

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 2009

Independent Auditors' Report

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

1.) We have audited the accompanying 2009 consolidated annual financial statements of Tiszai Vegyi Kombinát Nyilvánosan Működő Részvénytársaság ("the Company"), which comprises the consolidated balance sheet as at 31 December 2009 - showing a balance sheet total of HUF 211,404 million and a loss for the year of HUF 9,192 million -, the related consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in 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 2008 on 20 March 2009.

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 2009 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 26 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, 11 March 2010

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 2009, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated cash flowstatement for the year then ended and the summary of significant accounting policies and other explanatory notes on pages 10-83.

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 2009, 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 26 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

11 March 2010

Tisza Chemical Group Public Limited Company and Subsidiaries

Consolidated financial statements

prepared in accordance with International Financial Reporting Standards

31 December 2009

Tiszaújváros, 11 March 2010

Árpád Olvasó
Chief Executive Officer

Gyula Hodossy
Chief Financial Officer,
Deputy CEO

Consolidated balance sheet

31 December 2009

	Notes	2009 HUF million	2008 HUF million
ASSETS			
Non-current assets			
Intangible assets	3	2,998	3,492
Property, plant and equipment	4	133,660	137,833
Investments in associated companies	5	114	178
Other non-current assets	6	191	189
Total non-current assets		136,963	141,692
Current assets			
Inventories	7	7,752	7,072
Trade receivables, net	8	43,456	37,009
Other current assets	9	13,343	15,433
Prepaid taxes		2,948	2,030
Cash and cash equivalents	10	6,942	6,545
Total current assets		74,441	68,089
TOTAL ASSETS		211,404	209,781
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Share capital	11	24,534	24,534
Reserves	12	122,045	124,153
Net income attributable to equity holders of the parent		(9,192)	(146)
Equity attributable to equity holders of the parent		137,387	148,541
Non-controlling interests		-	-
Total equity		137,387	148,541
Non-current liabilities			
Long-term debt, net of current portion	13	11,632	12,586
Provisions for liabilities and charges	14	2,296	2,724
Deferred tax liabilities	23	3,547	4,423
Other non-current liabilities	15	4,288	13
Total non-current liabilities		21,763	19,746
Current liabilities			
Trade and other payables	16	41,575	24,392
Provisions for liabilities and charges	14	308	393
Short-term debt	17	9,478	-
Current portion of long-term debt	13	893	16,709
Total current liabilities		52,254	41,494
TOTAL EQUITY AND LIABILITIES		211,404	209,781

The notes are an integral part of these consolidated financial statements

Consolidated income statement

31 December 2009

	Notes	2009 HUF million	2008 HUF million
Net sales (revenue)	18	265,372	323,406
Other operating income	19	2,049	216
Total operating income		267,421	323,622
Raw materials and consumables used		249,614	288,817
Personnel expenses	20	9,743	9,328
Depreciation, amortization and impairment	3,4	12,609	13,148
Other operating expenses	21	3,978	4,241
Change in inventories of finished goods and work in progress		60	4,205
Work performed by the enterprise and capitalized		(1,073)	(672)
Total operating expenses		274,931	319,067
Profit from operations		(7,510)	4,555
Financial income	22	562	417
Financial expense	22	2,257	4,100
Net financial expense	22	1,695	3,683
Gain / (Loss) from associates		(71)	(18)
Profit before tax		(9,276)	854
Income tax expense	23	(84)	1,000
Profit for the year		(9,192)	(146)
Attributable to:			
Equity holders of the parent		(9,192)	(146)
Non-controlling interests		-	-
Earnings per share attributable to ordinary equity holders of the parent (HUF)	24	(378)	(6)

The notes are an integral part of these consolidated financial statements

Consolidated Statement of comprehensive income

31 December 2009

	2009 HUF million	2008 HUF million
Profit for the year	(9,192)	(146)
<i>Other comprehensive income</i>		
Exchange differences on translating foreign operations	30	8
Available-for-sale financial assets, net of deferred tax	-	-
Cash-flow hedges, net of deferred tax	-	-
Share of other comprehensive income for associates	-	-
Other comprehensive income for the year, net of tax	30	8
Total comprehensive income for the year	(9,162)	(138)
Attributable to:		
Equity holders of the parent	(9,162)	(138)
Non-controlling interest	-	-

The notes are an integral part of these consolidated financial statements

Consolidated statement of changes in equity

31 December 2009

	Share capital	Share premium	Retained earnings	Translation reserve	Total reserves	Net income attributable to equity holders of the parent	Total equity attributable to equity holders of the parent	Non-controlling interest	Total equity
	HUF million	HUF million	HUF million	HUF million	HUF million	HUF million	HUF million	HUF million	HUF million
Opening balance 1 January 2008	24,534	15,022	94,376	26	109,424	23,684	157,642	-	157,642
Currency translation differences	-	-	-	8	8	-	8	-	8
Total income and expense for the year recognized directly in equity	-	-	-	8	8	-	8	-	8
Retained profit for the year	-	-	-	-	-	(146)	(146)	-	(146)
Total income and expense for the year	-	-	-	8	8	(146)	(138)	-	(138)
Transfer to reserves of retained profit for the previous year	-	-	23,684	-	23,684	(23,684)	-	-	-
Dividends	-	-	(8,963)	-	(8,963)	-	(8,963)	-	(8,963)
Closing balance 31 December 2008	24,534	15,022	109,097	34	124,153	(146)	148,541	-	148,541
Currency translation differences	-	-	-	30	30	-	30	-	30
Total income and expense for the year recognized directly in equity	-	-	-	30	30	-	30	-	30
Retained profit for the year	-	-	-	-	-	(9,192)	(9,192)	-	(9,192)
Total income and expense for the year	-	-	-	30	30	(9,192)	(9,162)	-	(9,162)
Transfer to reserves of retained profit for the previous year	-	-	(146)	-	(146)	146	-	-	-
Dividends	-	-	(1,992)	-	(1,992)	-	(1,992)	-	(1,992)
Closing balance 31 December 2009	24,534	15,022	106,959	64	122,045	(9,192)	137,387	-	137,387

The notes are an integral part of these consolidated financial statements

Consolidated statement of cash-flows

31 December 2009

	2009 HUF million	2008 HUF million
<i>Profit before tax</i>	(9,276)	854
<i>Adjustments to reconcile profit before tax to net cash provided by operating activities</i>		
Depreciation and impairment	12,061	12,645
Amortization and impairment	548	503
Write-off of inventories, net	(394)	403
Increase/(decrease) in environmental provisions	(592)	(446)
Increase/(decrease) in provisions	75	(44)
Net (gain) / loss on sale of tangible assets	(965)	(47)
Write-off of receivables	112	64
Unrealised foreign exchange (gain) / loss on receivables and payables	(84)	138
Interest income	(535)	(377)
Interest on borrowings	1,486	1,971
Net foreign exchange (gain)/ loss excluding foreign exchange differences on receivables and payables	305	1,566
Other financial (gain) / loss, net	264	350
Share of net (profit)/loss of associates	71	18
<i>Operating cash flow before changes in working capital</i>	<i>3,076</i>	<i>17,598</i>
(Increase)/ decrease in inventory	(286)	4,745
(Increase)/ decrease in debtors	(6,447)	17,671
(Increase)/ decrease in other receivables	(6,718)	(629)
Increase/(decrease) in accounts payable	18,528	(21,801)
Increase in other current liabilities	(1,588)	(361)
Income taxes paid	(1,710)	(2,535)
Net cash provided by operating activities	4,855	14,688
Purchase of Property, Plant and Equipments	(8,639)	(6,257)
Proceeds from disposals of fixed assets	1,582	64
Loans and long-term bank deposits provided	9,271	(9,780)
Liabilities by CO2 emission quotas	4,283	-
Proceeds from liquidation of investments	-	-
Proceeds from disposal of other investments	(7)	6
Interest received and other financial income	584	404
Dividends received	-	16
Net cash used in investing activities	7,074	(15,547)
Proceeds from issue of new debts	-	12,078
Repayments of long-term debt	(333)	(5,372)
Increase/(Decrease) in short-term debt	(7,840)	-
Increase/(Decrease) in other financial liabilities	(3)	(720)
Interest paid and other financial costs	(1,379)	(2,893)
Dividends paid to non-controlling interest and payment on liquidation	(1,991)	(8,960)
Net cash provided by financing activities	(11,546)	(5,867)
(Decrease)/increase in cash and cash equivalents	383	(6,726)
Cash and cash equivalents at the beginning of the year	6,545	13,241
Cash and cash equivalents at the end of the year	6,928	6,515

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 2009

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 2009, MOL Plc. holds the majority of the shares.

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

The Group had 1,167 and 1,170 employees as at 31 December 2009 and 2008, respectively.

Consolidated subsidiaries

Company name	Country	Range of activity	Ownership 31 Dec 2009	Ownership 31 Dec 2008	Consolidation Method 31 Dec 2009
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

* Dissolution started on 1 July, 2009

** 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 2009 and 2008.

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

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

31 December 2009

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 11 March 2010.

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.

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

31 December 2009

The acquisition method of accounting is used for acquired businesses by measuring assets and liabilities at their fair values upon acquisition, the date of which is determined with reference to the date of obtaining control. The cost of an acquisition is measured at the aggregate of the consideration transferred and the amount of any non-controlling interest (formerly known as minority interest) in the acquiree. The income and expenses of companies acquired or disposed of during the year are included in the consolidated financial statements from the date of acquisition or up to the date of disposal.

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

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

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

Joint ventures

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

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

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

31 December 2009

When the Group contributes or sells assets to the joint venture, any portion of gain or loss from the transaction is recognized based on the substance of the transaction. When the Group purchases assets from the joint venture, the Group does not recognize its share of the profits of the joint venture from the transaction until it resells the assets to an independent party. Losses on intragroup transactions are recognised immediately if the loss provides evidence of reduced net realisable value of current assets or impairment loss.

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

Investments in associates

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

The Group's investments in its associates are accounted for using the equity method of accounting. Under the equity method, the investment in the associate is carried in the balance sheet at cost plus post acquisition changes in the Group's share of net assets of the associate. Goodwill relating to an associate is included in the carrying amount of the investment and is not amortised. The income statement reflects the share of the results of operations of the associate. Where there has been a change recognized directly in the equity of the associate, the Group recognizes its share of any changes and discloses this, when applicable, in the statement of changes in equity. Profits and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

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

Investments in associates are assessed to determine whether there is any objective evidence of impairment. If there is evidence that the recoverable amount of the investment is lower than its carrying value, then the difference is recognised as impairment loss in the income statement. Where losses were made in previous years, an assessment of the factors is made to determine if any loss may be reversed.

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

Other consolidated entities

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

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

31 December 2009

2.1 Changes in Accounting Policies

The accounting policies adopted are consistent with those applied in the previous financial years.

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 1 – First-time Adoption of International Financial Reporting Standards*

- *IFRS 2 – Share-based Payment*

- *IFRS 3 – Business Combinations (Revised)*

- *IFRS 7 – Financial Instruments: Disclosures*

- *IFRS 8 – Operating Segments*

- *IAS 1 – Presentation of Financial Statements*

- *IAS 16 – Property, Plant and Equipment*

- *IAS 19 – Employee Benefits*

- *IAS 20 – Accounting for Government Grants and Disclosures of Government Assistance*

- *IAS 23 – Borrowing costs*

- *IAS 27 – Consolidated and Separate Financial Statements*

- *IAS 28 – Investments in Associates*

- *IAS 29 – Financial Reporting in Hyperinflationary Economies*

- *IAS 31 – Investments in Joint Ventures*

- *IAS 32 – Financial Instruments: Presentation*

- *IAS 36 – Impairment of Assets*

- *IAS 38 – Intangible Assets*

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

31 December 2009

- IAS 39 – *Financial Instruments: Recognition and Measurement*

- IAS 40 – *Investment Property*

- IFRIC 15 – *Agreements for the Construction of Real Estate*

The Group has early adopted IFRS 3 *Business Combinations (Revised)* and IAS 27 *Consolidated and Separate Financial Statements* from 1 January 2009.

The principal effects of these changes are as follows:

IFRS 1 First-time Adoption of International Financial Reporting Standards

The new version of IFRS 1 retains the substance of the previous version, but with a changed structure. It replaces the old version of IFRS 1 and becomes effective for entities applying IFRSs for the first time for annual periods beginning on or after 1 January 2009.

IFRS 2 Share-based Payment

This amendment to IFRS 2 – Share-based Payment becomes effective for financial years beginning on or after 1 January 2009. It clarifies the definition of vesting and non-vesting conditions, as well as the accounting treatment of cancellations. The amendment did not have any material impact on the existing share-based scheme of the Group.

IFRS 3 Business Combinations (Revised)

The 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 introduces significant changes in the accounting for business combinations as outlined below:

Business combinations are accounted for using the acquisition method and all acquisition costs incurred are expensed as opposed to the previous version of IFRS 3 where business combinations were accounted for using the purchase method and transaction costs directly attributable to the acquisition formed part of the acquisition costs. For business combination achieved in stages, the acquirer's previously held equity interest in the acquiree is remeasured to fair value as at the acquisition date through profit and loss. At acquisition the embedded derivatives separated from the host contract by the acquiree are reassessed; while previously those were only assessed, if the business combination resulted in a change in the terms of the contract that significantly modified the cash flows that otherwise would have been required under the contract.

The IFRS 3 Revised allows a choice on the measurement of non-controlling interests either at fair value or at the non-controlling interests' proportionate share of the acquiree's net identifiable assets, where previously only the latter was permitted.

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

31 December 2009

Additional guidance is added on recognition and subsequent accounting requirements for contingent consideration. Under the previous version of the Standard, contingent consideration was recognised if, and only if, the Group had a present obligation that the economic outflow was more likely than not and a reliable estimate could be determined. Subsequent adjustments to the contingent consideration affected goodwill. The revised IFRS 3R measures contingent consideration at fair value at the acquisition date; subsequent adjustments to it are recognised against goodwill only to the extent that they arise from better information about the acquisition date fair value within a timeframe of 12 months from the acquisition date. All other subsequent adjustments are recognised in profit and loss.

IFRS 7 Financial Instruments: Disclosures

The amendments to IFRS 7 seek to enhance disclosures about fair value measurements and liquidity risk. Fair value measurements related to items recorded at fair value are to be disclosed by source of inputs using a three level fair value hierarchy. In addition, reconciliation between the beginning and ending balance for level 3 fair value measurements is required, as well as significant transfers between levels in the fair value hierarchy. The amendments also clarify the requirements for liquidity risk disclosures with respect to derivative transactions and assets used for liquidity management. The changes are effective starting on or after 1 January 2009.

IFRS 8 Operating Segments

IFRS 8 was issued in November 2006 and becomes effective for financial years beginning on or after 1 January 2009. 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. There are no changes in the current disclosures, as the primary business segments determined for reporting purposes qualify as operating segments under the new standard.

IAS 1 Presentation of Financial Statements

The revised standard (effective from 1 January 2009) separates owner and non-owner changes in equity. Therefore, the statement of changes in equity includes only details of transactions with owners, with all non-owner changes in equity presented as a single line. In addition, the standard introduces the statement of comprehensive income which presents all items of recognised income and expense, either in one single statement, or in two linked statements. The Group applies IAS 1 (Revised) from 1 January 2009 electing the option to present separate income statement and statement of comprehensive income as performance statements.

IAS 16 Property, Plant and Equipment

IASB replaced the term "net selling price" with "fair values less costs to sell". Items of property, plant and equipment held for rental that are routinely sold in the ordinary course of business after rental, are transferred to inventory when rental ceases and they are held for sale.

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IAS 19 Employee Benefits

This improvement revised the definition of 'past service costs', 'return on plan assets' and 'short-term' and 'other long-term' employee benefits. Amendments to plans that result in a reduction in benefits related to future services should be accounted for as curtailment. The reference to the recognition of contingent liabilities has been deleted to ensure consistency with IAS 37.

IAS 20 Accounting for Government Grants and Disclosures of Government Assistance

According to this improvement loans granted in the future with no or low interest rates will not be exempt from the requirement to impute interest. The difference between the amount received and the discounted amount should be accounted for as government grant. Also various terms had been changed in order to be consistent with other IFRS.

IAS 23 Borrowing Costs

The revised standard requires 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 has no impact on the consolidated financial statements.

IAS 27 Consolidated and Separate Financial Statements

The revised Standard became effective as of 1 July 2009. It requires that a change in the ownership interest of a subsidiary, which does not result in loss of control, is accounted for as a transaction with owners in their capacity as owners. Therefore, such transactions will no longer give rise to goodwill, nor it will they give rise to a gain or loss. In addition, the total comprehensive income is attributed to the owners of the parent and to the non-controlling interest 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. Furthermore, requirements have been added to treat changes in a parent's ownership interest in a subsidiary which result in loss of control of a subsidiary specifying that any gain or loss arising on the loss of control of a subsidiary must be recognized in profit or loss.

Additionally, when a parent entity accounts for subsidiary at fair value in accordance with IAS 39 in its separate financial statements, this treatment should continue when the subsidiary is subsequently classified as held for sale.

The revised standard has been early adopted by the Group together with IFRS 3 for periods beginning on or after 1 January 2009.

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IAS 28 Investments in Associates

If an associate is accounted for at fair value in accordance with IAS 39, only the requirement of IAS 28 to disclose the nature and extent of any significant restrictions on the ability of the associate to transfer funds to the entity in the form of cash or repayment of loans applies. This amendment has no impact on the Group as it does not account for its associates at fair value in accordance with IAS 39.

An investment in an associate is a single asset for the purpose of conducting the impairment test. Therefore, any impairment test is not separately allocated to the goodwill included in the investment balance. This amendment has no impact on the Group because this policy was already applied.

IAS 29 Financial Reporting in Hyperinflationary Economies

This amendment revised the reference to the exception to measure assets and liabilities at historical cost, such that it notes property, plant and equipment as being example, rather than implying that is a definitive list. Also various terms have been changed in order to be consistent with other IFRS.

IAS 31 Interests in Joint Ventures

If a joint venture is accounted for at fair value, in accordance with IAS 39, only the requirements of IAS 31 to disclose the commitments of the venturer and the joint venture, as well as summary financial information about the assets, liabilities, income and expense will apply. This amendment has no impact on the Group because it does not account for its joint ventures at fair value in accordance with IAS 39.

IAS 32 Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements – Puttable Financial Instruments and obligations Arising on Liquidation

These revised standards become effective for financial years beginning on or after 1 January 2009. They 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 has no impact on the existing financial instruments of the Group.

IAS 36 Impairment of Assets

When discounted cash flows are used to estimate 'fair value less cost to sell' additional disclosures required when the discounted cash flows are used to estimate 'value in use'. This amendment has no immediate impact on the consolidated financial statements of the Group because the recoverable amount of its CGUs is currently estimated using 'value in use'.

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IAS 38 Intangible Assets

Expenditure on advertising and promotional activities is recognised as an expense when the Group either has the right to access the goods or has received the service. This amendment has no impact on the Group because it does not enter into such promotional activities.

Additionally, the revised standard determines that in a business combination an intangible asset must be recognised separately from goodwill even, if it is separable together with a related contract. Complimentary intangible assets with similar useful lives or intangible assets which are only separable together with another intangible asset can be recognised together as a single asset.

IAS 39 Financial Instruments: Recognition and Measurement

According to this improvement, changes in circumstances relating to derivatives are not reclassifications and therefore may be either removed from, or included in, the 'fair value through profit or loss' classification after initial recognition. The reference in IAS 39 to a 'segment', when determining whether an instrument qualifies as a hedge, has been removed. The use of the revised effective interest rate also is required when re-measuring a debt instrument on the cessation of fair value hedge accounting.

IAS 40 Investment Property

This amendment revised the scope such that property under construction or development for future use as an investment property is classified as investment property. If fair value cannot be reliably determined, the investment under construction should be measured at cost until such time as fair value can be determined or construction is complete. The amendment also revised the conditions for voluntary change in accounting policy to be consistent with IAS 8 and clarified that the carrying amount of investment property held under lease is the valuation obtained increased by any recognised liability.

IFRIC 15 Agreements for the Construction of Real Estate

IFRIC 15 was issued in July 2008 and becomes effective for financial years beginning on or after 1 January 2009. The interpretation is to be applied retrospectively. It clarifies when and how revenue and related expenses from the sale of a real estate unit should be recognised if an agreement between a developer and a buyer is reached before the construction of the real estate is completed. Furthermore, the interpretation provides guidance on how to determine whether an agreement is within the scope of IAS 11 or IAS 18. IFRIC 15 has no an impact on the consolidated financial statement because the Group does not conduct such activity.

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:

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IFRS 1 (Revised) – First-time Adoption of International Financial Reporting Standards

The revised standard (effective from 1 January 2010) aims at simplifying the retrospective application of IFRSs in two particular situations. First, entity using the full-cost method is exempt from retrospective application of IFRSs for oil and gas assets. The entity, choosing to apply this exemption, will use the carrying amount under its old GAAP as the costs of its oil and gas assets at the date of first-time adoption of IFRSs. Second, entity is exempt from having to apply IFRIC 4 *Determining whether an Arrangement Contains a Lease* when it adopts IFRSs, if the entity made the same type of determination of whether an arrangement contains a lease in accordance with its previous GAAP as that required by IFRIC 4. The group will apply IFRS 1 (Revised) from 1 January 2010. The revision will have no material impact on the currently reported financial position of the Group.

IFRS 2 Share-based Payment (amendment) – Cash-settled Share-based Payment Transactions

The amendments to IFRS 2 *Share-based Payment* become effective for financial years beginning on or after 1 January 2010 and must be applied retrospectively. They clarify how an individual subsidiary in a group should account for share-based payment arrangements in its own financial statements. The amendments to IFRS 2 also incorporate guidance previously included in IFRIC 8 *Scope of IFRS 2* and IFRIC 11 *IFRS 2 – Group and Treasury Share Transactions*. As a result IFRIC 8 and IFRIC 11 have been withdrawn.

IFRS 9 Financial Instruments – Classification and measurement

The IFRS 9 was issued on 12 November 2009 and is intended to replace IAS 39 *Financial Instruments: Recognition and measurement*. The standard introduces new requirements for classifying and measuring financial assets that must be applied starting 1 January 2013. According to IFRS 9 all financial assets are initially recognised at fair value plus transaction costs. The standard also eliminates the currently existing in IAS 39: available-for-sale and held-to-maturity categories.

IAS 24 Related Party Disclosure

The amendments to IAS 24 *Related Party Disclosures* become effective for financial years beginning on or after 1 January 2010 and must be applied retrospectively. The revised standard simplifies the disclosure requirements for entities that are controlled, jointly controlled or significantly influenced by a government and clarifies the definition of a related party. As a result, such a reporting entity is exempt from the general disclosure requirements in relation to transactions and balances with the government and government-related entities.

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IFRIC 17 Distributions of Non-cash Assets to Owners

IFRIC 17 was issued in November 2008 and becomes effective for financial years beginning on or after 1 July 2009. This interpretation provides guidance on the accounting treatment when an entity distributes assets other than cash as dividends to its shareholders. The dividend should be measured at the fair value of the assets distributed and the difference between this amount and the previous carrying amount of the assets distributed should be recognised in profit or loss when the entity settles the dividend payable. This interpretation has no impact on the Group because dividend is distributed in cash.

IFRIC 18 Transfers of Assets from Customers

IFRIC 18 was issued in January 2009 and becomes effective for financial years beginning on or after 1 July 2009. Entities in specific sectors often receive items of property, plant and equipment from their customers, or cash to acquire or construct specific assets. These assets are then used to connect customers to a network and/or provide them with ongoing access to a supply of goods and/or services. This interpretation provides guidance on when and how an entity should recognise such assets. When the item of property, plant and equipment transferred from a customer meets the definition of an asset under the IASB Framework from the perspective of the recipient, the recipient must recognise the asset in its financial statements. If the customer continues to control the transferred item, the asset definition would not be met even if ownership of the asset is transferred to the utility or other recipient entity. This interpretation is not expected to have no material effect on the Group's financial statements.

Improvements to IFRSs

In April 2009 the Board issued its first collection of amendments to its standards, primarily view to remove inconsistencies and clarify wording. These amendments will be effective from 1 January 2010. The Group has not yet adopted the following amendments but it is anticipated that these changes will have no material effect on the Group's financial statements.

IFRS 2 Share-based Payment

IFRS 2 excludes from its scope transactions that meet the definition of a business combination under IFRS 3 Business Combinations.

IFRS 5 Non-current assets Held for Sale and Discontinued Operations

This amendment specifies the disclosures required in connection with non-current assets (or disposal groups) classified as held for sale or discontinued operations. Disclosures in other IFRSs do not apply to such assets unless the particular standard requires a disclosure in respect of non-current assets classified as held for sale or discontinued operations.

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IFRS 8 Operating Segments

This amendment clarifies that a measure of total assets shall be reported, if such a measure is reported to the management of the entity.

IAS 1 Presentation of Financial Statements

The amendment clarifies the classification between current and non-current convertible instruments.

IAS 7 Statement of Cash Flows

The amendment constitutes that only expenditure that results in asset recognition can be classified as “investing” in the statement of cash flows.

IAS 17 Leases

The amendment determines that for those land leases for which retrospective information is available, a classification reassessment of unexpired leases based on conditions at inception date should be carried out. Additionally, an entity should retrospectively recognise land leases that are currently finance leases based on their fair values at the inception date of the lease.

IAS 32 Financial Instruments: Presentation

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

IAS 36 Impairment of Assets

The amendment determines that the unit of allocation of goodwill when testing for impairment should not be larger than an operating segment as defined in IFRS 8.

IAS 39 Financial Instruments: Recognition and Measurement

The amendment clarifies when gains or losses on hedging instruments should be reclassified from equity to profit or loss. In addition, forward contracts entered into as part of a business combination are exempt from the scope of IFRS 39.

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2.2 Summary of significant accounting policies

i) Presentation Currency

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

ii) Business Combinations

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

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

Contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration are adjusted against the cost of acquisition, only if they qualify as period measurement adjustments and occur within 12 months from the acquisition date. All other subsequent changes in the fair value of contingent consideration are accounted for either in profit or loss or as changes to other comprehensive income. Changes in the fair value of contingent consideration classified as equity are not recognised.

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the business combination over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities. If the consideration transferred is lower than the fair value of the net assets of the acquiree, the difference is then recognised in profit or loss. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash generating units, or groups of cash generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is allocated represents the lowest level within the Group at which the goodwill is monitored for internal management purposes, and is not larger than a segment based on the Group's reporting format determined in accordance with IFRS 8 Operating Segments.

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

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

iii) Investments and Other Financial Assets

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

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

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

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

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss 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 as finance income or finance expense in the income statement.

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

As at 31 December 2009 and 2008, 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.

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

Fair Value

For investments that are actively traded in organised financial markets, fair value is determined by reference to quoted market prices at the close of business on the balance sheet date without any deduction for transaction costs. For investments where there is no quoted market price, fair value is determined by reference to the current market value of another instrument which is substantially the same or is calculated based on the expected cash flows of the underlying net asset base of the investment.

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iv) Classification and Derecognition of Financial Instruments

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

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

The derecognition of a financial asset takes place when the Group no longer controls the contractual rights that comprise the financial asset, which is normally the case when the instrument is sold, or all the cash flows attributable to the instrument are passed through to an independent third party. When the Group neither transfers nor retains all the risks and rewards of the financial asset and continues to control the transferred asset, it recognises its retained interest in the asset and a liability for the amounts it may have to pay.

v) Derivative Financial Instruments

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

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

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

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

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

vi) Hedging

For the purpose of hedge accounting, hedges are classified as

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

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

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

Fair value hedges

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

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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 the income statement.

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

Cash-flow hedges

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

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

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

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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 as other comprehensive income while any gains or losses relating to the ineffective portion are recognized in the income statement. On disposal of the foreign operation, the cumulative value of any such gains or losses recognized as other comprehensive income is transferred to the income statement. The Company had no derivative financial instrument and hedging transactions in 2008 and 2009.

vii) Impairment of financial assets

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

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.

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.

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

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.

For the purpose of the consolidated statement of cash flows, cash and cash equivalents are reported net of outstanding bank overdrafts.

ix) Trade Receivables

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

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

x) Inventories

Inventories, including work-in-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.

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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 2009 and 2008 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.

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

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xiii) Depreciation, Amortization

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

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

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

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

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

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

xiv) Impairment of Assets

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

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

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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 10.19 % (2008: 5.21 %).

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

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

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

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xv) Interest-bearing loans and borrowings

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

xvi) Provisions

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

Provision for Redundancy

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

Provision for Environmental Expenditures

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

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

xvii) Greenhouse gas emissions

The Group receives free emission rights in Hungary as a result of the European Emission Trading Schemes. The rights are received on an annual basis and in return the Group is required to remit rights equal to its actual emissions. The Group has adopted a 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., whereby they are matched to the emission liabilities and remeasured to fair value.

xviii) Share-based payment transactions

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

Equity-settled transactions

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

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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.

xix) Leases

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

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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.

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.

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xxii) Treasury Shares

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

xxiii) Dividends

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

xxiv) Revenue Recognition

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

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

xxv) Borrowing Costs

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

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xxvi) Income Taxes

The income tax charge consists of current and deferred taxes.

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

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

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

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

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

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

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

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

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

xxvii) Foreign Currency Transactions

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

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

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

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

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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).

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.

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2.3 Significant accounting judgments and estimates

Critical judgments in applying the accounting policies

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

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

Sources of estimate uncertainty

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

- Scope of environmental provision and quantification and timing of environmental liabilities (Note 14, 26)
- The availability of taxable income against which deferred tax assets can be recognized (Note 23)
- 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 2009 and 2008 were as follows:

	Goodwill HUF million	Property rights HUF million	Software HUF million	Total HUF million
At 1 January 2008				
Gross book value	92	-	6,783	6,875
Accumulated amortization and impairment	-	-	(3,068)	(3,068)
Net book value	92	-	3,715	3,807
Year ended 31 December 2008				
- additions	-	-	180	180
- amortization for the year	-	-	(503)	(503)
- impairment	-	-	-	-
- transfers	-	-	8	8
Closing net book value	92	-	3,400	3,492
At 31 December, 2008				
Gross book value	92	-	6,969	7,061
Accumulated amortization and impairment	-	-	(3,569)	(3,569)
Net book value	92	-	3,400	3,492
Year ended 31 December 2009				
- additions	-	473	52	525
- amortization for the year	-	-	(548)	(548)
- impairment	-	-	-	-
- transfers	-	(471)	-	(471)
Closing net book value	92	2	2,904	2,998
At 31 December, 2009				
Gross book value	92	2	7,020	7,114
Accumulated amortization and impairment	-	-	(4,116)	(4,116)
Net book value	92	2	2,904	2,998

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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 2009			31 December 2008		
	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 2009 and 2008 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 2008					
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
Year ended 31 December 2008					
- additions	-	-	-	4,359	4,359
- capitalization	1,570	1,739	910	(4,219)	-
- additions by newly founded subsidiaries	-	-	-	-	-
- depreciation for the year	(1,402)	(9,636)	(1,423)	-	(12,461)
- impairment	(162)	(18)	(5)	-	(185)
- disposals	(15)	-	(2)	-	(17)
- transfers and other changes	-	(16)	694	(8)	670
Closing net book value	32,532	96,205	6,807	2,289	137,833
At 31 December, 2008					
Gross book value	44,346	169,238	19,821	2,289	235,694
Accumulated depreciation and impairment	(11,814)	(73,033)	(13,014)	-	(97,861)
Net book value	32,532	96,205	6,807	2,289	137,833
Year ended 31 December 2009					
- additions	-	-	-	8,150	8,150
- capitalization	1,186	6,672	581	(8,439)	-
- additions by newly founded subsidiaries	-	-	-	-	-
- depreciation for the year	(1,428)	(9,501)	(901)	-	(11,830)
- impairment	(8)	(215)	(1)	(7)	(231)
- disposals	(143)	-	(3)	-	(146)
- transfers and other changes	(3)	(17)	(96)	-	(116)
Closing net book value	32,136	93,144	6,387	1,993	133,660
At 31 December, 2009					
Gross book value	45,101	174,144	20,109	1,993	241,347
Accumulated depreciation and impairment	(12,965)	(81,000)	(13,722)	-	(107,687)
Net book value	32,136	93,144	6,387	1,993	133,660

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Impairment

	31 December 2009 HUF million	31 December 2008 HUF million
Scraps	171	23
Change in the planned duration of periodic maintenance	60	-
Impairment on the basis of market price	-	162
Total	<u>231</u>	<u>185</u>

Leased assets

Property, plant and equipment includes machinery under finance leases:

	31 December 2009 HUF million	31 December 2008 HUF million
Gross value	478	478
Accumulated depreciation	429	379
Net book value	<u>49</u>	<u>99</u>

Pledged assets

None of the assets of the Company were pledged as of 31 December 2009 and 2008. Assets of TVK Erőmű Kft. (HUF 10,512 million) and assets of Tisza-WTP Kft. (HUF 1,514 million) are pledged as collateral for long-term investment loans.

Borrowing Costs

Property, plant and equipment include borrowing costs incurred in connection with the construction of certain assets. There were no capitalised borrowing costs in 2009, that are directly attributable to the acquisition, construction or production of a qualifying asset.

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5. Investment in associated companies

The Group's financial investments as of 31 December 2009 and 2008 were as follows:

Company name	Country	Date of foundation	Range of activity	Ownership 31 Dec 2009	Ownership 31 Dec 2008	Net book value of investment 31 Dec 2009 HUF million	Net book value of investment 31 Dec 2008 HUF million
Associates							
TMM Tűzoltó és Műszaki Mentő Kft.	Hungary	1995	Fire prevention, technical rescue, technical supervision	30%	30%	114	114
VIBA-TVK Kft.*	Hungary	1993	Producing black polymer dye	40%	40%	-	64
Total associates						114	178
Total						114	178

* Dissolution process finished on 8 February 2010.

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Financial information on associates

Main financial data of the Group associates at 31 December 2009 (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 and loss for the year
	HUF million	HUF million	HUF million	HUF million
TMM Tűzoltó és Műszaki Mentő Kft.	454	45	532	15

Main financial data of the Group associates at 31 December 2008 (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 and loss for the year
	HUF million	HUF million	HUF million	HUF million
TMM Tűzoltó és Műszaki Mentő Kft.	439	45	544	9
VIBA-TVK Kft.	466	305	1,567	(53)

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6. Other non-current assets

The Group's other non-current assets as of 31 December 2009 and 2008 were as follows:

	31 December 2009 HUF million	31 December 2008 HUF million
Government bonds**	185	175
Loan to Plastico S.A.*	-	-
Other***	6	14
Total	191	189

*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 2009 and 2008, 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 6 million in 2009 (HUF 13 million 2008).

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7. Inventories

Inventories as of 31 December 2009 and 2008 were as follows:

	At cost	Net book value	At cost	Net book value
	31 December 2009		31 December 2008	
	HUF million			
Work in progress and finished goods	5,071	5,071	5,532	5,132
Raw-material	1,837	1,837	1,127	1,127
Other materials	956	716	903	648
Purchased goods	128	128	165	165
Total	7,992	7,752	7,727	7,072

The Group believes that the level of provision as of 31 December 2009 is sufficient to cover potential future losses. As of 31 December 2009 and 2008, no inventory owned by TVK Plc. was pledged as collateral.

The total amount of impairment was 240 HUF million and HUF 655 million as of 31 December 2009 and 2008, respectively (as cumulated figures).

Inventories are regularly reviewed for impairment.

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8. Trade receivables, net

Receivables as of 31 December 2009 and 2008 were as follows:

	31 December 2009 HUF million	31 December 2008 HUF million
Domestic debtors	20,416	17,123
- of which: MOL Group members	7,016	2,914
Associates	-	92
Export debtors	23,238	19,982
- of which: MOL Group members	747	100
	<u>43,654</u>	<u>37,105</u>
Less: provision for doubtful debts	(198)	(96)
Total	<u>43,456</u>	<u>37,009</u>

Movements in the provision for doubtful receivables were as follows:

	31 December 2009 HUF million	31 December 2008 HUF million
At 1 January	96	50
Additions	104	47
Reversal	(2)	(1)
	<u>198</u>	<u>96</u>
At 31 December	<u>198</u>	<u>96</u>

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As at 31 December 2009 and 2008 the analysis of trade receivables that were past due is as follows:

	31 December 2009	31 December 2008
	HUF million	HUF million
Neither past due nor impaired	40,592	34,414
Past due but not impaired	2,864	2,595
Within 90 days	2,034	2,486
91 - 180 days	483	98
Over 180 days	347	11
Total	<u>43,456</u>	<u>37,009</u>

The Group recorded a write-off on doubtful debts of HUF 1 million and HUF 18 million in 2009 and 2008, respectively. Income from bad debts, written off receivables of HUF 10 million and HUF 30 million in 2009 and 2008, respectively.

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

Export receivables are denominated primarily in EUR, USD and PLN and are recorded at the exchange rate as of 31 December 2009 and 2008. The resulting gain or loss is classified in a net amount either as other income or other expense, respectively (see notes 19 and 21) in the accompanying income statements.

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9. Other current assets

Other current assets as of 31 December 2009 and 2008 were as follows:

	31 December 2009 HUF million	31 December 2008 HUF million
Reclaimable VAT	11,055	4,535
Loan to MOL	1,860	10,627
Prepayments	90	112
Advances to suppliers	42	28
Loans to employees and other receivables	20	36
Accrued income	13	21
Interest receivables	8	39
Loan to Plastico S.A.*	-	-
Other	255	35
Total	<u>13,343</u>	<u>15,433</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.

Analysis of loans receivable

	31 December 2009 HUF million	31 December 2008 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 2009 HUF million	31 December 2008 HUF million
At 1 January	323	323
Additions	-	-
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 2009 and 2008 were as follows:

	31 December 2009 HUF million	31 December 2008 HUF million
Cash at bank – EUR	4,656	3,980
Cash at bank – HUF	1,986	2,182
Cash at bank – PLN	143	201
Cash at bank – USD	132	122
Cash at bank – other currencies	21	58
Cash on hand – other currencies	2	1
Cash on hand – HUF	2	1
Total	6,942	6,545

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11. Share capital

Share capital as of 31 December 2009 was as follows:

Shareholder	Number of shares	Face value (HUF)	Total (HUF million)	Shareholding %
Domestic entities	21,484,808	1,010	21,700	88.44
International entities	2,391,740	1,010	2,416	9.85
Domestic private investors	406,187	1,010	410	1.67
International private investors	6,680	1,010	7	0.03
Unregistered investors	1,428	1,010	1	0.01
Total	24,290,843		24,534	100.00

Shareholders with a shareholding above 5% registered in the Share Register as of 31 December 2009:

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 2009:

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 2008 was as follows:

Shareholder	Number of shares	Face value (HUF)	Total (HUF million)	Shareholding %
Domestic entities	21,530,125	1,010	21,746	88.63
International entities	2,416,138	1,010	2,440	9.95
Domestic private investors	339,587	1,010	343	1.40
International private investors	2,391	1,010	2	0.01
Unregistered investors	2,602	1,010	3	0.01
Total	24,290,843		24,534	100.00

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Shareholders with a shareholding above 5% registered in the Share Register as of 31 December 2008:

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

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

Share capital by type of shares as of 31 December 2008:

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 separate financial statements of TVK Plc. is HUF 111,073 million and HUF 122,968 million as of 31 December 2009 and 2008, respectively.

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13. Long-term debt, net of current portion

Long-term debt, net of current portion as of 31 December 2009 and 2008 were as follows:

	Weighted average interest rate 2009	Weighted average interest rate 2008	31 December 2009 HUF million	31 December 2008 HUF million
Secured bank loan of TVK Erőmű Kft. in EUR**	2.54%	5.71%	7,866	8,385
Secured bank loan of Tisza-WTP Kft. in EUR***	3.10%	5.69%	1,335	1,431
Unsecured loan in EUR from MOL Plc. (majority stakeholder)*	-	5.25%	-	15,887
Other****			3,324	3,592
Total long term debt			11,525	29,295
Current portion of long-term debt			893	16,709
Total long-term debt, net of current portion			11,632	12,586

*On 22 December 2004, the Company from a loan facility of EUR 280 million granted by MOL Hungarian Oil and Gas Company (MOL). EUR 60 million on 31 December, 2008 after year end revaluation, what was repaid in 2009.

**On 26 July 2002, TVK Erőmű Kft. signed a project financing agreement with OTP Bank Rt., and the facility, that amounted to HUF 9,810 million (EUR 40 million), had been fully drawn by 31 December 2004. The loan is secured by a pledge on TVK Erőmű Kft's assets. At the end of 2009 the short-term part of the loan amounts to HUF 763 million (EUR 2,816 thousand) reported as short-term loan payable.

*** In order to implement a water treatment plant to be operated by Tisza WTP Kft., on 17 December 2002, the Kft. signed a long-term project and development loan agreement for HUF 1,883 million (EUR 8 million) with OTP Bank Rt. By the end of the availability period (29 December 2003), the Kft. had drawn down a total of EUR 7,340,000 from the facility. The project loan is secured by the Company's assets. At the end of 2009, Tisza WTP Kft. reclassified an instalment of HUF 136 million (EUR 504 thousand) due in 12 months to current liabilities.

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

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

	31 December 2009 HUF million	31 December 2008 HUF million
Maturity two to five years	4,165	3,832
Maturity over five years	7,467	8,754
Total	11,632	12,586

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14. Provision for liabilities and charges

Provisions for expected liabilities and charges as of 31 December 2009 and 2008 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 2008	3,009	27	267	224	80	3,607
Provision made during the year and revision of previous estimate	170	20	39	(24)	33	238
Unwinding of the discount	154	-	9	10	-	173
Provision used during the year and revision of previous estimate	(770)	-	(22)	(31)	(78)	(901)
Balance as of 31 December 2008	2,563	47	293	179	35	3,117
Provision made during the year and revision of previous estimate	135	15	29	51	65	295
Unwinding of the discount	163	-	6	6	-	175
Provision used during the year and revision of previous estimate	(890)	(6)	(21)	(30)	(36)	(983)
Balance as of 31 December 2009	1,971	56	307	206	64	2,604
Current portion 31 December 2008	293	-	21	44	35	393
Non-current portion 31 December 2008	2,270	47	272	135	-	2,724
Current portion 31 December 2009	194	-	20	30	64	308
Non-current portion 31 December 2009	1,777	56	287	176	-	2,296

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 26) 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 2009.

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Provision for long term employee retirement benefits

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 TVK. Principal actuarial assumptions state an approximately 2% difference between the discount rate and the future salary increase. As of 31 December 2009 the Company has recognized a provision of HUF 307 million to cover its estimated obligation regarding future retirement benefits payable to current employees expected to retire from group entities.

Provision for Old Team benefits

Every five years, TVK pays a fix set amount to all employees who had worked at least 10 years for the Company. On 31 December 2009, based on actuarial calculations, the Company made HUF 206 million provision for the future Old Team benefits of current employees.

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

	2009	2008
Discount rate in %	3.0-5.0	3.0-6.0
Average wage increase in %	1.0-3.0	1.0-4.0
Mortality index (male)	0.06-3.45	0.06-2.82
Mortality index (female)	0.02-1.50	0.02-1.15

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15. Other non-current liabilities

	31 December 2009 HUF million	31 December 2008 HUF million
Forward of CO2 emission quota	4,281	-
Other	7	13
Total	<u>4,288</u>	<u>13</u>

16. Trade and other payables

The Group's payables and other current liabilities as of December 2009 and 2008 were as follows:

	31 December 2009 HUF million	31 December 2008 HUF million
Domestic trade creditors	32,258	14,277
- of which: MOL Group members	26,237	10,699
Associates	58	50
Import creditors	1,665	1,100
- of which: MOL Group members	516	80
Suppliers related to capital projects	1,586	1,619
- of which: MOL Group members	261	501
Discount payable to customers	3,195	3,863
Accrued expenses	1,591	2,641
Dividend payable to the majority owner of TVK Erőmű Kft.	655	357
Amounts due to employees and related contributions	297	303
Dividend payable to owner of Tisza-WTP Kft.	121	64
State budget taxes	59	65
Deferred other revenues	40	1
Dividends payable*	8	7
Other	100	95
Total	<u>41,575</u>	<u>24,392</u>

*Dividend payable in 2009 are related to 2005's, 2007's and 2008's dividend which hasn't been paid yet.

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17. Short-term debt

	31 December 2009 HUF million	31 December 2008 HUF million
Revolving loan in EUR from MOL Plc. (majority stakeholder)*	9,469	-
Unsecured loans	9	-
Total short term debt	9,478	-

* On 21 December 2009, the Company utilized HUF 13,805 million (EUR 50 million) from the revolving loan of EUR 100 million granted by MOL Hungarian Oil and Gas Company (MOL), and it repaid HUF 4,152 million (EUR 15 million). The amount of loan from MOL is HUF 9,469 million (EUR 35 million) on December 31, 2009 after year end revaluation.

18. Net sales by geographical area

Net sales by geographical area as of 31 December 2009 and 2008 were as follows:

	2009 HUF million	2008 HUF million
Hungary (reduced by quantity discount)	133,787	166,297
Germany	23,628	31,368
Italy	21,830	25,623
Poland	21,325	23,396
Slovakia	7,030	8,892
Romania	4,611	7,572
Austria	4,232	6,349
United Kingdom	3,106	5,829
France	3,911	4,929
Other European Countries	34,559	40,501
Non-European Countries	9,330	5,073
- Quantity discount of foreign sales	(1,977)	(2,423)
Total	265,372	323,406

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19. Other operating income

Other operating income as of 31 December 2009 and 2008 were as follows:

	2009 HUF million	2008 HUF million
Gain on sale of CO2 emission quota received free of charge	1,433	-
Foreign exchange gain on receivables and payables, net	441	-
Default interest received, indemnity, penalties	93	117
Retrospective discount	14	27
Donations received	9	1
Gain on the disposal of tangible assets	3	47
Other	56	24
Total	<u>2,049</u>	<u>216</u>

20. Personnel expenses

Personnel expenses as of 31 December 2009 and 2008 were as follows:

	2009 HUF million	2008 HUF million
Wages and salaries	6,589	6,292
Social security	2,142	1,982
Other personnel expenses	1,012	1,054
Total	<u>9,743</u>	<u>9,328</u>

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21. Other operating expenses

Other operating expenses as of 31 December 2009 and 2008 were as follows:

	2009 HUF million	2008 HUF million
Insurance premium	987	794
Utilization of CO2 emission quota purchased	471	-
Rental costs, leasing	424	510
Property protection and fire prevention	421	431
Administrative charges and duties	254	199
Public sanitation	222	271
Consulting, advisory and auditing costs	210	299
Bank charges	176	190
Local taxes	169	174
PR and promotion	156	256
Damages, default interest, penalties, fines	151	45
Elimination of waste	142	129
Receivables impairment, net	102	34
Donations, contributions to set off costs and expenses	85	77
Debt forgiven	3	2
Foreign exchange loss of receivables and payables, net	-	632
Other	5	198
Total	3,978	4,241

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22. Financial (income) / expense

The financial (income) / expense as of 31 December 2009 and 2008 was as follows:

	2009 HUF million	2008 HUF million
Interest received	535	377
Impairment, reverse impairment and revaluation of securities	9	4
Dividend received	-	16
Other	18	20
Total financial income	562	417
Interest expense*	1,486	1,971
Foreign exchange losses of loans	305	1,566
Discounts given for early payment of receivables	283	380
Interest on provision	175	173
Other	8	10
Total financial expenses	2,257	4,100
Total financial (income) / expense, net	1,695	3,683

* Interest expense of the Group for 2009 includes HUF 690 million (2008: HUF 421 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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23. Income taxes

Corporate income tax:

In 2009, TVK Nyrt had a negative profit before taxation, which was further decreased by the tax base corrections. This caused that neither corporate income tax, nor solidarity tax were arisen. The current corporate income taxes contain the consolidated companies' corporate income taxes.

Deferred tax:

Total applicable income taxes reported in the consolidated financial statements for the years ended 31 December 2009 and 2008 include the following components:

	2009 HUF million	2008 HUF million
Local trade tax	585	997
Current corporate income taxes	196	263
Innovation fee	11	11
Deferred income taxes	(876)	(271)
Total income tax expense / (benefit)	(84)	1,000

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The deferred income/expense consisted of the following items as of 31 December 2009 and 2008:

	Balance sheet		Effect on profit and loss	
	2009 HUF million	2008 HUF million	2009 HUF million	2008 HUF million
Depreciation	10,608	7,933	2,675	1,243
Environmental provision	(374)	(410)	36	71
Statutory tax losses carried forward	(5,454)	(2,443)	(3,011)	(1,475)
Impairment losses and other provisions	(1,380)	(722)	(658)	74
Differences due to capitalisation according to IFRS	37	41	(4)	(7)
Capitalized periodic maintenance cost	110	24	86	(97)
Other	0	0	0	(80)
Total deferred tax	3,547	4,423	(876)	(271)

The Group recognized of HUF 5,454 million deferred tax assets from tax losses of HUF 28,706 million (of which TVK Plc. HUF 23,140 million, TVK-Erőmű Kft. HUF 3,906 million, TVK Ingatlankezelő Kft. HUF 1,472 million, Tisza Wtp. Kft. HUF 188 million) that are available indefinitely for offset against future taxable profits of the companies in which the losses arose. The amount of such tax losses was HUF 15,269 million as of 31 December 2008. Deferred tax assets arising from negative profit before tax at group companies are not recognized if it is probable that no future taxable income will be available to offset these deferred tax assets. In 2009 the Group has recognized deferred tax effects in respect of losses at Group companies.

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

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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:

	2009 HUF million	2008 HUF million
Profit before tax per consolidated income statement	<u>(9,276)</u>	<u>854</u>
Tax at the applicable tax rate (16%)	(1,484)	137
Tax holiday available	-	-
Revaluation of deferred tax assets and liabilities	-	-
Impact of changes in Hungarian tax legislation	534	-
Solidarity surplus tax	22	28
Adjustment to the period of realization	-	-
Losses of subsidiaries not recognized as an asset	-	-
Differences not expected to reverse	130	(175)
Effect of different tax rates	69	109
Local tax	508	837
Other	<u>137</u>	<u>64</u>
Total income tax expense / (benefit)	<u>(84)</u>	<u>1,000</u>

24. Earnings per share (EPS)

The Group's earnings per share based on consolidated information for 31 December 2009 and 2008 are as follows:

	2009	2008
Net income, IFRS (million HUF)	(9,192)	(146)
Weighted average of shares outstanding in the period (pieces)	24,290,843	24,290,843
EPS (HUF 1,010 face value)	HUF (378)	HUF (6)

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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25. Financial instruments

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

The following tables sets out the carrying amount, by maturity of the Group's financial instruments that bear interest as of 31 December 2009:

	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*	6,942	-	-	-	-	-
Government bonds**(2013/C)	-	-	-	185	-	-
Loan to MOL	1,860	-	-	-	-	-
Borrowing from MOL Plc*	(9,469)	-	-	-	-	-
Capital project loan	(1,109)	(1,214)	(1,289)	(1,357)	(1,372)	(4,497)
Forward quota	-	(1,930)	(2,351)	-	-	-

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

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

The following tables sets out the carrying amount, by maturity of the Group's financial instruments that bear interest as of 31 December 2008:

	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*	6,545					
Government bonds**(2013/C)	-	-	-	-	175	-
Loan to MOL	10,627	-	-	-	-	-
Borrowing from MOL Plc*	(16,639)	-	-	-	-	-
Capital project loan	(1,330)	(1,378)	(1,368)	(1,374)	(1,377)	(5,839)

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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 2009 and 2008.

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 2009	31 December 2008
	HUF million	HUF million
Long-term debt, net of current portion	11,632	12,586
Current portion of long-term debt	893	16,709
Short-term debt	9,478	-
Less: Cash and cash equivalents	6,942	6,545
Net debt	15,061	22,750
Equity attributable to equity holders of the parent	137,387	148,541
Non-controlling interest	-	-
Total capital	137,387	148,541
Capital and net debt	152,448	171,291
Gearing ratio (%)	9.88	13.28

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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 2009, TVK Plc. did not have any forward or option contract nor had other derivatives to hedge FX risks. The loan granted to the Company is denominated in EUR in order to reduce exchange rate risks.

Sensitivity analysis for key exposures

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

Effect on profit from operations	2009 HUF billion	2008 HUF billion
Petrochemical		
Brent crude oil price (change by +/- 5 USD/bbl; with fixed crack spreads and petrochemical margin)	- / + 3.0	- / + 3.7
Integrated petrochemical margin (change by +/- 10 EUR/t)	+ / - 2.0	+ / - 1.8
Exchange rates (change by +/- 10 HUF/USD; with fixed crack spreads)	- / + 6.4	- / + 11.0
Exchange rates (change by +/- 10 HUF/EUR; with fixed crack spreads / targeted petrochemical margin)	+ / - 10.8	+ / - 10.1

Credit risk

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

Interest rate risk management

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

As of 31 December 2009 and 2008, 100% of the Company's debt was at variable rates respectively.

As of 31 December 2009 and 2008, there was no open interest rate swap transaction.

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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 2009 consists the followings:

	2009 HUF million	2008 HUF million
Short - term facilities available		
- bank	3,000	4,324
- majority stakeholder	17,615	-
Total loan facilities available	20,615	4,324

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26. Commitments and contingency liabilities

APEH revision

In 2008, the Hungarian Tax and Financial Control Administration (APEH) conducted a full scope tax audit at the Company with respect to the year 2004 to 2005. The result of the tax audit was tax difference of HUF 435.4 million, which generated HUF 153.4 million tax penalty and HUF 66.7 million default surcharge. The total amount of penalties were recognized in January, 2009.

In 2009, the Company made a statement of claim to Metropolitan Court for judicial review of APEH's adjudgement. This statement was refused. The Company made a further revisionary petition to Supreme Court. In accordance with the statement of claim, the Company didn't recognize provision for the results of tax audit. The establishments, which don't belong to this claim and their legal consequences (HUF 35 million) were shown in the Company's financial statements.

Operating leases

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

	31 December 2009 HUF million	31 December 2008 HUF million
Due not later than 1 year	-	6
Over 1 year	-	-
Total	-	6

Capital and contractual commitments

The total value of capital commitments as of 31 December 2009 is HUF 980 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 Zrt. in order for continuous operation of equipments in the power plant. As of 31 December 2009, 739 million cubic meters of natural gas (from which 628 mcm under take-or-pay commitment calculated with an average price) will be purchased during the period ending 2018 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 (ÉMIKÖTEVIFE) by the required deadline in 2004.

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

The submitted Technical 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.

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

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

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

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In 2009 and in 2008 HUF 185 million and HUF 179 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 line with strategic environmental planning, the highest priorities at the TVK-TIFO industrial site are to protect human ecological receptors and to minimise environmental exposures (i.e. to identify and prevent both horizontal and vertical spread of pollution).

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

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

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

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

During 2009, the Company continued the mapping of the resources, geological structure of the site and the water streams and started to integrate them into the hydrodynamic transport model. On the basis of surveys, the original extension of environmental pollution was determined. By reason of joint responsibility, the extent of liability was revised. Henceforth, the costs of implementing of technical intervention will be divided between TVK Plc. and MOL Plc. in 50-50 %. In consequence of this, provision was released in the amount of HUF 500 million in 2009.

TVK Plc. and MOL Plc., involving outsider specialists, set up a research project, which successfully applied for the tender „ For a Liveable Environment” invited by the National Technological Research Agency. The objective of the research programme is to prevent the transport of contaminants in the 16-32 m deep water-bearing zone and to study the methods of the reduction of their concentration.

The Company recognized – in consideration of the above-mentioned - environmental provision based on the currently available quantifiable future expenses in the amount of HUF 1,971 million as of 31 December 2009 (2008: HUF 2,563 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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27. Segmental information

The Group's sales per operational segment for the years 2009 and 2008 were as follows:

Segment	2009			2008		
	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	67,742	4,745	72,487	102,680	6,243	108,923
Polyethylene	17,254	92,671	109,925	20,937	108,689	129,626
Polypropylene	25,779	33,390	59,169	35,266	41,133	76,399
Other	23,012	779	23,791	7,414	1,044	8,458
Total*	133,787	131,585	265,372	166,297	157,109	323,406

* TVK Group had only one customer, MOL-Trade Plc., from which the revenue from transactions exceeded 10% of total revenues (See Note 28).

The gross book value of tangible fixed assets and accumulated depreciation per operational segment as of 31 December 2009 and 2008 were as follows:

Segment	31 December 2009			31 December 2008		
	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	119,554	46,812	72,742	114,905	41,187	73,718
Polyethylene	34,838	18,021	16,817	35,161	17,388	17,773
Polypropylene	26,349	17,589	8,760	25,815	16,393	9,422
Other	60,606	25,265	35,341	59,813	22,893	36,920
Total**	241,347	107,687	133,660	235,694	97,861	137,833

*Also contains construction in progress.

**Value of assets relating to foreign locations amounts to HUF 16 million. It is not significant to the total amount of assets.

Assets capitalised on a Group level in 2009 and 2008 were as follows:

Segment	2009		2008	
	Capitalised value	Of which: intangibles	Capitalised value	Of which: intangibles
	HUF million	HUF million	HUF million	HUF million
Olefin	6,602	-	1,359	-
Polyethylene	912	-	277	-
Polypropylene	400	-	508	-
Other	583	58	2,326	251
Total	8,497	58	4,470	251

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28. 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.

	2009 HUF million	2008 HUF million
Sales		
- of which: to MOL Group companies	65,875	60,209
of which Moltrade-Mineralimpex Zrt.	40,432	52,385
Slovnaft Pethrochemicals s.r.o.	6,165	5,954
MOL Plc.	19,167	1,218
Slovnaft a.s.	-	540
To other related parties	12	613
of which VIBA-TVK Kft. (associate)	9	611
Purchases		
- of which: from MOL Group companies	193,429	242,574
of which Moltrade-Mineralimpex Zrt.	174,758	226,085
MOL Energiakereskedő Kft.	4,176	6,251
Petroszolg Kft.	6,330	5,000
Slovnaft Pethrochemicals s.r.o.	3,035	1,029
Slovnaft a.s.	-	1
from other related parties	272	633
of which VIBA-TVK Kft. (associate)	2	386
of which Tűzoltó és Műszaki Mentő Kft	270	247

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29. Share-based payment plans

General Incentive Schemes for management

The incentive scheme involves company and organizational level financial and operational targets, evaluation of the contribution to the strategic goals of the company and determined individual tasks in the System of Performance Management (TMR), and competencies. Expenses incurred by this scheme were HUF 255 million, and HUF 245 million in 2009 and 2008, respectively.

The liabilities related to incentive scheme as of 31 December 2009 and 2008 were as follows:

	31 December 2009	31 December 2008
	HUF million	HUF million
Short term incentive	252	247
	252	247

Share-option incentive from 2006

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

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

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

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

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

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

	Number of shares in conversion options			
	2009	2008	2007	2006
	share	share	share	share
Outstanding at the beginning of 2009	-	15,000	13,427	12,417
Granted during the year	14,500	-	-	-
Forfeited during the year	-	(600)	-	-
Outstanding at the end of 2009	14,500	14,400	13,427	12,417

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 180 million, and HUF (114) million in 2009 and 2008, 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:

	2009	2009	2008	2007	2006
	(2 year	(3 years			
	waiting	waiting			
	period)	period)			
Weighted average exercise price *	41.88	41.88	104.82	21,146	20,170
Weighted average share price *	63.7	63.7	63.7	17,247.4	17,247.4
Expected volatility based on historical data	44.25 %	44.25 %	47.39 %	54.46 %	48.96 %
Expected dividend yield	1.93 %	1.93 %	1.93 %	1.93 %	1.93 %
Expected life (years)	4.0	4.0	3.0	2.0	1.0
Risk free interest rate	2.08 %	2.08 %	1.63%	6.97 %	6.30 %
Weighted average fair value of the options	30.1	29.8	8.4	4,452.9	3,172.9

* The units of measurement of values are EUR/share in 2009 and 2008, HUF/share in 2007 and 2006..

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Key management compensation

	2009	2008
	HUF million	HUF million
Salaries and other short-term employee benefits	223	225
Termination benefits	-	-
Post-employment benefits	-	-
Other long-term benefits	-	-
Share-based payment	129	(82)
Honoraria	131	103
Total	483	246

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.

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30. 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	Translation reserve	Shareholders' equity
	HUF million	HUF million	HUF million	HUF million	HUF million
31 December 2009– HAS	24,534	125,594	(9,897)	-	140,231
Effect of IFRS consolidation	-	250	(145)	-	105
Translation reserve	-	34	-	30	64
IFRS according to					
<u>IFRS adjustments</u>					
- Deferred tax	1	(3,987)	1,146	-	(2,841)
- Capitalised technical equipment	2	7,668	-	-	7,668
- Depreciation of technical equipment	2	(7,462)	(34)	-	(7,496)
- Capitalised periodic maintenance	3	1,326	996	-	2,322
- Amortisation of periodic maintenance costs capitalised	3	(1,207)	(534)	-	(1,741)
- Revaluation difference on investments	4	247	2	-	249
- Elimination of amortization of goodwill	5	92	-	-	92
- Management incentives	6	(273)	(74)	-	(347)
- CO2 emission quota	7	-	(742)	-	(742)
- Reserve change	-	6	(6)	-	-
- Other	-	(273)	96	-	(177)
31 December 2009 – IFRS Group	24,534	122,015	(9,192)	30	137,387

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	Share capital	Reserves	Net income	Translation reserve	Shareholders' equity
	HUF million	HUF million	HUF million	HUF million	HUF million
31 December 2008– HAS	24,534	126,917	675	-	152,126
Effect of IFRS consolidation	-	723	(473)	-	250
Translation reserve	-	26	-	8	34
IFRS according to					
<u>IFRS adjustments</u>					
- Deferred tax	1	(4,317)	330	-	(3,987)
- Capitalised technical equipment	2	7,668	-	-	7,668
- Depreciation of technical equipment	2	(7,427)	(35)	-	(7,462)
- Capitalised periodic maintenance	3	1,326	-	-	1,326
- Amortisation of periodic maintenance costs capitalised	3	(720)	(487)	-	(1,207)
- Revaluation difference on investments	4	265	(18)	-	247
- Elimination of amortization of goodwill	5	92	-	-	92
- Management incentives	6	(229)	(44)	-	(273)
- Other	-	(179)	(94)	-	(273)
31 December 2008 – IFRS Group	24,534	124,145	(146)	8	148,541

1. 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.

2. 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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3. 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).

4. 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.

5. 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.

6. 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 24 or 36 months in IFRS while under HAS it is recognized in this year.

7. CO2 emission quota

In accordance with IFRS, forward transaction sales should be recognised as long term liabilities, while under HAS it should be recognised as sales revenue, and provision should be booked for the deficit of emission quota.