5
HSE related penalties (HUF million)	6.50	0.27	1.93	1.02	1.20
<b>Air (tons)</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>
CO2	824,112	846,948	1,299,877	1,111,518	1,210,730
CO2 (as per ETS)			78	69	27
SO2	22	21	24	57	71.4
VOC	19	3	8	27	27.81
NOx	431	448	453	552	618.3
CO	22	35	47	71	83.2
PM	10	11	14	23	22.6
ODS					
TPH (tons)	12.4	14.2	26.7	22.5	16.2
COD (tons)	159.6	87	277	275	265
BOD (tons)				162	154
SS (tons)	7100	4978	0	0	0
<b>Water</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>
Potable water consumption (m3)	216,490	193,310	607,911	507,691	437,691
Process water consumption (m3)	7,518,042	5,715,218	8,699,624	11,442,139	6,874,587
Seepage > 1 m3 (number of cases)	0	0	0	0	0
<b>Waste</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>
Hazardous (tons)	2,059	2,202	2,005	2,455	3,335
Non-hazardous (tons)	49,971	74,160	71,269	60,603	15,683
Other (emergency + municipal +selected+ maintenance)				731	699
Disposed (tons)	49,362	13,022	2,087	3,301	2,576
Recycled/reused	2,132	59,976	65,916	59,724	17,100

## Social Performance Ratios

<b>Health and Safety</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>
LTIF	2.77	2.37	2.27	2.08	0
LTI	9	7	6	5	0
TROIF	0	0	1	0	0
Number of fires	3	0	5	4	3
Fire damage (HUF million)	2.15	0	2.2	43.51	25.8

<b>Employees</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>
Total TVK employees	2,056	1,873	1,571	1,454	1,200	1,147
Ratio of unionised employees (%)	67	69	64	66.05	64.5	56.1
Ratio of women in tier 3 or higher management position (%)	25	27	11	8	4	3
Average monthly wage	213,925	228,322	265,109	298,333	318,662	361,225
Ratio of women (%)	32.6	33.1	32.7	30.0	31.9	33.1

## Distribution of employees by age and sex

	<b>Male</b>	<b>Female</b>	<b>Total</b>
21-24 years	15	4	19
25-29 years	38	16	54
30-34 years	125	54	179
35-39 years	134	72	206
40-44 years	138	60	198
45-49 years	136	64	200
50-54 years	124	85	209
55-59 years	55	24	79
60+ years	2	1	3
Total	767	380	1147

Note: Status at December 31, 2007

<b>Miscellaneous social roles (HUF million)</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>
Sponsorship and supporting the arts	69.2	70.38	75.905	90.755	88.185

**APC (Advance Process Control)**

The APC system means a high level system of process control. In the case of TVK, it practically means that we have a faster and more sophisticated tool than operator interventions for controlling changes in individual processes. A processor takes much shorter reaction time to determine what process needs controlling or modifying in order to reverse a deviation from a target value.

**BAT (Best Available Technique)**

Application of the best practice in a certain area

**CAS number**

Chemical Abstracts Service number used for identifying and registering chemical substances (elements, compounds)

**DQMS (Development Quality Management System)**

A MOL Group quality management project

**EB (Executive Board)**

A committee set up for performing integrated corporate governance responsibilities at MOL Group level, which is responsible first of all for implementing the MOL Group strategy and the operational management of MOL Group functions.

**HSE**

The Health, Safety and Environmental Protection organization of TVK

**HSEQ**

The Health, Safety, Environmental Protection and Quality organization of TVK

**EC number (European Chemical number: EINECS, ELINCS or NLP)**

An EU registration number assigned to chemical substances classified in the "European Inventory of Existing Commercial Chemical Substances Information System" (EINECS) before 1981 or in the "European List of Notified Chemical Substances" after 1981 or as "No Longer Polymers" (NLP, a special regulatory category of the EU

**EFQM (European Foundation for Quality Management)**

An organization holding the mandate to manage the European Business Excellence Prize

**EBITDA**

Earnings before interest, taxes, depreciation and amortisation (the sum of operating profits and depreciation)

**EMAS (Eco-Management and Audit Scheme)**

As a system of environmental management and certification in the European Union, EMAS offers voluntary participation.



**Ethylene**

The first member of the alkene homologous series, empirical formula: C<sub>2</sub>H<sub>4</sub>. There is double bond between the two carbon atoms.

**ÉKÖVÍZIG**

Northern Hungarian Environmental and Water Management Authority

**ÉKTVF**

Northern Hungarian Directorate of Environmental Protection, Nature Conservation and Water Management

**Frequency of Intense Exposures**

Number of reported intense exposures per 1 million hours worked

**GRIG (Global Reporting Initiative Guideline)**

A process that affects several stakeholders and an independent institution with the mission to develop and disseminate globally acceptable guidelines for sustainability reports.

**HDPE**

High Density Polyethylene

**Homopolymer**

Polymer constructed of identical monomers

**IMS**

Integrated Management System

**IPPC**

Integrated Pollution Prevention and Control

**ISO standards**

The name is derived from the International Organization for Standardization (ISO), which was founded in 1947 to "promote the international coordination and harmonization of industrial standards". At present it has 148 members represented in the organization mostly by a body responsible for national standards, which in the case of Hungary is the Hungarian Standard Organization. ISO standards are international technical

agreements that facilitate the global coordination, measurement, comparison and rating of technologies, production processes and the services based on them.

**ISO 9001:2000**

A standard applicable to quality management systems. The part after the colon shows the date of publishing.

**ISO 14001:2004**

The standard applicable to environmentally oriented management systems.

**IUCLID 5 (International Uniform Chemical Information Database software)**

A piece of software used for collecting, storing, maintaining and transferring data concerning the internal properties and the degree of hazard of chemical substances

**OHSAS 18001:1999**

The standard applicable to occupational health protection and safety management systems

**OKF**

National Emergency Directorate

**COD (chemical oxygen demand)**

A measure of the level of pollution in waste water, or the quantity of oxygen required for the chemical oxidation of the components of organic substances in a unit of waste water

**Copolymer**

Polymer constructed of two or more different monomers

**LDPE**

Low Density Polyethylene

**LTI (Lost Time Injury)**

Injuries leading to lost working hours

**LTIF (Lost Time Injury Frequency)**

The number of incidents of lost time injury (LTI) per one million hours worked

**MDPE (Medium Density Polyethylene)**

Medium Density Polyethylene

**Monomer**

The basic material of the process of polymerisation

**TIP**

Technical Intervention Plan

**Olefin**

A member of the alkene homologous series with dual bond. Empirical formula  $C_nH_{2n}$ .

**PE 100**

Bimodal HDPE pipe grade raw material. Gas and drinking water pipes made of bimodal HDPE have a useful life of minimum 50 years with circumferential stress at 10 MPa.

**PM**

Airborne non-toxic particulate matter generated by burning or other technological processes. Fractions below  $10\ \mu m$  (PM10) are the most dangerous.

**Polyethylene**

A polymer made up of ethylene monomer, which may contain monomers other than ethylene known as comonomers.

**Polymer**

A complexity of repeating units of organic or inorganic macromolecules

**Polypropylene**

A polymer made up of propylene monomer, which may contain monomers other than propylene known as comonomers.

**Propylene**

The second member of the alkene homologous series, empirical formula:  $C_3H_6$ . There is a single double bond between two carbon atoms.

**PSM**

Process Safety Management

**REACH (Registration, Evaluation and Authorization of Chemicals)**

A new EU directive concerning the registration, evaluation and authorization of chemicals

**ROACE**

Return on Average Capital Employed

**SCM**

Supply chain management

**SS**

Solid substances, i.e. particles that do not dissolve in water

**TPH (total aliphatic hydrocarbons)**

Petroleum fractions. A measure of the presence of organic pollutants (derived from petroleum) in water.

**TQM (Total Quality Management)**

Total Quality Management is a management method, philosophy and corporate practice, which uses available human and material resources at the highest level of efficiency to achieve corporate goals.

**TRIPOD**

A software based method of investigating the cause of accidents

**TROIF (Total Reportable Occupational Illness Frequency)**

Total reportable occupational illness frequency per one million hours worked

**Hazardous wastes**

Wastes showing one or more of the features listed in Annex 2 of Act XLIII of 2000, or containing such substances or components and representing a health or environmental hazard because of origin, composition or concentration.

**VOC**

Organic compounds volatile at room temperature, hydrocarbons

# Questionnaire

**Please print, fill in and return to our address the following questionnaire.**

Thank you for helping us to improve the content and aesthetic quality of future reports with your observations and recommendations.

Attention: Gábor Pálffy  
Address: TVK Plc., H-3581 Tiszaújváros, Pf. 20  
Telephone: +36 49 522-917 • Fax: +36 49 521-018

From: \_\_\_\_\_ Company: \_\_\_\_\_  
Telephone: \_\_\_\_\_ Fax: \_\_\_\_\_  
Date: \_\_\_\_\_

1. My ideas and recommendations concerning the report: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

2. I think the report and the information it contains cover the issues related to sustainable development:  
 yes, completely     yes, mostly     yes, in general  
 no, hardly     no, no coverage at all

3. I think the content of the report is:  
 excellent     acceptable     average     poorer than average     unacceptable

4. I think the layout and editing of the report is:  
 excellent     acceptable     average     poorer than average     unacceptable

5. I found the following parts especially interesting:  
 Introduction of the company     Our business     Management system     Environmental ratios  
 Labour safety ratios     Fire safety ratios     Human relations  
 Other: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

6. I think this report would be more valuable if it included the following topics:  
\_\_\_\_\_  
\_\_\_\_\_

7. Please let us know which stakeholder group you belong to:  
 employee     authority     financial analyst  
 scientific organisation     NGO     company  
 business partner     shareholder     other:

Signature: \_\_\_\_\_