

Tisza Chemical Group Public Limited Company and Subsidiaries

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

31 December 2007

Independent Auditors' Report

To the Shareholders of **Tiszai Vegyi Kombinát Nyilvánosan Működő Részvénytársaság**

1.) We have audited the accompanying 2007 consolidated annual financial statements of Tiszai Vegyi Kombinát Nyilvánosan Működő Részvénytársaság ("the Company"), which comprises the consolidated balance sheet as at 31 December 2007 - showing a balance sheet total of HUF 234,963 million and a net income attributable to the equity holders of the parent for the year of HUF 23,684 million -, the related consolidated profit and loss account for the year then ended, changes in shareholder's equity, consolidated cash flows for the year then ended and the summary of significant accounting policies and other explanatory notes.

2.) We issued an unqualified opinion on the Company's consolidated annual financial statements prepared in accordance with the International Financial Reporting Standards as adopted by EU as at 31 December 2006 on 3 April 2007.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

5.) An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our work regarding the consolidated business report is restricted to assessing whether the consolidated business report is consistent with the consolidated financial statements and does not include reviewing other information originated from non-audited financial records.

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

Opinion

7.) We have audited the elements of and disclosures in the consolidated annual financial statements, along with underlying records and supporting documentation, of Tiszai Vegyi Kombinát Nyilvánosan Működő Részvénytársaság in accordance with Hungarian National Auditing Standards and have gained sufficient and appropriate evidence that the consolidated annual financial statements have been prepared in accordance with the International Financial Reporting Standards as adopted by EU. In our opinion the consolidated annual financial statements give a true and fair view of the equity and financial position of Tiszai Vegyi Kombinát Nyilvánosan Működő Részvénytársaság as at 31 December 2007 and of the results of its operations for the year then ended. The consolidated business report corresponds to the disclosures in the consolidated financial statements.

8.) Without qualifying our opinion we draw the attention to Note 25 to the consolidated financial statements that describe the environmental aspects of the Company's operations and highlights the risk of additional significant decontamination expenses that might incur over the current amount of the provision in relation to past environmental damage as may be identified by future environmental surveys.

Budapest, 28 March 2008

Ernst & Young Kft.
Registration No. 001165

Szilágyi Judit
Registered Auditor
Chamber membership No.: 001368

Independent Auditor's Report

To the Shareholders of **Tiszai Vegyi Kombinát Nyilvánosan Működő Részvénytársaság**

We have audited the consolidated financial statements of Tiszai Vegyi Kombinát Nyilvánosan Működő Részvénytársaság and its subsidiaries ("the Group"), which comprise the consolidated balance sheet as at 31 December 2007, and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes on pages 9-74.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility and Basis of Audit Opinion

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

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

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of Tiszai Vegyi Kombinát Nyilvánosan Működő Részvénytársaság and its subsidiaries as of 31 December 2007, and of the consolidated results of their operations and their cash flows for the year then ended in accordance with International Financial Reporting Standards.

Without qualifying our opinion we draw attention to Note 25 to the consolidated financial statements that describe the environmental aspects of the Company's operations and highlights the risk of additional significant decontamination expenses that might incur over the current amount of the provision in relation to past environmental damage as may be identified by future environmental surveys.

Ernst & Young Kft.
Budapest, Hungary
28 March 2008

Tisza Chemical Group Public Limited Company and Subsidiaries

Consolidated financial statements

prepared in accordance with International Financial Reporting Standards

31 December 2007

Tiszaújváros, 28 March 2008

Árpád Olvasó

Chief Executive Officer

Consolidated balance sheet

31 December 2007

	Notes	2007 HUF million	2006 HUF million
ASSETS			
Non-current assets			
Intangible assets	3	3,807	4,001
Property, plant and equipment	4	145,467	150,836
Investments in associated companies	5	204	194
Other non-current assets	6	199	235
Total non-current assets		149,677	155,266
Current assets			
Inventories	7	12,220	8,361
Trade receivables, net	8	54,875	46,293
Other current assets	9	4,184	4,457
Prepaid taxes		766	-
Cash and cash equivalents	10	13,241	15,621
Total current assets		85,286	74,732
TOTAL ASSETS		234,963	229,998
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Share capital	11	24,534	24,534
Reserves	12	109,424	92,154
Net income attributable to equity holders of the parent		23,684	17,271
Equity attributable to equity holders of the parent		157,642	133,959
Minority interests		-	-
Total equity		157,642	133,959
Non-current liabilities			
Long-term debt, net of current portion	13	20,489	51,551
Provisions for liabilities and charges	14	3,032	3,423
Deferred tax liabilities	22	4,694	3,038
Other non-current liabilities		-	9
Total non-current liabilities		28,215	58,021
Current liabilities			
Trade and other payables	15	47,741	36,252
Current tax payable		-	221
Provisions for liabilities and charges	14	575	754
Short-term debt	16	-	2
Current portion of long-term debt	13	790	789
Total current liabilities		49,106	38,018
TOTAL EQUITY AND LIABILITIES		234,963	229,998

The notes are an integral part of these consolidated financial statements

Consolidated income statement

31 December 2007

	Notes	2007 HUF million	2006 HUF million
Net sales (revenue)	17	337,646	308,736
Other operating income	18	808	403
Total operating income		338,454	309,139
Raw materials and consumables used		282,390	259,793
Personnel expenses	19	10,134	9,766
Depreciation, depletion, amortization and impairment	3,4	12,948	12,405
Other operating expenses	20	3,819	4,664
Change in inventories of finished goods and work in progress		(3,189)	897
Work performed by the enterprise and capitalized		(621)	(444)
Total operating expenses		305,481	287,081
Profit from operations		32,973	22,058
Financial income	21	908	645
Financial expense	21	3,195	4,552
Net financial expense	21	2,287	3,907
Gain / (Loss) from associates		9	(2)
Profit before tax		30,695	18,149
Income tax expense	22	7,011	878
Profit for the year		23,684	17,271
Attributable to:			
Equity holders of the parent		23,684	17,271
Minority interests		-	-
Basic and diluted earnings per share attributable to ordinary equity holders of the parent (HUF)	23	975	712

The notes are an integral part of these consolidated financial statements

Consolidated statement of changes in equity

31 December 2007

	Share capital	Share premium	Retained earnings	Translation reserve	Total reserves	Net income attributable to equity holders of the parent	Total equity attributable to equity holders of the parent	Minority interest	Total equity
	HUF million	HUF million	HUF million	HUF million	HUF million	HUF million	HUF million	HUF million	HUF million
Opening balance 1 January 2006	24,492	15,022	71,721	31	86,774	6,409	117,675	43	117,718
Currency translation differences	-	-	1	(5)	(4)	-	(4)	-	(4)
Total income and expense for the year recognized directly in equity	-	-	1	(5)	(4)	-	(4)	-	(4)
Retained profit for the year	-	-	-	-	-	17,271	17,271	-	17,271
Total income and expense for the year	-	-	1	(5)	(4)	17,271	17,267	-	17,267
Transfer to reserves of retained profit for the previous year	-	-	6,409	-	6,409	(6,409)	-	-	-
Redeemed treasury shares	42	-	-	-	-	-	42	-	42
Dividends	-	-	(1,025)	-	(1,025)	-	(1,025)	(43)	(1,068)
Closing balance 31 December 2006	24,534	15,022	77,106	26	92,154	17,271	133,959	-	133,959
Currency translation differences	-	-	(1)	-	(1)	-	(1)	-	(1)
Total income and expense for the year recognized directly in equity	-	-	(1)	-	(1)	-	(1)	-	(1)
Retained profit for the year	-	-	-	-	-	23,684	23,684	-	23,684
Total income and expense for the year	-	-	(1)	-	(1)	23,684	23,683	-	23,683
Transfer to reserves of retained profit for the previous year	-	-	17,271	-	17,271	(17,271)	-	-	-
Closing balance 31 December 2007	24,534	15,022	94,376	26	109,424	23,684	157,642	-	157,642

The notes are an integral part of these consolidated financial statements

Consolidated statement of cash-flows

31 December 2007

	2007 HUF million	2006 HUF million
<i>Profit before tax</i>	30,695	18,149
<i>Adjustments to reconcile profit before tax to net cash provided by operating activities</i>		
Depreciation and impairment	12,533	11,994
Amortization and impairment	415	411
Write-off of inventories, net	18	(2)
Increase/(decrease) in environmental provisions	(666)	(308)
Increase/(decrease) in provisions	97	150
Net (gain) / loss on sale of tangible assets	(3)	(136)
Write-off of receivables	42	184
Unrealised foreign exchange (gain) / loss on receivables and payables	(456)	554
Interest income	(884)	(602)
Interest on borrowings	2,274	3,251
Net foreign exchange (gain)/ loss excluding foreign exchange differences on receivables and payables	91	482
Other financial (gain) / loss, net	587	574
Share of net (profit)/loss of associates	(9)	2
<i>Operating cash flow before changes in working capital</i>	44,734	34,703
(Increase)/ decrease in inventory	(3,877)	1,066
(Increase)/ decrease in debtors	(8,076)	(3,675)
(Increase)/ decrease in other receivables	239	2,410
Increase/(decrease) in accounts payable	9,976	(1,958)
Increase in other current liabilities	212	1,508
Income taxes paid	(6,353)	(886)
Net cash provided by operating activities	36,855	33,168
Purchase of Property, Plant and Equipments	(6,309)	(6,709)
Proceeds from disposals of fixed assets	37	465
Loans and long-term bank deposits provided	-	15
Proceeds from liquidation of investments	23	13
Interest received and other financial income	942	556
Net cash used in investing activities	(5,307)	(5,660)
Proceeds from issue of new debts	-	-
Repayments of long-term debt	(30,092)	(15,376)
Increase/(Decrease) in other financial liabilities	(704)	(700)
Interest paid and other financial costs	(3,120)	(3,590)
Dividends paid to minority interest and payment on liquidation	-	(1,157)
Net cash provided by financing activities	(33,916)	(20,823)
(Decrease)/increase in cash and cash equivalents	(2,368)	6,685
Cash and cash equivalents at the beginning of the year	15,621	8,713
Cash effect of consolidation of subsidiaries previously accounted for as other investment	-	223
Cash and cash equivalents at the end of the year	13,253	15,621

The notes are an integral part of these consolidated financial statements

Notes to the consolidated financial statements prepared in accordance with International Financial Reporting Standards

31 December 2007

1. Presentation of The Group Structure

Background to the consolidated companies

TVK Plc.

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

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

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

Following this privatisation, shares of the Company were listed on the Budapest Stock Exchange and Global Depository Receipts ("GDRs") representing the shares were listed on the London Stock Exchange. As of 31 December 2007, MOL Group holds the majority of the shares.

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

The Group had 1,179 and 1,231 employees as at 31 December 2007 and 2006, respectively.

Consolidated subsidiaries

Company name	Country	Range of activity	Ownership 31 Dec 2007	Ownership 31 Dec 2006	Consolidation Method 31 Dec 2007
TVK Ingatlankezelő Kft.	Hungary	Property leasing, management	100%	100%	Full consolidation
TVK Italia Srl.	Italy	Wholesale and retail trade	100%	100%	Full consolidation
TVK UK Ltd.	United Kingdom	Wholesale and retail trade	100%	100%	Full consolidation
TVK Inter-Chemol GmbH	Germany	Wholesale and retail trade	100%	100%	Full consolidation
TVK France S.a.r.l.	France	Wholesale and retail trade	100%	100%	Full consolidation
TVK Erőmű Kft.*	Hungary	Electricity production and distribution	26%	26%	Full consolidation
TVK Polska Spzoo	Poland	Wholesale and retail trade	100%	100%	Full consolidation
TVK Ukraina tov	Ukraine	Wholesale and retail trade	100%	100%	Full consolidation
Tisza WTP Kft**	Hungary	Feed water and raw water	0%	0%	Full consolidation

* The ownership of TVK Plc is 26%. The syndicated agreement between the owners, gives TVK Plc . operating policies of TVK Erőmű Kft., it is fully consolidated in 2007 and 2006.

** Tisza-Wtp Kft was formed in 2002 specifically for providing feed water and raw water to TVK Plc. and TVK Erőmű Kft under a long-term co-operation agreement. Tisza WPT Kft has been included in the Company's consolidation since 1 January 2006 as in accordance with IFRS (SIC 12). According to service agreement Tisza WTP Kft. provides services that is consistent with the Group's ongoing major operations and TVK Group is the exclusive debtor of services provided by Tisza WTP.

Notes to the consolidated financial statements prepared in accordance with International Financial Reporting Standards

31 December 2007

2. Basis of preparation

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

For the purposes of the application of the Historical Cost Convention, the consolidated financial statements treat the Company as having come into existence as of 31 December 1991, at the carrying values of assets and liabilities determined at that date, subject to the IFRS adjustments.

These consolidated financial statements have been approved and authorized for issue by the Board of Directors on 28 March 2008.

The financial year is the same as the calendar year.

i) Statement of compliance

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

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

ii) Principles of Consolidation

Subsidiaries

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

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

Notes to the consolidated financial statements prepared in accordance with International Financial Reporting Standards

31 December 2007

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

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

Joint ventures

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

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

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

Investments in associates

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

The Group's investments in its associates are accounted for using the equity method of accounting. An associate is an entity over which the Group has significant influence and which is neither a subsidiary nor a joint venture. Under the equity method, the investment in the associate is carried in the balance sheet at cost plus post acquisition changes in the Group's share of net assets of the associate. Goodwill relating to an associate is included in the carrying amount of the investment and is not amortised. The income statement reflects the share of the results of operations of the associate. Where there has been a change recognized directly in the equity of the associate, the Group recognizes its share of any changes and discloses this, when applicable, in the statement of changes in equity. Profits and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

Notes to the consolidated financial statements prepared in accordance with International Financial Reporting Standards

31 December 2007

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

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

Other consolidated entities

Special purpose entities are fully consolidated.. Special purpose entities are companies which operate substantially in compliance with the Company business needs. It provides a supply of goods or services that is consistent with the Company's ongoing major or central operations.

2.1 Changes in Accounting Policies

The Group has changed its accounting policy to disclose Hungarian local trade tax and innovation fee as income tax expense as these tax types show the characteristics of income taxes rather than operating expenses. In previous years, local trade tax and innovation fee has been recorded as operating expense. The change in disclosure resulted in a reclassification from operating expenses to income tax expense of HUF 688 million and HUF 729 million in 2007 and 2006 respectively, with no impact on net income or equity. Comparative periods have been restated accordingly.

The accounting policies adopted are otherwise consistent with those applied in the previous financial years, apart from some further minor modifications in the classification of certain items in the balance sheet or the income statement, none of which has resulted in a significant impact on the financial statements. Comparative periods have been restated to reflect these minor reclassifications. .

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

- *IFRS 7 Financial Instruments: Disclosures*

- *IAS 1 (amended 2005) Presentation of Financial Statements*

- *IFRIC 8 Scope of IFRS 2*

- *IFRIC 7 Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies*

- *IFRIC 9 Reassessment of Embedded Derivatives*

- *IFRIC 10 Interim Financial Reporting and Impairment*

Notes to the consolidated financial statements prepared in accordance with International Financial Reporting Standards

31 December 2007

- IFRIC 11 IFRS 2 – Group and Treasury Share transactions

The Group has not early adopted any standards and interpretations that were published but not yet effective.

The principal effects of these changes are as follows:

IFRS 7 Financial Instruments: Disclosures

Upon adoption of IFRS 7, the Group discloses additional information about its financial instruments, their significance and the nature and extent of risks to which they give rise. More specifically, the Group is required to disclose the fair value of its financial instruments and its risk exposure in greater detail. The new disclosures are included throughout the financial statements.

IAS 1 (amended 2005) Presentation of Financial Statements

Amendments to IAS 1 also require certain additional disclosures to enable users of the financial statements to evaluate the Group's capital management policies and objectives. These new disclosures are shown in Note 24.

IFRIC 8 Scope of IFRS 2

IFRIC Interpretation 8 requires IFRS 2 to be applied to any arrangements where equity instruments are issued for consideration which appears to be less than fair value. As equity instruments are only issued to employees in accordance with the employee share scheme, the interpretation had no impact on the financial position of the Group.

IFRIC 9 Reassessment of Embedded Derivatives

IFRIC 9 states that the date to assess the existence of an embedded derivative is the date that an entity first becomes a party to the contract, with reassessment only if there is a change to the contract that significantly modifies the cash flows. The interpretation had no impact on the existing embedded derivative requiring separation from the host contract, disclosed in Note 11.

IFRIC 10 Interim Financial Reporting and Impairment

The Group adopted IFRIC Interpretation 10 as of 1 January 2007, which requires that an entity must not reverse an impairment loss recognised in a previous interim period in respect of goodwill or an investment in either an equity instrument or a financial asset carried at cost. As the Group had no impairment losses previously reversed, the interpretation had no impact on the financial position or performance of the Group.

Notes to the consolidated financial statements prepared in accordance with International Financial Reporting Standards

31 December 2007

Issued but not yet effective International Financial Reporting Standards

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

- IFRS 2 Share-based Payment (amendment) – Vesting Conditions and Cancellations

This amendment to IFRS 2 – Share-based Payment clarifies the definition of vesting and non-vesting conditions, as well as the accounting treatment of cancellations. The amendment will have no material impact on the existing share-based schemes of the Group.

- IFRS 3 Business Combinations

This revised standard comes into effect for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. It contains a numerous changes compared to the previous IFRS 3. Among others, non-controlling interests must be measured either at fair value or as the non-controlling interest's proportionate share of the acquiree's net identifiable assets, where previously only the latter was permitted. Additional guidance was added on recognizing contingencies and measuring certain identifiable assets and liabilities of the acquiree. Furthermore, costs incurred by the acquirer in connection with the business combination must be recognized as expense, as opposed to the previous treatment which required these to be included in the calculation of goodwill. The revision will have no material impact on the currently reported financial position of the Group.

- IFRS 8 Operating Segments

This standard requires disclosure of information about the Group's operating segments and replaces the requirement to determine primary (business) and secondary (geographical) reporting segments of the Group. The management expects that there will be no change in the current disclosures, as the primary business segments determined for reporting purposes will qualify as business segments under the new Standard.

- IAS 23 Borrowing Costs (Amendment)

A revised IAS 23 Borrowing costs was issued in March 2007, and becomes effective for financial years beginning on or after 1 January 2009. The standard has been revised to require capitalisation of borrowing costs when such costs relate to a qualifying asset. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. The Group currently follows this policy, therefore the change will have no impact on the consolidated financial statements.

Notes to the consolidated financial statements prepared in accordance with International Financial Reporting Standards

31 December 2007

- IAS 27 Consolidated and Separate Financial Statements

This revised standard must be applied for annual periods beginning on or after 1 July 2009. It requires the attribution of total comprehensive income to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interest having a negative balance. The previous standard allocated such excess losses to the owners of the parent except for some rare circumstances. In addition, requirements were added to treat changes in a parent's ownership interest in a subsidiary which do not result in the loss of control within equity, as well as specifying that any gain or loss arising on the loss of control of a subsidiary must be recognized in profit or loss. The revision will have no material impact on the currently reported financial position of the Group.

- IAS 32 Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements (amendment) - Puttable Financial Instruments and Obligations Arising on Liquidation

These revised standards require some puttable financial instruments and some financial instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation to be classified as equity. The amendment will have no impact on the existing financial instruments of the Group.

- IFRIC 11 IFRS 2 – Group and Treasury Share transactions

This interpretation requires arrangements whereby an employee is granted rights to an entity's equity instruments to be accounted for as an equity-settled scheme, even if the entity buys the instruments from another party, or the shareholders provide the equity instruments needed. The existing equity-settled scheme in the Group will not be affected by this Interpretation.

- IFRIC 12 Service Concession Arrangements

IFRIC Interpretation 12 was issued in November 2006 and becomes effective for annual periods beginning on or after 1 January 2008. This Interpretation applies to service concession operators and explains how to account for the obligations undertaken and rights received in service concession arrangements. No member of the Group is an operator and hence this Interpretation will have no impact on the Group.

- IFRIC 13 Customer Loyalty programmes

IFRIC Interpretation 13 was issued in June 2007 and becomes effective for annual periods beginning on or after 1 July 2008. This Interpretation requires customer loyalty award credits to be accounted for as a separate component of the sales transaction in which they are granted and therefore part of the fair value of the consideration received is allocated to the award credits and deferred over the period that the award credits are fulfilled. The Group expects that this interpretation will have no material impact on the Group's financial statements because currently there is no existing retail loyalty schemes.

Notes to the consolidated financial statements prepared in accordance with International Financial Reporting Standards

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- IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

IFRIC Interpretation 14 was issued in July 2007 and becomes effective for annual periods beginning on or after 1 January 2008. This Interpretation provides guidance on how to assess the limit on the amount of surplus in a defined benefit scheme that can be recognised as an asset under IAS 19 Employee Benefits. The Group expects that this Interpretation will have no impact on the financial position or performance of the Group as currently it has no funded defined benefit schemes.

2.2 Summary of significant accounting policies

i) Presentation Currency

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

ii) Business Combinations

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

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

Where goodwill forms part of a cash-generating unit (or group of cash generating units) and part of the operation within that unit (or group) is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

When subsidiaries are sold, the difference between the selling price and the net assets plus cumulative translation differences and un-amortized goodwill is recognized in the income statement.

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iii) Investments and Other Financial Assets

Financial assets within the scope of IAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held to maturity investments, or available for sale financial assets, as appropriate. When financial assets are recognized initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

The Group considers whether a contract contains an embedded derivative when the entity first becomes a party to it.

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

Financial assets at fair value through profit or loss

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

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

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

As at 31 December 2007 and 2006, no financial assets have been designated as at fair value through profit and loss.

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Held-to-maturity investments

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

Loans and receivables

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

Available-for-sale financial investments

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. After initial measurement, available for sale financial assets are measured at fair value with unrealised gains or losses being recognized directly in equity in the fair valuation reserve. When the investment is disposed of, the cumulative gain or loss previously recorded in equity is recognized in the income statement. See the impairment of available-for-sale assets under point vii).

Fair Value

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

iv) Classification and Derecognition of Financial Instruments

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

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

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

v) Derivative Financial Instruments

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

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

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

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

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

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vi) Hedging

For the purpose of hedge accounting, hedges are classified as

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

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

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

Fair value hedges

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

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

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

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

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

Cash-flow hedges

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

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

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

Hedges of a net investment

Hedges of a net investment in a foreign operation, including a hedge of a monetary item that is accounted for as part of the net investment, are accounted for in a way similar to cash flow hedges. Gains or losses on the hedging instrument relating to the effective portion of the hedge are recognized directly in equity while any gains or losses relating to the ineffective portion are recognized in the income statement. On disposal of the foreign operation, the cumulative value of any such gains or losses recognized directly in equity is transferred to the income statement. The Company had no derivative financial instrument and hedging transactions in 2006 and 2007.

vii) Impairment of financial assets

The Group assesses at each balance sheet date whether a financial asset or group of financial assets is impaired.

Assets carried at amortised cost

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

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

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

Available-for-sale financial investments

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

viii) Cash and Cash Equivalents

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

ix) Trade Receivables

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

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x) Inventories

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

xi) Property, Plant and Equipment

Property, plant and equipment are stated at historical cost (or the carrying value of the assets determined as of 31 December 1991) less accumulated depreciation, depletion and accumulated impairment loss. When assets are sold or retired, their cost and accumulated depreciation are eliminated from the accounts and any gain or loss resulting from their disposal is included in the consolidated income statement.

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

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

xii) Intangible Assets

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

Following initial recognition, the cost model is applied to the class of intangible assets. The useful lives of these intangible assets are assessed to be either finite or indefinite (during 2007 and 2006 the Company has no intangible asset with indefinite useful life). Amortization is charged on assets with a finite useful life over the best estimate of their useful lives using the straight line method. The amortization period and the amortization method are reviewed annually at each financial year-end. Intangible assets, excluding development costs, created within the business are not capitalized and expenditure is charged against income in the year in which the expenditure is incurred. Intangible assets are tested for impairment annually either individually or at the cash generating unit level.

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

The amount of research and development costs was million HUF 709 (2006: million HUF 564) relating to product development.

xiii) Depreciation, Depletion and Amortization

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

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

Amortization of leasehold improvements is provided using the straight-line method over the term of the respective lease or the useful life of the asset, whichever period is less.

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

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

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

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xiv) Impairment of Assets

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

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

Intangible assets with indefinite useful lives are monitored for impairment indicators throughout the year and are tested for impairment at least annually as of 31 December either individually or at the cash generating unit level, as appropriate.

Cash generating units

The Company identified two cash generating units (CGU) which are the ethylene production of Olefin 2 for sales and the production of Olefin plants for internal use for the production of polymers.

The recoverable amount of each CGU has been determined based on a value in use calculation using cash flow projections based on financial budgets approved by senior management covering a 19-year period. The average pre-tax discount rate applied to cash flow projections is 5.14 % (2006: 4.14 %).

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

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

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

xv) Interest-bearing loans and borrowings

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

xvi) Provisions

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

Provision for Redundancy

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

Provision for Environmental Expenditures

Environmental expenditures that relate to current or future economic benefits are expensed or capitalized as appropriate. Expenditures that relate to an existing condition caused by past operations and do not contribute to current or future earnings are expensed. Liabilities for environmental costs are recognized when environmental assessments or clean-ups are probable and the associated costs can be reasonably estimated. Generally, the timing of these provisions coincides with the commitment to a formal plan of action or, if earlier, on divestment or on closure of inactive sites. The amount recognized is the best estimate of the expenditure required. Where the liability will not be settled for a number of years, the amount recognized is the present value of the estimated future expenditure.

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Provision for Retirement Benefits

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

Provision for Old Team benefits

Based on the modification of the Collective Agreement on 19 December 2006, the Company pays Old Team benefits to its employees as follows:

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

xvii) Greenhouse gas emissions

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

xviii) Share-based payment transactions

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

Equity-settled transactions

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

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

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

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

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

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

Cash-settled transactions

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

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xix) Leases

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

xx) Government grants

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

xxi) Reserves

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

Translation reserves

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

Fair valuation reserves

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

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Equity component of debt and difference in buy-back prices

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

xxii) Treasury Shares

The nominal value of treasury shares held is deducted from registered share capital. Any difference between the nominal value and the acquisition price of treasury shares, together with any gains or losses on transactions therein, are recorded directly to share premium.

xxiii) Dividends

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

xxiv) Revenue Recognition

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

Interest is recognized on a time-proportionate basis that reflects the effective yield on the related asset. Dividends due are recognized when the shareholder's right to receive payment is established. Changes in the fair value of derivatives not qualifying for hedge accounting are reflected in income in the period the change occurs.

xxv) Borrowing Costs

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

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xxvi) Income Taxes

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

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

- where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred income tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

- where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

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

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xxvii) Foreign Currency Transactions

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

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

xxviii) Earnings Per Share

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

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

- the net profit for the period attributable to ordinary shares is increased by the after-tax amount of dividends and interest recognised in the period in respect of the dilutive potential ordinary shares and adjusted for any other changes in income or expense that would result from the conversion of the dilutive potential ordinary shares.
- the weighted average number of ordinary shares outstanding is increased by the weighted average number of additional ordinary shares which would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

xxix) Segmental Disclosure

The Group has four major divisions (Olefin, Polyethylene, Polypropylene and Other) that serve as the primary basis for the Company's segment reporting purposes. These segments are vertically integrated, i.e. the output of one segment serves as raw material for the next one (a significant part of the end product of olefin production is used as raw material for polypropylene and polyethylene production). Revenues are presented by geographical segment.

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xxx) Contingencies

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

2.3 Significant accounting judgments and estimates

Critical judgments in applying the accounting policies

In the process of applying the accounting policies, which are described in note 2.2 above, management has made certain judgments that have a significant effect on the amounts recognized in the financial statements (apart from those involving estimates, which are dealt with below). These are detailed in the respective notes, however, the most significant judgments relate to:

- Outcome of certain litigations (Note 25)
- assessment of control (over operation) of TVK Erőmű Kft. and Tisza WTP (Note 1)

Sources of estimate uncertainty

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

- Scope of environmental provision and quantification and timing of environmental liabilities (Note 14, 25)
- The availability of taxable income against which deferred tax assets can be recognized (Note 22)
- Actuarial estimate applied in the calculation of retirement benefit obligations (Note 14)
- Determination of useful lives of property, plant and equipment and intangibles
- Impairment of tangible assets and intangibles (Notes 3,4)

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3. Intangible assets

The Group's intangible assets as of 31 December 2007 and 2006 were as follows:

	Goodwill HUF million	Software HUF million	Total HUF million
At 1 January 2006			
Gross book value	92	6,417	6,509
Accumulated amortization and impairment	-	(2,363)	(2,363)
Net book value	92	4,054	4,146
Year ended 31 December 2006			
- additions	-	255	255
- amortization for the year	-	(411)	(411)
- impairment	-	-	-
- transfers	-	11	11
Closing net book value	92	3,909	4,001
At 31 December, 2006			
Gross book value	92	6,586	6,678
Accumulated amortization and impairment	-	(2,677)	(2,677)
Net book value	92	3,909	4,001
Year ended 31 December 2007			
- additions	-	200	200
- amortization for the year	-	(415)	(415)
- impairment	-	-	-
- transfers	-	21	21
Closing net book value	92	3,715	3,807
At 31 December, 2007			
Gross book value	92	6,783	6,875
Accumulated amortization and impairment	-	(3,068)	(3,068)
Net book value	92	3,715	3,807

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Goodwill

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

	31 December 2007			31 December 2006		
	Net book value before impairment HUF million	Impairment HUF million	Net book value HUF million	Net book value before impairment HUF million	Impairment HUF million	Net book value HUF million
TVK Polska Spzoo	92	-	92	92	-	92
Total goodwill	92	-	92	92	-	92

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

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4. Property, plant and equipment

The Group's tangible assets as of 31 December 2007 and 2006 were as follows:

	Land and buildings HUF million	Technical equipment, vehicles HUF million	Other equipment and vehicles HUF million	Capital projects HUF million	Total HUF million
At 1 January 2006					
Gross book value	40,392	158,503	18,013	832	217,740
Accumulated depreciation and impairment	(7,735)	(45,088)	(10,315)	-	(63,138)
Net book value	32,657	113,415	7,698	832	154,602
Year ended 31 December 2006					
- additions	-	-	-	6,389	6,389
- capitalization	535	4,144	568	(5,247)	-
- additions by newly founded subsidiaries	317	1,737	126	-	2,180
- depreciation for the year	(1,324)	(9,218)	(1,368)	-	(11,910)
- impairment	(6)	(4)	(10)	(65)	(85)
- disposals	(280)	-	(49)	-	(329)
- transfers and other changes	(4)	(45)	51	(13)	(11)
Closing net book value	31,895	110,029	7,016	1,896	150,836
At 31 December, 2006					
Gross book value	40,896	164,305	18,029	1,896	225,126
Accumulated depreciation and impairment	(9,001)	(54,276)	(11,013)	-	(74,290)
Net book value	31,895	110,029	7,016	1,896	150,836
Year ended 31 December 2007					
- additions	-	-	-	7,051	7,051
- capitalization	2,183	3,844	724	(6,751)	-
- additions by newly founded subsidiaries	-	-	-	-	-
- depreciation for the year	(1,322)	(9,563)	(1,273)	-	(12,158)
- impairment	(186)	(161)	(16)	(12)	(375)
- disposals	(28)	-	-	(6)	(34)
- transfers and other changes	(1)	(13)	182	(21)	147
Closing net book value	32,541	104,136	6,633	2,157	145,467
At 31 December, 2007					
Gross book value	42,852	167,796	18,511	2,157	231,316
Accumulated depreciation and impairment	(10,311)	(63,660)	(11,878)	-	(85,849)
Net book value	32,541	104,136	6,633	2,157	145,467

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Impairment

In 2007 impairment expense was recorded in amount of HUF 375 million. Out of this HUF 171 million relates to the LDPE-1 plant as it is planned to be shut down at the end of 2008 as the related environmental licence will expire at the beginning of 2009. The remaining amount relates to scrapping of property, plant and equipment that has become useless after the reconstruction of the pipe-bridge and the refurbishment of the factory road.

Leased assets

Property, plant and equipment includes machinery under finance leases:

	31 December 2007 HUF million	31 December 2006 HUF million
Gross value	478	478
Accumulated depreciation	<u>309</u>	<u>239</u>
Net book value	<u>169</u>	<u>239</u>

Pledged assets

None of the assets of the Company were pledged as of 31 December 2007 and 2006. Assets of TVK Erőmű Kft. (HUF 11,778 million) and assets of Tisza-WTP Kft. (HUF 1,847 million) are pledged as collateral for long-term investment loan.

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5. Investment in associated companies and other investments

The Group's financial investments as of 31 December 2007 and 2006 were as follows:

Company name	Country	Date of foundation	Range of activity	Ownership 31 Dec 2007	Ownership 31 Dec 2006	Net book value of investment 31 Dec 2007 HUF million	Net book value of investment 31 Dec 2006 HUF million
Associates							
TMM Tűzoltó és Műszaki Mentő Kft.	Hungary	1995	Fire prevention, technical rescue, technical supervision	30%	30%	114	113
VIBA-TVK Kft.	Hungary	1993	Producing black polymer dye	40%	40%	82	73
Tiszai Hulladékégető Kft.	Hungary	1996	Dormant	49.96%	49.96%	8	8
Total associates						204	194
Total						204	194

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Financial information on associates

Main financial data of the Group associates at 31 December 2007: (These amounts represent 100% of the values of the companies reported by those companies in accordance with IFRS.)

	Total assets	Liabilities	Total operating revenues	Profit for the year
	HUF million	HUF million	HUF million	HUF million
TMM Tűzoltó és Műszaki Mentő Kft.	458	73	517	5
VIBA-TVK Kft.	913	659	2,037	40
Tiszai Hulladékégető Kft.	14	1	-	-

Main financial data of the Group associates at 31 December 2006: ((These amounts represent 100% of the values of the companies reported by those companies in accordance with IFRS.)

	Total assets	Liabilities	Total operating revenues	Profit for the year
	HUF million	HUF million	HUF million	HUF million
TMM Tűzoltó és Műszaki Mentő Kft.	421	41	482	0.5
VIBA-TVK Kft.	891	677	2,036	36
Tiszai Hulladékégető Kft.	14	-	-	-

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6. Other non-current assets

The Group's other non-current assets as of 31 December 2007 and 2006 were as follows:

	31 December 2007 HUF million	31 December 2006 HUF million
Government bonds**	171	177
Prepayments for capital projects	-	6
Loan to Plastico S.A.*	-	-
Other***	28	52
Total	199	235

*In 2002, TVK Plc. sold its investment in Plastico S.A. In 2006, based on a legal opinion, the Company reassessed the recoverability of its outstanding loan receivable from Plastico S.A. and decided to fully write it off. Net of impairment of HUF 575 million as of 31 December 2007 and 2006, respectively. (See Note 9.)

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

*** It contains loans given which are interest free in the amount of HUF 28 million in 2007.

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7. Inventories

Inventories as of 31 December 2007 and 2006 were as follows:

	At cost	Lower of cost or net realisable value	At cost	Lower of cost or net realisable value
	31 December 2007		31 December 2006	
	HUF million			
Work in progress and finished goods	9,336	9,336	6,153	6,149
Raw-material	2,106	2,106	1,257	1,257
Other materials	978	717	1,160	895
Purchased goods	61	61	60	60
Total	12,481	12,220	8,630	8,361

The Group believes that the level of provision as of 31 December 2007 is sufficient to cover potential future losses. As of 31 December 2007 and 2006, no inventory owned by TVK Plc. was pledged as collateral.

The total amount of impairment was 261 HUF million and HUF 269 million as of 31 December 2007 and 2006, respectively (as cumulated figures).

Inventories are regularly reviewed for impairment.

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8. Trade receivables, net

Receivables as of 31 December 2007 and 2006 were as follows:

	31 December 2007 HUF million	31 December 2006 HUF million
Domestic debtors	25,206	23,402
- of which: MOL Group members	5,698	4,998
Associates	253	267
Export debtors	29,719	22,909
- of which: MOL Group members	1,284	1,290
	<hr/>	<hr/>
	54,925	46,311
Less: provision for doubtful debts	(50)	(18)
	<hr/>	<hr/>
Total	<u>54,875</u>	<u>46,293</u>

Movements in the provision for doubtful receivables were as follows:

	31 December 2007 HUF million	31 December 2006 HUF million
At 1 January	18	529
Additions	42	481
Reversal	-	(511)
Amounts written off	(7)	(481)
Sale of receivables	(3)	-
Acquisition / (sale) of subsidiaries	-	-
Currency differences	-	-
	<hr/>	<hr/>
At 31 December	<u>50</u>	<u>18</u>

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As at 31 December 2007 and 2006 the analysis of trade receivables that were past due but not impaired is as follows:

	31 December 2007	31 December 2006
	HUF million	HUF million
Neither past due nor impaired	51,583	44,041
Past due but not impaired	3,292	2,252
Within 90 days	3,267	2,252
91 - 180 days	6	-
Over 180 days	19	-
Total	<u>54,875</u>	<u>46,293</u>

The Group recorded a write-off on doubtful debts of HUF 7 million and HUF 481 million in 2007 and 2006, respectively. Income from bad debts, written off receivables of HUF 26 million and HUF 33 million in 2007 and 2006, respectively.

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

-Export receivables are denominated primarily in EUR, USD and GBP and are recorded at the exchange rate as of 31 December 2007 and 2006. The resulting gain or loss is classified in a net amount either as other income or other expense, respectively (see notes 18 and 20) in the accompanying income statements.

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9. Other current assets

Other current assets as of 31 December 2007 and 2006 were as follows:

	31 December 2007 HUF million	31 December 2006 HUF million
Reclaimable VAT	3,861	3,899
Advances to suppliers	63	14
Prepayments	56	62
Interest receivables	46	81
Loans to employees and other receivables	42	56
Accrued income	12	277
Loan to Plastico S.A.*	-	-
Other	104	68
Total	<u>4,184</u>	<u>4,457</u>

*The long-term part of the loan receivable from Plastico S.A. reduced by the proportionate impairment loss has been recorded as other non-current asset (See Note 6).

In 2006, based on a legal opinion, the Company reassessed the recoverability of its outstanding loan receivable from Plastico S.A. and decided to fully write it off. Net of impairment of HUF 323 million as of 31 December 2007 and 2006, respectively.

Analysis of loans receivable

	31 December 2007 HUF million	31 December 2006 HUF million
Loan to Plastico S.A.	323	323
Write off doubtful receivables	323	323
Total	<u>-</u>	<u>-</u>

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

	31 December 2007 HUF million	31 December 2006 HUF million
At 1 January	323	315
Additions	-	8
Reversal	-	-
Amounts written off	-	-
Currency differences	-	-
At 31 December	<u>323</u>	<u>323</u>

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10. Cash and cash equivalents

Cash and cash equivalents as of 31 December 2007 and 2006 were as follows:

	31 December 2007 HUF million	31 December 2006 HUF million
Cash at bank – HUF	6,442	10,427
Cash at bank – EUR	6,291	4,749
Cash at bank – PLN	299	133
Cash at bank – USD	173	159
Cash at bank – other currencies	32	149
Cash on hand – other currencies	3	3
Cash on hand – HUF	1	1
Total	13,241	15,621

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11. Share capital

Share capital as of 31 December 2007 was as follows:

Shareholder	Number of shares	Face value (HUF)	Total (HUF million)	Shareholding %
Domestic entities	21,154,466	1,010	21,366	87.0
International entities	1,976,426	1,010	1,996	8.2
Domestic private investors	65,711	1,010	67	0.3
International private investors	941	1,010	1	0.0
Unregistered investors	1,093,299	1,010	1,104	4.5
Total	24,290,843		24,534	100.0

Shareholders with a shareholding above 5% registered in the Share Register as of 31 December 2007:

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

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

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

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Share capital by type of shares as of 31 December 2007:

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

Share capital as of 31 December 2006 was as follows:

Shareholder	Number of shares	Face value (HUF)	Total (HUF million)	Shareholding %
International entities	12,824,697	1,010	12,953	52.8
Domestic entities	11,214,683	1,010	11,327	46.2
Domestic private investors	185,847	1,010	188	0.8
International private investors	4,376	1,010	4	0.0
Unregistered investors	61,240	1,010	62	0.2
Total	24,290,843		24,534	100.0

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Shareholders with a shareholding above 5% registered in the Share Register as of 31 December 2006:

Shareholder	Shareholding %
MOL Hungarian Oil and Gas Company	44.55
CE Oil & Gas Beteiligung und Verwaltung AG	31.56
Slovnaft a. s.	8.06

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

Share capital by type of shares as of 31 December 2006:

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

12. Reserves

The total amount of reserves legally available for distribution based on the statutory company only financial statements of TVK Plc. is HUF 131,256 million and HUF 105,662 million as of 31 December 2007 and 2006, respectively.

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13. Long-term debt, net of current portion

Long-term debt, net of current portion as of 31 December 2007 and 2006 were as follows:

	Weighted average interest rate 2007 %	Weighted average interest rate 2006 %	31 December 2007 HUF million	31 December 2006 HUF million
Secured bank loan of TVK Erőmű Kft. in EUR**	5.06%	3.81%	8,646	9,213
Unsecured loan in EUR from MOL Plc. (majority stakeholder)*	4.80%	3.79%	7,600	37,845
Secured bank loan of Tisza-WTP Kft. in EUR***	5.01%	3.48%	1,484	1,585
Financial lease payable			50	147
Other****			3,499	3,550
Total long term debt			21,279	52,340
Current portion of long-term debt			790	789
Total long-term debt, net of current portion			20,489	51,551

*On 22 December 2004, the Company utilized EUR 220 million from a loan facility of EUR 280 million granted by MOL Hungarian Oil and Gas Company (MOL). Total cost of the short term loan from MOL is lower by 11 base point than the weighted total cost of syndicated foreign exchange loans. On 29 July 2005 the Company prepaid EUR 10 million from the EUR 220 million parent company loans. The Company prepaid EUR 60 million in 2006, and EUR 70 million was irrevocably withdrawn from the parent company's loan. The Company prepaid EUR 120 million in 2007, and value of loan from MOL is EUR 30 million at the end of 2007.

**On 26 July 2002, TVK Erőmű Kft signed a project financing agreement with OTP Bank Rt, and the facility (EUR 40 million) had been fully drawn by 31 December 2004. The loan is secured by a pledge on TVK Erőmű Kft's assets. At the end of 2007 the short-term part of the loan amounts to EUR 2,500 thousand reported as short-term loan payable.

*** In order to implement a water treatment plant to be operated by Tisza WTP Kft, on 17 December 2002, the Kft signed a long-term project and development loan agreement for EUR 8,000,000 with OTP Bank Rt. By the end of the availability period (29 December 2003), the Kft had drawn down a total of EUR 7,340,000 from the facility. The project loan is secured by the Company's assets. At the end of 2007, Tisza WTP Kft reclassified a instalment of TEUR 450 due in 12 months to current liabilities.

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

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

	31 December 2007 HUF million	31 December 2006 HUF million
Maturity two to five years	11,050	41,078
Maturity over five years	9,439	10,423
Total	<u>20,489</u>	<u>51,501</u>

Present values of financial lease liabilities as of 31 December 2007 and 2006 respectively are as follows:

	31 December 2007 HUF million	31 December 2006 HUF million
Maturity not later than 1 year	50	97
Maturity two to five years	-	50
Total	<u>50</u>	<u>147</u>

Future minimum lease payments under finance leases together with the present value of the net minimum lease payments as of 31 December 2007 and 2006 respectively are as follows:

	31 December 2007		31 December 2006	
	Minimum lease payments	present value of payments	Minimum lease payments	present value of payments
	HUF million	HUF million	HUF million	HUF million
Within one year	53	50	101	97
After one year but no more than five years	-	-	53	50
Total minimum lease payments	53	50	154	147
Less amount representing finance charges	(3)	-	(7)	-
Present value of minimum lease payments	50	50	147	147

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14. Provision for liabilities and charges

Provisions for expected liabilities and charges as of 31 December 2007 and 2006 were as follows:

	Environ- mental	Severance	Long term employee retirement benefits	Old Team benefit	Early Retirement benefits	Total
	HUF million	HUF Million	HUF million	HUF million	HUF million	HUF million
Balance as of 1 January 2006	3,983	117	197	-	38	4,335
Provision made during the year and revision of previous estimate	-	26	15	201	33	275
Unwinding of the discount	195	-	9	-	-	204
Provision used during the year	(503)	(96)	-	-	(38)	(637)
Balance as of 31 December 2006	3,675	47	221	201	33	4,177
Provision made during the year and revision of previous estimate	-	12	49	28	74	163
Unwinding of the discount	193	-	11	15	-	219
Provision used during the year	(859)	(32)	(14)	(20)	(27)	(952)
Balance as of 31 December 2007	3,009	27	267	224	80	3,607
Current portion 31 December 2006	673	32	16	-	33	754
Non-current portion 31 December 2006	3,002	15	205	201	-	3,423
Current portion 31 December 2007	446	-	20	32	77	575
Non-current portion 31 December 2007	2,563	27	247	192	3	3,032

Environmental provision

The amount of provision contains the discounted value of amounts estimated for 12 years. The environmental provision is expected to be further increased subject to the completion of an ongoing environmental survey. (See Note 25) The amount of the provision has been determined on the basis of existing technology at current prices by calculating risk-weighted cash flows discounted using estimated risk-free real interest rates.

Provision for severance

The provision for severance pays equals the amount of severance pays due but not yet paid as at 31 December 2007.

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Provision for long term employee retirement benefits

As of 31 December 2007 the Company has recognized a provision of HUF 267 million to cover its estimated obligation regarding future retirement benefits payable to current employees expected to retire from group entities. TVK operate benefit schemes that provide lump sum benefit to all employees at the time of their retirement. TVK employees are entitled for maximum of 2 months of final salary respectively, depending on the length of service period. None of these plans have separately administered funds. The value of provision has been determined using the projected unit credit method, based on financial and actuarial variables and assumptions that reflect relevant official statistical data and are in line with those incorporated in the business plan of the TVK. Principal actuarial assumptions states an approximately 2% difference between the discount rate and the future salary increase.

Provision for Old Team benefits

On 31 December 2007, based on actuarial calculations, the Company made a HUF 224 million provision for the future Old Team benefits of current employees. Every five years, TVK pays a fix set amount to all employees who had worked at least 10 years for the Company.

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

	2007	2006
Discount rate in %	7.6	7.0
Average wage increase in %	5.6	5.0
Mortality index (male)	0.06-2.82	0.06-2.82
Mortality index (female)	0.02-1.15	0.02-1.15

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15. Trade and other payables

The Group's payables and other current liabilities as of December 2007 and 2006 were as follows:

	31 December 2007 HUF million	31 December 2006 HUF million
Domestic trade creditors	35,020	23,707
- of which: MOL Group members	30,165	20,718
Associates	199	137
Import creditors	2,151	3,636
- of which: MOL Group members	172	478
Suppliers related to capital projects	2,830	1,389
- of which: MOL Group members	694	324
Discount payable to customers	4,438	4,198
Accrued expenses	2,017	1,799
Dividend payable to the majority owner of TVK Erőmű Kft.	574	576
Amounts due to employees and related contributions	369	433
Personal income tax	103	69
Dividend payable to owner of Tisza-WTP Kft.	80	48
Dividends payable*	5	5
Local tax	-	10
Other	154	382
Total	47,741	36,252

*Dividend payable in 2007 is related to 2005's dividend which hasn't been paid yet

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16. Short-term debts

	31 December 2007 HUF million	31 December 2006 HUF million
Unsecured bank loans: TVK Italia Srl. overdraft	-	2
Total	-	2

17. Net sales by geographical area

Net sales by geographical area as of 31 December 2007 and 2006 were as follows:

	2007 HUF million	2006 HUF million
Hungary (reduced by quantity discount)	161,909	157,518
Germany	32,782	29,259
Italy	30,144	26,227
Poland	24,362	20,672
Slovakia	10,337	7,888
United Kingdom	8,414	7,635
Romania	8,207	3,011
France	6,967	6,594
Austria	6,508	6,192
Other European Countries	43,016	39,831
Non-European Countries	7,700	6,591
- Quantity discount of foreign sales	(2,700)	(2,682)
Total	337,646	308,736

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18. Other operating income

Other operating income as of 31 December 2007 and 2006 were as follows:

	2007 HUF million	2006 HUF million
Default interest received, indemnity, penalties	585	118
Foreign exchange gain on receivables and payables, net	169	12
Retrospective discount	39	12
Gain on the disposal of tangible assets	4	136
Donations received	-	15
Other	11	110
Total	808	403

19. Personnel expenses

Personnel expenses as of 31 December 2007 and 2006 were as follows:

	2007 HUF million	2006 HUF million
Wages and salaries	6,661	6,251
Other personnel expenses	2,221	2,035
Social security	1,252	1,480
Total	10,134	9,766

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20. Other operating expenses

Other operating expenses as of 31 December 2007 and 2006 were as follows:

	2007 HUF million	2006 HUF million
Insurance premium	989	1,242
Rental costs, leasing	472	575
Property protection and fire prevention	408	399
PR and promotion	299	264
Consulting, advisory and auditing costs	289	266
Public sanitation	245	240
Administrative charges and duties	189	180
Local taxes	173	171
Bank charges	165	158
Elimination of waste	106	145
Damages, default interest, penalties, fines	98	171
Donations, contributions to set off costs and expenses	92	120
Debt forgiven	19	44
Receivables impairment, net	16	152
Other*	259	537
Total	3,819	4,664

* Include environmental expenses and environmental provision (See Notes 14 & 25.).

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21. Financial (income) / expense

The financial (income) / expense as of 31 December 2007 and 2006 was as follows

	2007 HUF million	2006 HUF million
Interest received	884	602
Other	24	43
Total financial income	908	645
Interest expense*	2,274	3,251
Discounts given for early payment of receivables	596	606
Interest on provision	219	204
Foreign exchange losses of loans	91	482
Other	15	9
Total financial expenses	3,195	4,552
Total financial (income) / expense, net	2,287	3,907

* Interest expense of the Group for 2007 includes HUF 654 million (2006: HUF 624 million), being the share from the net income of TVK Erőmű Kft. of its majority shareholder (ÉMÁSZ Nyrt.), and Tisza WTP Kft. of shareholder (Sinergy Kft.).

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22. Income taxes

Corporate income tax:

The applicable corporate income tax rate in Hungary was 16% in 2007.

As TVK Nyrt. could not meet the requirement to increase the number of employees, a condition of tax allowances related to strategic investment projects started before December 31, 2002 that can be used up to 2011, it could not take advantage of this allowance.

Since 1 September 2006, the Company has had to pay 4% extra tax further to act LIX of 2006 on solidarity surplus taxes and contributions aimed to improve the government budget.

Deferred tax:

Total applicable income taxes reported in the consolidated financial statements for the years ended 31 December 2007 and 2006 include the following components:

	2007 HUF million	2006 HUF million
Deferred income taxes	1,656	(419)
Current corporate income taxes	4,667	568
Local trade tax	688	729
Total income tax expense / (benefit)	7,011	878

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The deferred income/expense consisted of the following items as of 31 December 2007 and 2006:

	Balance sheet		Effect on profit and loss	
	2007 HUF million	2006 HUF million	2007 HUF million	2006 HUF million
Depreciation	6,690	5,019	1,671	614
Environmental provision	(481)	(588)	107	(84)
Statutory tax losses carried forward	(968)	(884)	(85)	(498)
Impairment losses and other provisions	(796)	(730)	(66)	(648)
Differences due to capitalisation according to IFRS	48	55	(7)	11
Capitalized periodic maintenance cost	121	166	(44)	186
Other	80	-	80	-
Total deferred tax	4,694	3,038	1,656	(419)

The Group recognized of HUF 968 million deferred tax assets from tax losses of HUF 6,053 million that are available indefinitely for offset against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognized in respect of losses elsewhere in the Group as they may not be used to offset taxable profits and they have arisen in subsidiaries that have been loss-making for some time. The amount of such tax losses was HUF 5,521 million as of 31 December 2006.

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

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

	2007 HUF million	2006 HUF million
Profit before tax per consolidated income statement	<u>30,695</u>	<u>18,149</u>
Tax at the applicable tax rate (16%)	4,911	2,904
Tax holiday available	-	(2,353)
Revaluation of deferred tax assets and liabilities	-	(229)
Impact of changes in Hungarian tax legislation	-	75
Solidarity surplus tax	1,191	221
Adjustment to the period of realization	-	(642)
Losses of subsidiaries not recognized as an asset	-	31
Differences not expected to reverse	33	(24)
Effect of different tax rates	235	203
Local tax	578	612
Other	<u>63</u>	<u>80</u>
Total income tax expense / (benefit)	<u>7,011</u>	<u>878</u>

23. Earnings per share (EPS)

The Group's earnings per share based on consolidated information for 31 December 2007 and 2006 are as follows:

	<u>2007</u>	<u>2006</u>
Net income, IFRS (million HUF)	23,684	17,271
Weighted average of shares outstanding in the period (pieces)	24,290,843	24,270,569
EPS (HUF 1,010 face value)	HUF 975	HUF 712

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

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

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24. Financial instruments

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

The following tables sets out the carrying amount, by maturity of the Group's financial instruments that bear interest as of 31 December 2007:

	Within 1 year HUF million	1-2 years HUF million	2-3 years HUF million	3-4 years HUF million	4-5 years HUF million	Over 5 years HUF million
Floating rate						
Cash and cash equivalents	13,241	-	-	-	-	-
Government bonds (2013/C)	-	-	-	-	-	171
Obligations under financial leases	50	-	-	-	-	-
Borrowing from MOL Plc	-	8,332	-	-	-	-
Capital project loan	1,314	1,322	1,324	1,328	1,331	6,950

The following tables sets out the carrying amount, by maturity of the Group's financial instruments that bear interest as of 31 December 2006:

	Within 1 year HUF million	1-2 years HUF million	2-3 years HUF million	3-4 years HUF million	4-5 years HUF million	Over 5 years HUF million
Floating rate						
Cash and cash equivalents	15,621	-	-	-	-	-
Government bonds (2013/C)	-	-	-	-	-	177
Obligations under financial leases	97	50	-	-	-	-
Borrowing from MOL Plc	-	-	43,330	-	-	-
Capital project loan	1,106	1,216	1,231	1,242	1,253	8,131

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Capital management

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

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years end 31 December 2007 and 31 December 2006.

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

- High Gearing situation is declared when the Net Gearing ratio will exceed 40% for any of the next consecutive four business quarters according to actual 12 month rolling forecast. In a high gearing situation, the prime objective of risk management is to reduce the probability of breaching debt covenants, where a breach would seriously impair the company's ability to fund its operations.
- Moderate Gearing situation is triggered when the Net Gearing ratio is between 20% and 40%. In Moderate Gearing situation, risk management aims to enhance the commitment in maintenance of investment grade credit rating. Having public investment grade credit rating ensures significant financial flexibility as capital market sources are also available at reasonable cost level.
- Low Gearing status occurs if the Net Gearing ration is below 20%. In this status, the focus of risk management shall be directed more toward guarding of shareholder value by maintaining discipline in CAPEX spending, ensuring risk-aware project selection.

	31 December 2007	31 December 2006
	HUF million	HUF million
Long-term debt, net of current portion	20,489	51,551
Current portion of long-term debt	790	789
Short-term debt	-	2
Less: Cash and cash equivalents	13,241	15,621
Net debt	8,038	36,721
Equity attributable to equity holders of the parent	157,642	133,959
Minority interest	-	-
Total capital	157,642	133,959
Capital and net debt	165,680	170,680
Gearing ratio (%)	4,85	21,51

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Financial risk management

Foreign exchange and commodity price risks

The prices of the most important raw materials and those of olefin and polymer products produced by TVK Plc fluctuate according to international market rates. Sales are significantly affected by the EUR/HUF exchange rate, while purchases are primarily USD based. In 2007, TVK Plc. did not have any forward or option contract nor had other derivatives to hedge FX risks. The loan granted to the Company is denominated in EUR in order to reduce exchange rate risks.

Credit risk

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

Liquidity risk

The Company is to maintain sufficient cash and cash equivalents or have available funding through an adequate amount of committed credit facilities to cover the liquidity risk in accordance with its financing strategy. The amount of undrawn facilities as of 31 December 2007 consists the followings:

	2007 HUF million	2006 HUF million
Short - term facilities available	11,267	17,285
Total loan facilities available	11,267	17,285

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25. Commitments and contingency liabilities

Legal disputes over investments in securities

In 1998, a former executive of the Company misused her authority and instructed stockbrokers Quantum Bróker Rt to invest HUF 1,000 million in an equity portfolio and financial instruments instead of treasury bills as approved by TVK Rt's management. The Company disputed the proper authorisation of the transaction and believed that the broker firm did not perform its duty with proper professional care and stewardship, and the Company reported the case to the police in October 1998. The police took custody of the portfolio of shares and delivered them to TVK Plc. In the lawsuit against Quantum Bróker, the Supreme Court rejected TVK's appeal, therefore the Company wrote off its receivable amounting to HUF 569 million from Quantum Bróker in 2001.

In 2002, TVK Rt claimed pecuniary demands of app. HUF 450 million at the Metropolitan Court against Insider Kft as Insider Kft is alleged to have contributed to causing losses to TVK Rt. The case was stalled throughout 2006. On 1 February 2007, TVK received the court's verdict rejecting the case. No appeal has been filed. It had no financial impact to financial statements.

Excise tax

The regional excise centre of the customs authority conducted a full scope excise audit at the Company with respect to the year 2001 to 2005. The result of the excise audit was unpaid excise tax of HUF 26.5 million (financially settled in 2006) plus HUF 41.9 million tax penalty and late payment interest. The total financial impact was HUF 41.9 million loss recognized in 2007.

The Company contested the resolution of second instance of the Tax Authorities but the court rejected our claim on the grounds that tax penalty is within the Company's sphere of influence. No appeal has been filed.

Operating leases

The operating lease commitments of TVK UK Ltd. are as follows:

	31 December 2007 HUF million	31 December 2006 HUF million
Due not later than 1 year	9	18
Over 1 year	9	-
Total	18	18

Capital and contractual commitments

The total value of capital commitments as of 31 December 2007 is HUF 487 million, which is fully attributable to TVK Plc.

Gas Purchase Obligation, Take or Pay Contract

The TVK Erőmű Kft. has concluded long-term gas purchase contract with EON in order for continuous operation of equipments in the power plant. As of 31 December 2007, 1 069 million cubic meters of natural gas (from which 727 mcm under take-or-pay commitment calculated with an average price) will be purchased during the period ending 2017 based on this contract.

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Environmental protection

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

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

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

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

In 2003 the Company continued the survey of the underground pollution in order to get sufficient information about extension of environmental pollution and determine the most applicable technology for environmental restoration. The surveys found extensive underground pollution caused in the past. The Company submitted the summary report on the environmental survey completed at the end of 2003 to the North-Hungary Area Environment Authority by the required deadline in 2004.

The environmental authority requested further additions to the closing document. All the requested additions were prepared by TVK Plc. and have been submitted to the authority. Based on the documentation submitted, the North-Hungary Authority for the Environment, Nature and Water issued a note to TVK Plc. prepare and submit a technical action plan by 30 September 2005.

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

From 2006 the Company was focusing on the localization of underground pollution within the TVK Plc's site, to avoid further pollution on the southern part of the plant and is making significant efforts to gauge the extent of the pollution as well as to identify and map the possible movement of pollutants.

In 2007 and in 2006 HUF 261 million and HUF 112 million was spent on this action. Resulted from the complexity and the measure of the polluted areas, beside this project there was also initiated the common risk based concept strategy approach of recognizing environmental liability at TVK-TIFO plant participating by contracted external consultants.

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

In line with strategic environmental planning, the highest priorities at the TVK-TIFO industrial site are to protect human ecological receptors and to minimise environmental exposures (i.e. to identify and prevent the both horizontal and vertical spread of pollution).

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In order to gauge the deep pollutant towards the south-east of the Company's premises, the boundaries of the polluted area (both vertically and horizontally) was identified with a so called "pollutant dynamism monitoring system". Sampling and analyses already in progress need to be finalised in order to understand the pollutant's movement and dynamics.

Pollution is unchanged or is receding at the Emergency storage facility area of the Olefin container park.

The results of risk assessment reviews first started in 2006 have already limited the number of risks. Health hazards reviews of farmland in 2006 and 2007 found that crops produced in farmland at the eastern boundary of the TVK-TIFO site as reviewed in phase 1 and phase 2, did not represent over-the-limit health hazard for breeding stock or for humans.

The Company's environmental commitments and the related action plan were reviewed by an independent environmental auditor in 2006. The review found that the Company has deep awareness and detailed knowledge of its environmental commitments and liabilities.

Two major waste treatment projects that aim to restrict the source of pollution were completed in 2007. By eliminating the defecation mud containers, a project started in 2004, in the northern and southern parts of the plant, all the defecation mud had been cleared away. Again in 2007, we completed the in-situ decontamination of emergency waste water containers at the former olefin and paint factory.

The Company continuously analyses the progress of the clean-up process and has made significant financial and intellectual efforts in order to comply with relevant legal requirements by eliminating environmental problems inherited from the past. These potentially substantial future financial expenses will be reliably quantifiable only once the results of further surveys are known as currently available information is not adequate to identify either the extent of the pollution or the suitable restoration technology.

The Company recognized – consideration of above-mentioned - an environmental provision based on the currently available quantifiable future expenses HUF 3,009 million as of 31 December 2007 (2006: HUF 3,675 million).

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

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26. Segmental information

The Group's sales per operational segment for the years 2007 and 2006 were as follows:

Segment	2007			2006		
	Domestic sales	Foreign sales	Total sales	Domestic sales	Foreign sales	Total sales
	HUF million	HUF million	HUF million	HUF million	HUF million	HUF million
Olefin	94,687	9,400	104,087	85,362	4,810	90,172
Polyethylene	24,758	123,800	148,558	26,396	106,884	133,280
Polypropylene	36,497	41,080	77,577	39,849	38,204	78,053
Other	5,967	1,457	7,424	5,911	1,320	7,231
Total	161,909	175,737	337,646	157,518	151,218	308,736

The gross book value of tangible fixed assets and accumulated depreciation per operational segment as of 31 December 2007 and 2006 were as follows:

Segment	31 December 2007			31 December 2006		
	Gross book value*	Accumulated depreciation	Net book value	Gross book value*	Accumulated depreciation	Net book value
	HUF million	HUF million	HUF million	HUF million	HUF million	HUF million
Olefin	112,686	34,933	77,753	110,824	28,981	81,843
Polyethylene	34,510	15,513	18,997	37,189	16,693	20,496
Polypropylene	25,651	15,027	10,624	30,574	16,525	14,049
Other	58,469	20,376	38,093	46,539	12,091	34,448
Total	231,316	85,849	145,467	225,126	74,290	150,836

*Also contains construction in progress.

Assets capitalised on a Group level in 2007 and 2006 were as follows:

Segment	2007		2006	
	Capitalised value	Of which: intangibles	Capitalised value	Of which: intangibles
	HUF million	HUF million	HUF million	HUF million
Olefin	2,440	101	3,396	10
Polyethylene	1,235	-	753	-
Polypropylene	707	14	190	-
Other	2,677	193	1,018	100
Total	7,059	308	5,357	110

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27. Related party transactions

Transactions with associated companies in the normal course of business

MOL Group has been TVK Plc's main raw material supplier and buyer of TVK products ever since the Company was established. In 2001, the Company signed a long-term contract with MOLTRADE-Mineralimpex Zrt. on supplying raw materials for the period between 2004 and 2013.

	2007 HUF million	2006 HUF million
Sales		
- of which: to MOL Group companies	58,400	52,375
of which Moltrade-Mineralimpex Zrt.	49,404	45,363
Slovnaft Pethrochemicals s.r.o.	7,641	2,463
MOL Plc.	945	950
Slovnaft a.s.	273	3,402
To other related parties	937	913
of which VIBA-TVK Kft. (associate)	935	911
Purchases		
- of which: from MOL Group companies	233,389	210,747
of which Moltrade-Mineralimpex Zrt.	221,544	195,101
Petroszolg Kft.	5,305	5,513
MOL Energiakereskedő Kft.**	2,520	-
Slovnaft Pethrochemicals s.r.o.	1,576	-
Slovnaft a.s.	-	5,479
MOL Földgázellátó Zrt.*	-	1,639
from other related parties	907	637
of which VIBA-TVK Kft. (associate)	674	409

* MOL Földgázellátó Zrt. was sold 31 march 2006.

** MOL Energiakereskedő Kft. was founded 27 april 2007.

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28. Share-based payment plans

General Incentive Schemes for management until 2006

The incentive scheme involves company and organizational level financial and operational targets, evaluation of the contribution to the strategic goals of the company and determined individual tasks in the System of Performance Management (TMR), and competencies. From the incentive scheme based on evaluation of indicators and qualification of individual tasks and competencies, 60% will be paid after the evaluation and 40% will be paid after a two years waiting period. Expenses incurred by this scheme were HUF 266 million, and HUF 230 million in 2007 and 2006, respectively.

The liabilities related to incentive scheme as of 31 December 2007 and 2006 were as follows:

	31 December 2007	31 December 2006
	HUF million	HUF million
Short term incentive (60%)	219	139
Long term incentive (40%) 2004	-	-
Long term incentive (40%) 2005	-	33
	219	172

Share-option incentive from 2006

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

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

- operates covering periods of 5 years (3 year vesting plus 2 year exercising period) starting annually,
- its rate is defined by the quantity of units specified by MOL job category
- the value of the units is set annually (in 2006 and 2007, 1 unit equals to 100 MOL shares).

It is not possible to redeem the share option until the end of the third year of the period (waiting period); the redemption period lasts from 1 January of the 4th year until 31 December of the 5th year.

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

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

	Number of shares in conversion options 2007 share	Weighted average exercise price 2007 HUF/share	Number of shares in conversion options 2006 share	Weighted average exercise price 2006 HUF/share
Granted during the year	13,427	21,146	12,417	20,170
Outstanding at the end of the year	13,427	21,146	12,417	20,170

As required by IFRS 2, this share-based compensation is accounted for as cash-settled payments, expensing the fair value of the benefit as determined at vesting date during the vesting period. Expense incurred by this scheme was HUF 100 million, and HUF 41 million in 2007 and 2006, respectively, recorded as personnel-type expenses with a corresponding increase in Trade and other payables.

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

	2007	2006
Weighted average exercise price (HUF / share)	21,146	20,170
Weighted average share price (HUF / share)	24,491	24,491
Expected volatility based on historical data	31.89%	28.43%
Expected dividend yield	2.34%	2.34%
Expected life (years)	4,0	3,0
Risk free interest rate	7.58%	7.65%
Weighted average fair value of the options	8,821	8,126

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Key management compensation

	2007	2006
	HUF million	HUF million
Salaries and other short-term employee benefits	233	213
Termination benefits	-	-
Post-employment benefits	-	-
Other long-term benefits	25	15
Share-based payment	-	-
Honoraria	89	10
	<hr/>	<hr/>
Total	347	238

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

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

**Notes to the consolidated financial statements prepared
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31 December 2007

29. Reconciliation between HAS unconsolidated financial statements and IFRS financial statements

The Hungarian Law on Accounting came into force on 1 January 1992 and has been subject to modifications since that date. A new act, Act C of 2000 came into force on 1 January 2001, which brought Hungarian accounting closer to IFRS. The accounting principles imposed by the law are based on the EU's 4th, 7th and 8th Directives. However, they still differ in certain respects from IFRS. The following table shows the reconciliation of the equity under HAS (company only) and IFRS financial statements.

	Share capital	Reserves	Net income	Minority interests	Shareholders' equity
	HUF million	HUF million	HUF million	HUF million	HUF million
31 December 2007– HAS	24,534	110,286	25,594	-	160,414
Effect of IFRS consolidation	-	710	43	-	753
Shareholding of external shareholders IFRS according to	-	(4)	-	-	(4)
<u>IFRS adjustments</u>					
- Redeemed employee shares	1	-	-	-	-
- Deferred tax	2	(2,789)	(1,528)	-	(4,317)
- Capitalised technical equipment	3	7,668	-	-	7,668
- Depreciation of technical equipment	3	(7,393)	(34)	-	(7,427)
- Capitalised periodic maintenance	4	1,073	253	-	1,326
- Amortisation of periodic maintenance costs capitalised	4	(243)	(477)	-	(720)
- Revaluation difference on investments	6	256	9	-	265
- Elimination of amortization of goodwill	7	79	13	-	92
- Management incentives	8	(40)	(189)	-	(229)
- Transfer of negative goodwill to retained earnings	-	2	(2)	-	-
- Other	-	(181)	2	-	(179)
31 December 2007 – IFRS Group	24,534	109,424	23,684	-	157,642

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	Share capital	Reserves	Net income	Minority interests	Shareholders' equity
	HUF million	HUF million	HUF million	HUF million	HUF million
31 December 2006– HAS	24,534	94,391	15,895	-	134,820
Effect of IFRS consolidation	-	710	-	-	710
Shareholding of external shareholders	-	(4)	-	-	(4)
IFRS according to					
<u>IFRS adjustments</u>					
- Redeemed employee shares	1	-	-	-	-
- Deferred tax	2	(3,172)	383	-	(2,789)
- Capitalised technical equipment	3	7,668	-	-	7,668
- Depreciation of technical equipment	3	(7,349)	(44)	-	(7,393)
- Capitalised periodic maintenance	4	-	1,073	-	1,073
- Amortisation of periodic maintenance costs capitalised	4	(42)	(201)	-	(243)
- Revaluation difference on investments	6	299	(43)	-	256
- Elimination of amortization of goodwill	7	40	39	-	79
- Management incentives	8	(72)	32	-	(40)
- Transfer of negative goodwill to retained earnings	-	3	(1)	-	2
- Other	-	(318)	138	-	(180)
31 December 2006 – IFRS Group	24,534	92,154	17,271	-	133,959

1. Redeemed employee shares

According to IFRS, the par value of the redeemed employee shares reduces the share capital.

2. Deferred tax

IFRS requires the recognition of a deferred tax asset or liability for all taxable temporary differences, which will result in taxable amounts in determining taxable profit of future periods when the carrying amount of the asset or liability is recovered or settled. HAS does not recognise the concept of deferred taxation.

3. Capitalisation of borrowing costs

IFRS allows capitalisation of borrowing costs directly attributable to the acquisition or construction of an asset. Borrowing costs may belong to either dedicated or general loan facilities and may include exchange differences to the extent that they are an adjustment to interest. HAS requires the capitalization of interests and foreign exchange differences, regardless of the extent of the latter, incurred only on dedicated borrowings.

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4. Periodic maintenance cost

In accordance with IAS 16, the cost of regular major inspections, relating to assets, group of assets, technology, plant or unit, is included in the carrying amount of identifiable property, plant and equipment that should be depreciated over the period until the next major inspection takes place. HAS requires such costs to be expensed when incurred. The cost of new tangible assets capitalised in 2005 were already net of periodic maintenance costs, which were recorded as separate components. The useful life of a "maintenance component" is the planned length of the maintenance period. The costs of periodic maintenance of tangible assets capitalised before 1 January 2005 were also capitalised by the Company as separate components (previously, these costs were expensed).

5. Accrued unrealised quantity discount

According to the Hungarian accounting law, the contracted value of retrospective discounts (i.e. unbilled discounts indirectly related to product, material, goods or services) outstanding as of the balance sheet date are to be disclosed under other expenses to 31 December 2004. IFRS allows for the recognition of given or received but unpaid discounts. Since 1 January 2005, there is no difference between the treatments under the Hungarian accounting law and IFRS which would have an impact on the profit and loss.

6. Accounting for investments

Under IFRS, investments are measured based on the equity method. Under HAS, investments are presented at historic cost less impairment loss, if any. It contains the difference of the valuation of investment between HAS and IFRS and furthermore the elimination of revaluation of liquidated subsidiaries.

7. Reversal of Goodwill amortisation

In accordance with the transitional provisions of IFRS 3 – Business Combination the annual amortisation of goodwill has been terminated after 1 January 2005. Under HAS the value of goodwill is amortised over its useful life.

8. Management incentives

In accordance with IFRS short term management incentives are recognised in the period it relates to while under HAS it is recognized when settled financially. Long term management incentives are recognised time-proportionally during 36 months in IFRS while under HAS it is recognized in this year.