

TVK ANNUAL REPORT

# 2012

ECONOMIC, SOCIAL AND ENVIROMENTAL PERFORMANCE



MEMBER OF THE MOL GROUP

# CONTENT



REVIEW OF THE YEAR	<ul style="list-style-type: none"> <li>5 TVK at a Glance</li> <li>8 Key financial and operating data</li> <li>9 Chairman's Letter</li> <li>11 Overview of the environment</li> </ul>
OUR BUSINESSES	<ul style="list-style-type: none"> <li>15 Our main strategic goals and results</li> <li>19 Consolidated Companies</li> <li>21 Our Production</li> <li>25 Our Sales</li> </ul>
FINANCIAL AND OPERATIONAL PERFORMANCE	<ul style="list-style-type: none"> <li>29 Management Discussion and Analysis on the results</li> <li>35 Consolidated Financial Statements</li> <li>37 Independent Auditors' Report</li> <li>39 Financial Statements</li> <li>45 Notes to the Consolidated Financial Statements</li> <li>101 Key Corporate Data</li> </ul>
SUSTAINABILITY	<ul style="list-style-type: none"> <li>107 Main results and goals</li> <li>113 Protecting the environment</li> <li>117 Human focus</li> <li>123 Our Integrated Management Systems</li> <li>125 Our social commitment</li> <li>127 Performance indicators</li> </ul>
CORPORATE GOVERNANCE	<ul style="list-style-type: none"> <li>133 Corporate Governance</li> <li>143 Elected officers of TVK Plc.</li> <li>152 Structure of Organization of TVK Plc. December 31, 2012</li> <li>153 Corporate information</li> <li>158 Glossary of terms</li> <li>163 Contact information</li> <li>164 Statement of responsibility</li> </ul>

# OUR BUSINESSES



# TVK AT A GLANCE



Tisza Chemical Group Public Limited Company (hereinafter TVK Plc. or TVK), located in Tiszaújváros, is the largest chemical enterprise in Hungary by sales revenue. TVK has more than four decade experience in producing commodity polymers in competitive quality for the plastics processing industry, which products are fundamental for a wide range of industrial application and for production of a huge number of consumer goods that are essential to our everyday lives. TVK shares are listed and traded on the Budapest Stock Exchange and on the International Order Book of the London Stock Exchange.

TVK, along with the petrochemical unit of Slovnaft a.s. in Bratislava – as part of the integrated Downstream Division of MOL Plc.- holds leading position in petrochemical sector in the Central Eastern Europe. Regarding the producing capacities, the two companies together are one of the ten largest polymer producers in Europe. TVK and its Slovakian partner are operated along the MOL Group optimum and exploit the benefits of integrated polymer sales.

## HIGHLIGHTS

- Continuing the Energy Saving and Emission Reduction program.
- Maintain rigorous control on costs and investment spending.
- Enhance the integrated operation in MOL Group Downstream Division.

### Our core lines of business

We supply polymer products in competitive quality mainly to European plastic processing companies. Beyond our main profile, we sell olefins and other petrochemical co-products to regional chemical and oil companies, so to MOL as well. Our core activity includes two major production lines:

- Olefin production: the production and wholesale distribution of ethylene, propylene and other co-products of olefin production. Our petrochemical feedstock is supplied from two sources: majority of that is produced by MOL Refining business unit and the remaining part is procured by Commercial business in MOL Downstream. We sell the significant part of our olefin co-products to MOL Refining Segment, the amount is approximately one third of our feedstock used. The majority of these co-products are used in the aromatic production and processed to fuel components. Our total ethylene capacity is 660 kilotons per annum.
- Polyolefin production: the production of low and high density polyethylene (LDPE, unimodal and bimodal HDPE) and polypropylene (PP copolymer and homogeneous polymer). Our annual capacity in case of LDPE is 65 kilotons, in case of HDPE is 420 kilotons and we have 280 kilotons PP capacity.

Exploiting the benefit from the presence of other MOL businesses we conduct our sales activity through polymer sales representatives at MOL's foreign trading subsidiaries in Austria, Poland, Germany, Italy, Romania and in Ukraine. TVK operates 100% owned sales subsidiary in France so far. Sales as well as customer support in technical issues to the key accounts and on other markets are managed from TVK and Slovnaft. We supply feedstock especially to European small and medium size plastic converters – 97% of our polymer products have been placed in European markets in 2012.

### Our major goals – competitiveness, efficiency, profitability

Enhancing our competitiveness we highly lean on the MOL Downstream Division integration synergies: the secured feedstock supply, the robust financial background and strong position in the regional markets, together with the competitive products of the optimized production capacities.

The petrochemical industry in Europe endured a harsh year. Whilst the global economy is growing, economies in Europe are hit by the credit crunch and economic restrictions, which had an immediate effect on the plastics markets. Concerns over a slowing European economy have a negative impact on polyolefin markets as well in 2012. Our customers, the plastic processing companies in Europe, were operating with reduced raw material stock level, only expectations of forthcoming price hikes changed this attitude temporarily. Their overall consumption of raw material was heavily curtailed by the protracted economic woes of the recession plagued Euro zone.

TVK can cope with these business challenges, due to our stable position in the regional polyolefin markets and by paying particular attention to the continuous improvement of our product quality and customer portfolio. This attention - along with the implementation of our energy strategy and cost cutting actions – and the good state of production facilities can guarantee the efficient operation for the forthcoming years.

In our sales and marketing activity we intend to strengthen our position in Central-Europe that is core region for refined products of MOL Group Downstream as well. Along the rapid growth potential anticipated in regional polymer demand, the attractiveness of proximate markets can be derived from the outstanding knowledge of specific economic and infrastructural characteristics in the region, from logistic advantages and the potential to build strategic customer relationships. Beyond the production of high quality products, our most relevant competitive advantages are sales and marketing services, customer care and support as well as production facilities that provide supply of competitive polyolefin products.

Due to maintenance shutdowns and the shift in demand for polyolefin in 2012, our polymer production volume decreased by 15% and

the polymer sales by 17% compared to volumes in the preceding year. Whilst polyolefin producers in Europe were struggling with similar market and profitability challenges in 2012, we managed to cope with these unfavourable business periods, due to our stable position in the relatively well performing regional polyolefin markets of Central Europe. We lay particular emphasis on better understanding of customer requirements and building stable business relations in order to improve a sustainable business model and to mitigate commercial risks in addition.

Technological breakdown caused fire in TVK LDPE-2 plant on October 31, 2012. The plant is permanently shut down, reparations are carried out continuously. We involved external experts in the investigation of the case and work out the necessary technical and safety measures.

Our Process Safety Management (PSM) system - based on Dupont methodology - is revealing and investigating operational risks, events and monitors the execution of preventive and corrective actions. PSM audits, conducted at production units are the other relevant processes, through we intend to increase operational safety in our petrochemical processes.

The performance of well prepared and committed professional staff can guarantee the sustainability of our business development. We continue development in the fields of environmental protection, social responsibility and attitude of business ethics, which can provide firm basis to our business operation. We take an active part in chemical industry associations and in professional preparatory works of regulations in the European Union.

#### Mission

Our company offers petrochemical products of excellent quality and high level services to its customers. Our products are fundamental for a wide range of industrial applications and for the production of a vast number of consumer goods that are essential to everyday life and provide more comfort and plenitude in people life. Using our products, many industrial sectors (for example automotive industry, building industry) are able to reduce the level of CO<sub>2</sub> emission occurring during using their products and consumables, so we endorse the battle against climate change. Continuous improvement and quality management in the widest sense are the essential parts of our business philosophy.

As a significant business player in Hungary we express our social

commitment towards the proper and wider society in many areas. Focusing on the Southern Borsod Region of Hungary, that is affected directly by our activity, we play important role in health promotion, talent management and education development. With aiming to establish long term relationship, we help organizations achieving outstanding result in culture and science development. We are proud of that we keep relationships for decades with cultural organisations and festivals having international fame and the Triathlon World Cup series that includes sport festival as well.

As member of the MOL Downstream Division, we conduced to enhance competitiveness and profitability in the refining business and we can mutually mitigate the risk profile as well.

#### Core values

- Our operation is competitive and value creating. Our business moves are based on long term and fair business relations, where we consistently keep our ethical norms.
- We are engaged to improve customer orientation – commitment to continuous improvement of service quality, provided to customers.
- We committed to responsibly stand up for health, safety and our natural environment protection.
- Quality consciousness, endeavour to operational excellence and the innovative approach are immersing our day-to-day operation. Accordingly our highly qualified, creative and motivated employees can participate in shaping the future of our company. This active contribution comes from open and cooperative atmosphere and corporate culture that respects for local and national characteristics.
- Focusing on people: although the industry we work in is widely known for its high operational risks, our work-related injury statistics show that we are in control of our operations in terms of health and safety.

Our corporate vision, which also reflects the outlines of our core values, takes shape in an awareness of our business environment, resources and capabilities.

#### Vision

We are to retain our leadership in the regional petrochemical industry by continuously developing our operating efficiency and the competitiveness of our assets. As the leading regional polymer producer, we are committed to pursue our activities according to the business philosophies of continuous development and

operational excellence. Our high quality portfolio of products - optimized in line with customer requirements - provide a firm basis for exploiting the opportunities arising in the Central and Eastern European polymer market. We are building on the

advantages, emanating from strategic partnerships based on mutual benefits. Our corporate social responsibility guarantees that we are creating value for all stakeholders.

#### KEY FINANCIAL AND OPERATING DATA

TVK Group, IFRS, consolidated, audited	2011	2012	Change	2012
	(HUF million)	(HUF million)	2012/2011 (%)	(EUR million)
Net sales revenue	411,462	374,584	(9)	1,286
Profit / Loss (-) from operation	(5,902)	(10,190)	(42)	(35)
Depreciation, amortization and impairment	13,331	13,836	4	47
EBITDA	7,429	3,646	(51)	13
Net financial gain / expense (-)	(4,981)	952	n.a.	3
Profit before tax	(10,883)	(9,238)	n.a.	(32)
Net profit / loss (-)	(11,226)	(7,560)	33	(26)
Capital expenditures	6,495	14,685	126	50
Shareholders' equity	122,952	115,387	(6)	396
Share capital	24,534	24,534	0	84
Non-current assets	125,186	123,573	(1)	424
Total liabilities	86,078	100,946	17	347
Total assets	209,030	216,333	3	743
<b>Major ratios</b>	<b>2011</b>	<b>2012</b>	<b>Change (%)</b>	
Ethylene production (kt)	(462)	(311)	(33)	
Polymer production (kt)	(9,13)	(6,55)	(28)	
Polymer sales foreign (HUF billion)	(5,37)	(3,49)	(35)	
Polymer sales domestic (HUF billion)	1,116	1,038	(7)	
Polymer sales revenue (HUF billion)	24,290,843	24,290,843	0	
Number of consolidated companies	9	7		
<b>Production and sales data</b>	<b>2011</b>	<b>2012</b>	<b>Change (%)</b>	
Etilén termelés (kt)	588	490	(17)	
Polimer termelés (kt)	735	623	(15)	
Polimer értékesítés belföld (milliárd Ft)	72	69	(4)	
Polimer értékesítés külföld (milliárd Ft)	182	159	(13)	
Polimer árbevétel (milliárd Ft)	254	228	(10)	
<b>Closing price of TVK shares on the Budapest Stock Exchange (HUF)</b>	<b>2011</b>	<b>2012</b>	<b>Change (%)</b>	
- Highest (HUF)	3,540	2,295	(35)	
- Lowest (HUF)	2,150	1,660	(23)	
- On December 31 (HUF)	2,240	1,705	(24)	
Capitalisation (on December 31 closing price, HUF million)	54,412	41,416	(24)	

Note: \* Calculation is based on: The EUR/HUF mid FX rate quoted by the National Bank of Hungary for December 28, 2012 was: 291.29

# CHAIRMAN'S LETTER



Several global and regional economic conditions were, in terms of our function, less favourable in 2012 than during the previous year. The average growth of the world economy as a whole was 3.2% in 2012, which is by six tenths of a percentage point less than in 2011. Within the average the euro zone that is basically determining our function and possibilities was in recession, which was further aggravated by the uncertainty about the future of the whole European integration. At a closer look, there were major differences between the economic performance of certain countries in Eastern-Central Europe. Whereas the performance of Poland and Slovakia was higher than that of stronger countries in the euro zone, the GDP dropped in Hungary, Croatia and Slovenia.

Though the internal and external balance of Hungary improved significantly since the autumn of 2008, in terms of public debt in particular (the value of less than 3% of the GDP is one of the bests in the region), because of the low level of investments, the permanently poor domestic demand and the risks associated with the unpredictability of economic policy the performance of the Hungarian economy was poor also in 2012.

In the field of petrochemicals, on the annual average, the circumstances show levels close to those of the previous year, with significant swings during the year. The listing prices of our feedstock were, during 2012, continuously on the high level of the previous year, the listing price of naphtha remained practically unchanged, that of AGO even increased by 2%. The prices of our polymer products, and correspondingly our petrochemical margin, showed extreme swings in the course of the year, adapting to the hectic demand patterns. On the annual average our petrochemical margin was by 6% lower compared to the previous negative record year of 2011.

The change of the behaviour on the side of the customers was a serious challenge for our function as well, because of the uncertain consumer demand plastic converters shifted to production for lower inventory levels. Reduced demand and purchase orders in smaller lots have brought down in case of petrochemical plants in general and at TVK as well the level of capacity utilization, and made it difficult to optimize production and transportation costs. Under such circumstances, with the exception of one or two companies that work under exceptional conditions, the paramount goal of companies in our sector was also in the Eastern-Central-European region to keep up their functionality.

The first reorganisation was started as early as in the middle of 2011. In the course of this reorganisation TVK and the Petrochemicals Division of the MOL group was integrated deeper than before into the Downstream Division of MOL group. The group-level new Downstream Program set the target to save USD 500-550 million for the 3 years between 2012 and 2014, the contribution of TVK amounts to USD 60 million. The company succeeded to complete the tasks of the program for 2012, and it is due to this fact that under the economic conditions that get more unfavourable in many aspects, in spite of the decreasing demand and of the corresponding decreasing production volumes and capacity utilisation TVK was able to decrease the loss in the "profit after taxes" line, compared to 2011.

Within the frame of the new Downstream Program and the GLOCAL program serving for the renewal of the function of the MOL group several organisational changes have been made. The CEO of TVK, Mr. Zsolt Pethő became also the head of MOL Downstream in Hungary. The activities at the sites of MOL group in Tiszaújváros (TVK and Tiszai Refinery) under the management of Mr. Tivadar Vályi Nagy were subordinated to Mr. Zsolt Pethő, the head of the Downstream in Hungary. Transformation was associated with painful decisions as well, as the rationalisation of the headcount started 2012 and that continued through 2013 resulted in a headcount cut of 12%.

In the course of the year, in spite of the difficult external circumstances and the changes going on within the MOL group we achieved numerous results. We improved the capacity utilisation of our olefin plants by extending the clientele of our olefin by-products by 80% and we increased our raw C4 sale to 70 kilotons. In the area of polyolefin products we reduced our sales on the non-core markets, and in our product portfolio we reduced the ratio of LDPE and HDPE products by 2% each and increased the ratio of polypropylene products also by 2%.

The successful implementation of maintenance and reconstruction works is the main achievements of the year. With the works carried out at the Olefin-1 plant we have closed the plant reconstruction program started 2008. The completion of the program resulted in energy saving and emission reduction as well, and with the modification implemented we saved 1.8 million m<sup>3</sup> of natural gas and reduced CO<sub>2</sub> emission by 17 kilotons. At our HDPE-2 plant, by improving functional efficiency, we saved CO<sub>2</sub> emission by 1.4 kilotons, while saving 740 thousand m<sup>3</sup> of natural gas. All these achievements reduced not only our emissions, but our specific costs as well.

We are prepared also for our 3rd CO<sub>2</sub> quote trading period starting as of 2013. Accordingly we have submitted our data used for the determination of free quota to the competent authorities. The reduction of energy costs and emissions is also one of our long-term goals. By 2015, according to our plans, compared to the level of 2008 we will reduce our annual CO<sub>2</sub> emission by 192 thousand tons/year.

Our company renewed spring 2012 the long-term ethylene supply contract with BorsodChem, member of the Wanhua group, thus during the ten years between 2012-2021 we will supply a total of 1.2 million tons of ethylene to the company in Kazincbarcika. It is an important result as well that at the 20th Hungarian Innovation Grand Prize TVK was awarded the Innovation Prize of the Hungarian Chamber of Commerce and Industry for its product Tipplen K850, in recognition of an almost four years long development work. The product made up almost 10% of our total polypropylene sales, first of all to our partners in Western Europe.

2012 the Board of MOL gave green light for the plan of the erection of the butadiene recovery plant. We have published a call for bids for the selection of the process supplier and of the contractor and in the middle of November 2012 we signed the contract with the winner. The planned start-up date of the plant is early 2015 and can improve the profitability of the company by several billion HUF per year.

The well-prepared, disciplined work of our staff, experts play a key role in these achievements. On behalf of the company management I want to thank you for your work and ask you to contribute to the realisation of the goals of TVK also in the future with at least the same engagement and efficiency.

  
György MOSONYI  
Chairman of the Board

# OVERVIEW OF THE ENVIRONMENT

## **World economy: Eurozone is still the weakest link**

2012 was characterised by high market volatility and economic uncertainty as the aftershocks of the global financial crisis continued. Global growth remained subdued as a result of this uncertainty and because of austerity policies, with the slow-down increasingly spreading to emerging markets as well. Global growth averaged 3.2% in 2012; it is forecasted by the IMF to reach 3.5% in the coming year, an increase driven primarily by developing countries.

The Eurozone, however, is still mired in recession, and remains the “weakest link” in the chain of global growth. The immediate risk of a Eurozone meltdown has decreased because of solid central bank intervention. This, however, is only a temporary solution: uncertainty over the Eurozone bail-outs, and over the future of European integration, will cloud the region’s growth outlook over the coming years.

## **Central and Eastern Europe: Diverse performance continues**

The performance of CEE economies remained rather diverse in 2012. Slovakia and Poland outperformed some of the strongest Eurozone economies, despite some slowdown in the pace of growth. Meanwhile, GDP dropped in countries of the region which face a debt-problem, including Croatia, Hungary as well as Slovenia. Austerity measures, deleveraging and the troubles of the European banking sector constrain growth in the entire Central and Eastern European (CEE) region.

## **Hungary: Improving external-internal balances, but the outlook is still cloudy**

Hungary’s external and internal balances have improved significantly since the start of the global financial crisis. The fiscal deficit is around 3% of GDP (among the lowest in the region). However, the low investment level, subdued internal demand and the high level of public debt overshadow economic prospects; potential growth therefore remains low. Improvements in international risk sentiment resulted in a massive decline in sovereign financing costs. Nevertheless, austerity measures and poor external conditions suggest Hungary’s economic performance will remain weak over the coming year.

## **Petrochemical Trends**

In 2012, the average quoted (FOB med) price of naphtha was 909 USD/t, the average quoted price (CIF med) of gasoil was 956 USD/t. The naphtha did not show significant change year on year while the price of gasoil increased by 2%.

In 2012, the prices quoted in the European markets for the polymer products produced by TVK (ICIS’ lor fd NWE low spot, EUR/t) showed a fluctuate tendency. From their extremely low level in December 2011, increasing polyolefin prices and margin trend lines were broken by the in the second quarter and they fell back to their poor level at the beginning of the year. This wave was followed by a smaller cycle, culminating in September. Compared to 2011, for the year as a whole, the average quoted price of LDPE was higher by 1%, while HDPE price increased by 9%, and that of polypropylene were lower by 1% year on year. In 2012, the average quoted price of LDPE was 1,259 EUR/t, the blown HDPE grade was 1,269 EUR/t, whilst PP homopolymer raffia and copolymer grades were 1,209 and 1,258 EUR/t.


The HUF strengthened by 4% against the EUR and 12% against the USD, while the EUR decreased by 8% against the USD.



# OUR BUSINESSES



# OUR MAIN STRATEGIC GOALS AND RESULTS



Our competitive strength is supported by our favourable geographical position and efficient production capacities with a well-balanced product and customer portfolio, as well as refinery integration.

Considering our present competitive position and our expectations for the business environment, our main strategic objectives are as follows:

**Maintain our leadership in the regional petrochemical market** by continuously improving our operating efficiency and the competitiveness of our assets, as well as implementing the planned maintenance and strategic development programs:

**Entering to the butadiene extraction:** beyond the profit generation potential, emanated from our positive outlook of the butadiene market, the start of butadiene production provides us a further option to enter to the attractive segments of the synthetic rubber market. This market is driven by automotive industry applications. We concluded the agreement with the winner of the tender called for the selection of technology provider and the general contractor selected for implementing our 130 kt/year extraction unit. We plan the start of commercial butadiene production from 2015.

**We continue on our energy saving and emission reduction program:** where we will reveal potential saving opportunities in the processing technology and the control systems as well. As result energy efficiency and sustainable development actions will be defined and implemented to achieve the targets, set in our energy strategy. Through identifying and implementing further energy efficiency projects, important steps are taken to comply with environmental requirements.

**Focused polymer sales** by improving our polyolefin market positions in Central Europe by product developments tailored to customer requirements. Through improving our sales services and optimizing our customer portfolio.

**Exploit Downstream integration benefits:** utilize the largest possible extent the synergies emanating from cooperation with other MOL Downstream businesses to achieve a common optimum.

The renewal of LDPE product portfolio: the petrochemical modernization program introduced in 2007 at our co-partner, Slovnaft gives an opportunity to produce new, modern LDPE grades. We will be able to strengthen our position at LDPE market with the new, 220 kt/year capacity LDPE unit.

By implementing these development objectives, our Petrochemical business will retain its leading position in the regional petrochemical industry.

## TVK as member of the Petrochemicals business in MOL Downstream

According to our 'crude to plastic' philosophy we optimize our refining and petrochemical production through the whole hydrocarbon value chain, which not only maximizes our profitability, but also reduces the risk at group level. Integration between petrochemical plants and refineries improves the competitive position for both sides.

The stable and favourable feedstock supply, harmonized production and, maintenance shutdowns and common investment in technology are the major synergic benefits deriving from the integration of petrochemical operation between TVK and MOL Downstream. The total polyolefin production capacity of MOL Group exceeds 1.2 million tones that provides leader position in polyolefin production in Central Europe and represents considerable market share in Europe. Sales, marketing and logistics operation that we perform under integrated management and develop according to a coherent strategic approach, are generating further important benefits for the MOL petrochemical portfolio. MOL Group membership provides a strong financial background to the cyclical petrochemical business as well.

## The New Downstream Program

In 2012 we launched along the entire value chain in the MOL Group our three-years operation efficiency improvement program. The program targeted USD 500-550 million saving compared to the year 2011 basis in operation costs in the MOL Downstream Division by 2014, of which TVK cost saving contribution is USD 60 million. Inherently 12% headcount cut were targeted on the basis of closing headcount in 2011. The headcount rationalisation will be implemented continuously in 2012 and 2013.

## "GLOCAL" Project – the MOL Group governance reformation program

TVK participates in the GLOCAL project that is targeting the renewal of the MOL Group structure of governance, co-ordination and operation. Beside the separation along the local, site and country specific and the global, group level control, the integration between the MOL Downstream organisations will be closer as result of the project, while the segregation of duties between the local and the group level control will allow more efficient operation.

So, under the direction of the TVK Production Director, Tivadar Vályi Nagy, TVK and MOL refining sites in Tiszaújváros will belong to the control of Zsolt Pethő, the Vice President of MOL Downstream in Hungary and occupies as well the position of Chief Executive Officer of TVK.

By the side of TVK Polymer Sales and Marketing Directorate, a new organisation was created for the MOL Group level co-ordination of polymer sales and headed by Péter Plókai in the MOL Downstream Supply and Sales organisation.

## 2012 main results

Year 2012 proved to be the toughest ever experienced period for the polyolefin producers in Europe so far. Polymer demand and prices were heavily fluctuating in the year and European producers were facing significant challenges. Consecutive periods of shrinking prices on the weak demand and price rally, induced by capacity cuts and low stock levels were alternating each other in our business environment. In 2012, the raw material prices did not change significantly. In the remaining high oil price environment olefin margin was broader, while the overall margin was negative on polymers. Polymer producers in Europe suffered considerable losses in 2012. So, we had to concentrate mainly on maintaining our operation and financial stability in the year. We highly lean on the MOL Downstream integration synergies: the flexibility and benefit of our 'crude to plastic' optimization through the supply-chain.

## - Active role in olefin product market

Our Petrochemical business is an active player in the regional olefin business - through increasing olefin and olefin co-product sales of the olefin plants. By the increased sales of olefin products we can improve the capacity utilization of the olefin plants, which are strategic assets in our petrochemical business.

- By extending our customer base, we increased our mixed C4 sales volume by 80% to 70 kilotons.
- Owing to market reasons, Borsodchem - our strategic partner in the olefin business in Hungary –decreased its ethylene take off by 8%, compared to the preceding year, when it had taken off the negotiated quantity. In May 2012, TVK Plc. and BorsodChem Zrt. signed a long term ethylene supply agreement for the supply of 120,000 tonnes ethylene per year. In accordance with the contract, TVK will supply 1.2 million tons of ethylene to BorsodChem in the next 10 years. As a result of the agreement the mutually advantageous business cooperation that has a more decade history continues.
- Pyrolysis oil (tar oil) sale to Columbian Tiszai Koromgyártó Kft. carbon black unit in Tiszaújváros decreased by 25%, due to slump in the automotive and the tyre industry

#### - Continuation of the sales and marketing strategy implementation

Sales and marketing strategy can be characterized by two major goals – geographical focusing and differentiation in customer services. Exploiting our favourable geographic location we have advanced in implementing our sales strategy, at the field of logistics, product development and tight customer relations, aiming higher focus on markets in Central Europe.

In line with the economic performance in the region, demand for polyolefin has changed its growing trend in Europe and slumped considerably. Our polymer sales volume dropped by 17% compared to the preceding year. Underachieving the previous years the annual average of the integrated petrochemical margin decreased by 6% from 2011. Strong USD against the Euro further deteriorated the profitability in 2012.

Due to the lower polymer production volume, we further reduced the sales to non-core destinations by 10.5 kilotons. Compared to the preceding year, the ratio of polyethylene products decreased by 2% to 58% in our product portfolio, while the ratio of polypropylene increased in the same extent to 42%.

#### - Successful cleaning and maintenance

In 2012 we have successfully implemented all the maintenance and renovation work, while maintenance costs were in conform with the business plan. General overhaul in the TVK Olefin-1, together with the polymer units were completed in July-August,

covering the planned technical content and the total spending was within the budget. By the renovation work carried out at the Olefin-1 unit, we concluded our plant reconstruction program launched in 2008. Technological-cleaning work was performed at our HDPE-2 unit. We accomplished the maintenance efficiency improvement targets, were set in the New Downstream Program for 2012. Our well-managed maintenance activities give a good basis for outstanding operational reliability as well as for exploiting business opportunities when situation in the markets turns favourable.

#### - Achievements in energy saving and emission reduction

We laid special emphasis on the energy efficiency improvement and the decrease of greenhouse gas emission in the development and operation of production units, energy supply systems and infrastructure in 2012. We paid particular attention to achieve energy saving and to keep energy consumption at the possible technical minimum in our production units.

We started utilizing CO<sub>2</sub> rich inert gas in our energy generation at our Olefin-1 unit from the fall in 2012. Through the energy efficiency improvement action, implemented during the general overhaul, we decreased the natural gas consumption of the unit by 1.85 million cubic meters and we saved 17 kilotons of CO<sub>2</sub> emission.

We decreased our CO<sub>2</sub> emission by 3.3 kilotons by utilizing our pipeline to Kalush for the storage of ethylene.

Through the sale of low polymers arose at our HDPE-2 unit we spared the generation of 8 kilotons high pressure steam that represented 740 thousand cubic meters saving in the natural gas consumption of the TVK Power Plant and as well we saved 1.4 kilotons of CO<sub>2</sub> emission.

We achieved 2% emission reduction compared to the base year 2010, via sustainable improvement actions and individual energy projects. These actions will further improve the cost efficiency of the overall energy process to the benefit of environment.

Considering the CO<sub>2</sub> emission, the Emission Trading System (ETS) effective in the European Union enters into a new trading period. Majority of emission quota can be purchased only through auctions that will expectedly increase our spending for energy. In 2012 we submitted our audited emission data to the benchmark that will be the basis of free quota allocation, to be distributed from 2013 and we prepared for the third trading period to be launched from 2013.

The regulation system, introduced in the European Union for inducing energy efficiency improvement, puts further emphasis on energy consumption, which is our largest cost component susceptible to influence. We examined the economic effects of the Energy Efficiency Directive on our business and profitability this year. The Directive will be effective from 2014 and targeting 1.5% saving in annual energy consumption until 2020.

#### Facing future challenges

In the future petrochemical industry remains increasingly global and the more intense competition, emanating from polyolefin production of low-cost feedstock, will set further challenges in the business. To keep and further strengthen competitive advantages, we are committed to continue with the implementation of our strategic development targets and seeking for new business opportunities. The review of strategic development options is regular procedure at Petrochemicals.

Our primer objective for the forthcoming strategic period is to implement the strategic development projects within budget and put the new units on stream by the deadline set.

In our sales and marketing we will focus on Central Europe, where we gain explicit benefit from the advantageous geographical position, the favourable logistics costs and from the better understanding of customer needs.

We further develop our successful method of active product and customer portfolio management, which is supported by a system designed to optimize the whole supply chain (Supply Chain Management).

MOL Downstream integration benefits, the excellent location, the well balanced product and customer portfolios are the key elements that can determine our competitive power.

We give high priority for protecting our environment. In this regard, we wish to live up to our corporate social responsibility by keeping our plants at a high technical level and by doing so reducing security and environmental risks as well as by operating our environmental protection system that outperforms regulatory requirements.

Commitment to improve energy efficiency is deeply rooted in our strategic thinking. In response to the thriving importance of environmental protection and increasing energy prices, we are consequently implementing our energy strategy formulated in

2008. Our target is to achieve 11% (192 kilotons) reduction of the annual CO<sub>2</sub> emission by 2015, on the basis of emitted quantities in 2008. In order to meet the energy strategy objectives, we plan to realize USD 17 million/year average energy costs saving, including 84 kt/year average reduction of CO<sub>2</sub> emission through energy efficiency development actions implemented between 2011 and 2015.

**As regards the long term future, we are confident that polymers and other petrochemical products can play an important role in making people's lives more perfect without increasing carbon dioxide emission that influence climate change significantly. Our mission is to make this opportunity real.**

# CONSOLIDATED COMPANIES

TVK consolidated companies include one strategic trading subsidiary besides consolidated companies that are indispensable for supporting operations. In March 26, 2012, TVK Plc. has sold one 100% consolidated foreign trade subsidiary, TVK Ukraina Tov. to MOL Plc.



OUR BUSINESSES

## MAIN FIGURES OF CONSOLIDATED COMPANIES

	TVK UK Ltd.*	TVK France S.a.r.l.	TVK Polska Sp. z o. o.**	TVK Ukraina Tov***	TVK Ingatlankezelő Kft.	TVK Erőmű Kft.	Tisza-WTP Kft.
Line of Business	Sell TVK products in the United Kingdom	Sell TVK products in France	Sell TVK products in Poland	Sell TVK Products in the Ukraine	Lease and operate real estate	Power and steam production and distribution	Supply of raw and feed water
Year of Foundation	1996	1997	1998	2005	1998	2001	2002
Premises	London	Paris	Warsaw	Kiev	Tiszaújváros	Tiszaújváros	Tiszaújváros
Equity capital	-	EUR 76,225	PLN 109,000	-	HUF 2,070 million	HUF 2,630 million	HUF 455 million
TVK stake	-	100%	100%	-	100%	26%	0%, non acquired affiliate, fully consolidated
Co-owner	-	-	-	-	-	ÉMÁSZ Plc.	Sinergy Kft.
<b>2012 financial figures (unconsolidated, HUF million)</b>							
Owner's equity	-	57	85	-	2,295	1,019	419
Sales income	-	167	82	18	489	18,140	1,033
Net profit / (loss)	-	29	71	(1)	89	703	15

\* Dissolution process finished on November 9, 2012

\*\* Dissolution process began on June 15, 2012

\*\*\* Company has been sold on March 26, 2012

# OUR PRODUCTION



Our major goals are to increase production volume and improve efficiency through the optimal operation of our petrochemicals business along with the maximum utilization of available capacities.

The economic pillar of sustainable development is extremely important for us. The most important challenges we must face are related to the life cycle of our products: reducing environmental impacts, improving product quality, ensuring safe products and production processes and expanding our long term portfolio for biologically degradable products. Our current production processes and each development must be based on scientific results and the best available technology.

## Competitive advantages

According to our 'crude oil to plastic' philosophy we optimize our petrochemical and refining production through the whole hydrocarbon value chain, which not only maximize our profitability but reduce risks on group level. We exploit synergies from integrated operation that ensures reaching operational excellence, through coordinated planning and feedstock supply with refining on the one hand, and through common group level services on the other hand. These elements provide us significant benefits and flexibility. Our geographical location also gives a competitive advantage, offering low-cost access to the fast growing polymer markets of Central Europe. We have a competitive asset base with a well-balanced product portfolio. Our highly talented staff has capabilities and experiences to manage most effectively our operation and to face the challenges as well.

## Reconstruction and development program

The main investment activities in 2012 were sustain investments (HUF 5.7 billion), the turnaround (HUF 2 billion) and individual investment projects (HUF 2.8 billion). Within the individual projects Olefin-1 reconstruction turned into the final phase (HUF 1.2 billion). Replacement of existing quench coolers project started, and as stressed investment we also started the Butadiene recovery project.

## Our production plants and their capacities

Plant	Capacity (kt/year)	Technology	Year commissioned
<b>Olefin Plants</b>			
Olefin-1*	370	Linde	1975
Olefin-2*	290	Linde	2004
<b>Ethylene total</b>	<b>660</b>		
<b>Polymer Plants</b>			
LDPE-2	65	BASF	1991
<b>LDPE total</b>	<b>65</b>		
HDPE-1	200	Chevron Phillips	1986
HDPE-2	220	Mitsui	2004
<b>HDPE total</b>	<b>420</b>		
PP-3	100	LyondellBasell	1989
PP-4	180	LyondellBasell	1999
<b>PP total</b>	<b>280</b>		
<b>Polymers total</b>	<b>765</b>		

\* Production capacity calculated for ethylene

**Capacity utilisation rate** in all producing plants of the company decreased by 15 percentage points to 78.1% year-on-year. The reasons of this were the periodic maintenance works (in 2012 a general overhaul was carried out in the Olefin-1, HDPE-1, LDPE-2 and PP-3 plants) and the scaled down production in line with the

unfavourable polymer market circumstances. The fire incident at TVK LDPE-2 plant caused technological breakdown on October 31 2012 had a further negative effect, this plant is permanently shut down.

## Production processes

We utilise our vertically integrated structure of production to produce raw materials for plastics processing from a variety of hydrocarbons. The production process includes two major stages: making monomers and polymerisation.

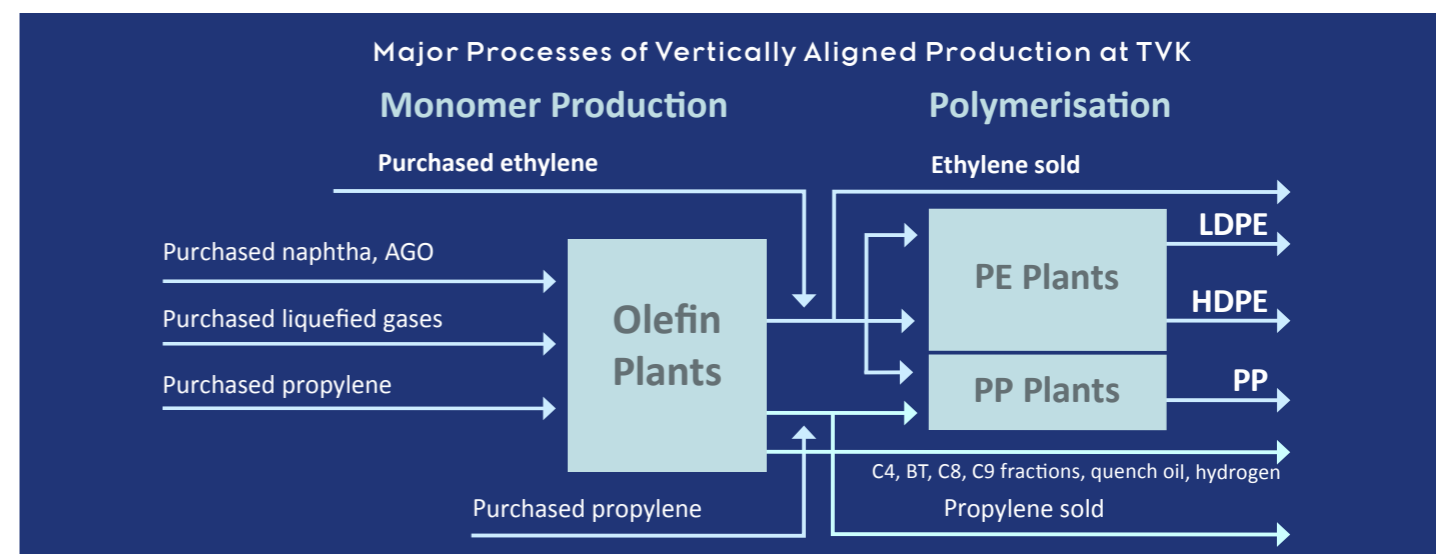
The olefin plants convert naphtha, gas oil and liquefied gases purchased from the MOL Group into ethylene and propylene to be processed into polyethylene and polypropylene in our own polymer plants.

A part of our ethylene, produced in the olefin plants, is sold to BorsodChem. In 2012, TVK Plc. and BorsodChem Zrt. signed a long term ethylene supply agreement for the supply of 120,000 tonnes ethylene per year.

In 2009 we concluded a contract with Synthos Kralupy a.s., one of the largest chemical companies in Poland, for the supply of raw C4 fraction during 2010-2012.

We also supplied propylene to Slovnaft Petrochemicals S.r.o .

MOL Group uses the cracking co-products of our Olefin Plants, such as isobutylene, benzene-toluene, C8 and C9 fractions to produce MTBE and benzene or as components in blended gasoline and heating oil. Quench oil is utilised as feedstock for making carbon black by Columbian Tiszai Koromgyártó Kft., located in the TVK industrial site.



## Olefin Production

Olefin-1 Plant started up in 1975 and Olefin-2 came on line in 2004. Both utilise Linde technology. The annual capacity of the two plants, calculated for ethylene is 660 kilotons. The two main product of olefin production is ethylene and propylene.

In 2012, the Olefin plants' monomer production (ethylene and propylene together) was 83% of the year 2011 level. We did not utilize fully our olefin capacities during the year, due to the available feedstock and the unfavourable polymer market circumstances. In 2012, the sales income of olefin production decreased by 7%, ethylene output was lower by 17%. The capacity utilisation of both plants calculated for ethylene was 74%.

In 2012, we sold 116 kilotons of ethylene to BorsodChem, 112 kt of which was own production and 4 kilotons was purchased on the market. 62 kilotons of raw C4 fractions was sold to Synthos Kralupy a.s.. We sold 0.7 kilotons of propylene to Slovnaft Petrochemicals, and 1 kilotons of crude naphtha to Slovnaft a.s. In 2012, pyrolysis feedstock supply was insured by exclusively MOL Group companies.

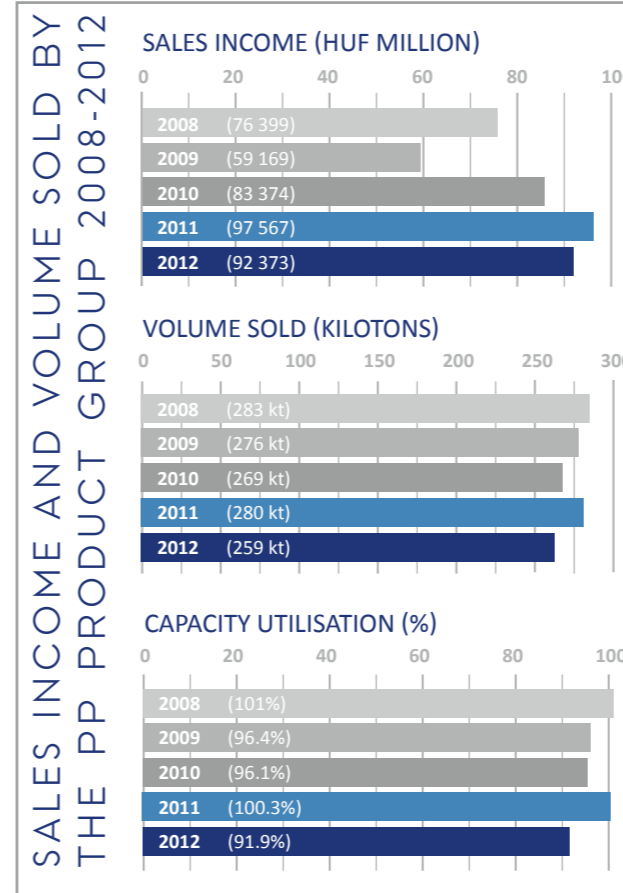
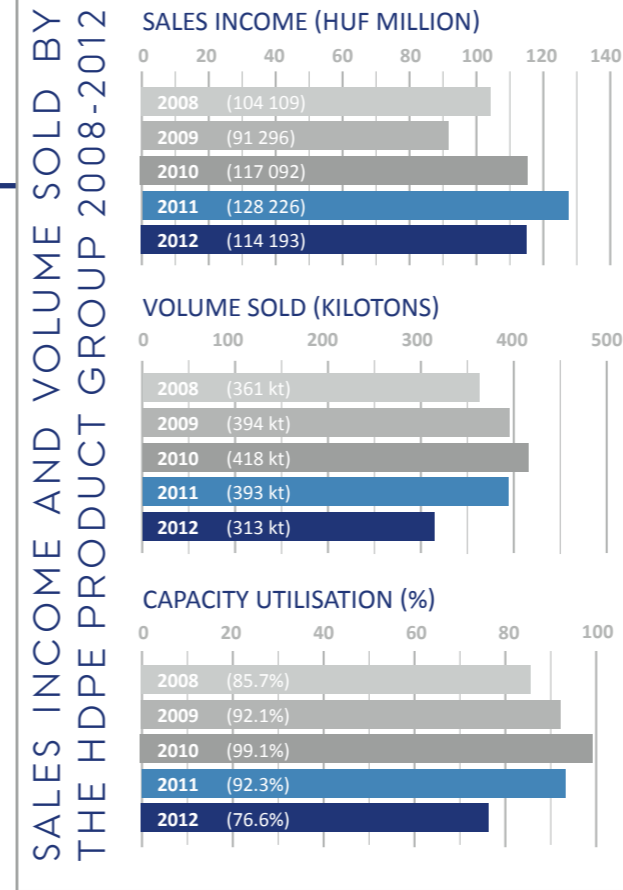
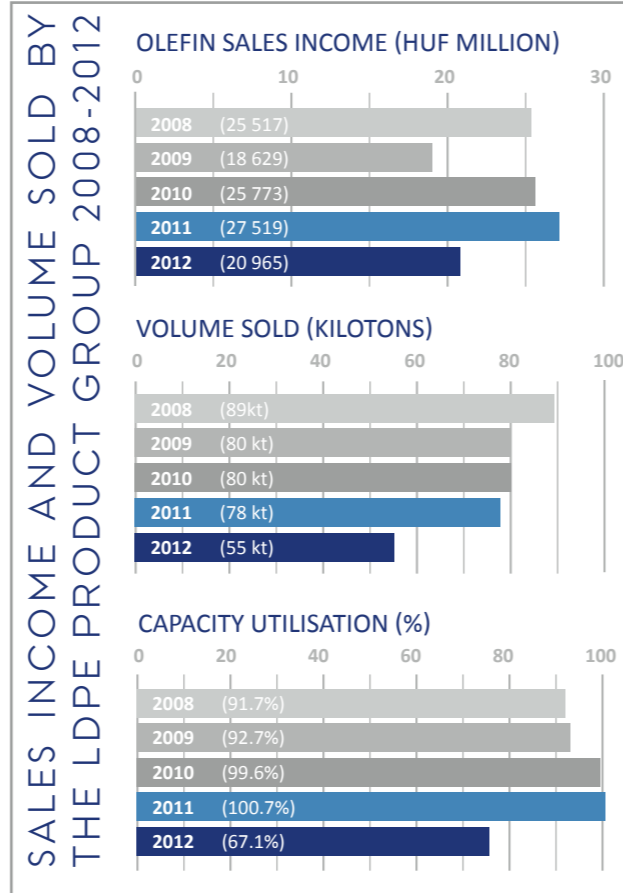
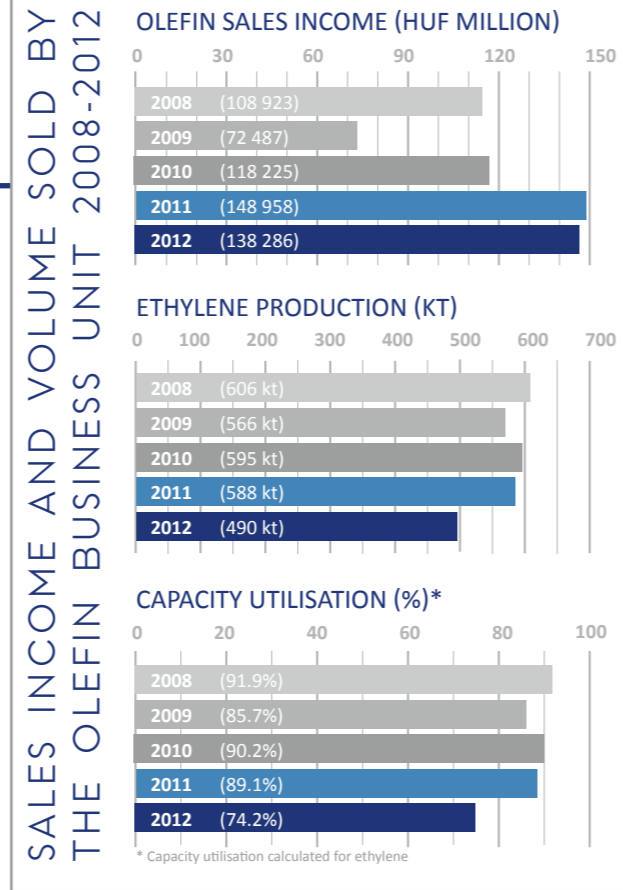
## Polymer Production

The total polymer production amounted to 623 kilotons in 2012, 112 kilotons lower than in the previous year. Production was lower in case of all product segments than in 2011. Reducing the capacity utilization of HDPE Plants was necessary due to market reasons. Polymer sales revenue reached HUF 228 billion, which is HUF 26 billion lower than in 2011.

### Low-Density Polyethylene (LDPE) Product Group

LDPE-2 Plant using BASF technology was built in 1991, with an annual capacity of 65 kilotons.

The sales income of the LDPE Product Group was HUF 21 billion in 2012, down by 24% compared to 2011. The sales volume was 55 kilotons this amount contains the LDPE product resale, purchased from Slovnaft Petrochemicals. The production volume of LDPE product was 44 kilotons, down by 22 kilotons compared to 2011. Capacity utilisation fall down to 67%. The lower LDPE production is due to the maintenance works on the one hand and the fire accident happened on 31 October, 2012 in LDPE-2 plant on the other hand. Repairing the damage will take more months due to the replacement of the special spare parts. Restart date of the plant is expectedly the end of the second quarter of 2013.



## High-Density Polyethylene (HDPE) Product Group

Utilising Chevron Phillips process technology, HDPE-1 Plant was constructed in 1986. HDPE-2 plant utilising the Mitsui Chemicals so-called CX-process came on line in 2004. The joint annual capacity of the two plants is 420 kilotons.

HDPE Plants were affected most sensitively by the economic situation. The decreasing capacity utilization is due to the reduced ethylene production on one hand, and on the other hand the fact that the exposure of this product is the highest in the market. In 2012, the sales income of the HDPE Product Group decreased by 11% to HUF 114 billion. Total production volume of both units was 322 kilotons, down by 67 kilotons yoy, while capacity utilization was down to 77%.

## Polypropylene (PP) Product Group

PP-3 Plant has operated since 1989 with Spheripol (Himont, currently LyondellBasell) technology, and has been complemented by the PP-4 Plant, which uses Spheripol (Montell, currently LyondellBasell) technology since 2000. The total annual capacity of the two plants is 280 kilotons.

The PP product sales income was HUF 92 billion, down by 5%. The total production volume was 257 kilotons, containing the PP product resale, purchased from Slovnaft Petrochemicals as well. Capacity utilization was 92%.

## OUTLOOK

There will be no maintenance shutdown in our production units in 2013 however some smaller technological cleaning works will be carried out in HDPE-2, PP-3 and PP-4 plants. During the year we prepare to the overhauls to be done in 2014. The capacity utilizations of the technologies will highly depend on the economic environment..

**The external economic environment compels us to maintain austerity in cost management while focusing first of all on the continuous improvement of operating efficiency, maintaining and ensuring secure operations, enhancing the energy efficiency of our systems of process technology in view of the substantial rise of energy prices and on identifying and immediately implementing any remaining opportunities presented by our technological systems besides considering the environmental aspects in full.**

# OUR SALES

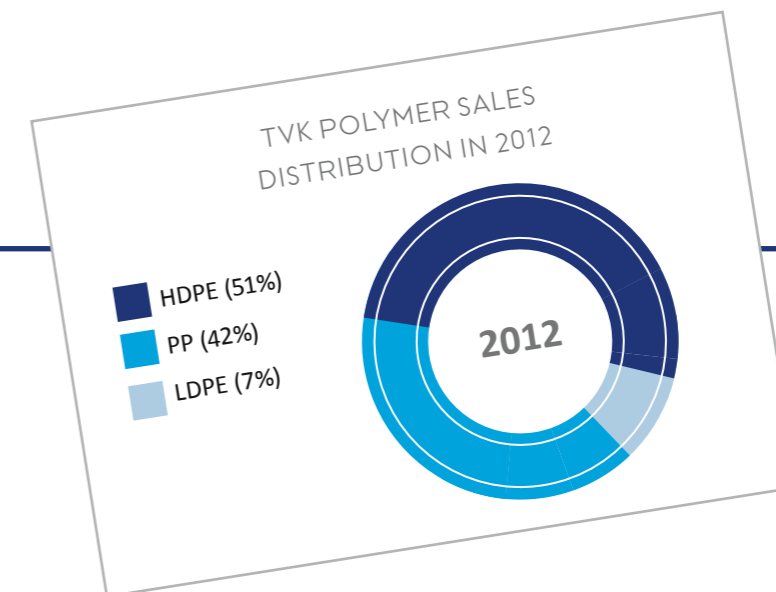


Continuously altering demand and awakening fear of double-dip crisis were highly affecting the activity of plastic-processing companies. We targeted to maintain our regional role in 2012, while handling lower volumes due to planned maintenances carried out in 2012, and we succeeded to complete this aim.

We develop our products by continuously examining the requirements of our customers. We are out for delivering high quality services and product information related to our products in order to satisfy customer needs. We permanently monitor and regularly communicate the health, safety and environmental (HSE) effects during the life cycle of our products and production processes. Tailor made products were launched and we are working on further product developments with higher added value. It is our aspiration to integrate product liability into each section of the life cycle.

Despite lower production due to planned maintenances and the damage that occurred in our LDPE unit we were able to improve price levels in the changing market environment. In 2012 quoted polyolefin prices have rose by over EUR 250 until April but fell by almost EUR 300 between April and July. The increase experienced in the second half of the year remained behind the one experienced during the beginning of the year, but all in all the quoted polymer prices increased by over EUR 150 between January-December 2012. However currency rates have also negatively impacted our profit generation in 2012.

Besides exploiting our favourable geographic location in Central Europe we continuously improve our competitiveness in the field of logistics services and sales support, product development and customer relations, strengthening further the focus to our understanding the specifics of Central-European polyolefin market.



In line with our sales focuses, we concentrated on sales in the Central European markets. In 2012, the total polymer production remained below the preceding year's volume by 15% and amounted to 623 kilotons. Polymer sales volumes reached 627 kilotons, which is 125 kilotons lower than in the previous year. Regarding the composition of our sales, the share of LDPE and HDPE sales decreased by 2-2%, whilst the weight of PP sales increased equally. The net income from polymer sales amounted to HUF 228 billion in 2012 that represents HUF 26 billion below the revenue of the previous year

Domestic sales volume was 188 kilotons that is 20 kilotons decrease compared to 2011. We succeeded in realizing the lower produced volume on our regular customers, leading to decreasing spot sales by 27%. Export share was 70% (439 kilotons) of total polymer sales, whilst the domestic market proportion was 30% (188 kilotons).

Our proprietary distribution network, which we have been operating successfully for several years covering several European countries, has been instrumental in achieving these results. MOL Group's subsidiaries are in Austria, France, Poland, Germany, Italy, Ukraine and, Romania. Our foreign trading subsidiaries are engaged in selling the products of both TVK and the MOL Group member Slovnaft a.s.. By concentrating on the Central European polyolefin markets and improving our customer portfolio, the ratio of sales to non-core destinations reduced from 7.2% to 6.6% in 2012.

We operate two cash&carry sites in Hungary in order to maintain the direct supplies of middle- and smaller size enterprises.

We continued to implement the tactical elements of our sales and marketing strategy successfully: we improved our market intelligence and analyses and moreover we are developing a new portfolio of sales services to strengthen customer loyalty. We have focused on the improvement of our sales channels efficiency and we continued to develop our product portfolio in response to the outcome of permanent analyses. We laid special emphasis on direct customer communications.

## OUTLOOK

**In the present environment, TVK can benefit from its central position in the landlocked markets of Central Europe.**

**On the basis of our integrated operation and actively managed product and customer portfolio we are out for building our position in the regional markets. In the forthcoming years our prime objective is to further improve customer reputation both in Hungary and in the countries of Central-Europe.**

Competition has increased in Europe, since Middle East cargoes arrive to the continent and small scale polymer producers restarted their production capacities in the region. We have made numerous efforts in order to offset the unfavourable changes. In addition to efficiency increase and strict cost control, we are focusing to firm our competitive position in our markets, continuing to develop our business and managing proactively our product and customer portfolio.

We are elaborating a new portfolio of service packages, to develop quality of our sales services. As the polymer markets of Central Europe have greater growth potential than the European average, our sales strategy continues to focus on exploiting our favourable geographic location. Besides, we intend to strengthen our presence on some key Western European markets.

### Our future goals

- Maintain regional leadership in polymer production.
- Retain and build the reliable and stable customer base, by laying more emphasis on customer support and further improving customer loyalty.
- Manage customer portfolio actively.
- Develop product portfolio according to market requirements.

# FINANCIAL AND OPERATIONAL PERFORMANCE



# MANAGEMENT DISCUSSION AND ANALYSIS ON THE RESULTS

The figures presented in the Annual Report of the business year 2012 of Tisza Chemical Group Public Limited Company (TVK Plc.) are audited and final. The term „TVK Group level data” is used in this annual report to refer to the figures of TVK Plc. and its affiliates consolidated in line with the International Financial Reporting Standards (IFRS). 5 subsidiaries, 1 affiliated business and 1 non-participating business were fully consolidated while 1 business was consolidated by the equity method. As required under law, the annual report presents true and fair figures and statements, and does not withhold any facts that the issuer – to its best knowledge – considers to be of material importance in terms of evaluating the issuer’s position. The issuer is liable for the contents of this annual report. The issuer is also liable for damages arising from a failure to make regular and extraordinary disclosures and any misleading representation in its disclosures.

## Key Profit and Loss figures

TVK Group consolidated audited figures according to IFRS (HUF million)	Year 2011	Year 2012
Net revenue	411,462	374,584
Operating profit	(5,902)	(10,190)
Financial expenses, net	(4,981)	952
Profit before tax	(10,883)	(9,238)
Profit for the year	(11,226)	(7,560)

## Key Balance Sheet figures

TVK Group consolidated audited figures according to IFRS (HUF million)	31.12.2011.	31.12.2012.
Non-current assets	<b>125,186</b>	<b>123,573</b>
Intangible assets	2,351	2,194
Property, plant and equipment	122,465	119,643
Invested financial assets*	370	1,736
Current assets	83,844	92,760
Inventories	11,848	17,461
<b>Total assets</b>	<b>209,030</b>	<b>216,333</b>
Equity attributable to equity holders of the parent	122,952	115,387
Share capital	24,534	24,534
Non-current liabilities	19,427	31,724
Current liabilities	66,651	69,222
<b>Total equity and liabilities</b>	<b>209,030</b>	<b>216,333</b>

\* Contains deferred tax receivables also.

## FINANCIAL HIGHLIGHTS

### Sales Income, Operating Costs, Operating Profit

In 2012, the total **TVK Group level operating income** fell by 9% year on year and totalled at HUF 376,776 million. Within this, the other operating income was HUF 1,172 million (35%) lower. The main reason of the change is the HUF 2,113 million exchange gains on receivables and payables, booked in 2011, while HUF 1,240 million exchange losses were realized on other expenses in 2012. HUF 1,322 million realized exchange loss and HUF 82 million non-realized exchange gain was booked on receivables and payables as a consequence of sales and purchases, settled in foreign currencies. In 2011, realized gain was HUF 1,830 million and HUF 283 million was non-realized. The income on saved CO<sub>2</sub> quota sale was higher than in the last year. The compensation received for damages declined, and the income from the sale of trading subsidiaries were lower year on year.

**Consolidated net sales** amounted to HUF 374,584 million that is 9% lower than in the last year. As a result of the unfavourable external environment and planned maintenance shutdown carried out this year, the production and the sales volumes decreased which were only partly offset by the higher product prices and the weaker Hungarian forint compared to the last year’s average.

TVK Plc. realized 46% of its sales revenues from **export sales**. Czech Republic (16%), Italy (15%), Germany (14%), Poland (13%), Ukraine (6%), Romania (5%), Austria (4%) and Slovakia (3%) represented the majority of export sales.

**Raw material costs** showed an 8% decrease year on year due to the significant fall in the volume of feedstock purchased and the reduction in catalyst and chemical quoted prices, purchased for monomer production. However, weaker Hungarian forint against the USD had a cost-increasing effect. Besides the lower energy consumption caused by lower produced volumes, energy costs raised by 22% mainly due to the higher natural gas, electricity and steam prices.

**Personnel expenses** were up by 1%, despite the staff reduction and due to the HUF 415 million provision created for the headcount rationalisation.

**Depreciation, amortization and impairment** increased by HUF 505 million (4%). The higher value of depreciation booked on the assets capitalised during the maintenance and reconstruction works in 2012 and the lifetime revision of the Olefin Plants’ tools and equipment generated this increase.

The Group level consolidated **loss from operation** amounted to HUF 10,190 million, compared to the operating loss of HUF 5,902 million realized in last year.

### Profit/Loss on Financial Operations

Compared to the loss of HUF 4,981 million in the last year, the group realized a profit on financial operations of HUF 952 million. The change is mainly due to the EUR exchange rate change. HUF 1,731 million realized and non-realized exchange rate gain was generated during the revaluation of the loans and other assets received in foreign currency compared to a loss in the last year. HUF 687 million gain was booked on non-hedging transaction. HUF 383 million of income incurred on a successful collection of a loan, booked as bad debt in the former years. In 2012 interest expenses amounted to HUF 1,785 million.

### Taxation

TVK Group profit before tax amounted to a loss of HUF 9,238 million showing a year on year decrease of HUF 1,645 million. The income tax was HUF 787 million, deferred tax amounted to minus HUF 2,465 million.

## Net Profit

Consolidated net loss totalled at HUF 7,560 million. Earnings per share (EPS) rose to HUF -311, compared to HUF -462 last year value.

## Net Asset Position

The consolidated value of non-current assets did not change considerably, as the decline from the recognized depreciation was compensated by the capitalisation of maintenance tools and equipment, as well as recognized deferred tax receivables.

The value of current assets went up by 11%. It includes a 47% increase in inventories, basically due to the increased inventory level compared to the very low inventory of polymer finished goods in 2011, and in line with the positive market expectations in the beginning of 2013 we increased our inventory levels. Accounts receivables was down by 2%, caused mainly by the lower volumes sold in the actual period, and the net sales were moderated by stronger forint against euro. The value of other current assets grew by 23% which is attributable mainly to the higher amount of VAT reclaims.

## Financial Position

Long term debt, net of current portion grew by 63%. Long term loans rose by 80% due to the borrowed parent company loan. The debt from the short and long term loan of MOL Plc. amounted to HUF 24,482 million as of December 31, 2012, increased by HUF 12,341 million compared to the level at the end of 2011.

The value of current liabilities increased by 4%, mainly as a result of the provisions created on severance payments and on the lack of CO<sub>2</sub> quota.

## Owner's Equity

Shareholder's equity dropped by 6%, due to the loss of 2012.

## Significant Off-Balance Sheet Items and contingency liabilities

The total value of capital commitments as of 31 December 2012 is HUF 3,728 million, which is fully attributable to TVK Plc. This value doesn't contain those amounts (EUR 67,075,000), which will be for the purchase of materials and services relating to the Butadiene project.

## Cash Flow

Operating cash flow amounted to HUF -1,605 million. Within this, the changes in working capital decreased the cash flow by HUF 3,212 million as a consequence of the changes of the following factors: the amount of inventories increased, the sold polymer and olefin volumes (calculated at account receivables) decreased.

Net cash provided by investing activities decreased the cash flow by HUF 11,855 million. Within this the amounts disbursed to the suppliers amounted to HUF 14,915 million. Cash flow was improved by HUF 4,862 million on the sale of saved CO<sub>2</sub> quota and HUF 207 million income on the sale of TVK Polska Sp z.o.o.'s business. The payment on closing the forward transaction was HUF 2,908 million in 2012.

Net cash from financial operations increased the cash flow by HUF 14,249 million in the period under review, mainly due to the increasing revolving credit facility granted by MOL Plc.

## Capital Expenditure

The total capital expenditure of TVK Group amounted to HUF 11 billion, HUF 4.5 billion more than in 2011. HUF 5.7 billion was spent on smaller maintenance and reconstruction activities aiming the continuous, smooth operation, HUF 1.1 billion more than in the previous year. Further HUF 2.8 billion was spent for individual projects, containing the improvement of olefin plants and energy efficiency. HUF 2 billion cost occurred in connection with the general turnaround. The capex amounting below the depreciation is a consequence of that we created sources for the accomplishment of future strategic projects (butadiene project).

On November 15, 2012, agreement was signed with the general contractor of TVK's new butadiene-extraction Plant. The new butadiene-extraction unit with a 130,000 tons annual capacity will be built by a total capital expenditure of approximately USD 160 million. According to the plans, the production will start in 2015. The tender on building of the plant was gained by Lurgi/OTF consortium, with a technology based on BASF license. Implementation of the new plant will start in 2013 and production for trading purposes is to be launched in the first half of 2015. The implementation of the butadiene-extraction plant will employ hundreds of people at contractors and suppliers during the construction period.

## Organizational and Personnel Changes, Employees

### Organization

As from May 3, 2012, in the organisation of TVK Plc. the accounting, booking and taxation activities, made in accordance with the Hungarian Accounting Law, was terminated and these functions are performed by an external service provider.

### Senior management

According to the resolutions of the Annual General Meeting held on April 17, 2012 the below changes occurred:

- the AGM re-elected Mr. György Mosonyi, Chairman of the Board, commencing with the date of the AGM for a period of five years till the day of the annual ordinary general meeting in 2017, as a member of the Board of Directors of TVK Plc.
- the AGM elected Mr. Zsolt Pethő, CEO of TVK Plc. as a new Board member a period of five years.
- the AGM re-elected Dr. Gyula Bakacsi, Dr. György Bíró Mr. László Gyurovszky as members of the Supervisory Board until the day of the annual ordinary general meeting in 2017, and also elected them as members of the Audit Committee.

In 2012 and until preparing the report the following changes happened in the top management:

- As from January 3, 2012 TVK Plc's Human Resources Manager is Adrienn Ráczné Bodnár.
- As from July 15, 2012 TVK Plc's Chief Financial Officer is Balázs Sándor.
- As from July 25, 2012 Mr. Zsolt Pethő, Chief Executive Officer of TVK Plc. dealt with the duties of the Director of Polymer Marketing and Sales. As from February, 2013 TVK Plc's Polymer Marketing and Sales Manager is Zoltán Szántó.
- As from January 2, 2013 TVK Plc's Petrochemical Technology and Project Development Manager is Péter Suba.

### Employment

At December 31, 2012 the total consolidated headcount of TVK included 1,038 full time employees, which is less by 78 persons than the closing headcount on December 31, 2011. The sale of trading subsidiaries decreased the TVK headcount by 11. Outsourcing of Accounting and Tax activity (representing 44 employees) and reintegration of technical maintenance and the management of 0.4 kV electrical network (representing 42 employees) decreased total headcount by 2 employees. Further headcount reduction of 65 employees was the result of the efficiency improvement of the company as part of the group rationalisation program.

### Headcount

Full Time Employees	December 31, 2011	December 31, 2012
Corporate level	1,099	1,032
Group level	1,116	1,038

## TVK Shares on the Budapest Stock Exchange (BSE)

During the year of 2012 the share price of TVK decreased by 24%. The closing value of the 1st day of the year was HUF 2,215, while the closing value was HUF 1,705. This share price is the lowest of the former ten years. During the year, share price continuously decreased. In 2012, the minimum value was HUF 1,610, while the maximum value amounted to HUF 2,300.

In 2012, the yearly turnover of the TVK shares was HUF 259.7 million and 131,261 pcs, while the average daily turnover was HUF 1.2 million. The market capitalization of the TVK shares amounted to HUF 41.4 billion, down by 24% compared to the last year (HUF 54.4 billion). TVK was the 7th among the listed companies in terms of market capitalization. The TVK shares did not really belong to the liquid papers, as a consequence of the low free float.

### Ownership Structure

There was a change in the person and share of those shareholders having more than 5% of shares during 2012. MOL Hungarian Oil and Gas Public Limited Company shareholding in TVK's Share Register increased from 86.79% to 94.86% as of December 27, 2012. The stake of Slovnaft, a.s. (subsidiary of MOL Plc.) decreased from 8.07% to 0% as of December 27, 2012. The direct and indirect influence of MOL Plc. in TVK Plc. remained 94.86%.

The above mentioned changes also had an effect on the shareholder structure. At the end of the year stake of the domestic institutional investors grew to 96%, while the stake of the foreign investors fell to 1%. The ownership share of private investors did not change significantly, reaching 1.2% at the end of the year. The company had no treasury shares in 2012 either.

### Ownership Structure as per the Share Register

Description of owner	December 31, 2011			December 31, 2012		
	Owner-ship ratio (%)	Voting ratio (%)	Holdings (of shares)	Owner-ship ratio (%)	Voting ratio (%)	Holdings (of shares)
Domestic institution/company	88.10	88.10	21,401,032	95.93	95.93	23,301,477
Foreign institution/company	9.20	9.20	2,231,796	1.13	1.13	275,353
Domestic individual	1.29	1.29	314,443	1.21	1.21	294,718
Foreign individual	0.03	0.03	7,227	0.02	0.02	4,571
Treasury shares	-	-	-	-	-	-
Shares held by unidentified parties	1.38	1.38	336,345	1.71	1.71	414,724
<b>TOTAL</b>	<b>100.00</b>	<b>100.00</b>	<b>24,290,843</b>	<b>100.00</b>	<b>100.00</b>	<b>24,290,843</b>

### Shareholders with more than 5% interest

On December 31, 2012, as per Share Register

Shareholder	Quantity (of shares)	Interest (%)	Voting ratio (%)
MOL Hungarian Oil and Gas Public Limited Company	23,042,385	94.86	94.86

#### Notes:

Please note that in Hungary, the Share Register does not fully reflect the ownership structure, as registration is not mandatory.

In accordance with the resolution of 2007 Annual General Meeting, every ordinary share with a par value of HUF 1,010 (i.e. one thousand ten forint) entitles the holder thereof to have one and one hundredth vote.

# CONSOLIDATED FINANCIAL STATEMENTS

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## 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 2012

# INDEPENDENT AUDITOR'S REPORT

THIS IS A TRANSLATION OF THE HUNGARIAN REPORT

## Independent Auditors' Report

To the Shareholders of Tisza Chemical Group Public Limited Company

### Report on consolidated financial statements

1.) We have audited the accompanying 2012 consolidated annual financial statements of Tisza Chemical Group Public Limited Company ("the Company"), which comprise the consolidated statement of financial position as at 31 December 2012 - showing a balance sheet total of HUF 216,333 million and a loss for the year of HUF 7,560 million -, the related consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory information.

### Management's responsibility for the consolidated financial statements

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

### Auditor's responsibility

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

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

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

### Opinion

6.) In our opinion the consolidated annual financial statements give a true and fair view of the equity and financial position of Tisza Chemical Group Public Limited Company as at 31 December 2012 and of the results of its operations for the year then ended in accordance with the International Financial Reporting Standards as adopted by EU.

### Emphasis of matter

7.) We draw attention to Note 28 of the consolidated financial statements that describe the environmental aspects of the Company's operation and highlights the risk of additional significant decontamination expenses that might incur over the current amount of the provision in relation to past environmental damage as may be identified by future environmental surveys. Our opinion is not modified in respect of this matter.

### Other reporting requirement – Report on the consolidated business report

8.) We have reviewed the consolidated business report of Tisza Chemical Group Public Limited Company for 2012. Management is responsible for the preparation of the consolidated business report in accordance with the Hungarian legal requirements. Our responsibility is to assess whether the consolidated business report is consistent with the consolidated financial statements for the same financial year. Our work regarding the consolidated business report has been restricted to assessing whether the consolidated business report is consistent with the consolidated annual financial statements and did not include reviewing other information originated from non-audited financial records. In our opinion, the consolidated business report of Tisza Chemical Group Public Limited Company for 2012 corresponds to the disclosures in the 2012 consolidated annual financial statements of Tisza Chemical Group Public Limited Company.

Budapest, 13 March 2013



Havas István  
Ernst & Young Kft.  
Registration No. 001165



Havas István  
Registered auditor  
Chamber membership No.: 003395

# FINANCIAL STATEMENTS

## 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 2012



Zsolt Pethő  
Chief Executive Officer



Balázs Sándor  
Chief Financial Officer,  
Deputy CEO

### CONSOLIDATED BALANCE SHEET

	Notes	2012	2011
		HUF million	HUF million
<b>ASSETS</b>			
<b>Non-current assets</b>			
Intangible assets	4	2,194	2,351
Property, plant and equipment	5	119,643	122,465
Investments in associated companies	6	132	132
Deferred tax assets	25	1,603	-
Other non-current assets	8	1	238
<b>Total non-current assets</b>		<b>123,573</b>	<b>125,186</b>
<b>Current assets</b>			
Inventories	9	17,461	11,848
Trade receivables, net	10	49,683	50,881
Securities	8	222	-
Other current assets	11	18,819	15,246
Prepaid taxes		135	154
Cash and cash equivalents	12	6,440	5,715
<b>Total current assets</b>		<b>92,760</b>	<b>83,844</b>
<b>TOTAL ASSETS</b>		<b>216,333</b>	<b>209,030</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity attributable to equity holders of the parent</b>			
Share capital	13	24,534	24,534
Reserves	14	98,413	109,644
Net income attributable to equity holders of the parent		(7,560)	(11,226)
<b>Equity attributable to equity holders of the parent</b>		<b>115,387</b>	<b>122,952</b>
Non-controlling interests		-	-
<b>Total equity</b>		<b>115,387</b>	<b>122,952</b>
<b>Non-current liabilities</b>			
Long-term debt, net of current portion	15	29,265	16,248
Provisions for liabilities and charges	16	2,422	2,312
Deferred tax liabilities	25	-	862
Other non-current liabilities		37	5
<b>Total non-current liabilities</b>		<b>31,724</b>	<b>19,427</b>
<b>Current liabilities</b>			
Trade and other payables	17	58,667	58,411
Provisions for liabilities and charges	16	1,373	458
Short-term debt	18	8,030	6,623
Current portion of long-term debt	15	1,152	1,159
<b>Total current liabilities</b>		<b>69,222</b>	<b>66,651</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>216,333</b>	<b>209,030</b>

## CONSOLIDATED INCOME STATEMENT

	Notes	2012	2011
		HUF million	HUF million
Net sales (revenue)	19	374,584	411,462
Other operating income	20	2,192	3,364
<b>Total operating income</b>		<b>376,776</b>	<b>414,826</b>
Raw materials and consumables used	21	363,984	397,300
Personnel expenses	22	9,463	9,404
Depreciation, amortization and impairment	4, 5	13,836	13,331
Other operating expenses	23	6,474	4,170
Change in inventories of finished goods and work in progress		(4,699)	(2,092)
Work performed by the enterprise and capitalized		(2,092)	(1,385)
<b>Total operating expenses</b>		<b>386,966</b>	<b>420,728</b>
<b>Profit from operations</b>		<b>(10,190)</b>	<b>(5,902)</b>
Financial income	24	2,943	276
Financial expense	24	(1,991)	(5,257)
<b>Net financial expense/income</b>	24	<b>952</b>	<b>(4,981)</b>
Gain / (Loss) from associates		-	-
<b>Profit before tax</b>		<b>(9,238)</b>	<b>(10,883)</b>
Income tax expense/(benefit)	25	(1,678)	343
<b>Profit for the year</b>		<b>(7,560)</b>	<b>(11,226)</b>
Attributable to:			
Equity holders of the parent		(7,560)	(11,226)
Non-controlling interests		-	-
<b>Basic and diluted earnings per share attributable to ordinary equity holders of the parent (HUF)</b>	26	<b>(311)</b>	<b>(462)</b>

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Notes	2012	2011
		HUF million	HUF million
<b>Profit for the year</b>		<b>(7,560)</b>	<b>(11,226)</b>
Other comprehensive income			
Exchange differences on translating foreign operations		(5)	(66)
Available-for-sale financial assets, net of deferred tax		-	-
Cash-flow hedges, net of deferred tax		-	-
Share of other comprehensive income for associates		-	-
<b>Other comprehensive income for the year, net of tax</b>		<b>(5)</b>	<b>(66)</b>
<b>Total comprehensive income for the year</b>		<b>(7,565)</b>	<b>(11,292)</b>
Attributable to:			
Equity holders of the parent		(7,565)	(11,292)
Non-controlling interest		-	-
<b>Basic and diluted earnings per share (calculated from comprehensive income) attributable to ordinary equity holders of the parent (HUF)</b>	26	<b>HUF (311)</b>	<b>HUF (465)</b>

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	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
<b>Opening balance 1 January 2011</b>	<b>24,534</b>	<b>15,022</b>	<b>97,767</b>	<b>88</b>	<b>112,877</b>	<b>(1,170)</b>	<b>136,241</b>	<b>-</b>	<b>136,241</b>
Currency translation differences	-	-	-	(66)	(66)	-	(66)	-	(66)
Total other comprehensive income and expense for the year recognised directly in equity	-	-	-	(66)	(66)	-	(66)	-	(66)
Retained profit for the year	-	-	-	-	-	(11,226)	(11,226)	-	(11,226)
Total comprehensive income and expense for the year	-	-	-	(66)	(66)	(11,226)	(11,292)	-	(11,292)
Transfer to reserves of retained profit for the previous year	-	-	(1,170)	-	(1,170)	1,170	-	-	-
Dividends	-	-	(1,992)	-	(1,992)	-	(1,992)	-	(1,992)
Other	-	-	(5)	-	(5)	-	(5)	-	(5)
<b>Closing balance 31 December 2011</b>	<b>24,534</b>	<b>15,022</b>	<b>94,600</b>	<b>22</b>	<b>109,644</b>	<b>(11,226)</b>	<b>122,952</b>	<b>-</b>	<b>122,952</b>
Currency translation differences	-	-	-	(5)	(5)	-	(5)	-	(5)
Total other comprehensive income and expense for the year recognised directly in equity	-	-	-	(5)	(5)	-	(5)	-	(5)
Retained profit for the year	-	-	-	-	-	(7,560)	(7,560)	-	(7,560)
Total comprehensive income and expense for the year	-	-	-	(5)	(5)	(7,560)	(7,565)	-	(7,565)
Transfer to reserves of retained profit for the previous year	-	-	(11,226)	-	(11,226)	11,226	-	-	-
Dividends	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-
<b>Closing balance 31 December 2012</b>	<b>24,534</b>	<b>15,022</b>	<b>83,374</b>	<b>17</b>	<b>98,413</b>	<b>(7,560)</b>	<b>115,387</b>	<b>-</b>	<b>115,387</b>

## CONSOLIDATED STATEMENT OF CASH-FLOWS

	2012	2011
	HUF million	HUF million
<b>Profit before tax</b>	<b>(9,238)</b>	<b>(10,883)</b>
<b>Adjustments to reconcile profit before tax to net cash provided by operating activities</b>		
Depreciation and impairment	13,401	12,918
Amortization and impairment	435	413
Write-off of inventories, net	(546)	545
Increase/(decrease) in environmental provisions	32	284
Increase/(decrease) in provisions	994	5
Net (gain) / loss on sale of tangible assets	(1,797)	(88)
Net (gain) / loss on sale of subsidiary	(24)	(506)
Assigned receivables	-	-
Write-off of receivables	45	45
Write-off dividend liabilities	-	(5)
Other non cash items	272	(1)
Unrealised foreign exchange (gain) / loss on receivables and payables	(82)	(284)
Interest income	(138)	(143)
Interest on borrowings	1,785	1,990
Net foreign exchange (gain)/ loss excluding foreign exchange differences on receivables and payables	(1,520)	2,987
Other financial (gain) / loss, net	(1,218)	41
Share of net (profit)/loss of associates	-	-
<b>Operating cash flow before changes in working capital</b>	<b>2,401</b>	<b>7,318</b>
(Increase)/ decrease in inventory	(5,067)	(2,257)
(Increase)/ decrease in debtors	1,248	(986)
(Increase)/ decrease in other receivables	(3,622)	(2,088)
Increase/(decrease) in accounts payable	5,746	5,665
Increase/(decrease) in other current liabilities	(1,517)	(1,331)
<b>Income taxes paid</b>	<b>(794)</b>	<b>(940)</b>
<b>Net cash provided by operating activities</b>	<b>(1,605)</b>	<b>5,381</b>
Purchase of Property, Plant and Equipments	(14,915)	(5,590)
Proceeds from disposals of fixed assets	5,069	92
Loans and long-term bank deposits	685	655
Liabilities by CO <sub>2</sub> emission quotas	(2,908)	(2,362)
Proceeds from liquidation of investments	63	215
Interest received and other financial income	151	152
<b>Net cash used in investing activities</b>	<b>(11,855)</b>	<b>(6,838)</b>
Proceeds from issue of new debts	31,622	17,866
Repayments of long-term debt	(16,397)	(17,667)
Increase/(Decrease) in short-term debt	872	4,805
Increase/(Decrease) in other financial liabilities	33	1
Interest paid and other financial costs	(1,881)	(1,026)
Dividends paid	-	(1,991)
Other	-	(5)
<b>Net cash provided by financing activities</b>	<b>14,249</b>	<b>1,983</b>
<b>(Decrease)/increase in cash and cash equivalents</b>	<b>789</b>	<b>526</b>
Cash and cash equivalents at the beginning of the year	5,715	5,080
Cash and cash equivalents at the end of the year	6,504	5,606

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS PREPARED IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS

31 December 2012

### 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 2012, 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 1,038 and 1,116 employees as at 31 December 2012 and 2011, respectively.

#### CONSOLIDATED SUBSIDIARIES

Company name	Country	Range of activity	Ownership 31 Dec 2012	Ownership 31 Dec 2011	Consolidation Method 31 Dec 2012
TVK Ingatlankezelő Kft.	Hungary	Property leasing, management	100%	100%	Full consolidation
TVK UK Ltd.*	United Kingdom	Wholesale and retail trade	-	100%	-
TVK-France S.a.r.l.	France	Wholesale and retail trade	100%	100%	Full consolidation
TVK-Erőmű Kft.**	Hungary	Electricity production and distribution	26%	26%	Full consolidation
TVK Polska Sp.zo.o.***	Poland	Wholesale and retail trade	100%	100%	Full consolidation
TVK Ukraina tov.****	Ukraine	Wholesale and retail trade	-	100%	-
Tisza-WTP Kft.*****	Hungary	Feed water and raw water	0%	0%	Full consolidation

\*Dissolution finished on 9 November, 2012

\*\* The ownership of TVK Plc. is 26%. Based on the syndicated agreement TVK Plc. fully consolidated it - as a special purpose entity - in 2012 and 2011.

\*\*\* Dissolution started on 15 June, 2012

\*\*\*\* A TVK Ukraina tov.was sold on March 26, 2012,and only its accumulated profit until March 31 was fully consolidated.

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

## 2 AUTHORIZATION, STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION

### i) Authorization and Statement of Compliance

These consolidated financial statements have been approved and authorized for issue by the Board of Directors on 13 March 2013.

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

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

### ii) Basis of preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards and IFRIC interpretations issued and effective on 31 December 2012.

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

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

The financial year is the same as the calendar year.

### iii) Principles of Consolidation

#### Subsidiaries

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

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

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

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

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

#### Joint ventures

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

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

When the Group contributes or sells assets to the joint venture, any portion of gain or loss from the transaction is recognised 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 recognizes 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 in other comprehensive income or directly in the equity of the associate, the Group recognises its share of any changes and discloses this, when applicable, in the statement of other comprehensive income or statement of changes in equity respectively. Profits and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

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

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

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

## Other consolidated entities

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

## 2.1 CHANGES IN ACCOUNTING POLICIES

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

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

- IAS 12 Income Taxes (amendment) effective 1 January 2012
- IFRS 7 Financial Instruments: Disclosures — Enhanced Derecognition Disclosure Requirements effective 1 July 2012
- Improvements to IFRSs

The principal effects of these changes are as follows:

### IAS 12 Income Taxes – Recovery of Underlying Assets

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

### IFRS 7 Financial Instruments: Disclosures — Enhanced Derecognition Disclosure Requirements

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

### Improvements to IFRSs

In May 2012, the IASB issued amendments to the following standards, primarily with a view to removing inconsistencies and clarifying wording. The amendments become effective for annual periods on or after 1 January 2013 and will have no impact on the financial position or performance of the Group.

### IAS 1 Presentation of Financial Statements

This improvement clarifies the difference between voluntary additional comparative information and the minimum required comparative information.

### IAS 16 Property, Plant and Equipment

This improvement clarifies the major spare parts and servicing equipment that meet the definition of property, plant and equipment are not inventory.

## IAS 32 Financial Instruments, Presentation

This improvement clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with IAS 12 Income Taxes.

## 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 unrecognised intangible assets) and liabilities (including contingent liabilities and excluding future restructuring) of the acquired business at fair value as at the acquisition date. Acquisition-related costs are recognised in profit or loss as incurred.

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

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

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

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

When subsidiaries are sold, the difference between the selling price and the net assets plus cumulative translation differences and un-amortised goodwill is recognised 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 recognised 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 recognised on settlement date which is the date when the asset is delivered to the counterparty.

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

#### **Financial assets at fair value through profit or loss**

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

Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments or a financial guarantee contract. Gains or losses on investments held for trading are recognised 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 2012 and 2011, no financial assets have been designated as at fair value through profit and loss.

#### **Held-to-maturity investments**

Held-to-maturity investments are non-derivative financial assets which carry fixed or determinable payments have fixed maturities and which the Group has the positive intention and ability to hold to maturity. After initial measurement held to maturity investments are measured at amortised cost. This cost is computed as the amount initially recognised minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initially recognised 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 recognised in the income statement when the investments are derecognised 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 recognised in the income statement when the loans and receivables are derecognised 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 recognised as other comprehensive income in the fair valuation reserve. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recorded as other comprehensive income is recognised in the income statement.

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

#### **Fair Value**

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

#### **iv) Classification and Derecognition of Financial Instruments**

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

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

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

#### **v) Derivative Financial Instruments**

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

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

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

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

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

#### **vi) Hedging**

For the purpose of hedge accounting, hedges are classified as

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

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

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

#### **Fair value hedges**

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

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

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

When an unrecognised 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 recognised as an asset or liability with a corresponding gain or loss recognised in the income statement. The changes in the fair value of the hedging instrument are also recognised 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 recognised 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 recognised directly as other comprehensive income, while the ineffective portion is recognised 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 recognised 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 recognised 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 recognised 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.

#### **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 recognised as other comprehensive income while any gains or losses relating to the ineffective portion are

recognised in the income statement. On disposal of the foreign operation, the cumulative value of any such gains or losses recognised as other comprehensive income is transferred to the income statement. The Company had no derivative financial instrument and hedging transactions in 2012 and 2011.

#### **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 recognised 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 recognised 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 recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

##### **Available-for-sale financial investments**

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the income statement, is transferred from other comprehensive income to the income statement. Impairment losses recognised on equity instruments classified as available for sale are not reversed, increases in their fair value after impairment are recognised directly in other comprehensive income. Impairment losses recognised 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 recognised in the income statement.

#### **viii) Cash and Cash Equivalents**

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

#### **ix) Trade Receivables**

Receivables are stated at face value less provision for doubtful amounts. Where the time value of money is material, receivables are carried at amortised 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 derecognised when they are assessed as uncollectible.

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

## x) Inventories

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

## xi) Property, Plant and Equipment

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

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

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

## xii) Intangible Assets

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

Following initial recognition, the cost model is applied to the class of intangible assets. The useful lives of these intangible assets are assessed to be either finite or indefinite. Amortization is charged on assets with a finite useful life over the best estimate of their useful lives using the straight line method. The amortization period and the amortization method are reviewed annually at each financial year-end. Intangible assets, excluding development costs, created within the business are not capitalized and expenditure is charged against income in the year in which the expenditure is incurred. Intangible assets are tested for impairment annually either individually or at the cash generating unit level.

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

## xiii) Depreciation, Amortization

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

Software	20-33%
Buildings and infrastructure	2-10%
Production machinery and equipment	5-14,5%
Office and computer equipment	14,5-50%
Vehicles	10-20 %

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

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

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

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

## xiv) Impairment of Assets

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

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

Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of the cash-generating unit (or group of cash-generating units), to which the goodwill relates. Where the recoverable amount of the cash-generating unit (or group of cash-generating units) is less than the carrying amount of the cash-generating unit (group of cash-generating units) to which goodwill has been allocated, an impairment loss is recognised. 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 is considered as one cash generating unit, whose recoverable amount has been determined based on a value in use calculation using cash flow projections based on financial budgets approved by senior management covering a 20-year period. The average pre-tax discount rate applied to cash flow projections is 10,6% (2011: 9.28%).

The calculation of value is 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 of the Company as cash-generating unit, the management believes that no reasonably possible change in any of the above key assumptions would cause the carrying value of the units to materially exceed its recoverable amount.

#### xv) Interest-bearing loans and borrowings

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

#### xvi) Provisions

A provision is recognised 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 recognised 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 recognised 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 recognised is the best estimate of the expenditure required. Where the liability will not be settled for a number of years, the amount recognised is the present value of the estimated future expenditure.

#### Provision for litigations

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

#### Provision for Retirement Benefits

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

#### Provision for Old Team benefits

Based on the valid Collective Agreement, the Company pays Old Team benefits to its employees as follows:

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

#### xvii) Greenhouse gas emissions

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

#### xviii) Share-based payment transactions

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

#### Equity-settled transactions

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

The cost of equity-settled transactions is recognised, 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 recognised 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 recognised 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 recognised as if the terms had not been modified. An additional expense is recognised 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 recognised for the award is recognised 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 recognised in the income statement.

## xix) Leases

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

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

## xx) Government grants

Government grants are recognised 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 recognised 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 other comprehensive income in the consolidated financial statements until the disposal of the net investment. Upon disposal of the corresponding assets, the cumulative revaluation or translation reserves are recognised as income or expenses in the same period in which the gain or loss on disposal is recognised.

## 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 recognised when the Group becomes party to the instrument.

## xxii) Treasury Shares

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

## xxiii) Dividends

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

## xxiv) Revenue Recognition

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

## xxv) Borrowing Costs

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

## xxvi) Income and Sales Taxes

The income tax charge consists of current and deferred taxes.

The current income tax is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because of items of income or expense that are never taxable or deductible or are taxable or deductible in other years. The Group's current income tax is calculated 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 recognised 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 recognised 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 recognised for all taxable temporary differences, except:

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

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

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

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

#### Sales tax

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

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

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

#### xxvii) Foreign Currency Transactions

Foreign currency transactions are recorded in the reporting currency by applying to the foreign currency amount the exchange rate between the reporting currency and the foreign currency at the date of the transaction. Exchange rate differences arising on the settlement of monetary items at rates different from those at which they were initially recorded during the periods are recognised 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 recognised in other comprehensive income relating to that particular foreign operation shall be recognised in the income statement. Any exchange differences that have previously been attributed to non-controlling interests are derecognised, but they are not reclassified to profit or loss.

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

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

#### xxviii) Earnings Per Share

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

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

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

#### xxix) Segmental Disclosure

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

#### xxx) Contingencies

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

## 2.3 SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

Critical judgments in applying the accounting policies

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

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

#### Sources of estimate uncertainty

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

- Scope of environmental provision and quantification and timing of environmental liabilities (Note 16, 28)
- The availability of taxable income against which deferred tax assets can be recognised (Note 25)
- Actuarial estimate applied in the calculation of retirement benefit obligations (Note 16)
- Determination of useful lives of property, plant and equipment and intangibles
- Impairment of tangible assets and intangibles (Notes 4, 5)

## 2.4 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

### IAS 1 Financial Statement Presentation – Presentation of Items of Other Comprehensive Income

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

### IAS 19 Employee Benefits (Amendment)

The IASB has issued numerous amendments to IAS 19. These range from fundamental changes such as recognition of unvested past service cost and transferring the remeasurement component of the defined benefit cost to Other comprehensive income to simple clarifications and re-wording. The amendments are expected not to have significant effect on the financial statements of the Group. The amendment becomes effective for annual periods beginning on or after 1 January 2013.

### IAS 27 Separate Financial Statements (as revised in 2011)

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

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

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

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

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

### IFRS 9 Financial Instruments: Classification and Measurement

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

### IFRS 10 Consolidated Financial Statements

IFRS 10 replaces the portion of IAS 27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC-12 Consolidation — Special Purpose Entities. IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgement to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in IAS 27. Based on the preliminary evaluation of the Group, the amendment will have no material impact. This standard becomes effective for annual periods beginning on or after 1 January 2013.

### IFRS 11 Joint Arrangements

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

### IFRS 12 Disclosure of Involvement with Other Entities

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

### IFRS 13 Fair Value Measurement

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

3 SEGMENTAL INFORMATION

2012	Petrochemicals	Corporate and other	Inter-segment transfers	Total
	HUF million	HUF million	HUF million	HUF million
<b>Net Revenue</b>				
Sales to external customers	373,883	701	-	374,584
Inter-segment sales	273	1,879	(2,152)	-
<b>Total revenue</b>	<b>374,156</b>	<b>2,580</b>	<b>(2,152)</b>	<b>374,584</b>
<b>Results</b>				
Profit/(loss) from operations	(7,891)	(2,299)	-	<b>(10,190)</b>
Net finance income	833	119	-	952
Income from associates	-	-	-	-
Profit before tax	(7,058)	(2,180)	-	<b>(9,238)</b>
Income tax expense/(benefit)	890	(2,568)	-	<b>(1,678)</b>
<b>Profit for the year</b>	<b>(7,948)</b>	<b>388</b>	<b>-</b>	<b>(7,560)</b>

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

2012	Petrochemicals	Corporate and other	Inter-segment transfers	Total
	HUF million	HUF million	HUF million	HUF million
<b>Assets and liabilities</b>				
Property, plant and equipment, net	114,776	4,867	-	<b>119,643</b>
Intangible assets, net	1,958	236	-	<b>2,194</b>
Inventories	17,393	68	-	<b>17,461</b>
Trade receivables, net	49,615	68	-	<b>49,683</b>
Investments in associates	-	132	-	<b>132</b>
Not allocated assets				<b>27,220</b>
<b>Total assets</b>				<b>216,333</b>
Trade payables	52,764	248	-	<b>53,012</b>
Not allocated liabilities and equity				<b>163,321</b>
<b>Total liabilities and equity</b>				<b>216,333</b>

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

2012	Petrochemicals	Corporate and other	Inter-segment transfers	Total
	HUF million	HUF million	HUF million	HUF million
<b>Other segment information</b>				
Capital expenditure:	14,493	192	-	<b>14,685</b>
Property, plant and equipment	10,779	131	-	<b>10,910</b>
Intangible assets	3,714	61	-	<b>3,775</b>
Depreciation and amortization	13,432	404	-	<b>13,836</b>
From this: impairment losses and reversal of impairment recognised in income statement	100	1	-	<b>101</b>

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

The operating profit of the segments includes the profit arising both from sales to third parties and transfers to the other business segments. Petrochemicals transfers various by-products to the Corporate. The subsidiaries of the Corporate segment provide other services to the Petrochemicals. The internal transfer prices used are based on prevailing market prices. Divisional figures contain the results of the fully consolidated subsidiaries engaged in the respective divisions.

## 4 INTANGIBLE ASSETS

The Group's intangible assets as of 31 December 2012 and 2011 were as follows:

	Goodwill	Property rights*	Software	Total
	HUF million	HUF million	HUF million	HUF million
<b>At 1 January 2011</b>				
Gross book value	92	-	7,073	7,165
Accumulated amortization and impairment	-	-	(4,517)	(4,517)
<b>Net book value</b>	<b>92</b>	<b>-</b>	<b>2,556</b>	<b>2,648</b>
<b>Year ended 31 December 2011</b>				
- additions	-	18	99	117
- amortization for the year	-	-	(413)	(413)
- impairment	-	-	-	-
- transfers	-	-	(1)	(1)
Closing net book value	92	18	2,241	2,351
<b>At 31 December, 2011</b>				
Gross book value	92	18	7,159	7,269
Accumulated amortization and impairment	-	-	(4,918)	(4,918)
<b>Net book value</b>	<b>92</b>	<b>18</b>	<b>2,241</b>	<b>2,351</b>
<b>Year ended 31 December 2012</b>				
- additions	-	3,699	76	3,775
- amortization for the year	-	-	(422)	(422)
- impairment	(13)	-	-	(13)
- disposals	-	(3,223)	-	(3,223)
- transfers	-	(274)	-	(274)
Closing net book value	<b>79</b>	<b>220</b>	<b>1,895</b>	<b>2,194</b>
<b>At 31 December, 2012</b>				
Gross book value	92	220	7,235	7,547
Accumulated amortization and impairment	(13)	-	(5,340)	(5,353)
<b>Net book value</b>	<b>79</b>	<b>220</b>	<b>1,895</b>	<b>2,194</b>

\*The property rights includes the movements of emission quota

## Goodwill

Az üzleti kombináció révén keletkezett goodwill-t az akvizíció időpontjában azon jövedelemtermelő egységekhez kell rendelni, melyek az üzleti kombináció hasznából várhatóan részesülni fognak. Az értékvesztés elszámolása előtt a goodwill könyv szerinti értéke az alábbiak szerint került felosztásra:

	31 December 2012			31 December 2011		
	Net book value before impairment	Impairment	Net book value	Net book value before impairment	Impairment	Net book value
	HUF million	HUF million	HUF million	HUF million	HUF million	HUF million
TVK Polska Spzoo	92	(13)	79	92	-	92
<b>Total goodwill</b>	<b>92</b>	<b>(13)</b>	<b>79</b>	<b>92</b>	<b>-</b>	<b>92</b>

The Company recognised goodwill of HUF 79 million relating to TVK Polska Spzoo, which is subject to annual impairment test according to the requirements of IAS 36 – Impairment of Assets.

## 5 PROPERTY, PLANT AND EQUIPMENT

The Group's tangible assets as of 31 December 2012 and 2011 were as follows:

	Land and buildings	Technical equipment, vehicles	Other equipment and vehicles	Capital projects	Total
	HUF million	HUF million	HUF million	HUF million	HUF million
<b>At 1 January 2011</b>					
Gross book value	45,639	178,030	21,345	1,336	246,350
Accumulated depreciation and impairment	(14,365)	(88,706)	(14,799)	-	(117,870)
<b>Net book value</b>	<b>31,274</b>	<b>89,324</b>	<b>6,546</b>	<b>1,336</b>	<b>128,480</b>
<b>Year ended 31 December 2011</b>					
- additions	-	-	-	6,378	6,378
- capitalization	910	3,637	800	(5,347)	-
- depreciation for the year	(1,418)	(10,324)	(1,097)	-	(12,839)
- impairment	(10)	(66)	(3)	-	(79)
- disposals	(4)	-	(2)	-	(6)
- transfers and other changes	(131)	(42)	704	-	531
Closing net book value	30,621	82,529	6,948	2,367	122,465
<b>At 31 December, 2011</b>					
Gross book value	46,367	180,146	22,578	2,367	251,458
Accumulated depreciation and impairment	(15,746)	(97,617)	(15,630)	-	(128,993)
<b>Net book value</b>	<b>30,621</b>	<b>82,529</b>	<b>6,948</b>	<b>2,367</b>	<b>122,465</b>
<b>Year ended 31 December 2012</b>					
- additions	-	-	-	10,910	10,910
- capitalization	986	9,889	699	(11,574)	-
- depreciation for the year	(1,471)	(10,906)	(936)	-	(13,313)
- impairment	(9)	(76)	(3)	-	(88)
- disposals	-	-	(4)	-	(4)
- transfers and other changes	-	(46)	(281)	-	(327)
Closing net book value	30,127	81,390	6,423	1,703	119,643
<b>At 31 December, 2012</b>					
Gross book value	47,338	187,996	22,886	1,703	259,923
Accumulated depreciation and impairment	(17,211)	(106,606)	(16,463)	-	(140,280)
<b>Net book value</b>	<b>30,127</b>	<b>81,390</b>	<b>6,423</b>	<b>1,703</b>	<b>119,643</b>

## Impairment

	31 December 2012	31 December 2011
	HUF million	HUF million
Scraps*	88	79
Effect of rescheduled periodic maintenance	-	-
Impairment on the basis of market price	-	-
<b>Total</b>	<b>88</b>	<b>79</b>

\* In 2012 impairment expense was recorded in the amount of HUF 88 million. Significant part of it related to the accounted part scrapping, which belonged to the olefin reconstruction and the general overhaul.

## Leased assets

Property, plant and equipment includes machinery under finance leases:

	31 December 2012	31 December 2011
	HUF million	HUF million
Gross value	478	478
Accumulated depreciation	465	453
<b>Net book value</b>	<b>13</b>	<b>25</b>

## Pledged assets

None of the assets of the Company were pledged as of 31 December 2012 and 2011. Assets of TVK Erőmű Kft. (HUF 8,886 million) and assets of Tisza-WTP Kft. (HUF 1,076 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 2012 and 2011, that are directly attributable to the acquisition, construction or production of a qualifying asset.

## 6 INVESTMENT IN ASSOCIATED COMPANIES

The Group's financial investments as of 31 December 2012 and 2011 were as follows:

Company name	Country	Date of foundation	Range of activity	Ownership 31 Dec 2012	Ownership 31 Dec 2011	Net book value of investment 31 Dec 2012	Net book value of investment 31 Dec 2011
						HUF million	HUF million
<b>Associates</b>							
TMM Tűzoltó és Műszaki Mentő Kft.	Hungary	1995	Fire prevention, technical rescue, technical supervision	30%	30%	132	132
<b>Total associates</b>						<b>132</b>	<b>132</b>
<b>Total</b>						<b>132</b>	<b>132</b>

## Financial information on associates

Main financial data of the Group associates at 31 December 2012 (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.	530	83	585	8

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

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

## 7 SALE OF SUBSIDIARIES

Carrying amount of disposed assets and liabilities of TVK Ukraina tov. (on 26 March 2012) analysis of net cash inflow on sales of the subsidiary was the following:

	TVK Ukraina tov.
	HUF million
Property, plant and equipment	3
Trade receivables	7
Other current assets (excluding cash)	35
<b>Total assets (excluding cash)</b>	<b>45</b>
Provisions	0
Other non-current liabilities	6
Trade payables	0
Other current liabilities	0
<b>Total liabilities</b>	<b>6</b>
<b>Net assets</b>	<b>39</b>
<b>Net gain (loss) on sale of subsidiaries</b>	<b>24</b>
<b>Cash inflow / (outflow)</b>	<b>63</b>

## 8 OTHER NON-CURRENT ASSETS

The Group's other non-current assets as of 31 December 2012 and 2011 were as follows:

	31 December 2012	31 December 2011
	HUF million	HUF million
Government bonds*	-	210
Advances for construction in progress	-	26
Loan to Plastico S.A.**	-	-
Other***	1	2
<b>Total</b>	<b>1</b>	<b>238</b>

\*Long-term securities include type 2013/C government bonds maturing in December 2013. On the basis of this, these securities were reclassified to the short term securities at the end of 2012. Government bonds bear a floating interest rate equivalent to the Treasury Bonds previous 6 month average interest rate. These bonds are accounted for as held to maturity instruments.

\*\*In 2002, TVK Plc. sold its investment in Plastico S.A. In 2006, based on a legal opinion, the Company reassessed the recoverability of its outstanding loan receivable from Plastico S.A. and decided to fully write it off (long-term receivable HUF 575 million, short-term receivable HUF 323 million). In September, 2012, during the liquidation of Plastico S.A, HUF 383 million was realized from the former written-down receivable. The liquidation process was closed in December, 2012, and the company was deleted from the registration. (See Note11).

\*\*\* It contains loans given which are interest free in the amount of HUF 1 million in 2012 (HUF 2 million 2011).

## 9 INVENTORIES

Inventories as of 31 December 2012 and 2011 were as follows:

	31 December 2012		31 December 2011	
	At cost	Net book value	At cost	Net book value
	HUF million		HUF million	
Work in progress and finished goods	13,325	13,325	9,208	8,625
Raw-material	3,167	3,167	2,381	2,381
Other materials	1,038	764	1,073	800
Purchased goods	205	205	42	42
<b>Total</b>	<b>17,735</b>	<b>17,461</b>	<b>12,704</b>	<b>11,848</b>

The Group believes that the level of provision as of 31 December 2012 is sufficient to cover potential future losses on sale of inventories. As of 31 December 2012 and 2011, no inventory owned by TVK Plc. was pledged as collateral.

The total amount of impairment was HUF 274 million and HUF 856 million as of 31 December 2012 and 2011, respectively (as cumulative figures).

Inventories are regularly reviewed for impairment.

## 10 TRADE RECEIVABLES, NET

Receivables as of 31 December 2012 and 2011 were as follows:

	31 December 2012	31 December 2011
	HUF million	HUF million
<b>Domestic debtors</b>	26,479	26,977
- of which: MOL Group members	7,355	7,454
Borsodchem	3,918	4,153
<b>Export debtors</b>	23,450	24,115
- of which: MOL Group members	136	960
	49,929	51,092
Less: provision for doubtful debts	(246)	(211)
<b>Total</b>	<b>49,683</b>	<b>50,881</b>

Movements in the provision for doubtful receivables were as follows:

	31 December 2012	31 December 2011
	HUF million	HUF million
At 1 January	211	189
Additions	38	28
Reversal	(3)	(6)
<b>At 31 December</b>	<b>246</b>	<b>211</b>

As at 31 December 2012 and 2011 the analysis of trade receivables that were past due is as follows:

	31 December 2012	31 December 2011
	HUF million	HUF million
Neither past due nor impaired	48,430	49,595
Past due but not impaired	1,253	1,286
Within 90 days	1,208	1,081
91 - 180 days	2	7
Over 180 days	43	198
<b>Total</b>	<b>49,683</b>	<b>50,881</b>

The Group recorded a write-off on doubtful debts of HUF 8 million and HUF 18 million in 2012 and 2011, respectively. There was no income from bad debts and written off receivables in 2012, which amounted to HUF 1 million in 2011.

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 2012 and 2011. The resulting gain or loss is classified in a net amount either as other income or other expense, respectively (see notes 20, 23) in the accompanying income statements.

## 11 OTHER CURRENT ASSETS

Other current assets as of 31 December 2012 and 2011 were as follows:

	31 December 2012	31 December 2011
	HUF million	HUF million
Reclaimable VAT	18,239	14,407
Deposit from related party	291	-
Prepayments	120	113
Advances to suppliers	92	133
Loans to employees and other receivables	13	15
Energy sector extra tax	9	165
Accrued income	4	2
Interest receivables	3	5
Loan to MOL	-	325
Loan to Plastico S.A.*	-	-
Other	48	81
<b>Total</b>	<b>18,819</b>	<b>15,246</b>

\*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 (long-term receivable HUF 575 million, short-term receivable HUF 323 million). In September, 2012, during the liquidation of Plastico S.A., HUF 383 million were realized from the former written-down receivable. The liquidation process was closed in December, 2012, and the company was deleted from the registration

Analysis of loans receivable

	31 December 2012	31 December 2011
	HUF million	HUF million
Loan to Plastico S.A.	-	323
Write off doubtful receivables	-	(323)
<b>Összesen</b>	<b>-</b>	<b>-</b>

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

	31 December 2012	31 December 2011
	HUF million	HUF million
At 1 January	323	323
Additions	-	-
Reversal	(323)	-
Amounts written off	-	-
Currency differences	-	-
<b>At 31 December</b>	<b>-</b>	<b>323</b>

## 12 CASH AND CASH EQUIVALENTS

Cash and cash equivalents as of 31 December 2012 and 2011 were as follows:

	31 December 2012	31 December 2011
	HUF million	HUF million
Cash at bank – EUR	4,438	3,095
Cash at bank – HUF	1,818	1,984
Cash at bank – PLN	144	145
Cash at bank – USD	37	455
Cash at bank – other currencies	-	33
Cash on hand – other currencies	2	2
Cash on hand – HUF	1	1
<b>Total</b>	<b>6,440</b>	<b>5,715</b>

## 13 SHARE CAPITAL

Share capital as of 31 December 2012 was as follows:

Shareholder	Number of shares	Face value (HUF)	Total (HUF million)	Shareholding %
Domestic entities	23,301,477	1,010	23,534	95.93
International entities	275,353	1,010	278	1.13
Domestic private investors	294,718	1,010	298	1.21
International private investors	4,571	1,010	5	0.02
Unregistered investors	414,724	1,010	419	1.71
<b>Total</b>	<b>24,290,843</b>		<b>24,534</b>	<b>100.00</b>

Shareholders with a shareholding above 5% registered in the Share Register as of 31 December 2012:

Shareholder	Shareholding %
MOL Hungarian Oil and Gas Company	94,86

Share capital by type of shares as of 31 December 2012:

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
<b>Total</b>	<b>24,290,843</b>	<b>24,533,751</b>

Share capital as of 31 December 2011 was as follows:

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

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

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

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

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

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

## 14 RESERVES

The total amount of reserves legally available for distribution based on the statutory separate financial statements of TVK Plc. is HUF 80,556 million and HUF 94,266 million as of 31 December 2012 and 2011, respectively.

15 LONG-TERM DEBT, NET OF CURRENT PORTION

Long-term debt, net of current portion as of 31 December 2012 and 2011 were as follows:

	Weighted average interest rate	Weighted average interest rate	31 December 2012	31 December 2011
	2012	2011	HUF million	HUF million
	%	%		
Secured bank loan of TVK Erőmű Kft. in EUR*	1.60	2.17	5,862	7,246
Secured bank loan of Tisza-WTP Kft. in EUR**	1.61	2.17	971	1,211
Unsecured loan in EUR from MOL Plc. (majority stakeholder)***			20,390	5,519
Other****			3,194	3,431
<b>Total long-term debt</b>			<b>30,417</b>	<b>17,407</b>
Current portion of long-term debt			1,152	1,159
<b>Total long-term debt, net of current portion</b>			<b>29,265</b>	<b>16,248</b>

\*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 2012 the short-term part of the loan amounts to HUF 983 million (EUR 3,376 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 2012, Tisza WTP Kft. reclassified an instalment of HUF 173 million (EUR 595 thousand) due in 12 months to current liabilities.

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

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

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

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

	31 December 2012	31 December 2011
	HUF million	HUF million
Maturity two to five years	25,767	10,923
Maturity over five years	3,498	5,325
<b>Total</b>	<b>29,265</b>	<b>16,248</b>

16 PROVISION FOR LIABILITIES AND CHARGES

Provisions for expected liabilities and charges as of 31 December 2012 and 2011 were as follows:

	Environmental	Severance	Long-term employee retirement benefits	Old Team benefit	Early Retirement benefits	Provision for litigation	Emission quota	Total
	HUF million	HUF million	HUF million	HUF million	HUF million	HUF million	HUF million	HUF million
<b>Balance as of 1 January 2011</b>	<b>2,030</b>	<b>67</b>	<b>300</b>	<b>206</b>	<b>112</b>	<b>13</b>	<b>-</b>	<b>2,728</b>
Provision made during the year and revision of previous estimate	279	19	40	85	49	16	-	488
Unwinding of the discount	97	-	4	5	-	-	-	106
Provision used during the year and revision of previous estimate	(92)	(31)	(18)	(24)	(112)	-	-	(277)
Acquisitions, divestitures	-	(48)	(183)	(15)	-	(29)	-	(275)
<b>Balance as of 31 December 2011</b>	<b>2,314</b>	<b>7</b>	<b>143</b>	<b>257</b>	<b>49</b>	<b>-</b>	<b>-</b>	<b>2,770</b>
Provision made during the year and revision of previous estimate	151	415	7	14	-	57	597	1,241
Unwinding of the discount	119	-	7	13	-	-	-	139
Provision used during the year and revision of previous estimate	(238)	(7)	(23)	(38)	(49)	-	-	(355)
<b>Balance as of 31 December 2012</b>	<b>2,346</b>	<b>415</b>	<b>134</b>	<b>246</b>	<b>-</b>	<b>57</b>	<b>597</b>	<b>3,795</b>

	Environmental	Severance	Long-term employee retirement benefits	Old Team benefit	Early Retirement benefits	Provision for litigation	Emission quota	Total
	HUF million	millió forint	millió forint	millió forint	millió forint	millió forint	millió forint	millió forint
Current portion 31 December 2011	363	7	13	26	49	-	-	458
Non-current portion 31 December 2011	1,951	-	130	231	-	-	-	2,312
Current portion 31 December 2012	274	415	-	30	-	57	597	1,373
Non-current portion 31 December 2012	2,072	-	134	216	-	-	-	2,422

## Environmental provision

The amount of provision contains the discounted value of amounts estimated for 12 years. The environmental provision might further increase subject to the completion of an ongoing environmental survey. (See Note 28) The amount of the provision has been determined on the basis of existing technology at current prices by calculating risk-weighted cash flows discounted using estimated risk-free real interest rates.

## Provision for severance

The provision for severance equals to the amount of severance payments due but not yet paid as at 31 December 2012.

### Provision for long-term employee retirement benefits

TVK operates benefit schemes that provide lump sum benefit to all employees at the time of their retirement. TVK employees are entitled for maximum of 2 months of final salary respectively, depending on the length of service period. None of these plans have separately administered funds. The value of provision has been determined using the projected unit credit method, based on financial and actuarial variables and assumptions that reflect relevant official statistical data and are in line with those incorporated in the business plan of TVK. Principal actuarial assumptions state an approximately 2% difference between the discount rate and the future salary increase. As of 31 December 2012 the Company has recognised a provision of HUF 134 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 2012, based on actuarial calculations, the Company made HUF 246 million provision for the future Old Team benefits of current employees.

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

	2012	2011
Discount rate in %	2.5-5.2	2.5-4.1
Average wage increase in %	0.5-3.2	0.5-2.1
Mortality index (male)	0.02-0.84	0.02-0.84
Mortality index (female)	0.01-0.35	0.01-0.35

## Provision for emission quota

The 2012 year's emission quantity of CO<sub>2</sub> quota of the Company exceeded the owned quota quantity therefore a provision was recognised in amount of HUF 597 million on 31 December, 2012 for the deficit.

## 17 TRADE AND OTHER PAYABLES

The Group's payables and other current liabilities as of December 2012 and 2011 were as follows:

	31 December 2012	31 December 2011
	HUF million	HUF million
Domestic trade creditors	48,714	41,981
- of which: MOL Group members	44,166	36,461
Associates	1,443	1,224
Suppliers related to capital projects	2,568	3,260
- of which: MOL Group members	1,035	1,645
Import creditors	1,730	2,647
- of which: MOL Group members	401	556
Discount payable to customers	2,996	4,017
Accrued expenses	1,597	1,916
Dividend payable to the majority owner of TVK Erőmű Kft.	440	881
Amounts due to employees and related contributions	354	315
Dividend payable to owner of Tisza-WTP Kft.	89	91
Deferred other revenues	34	39
Dividends payable*	4	4
State budget taxes	2	53
Loans granted by MOL/parent company and secured by CO <sub>2</sub> emission quotas	-	2,996
Other	139	211
<b>Total</b>	<b>58,667</b>	<b>58,411</b>

\* Dividend payable in 2012 are related to 2007's, 2008's and 2010's dividends which have not been paid yet.

## 18. SHORT-TERM DEBT

	31 December 2012	31 December 2011
	HUF million	HUF million
Revolving loan in EUR from MOL Plc. (majority shareholder)*	4,092	6,623
Unsecured loans	3,343	-
Short-term loan from parent company participating in cash-pool	595	-
<b>Total short term debt</b>	<b>8,030</b>	<b>6,623</b>

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

## 19 NET SALES BY GEOGRAPHICAL AREA

Net sales by geographical area as of 31 December 2012 and 2011 were as follows:

	2012	2011
	HUF million	HUF million
Hungary (reduced by quantity discount)	194,869	210,977
Czech Republic	28,643	20,641
Italy	27,648	34,275
Germany	26,017	33,004
Poland	22,727	30,557
Ukraine	10,369	8,050
Romania	8,387	7,885
Austria	7,740	9,230
Switzerland	6,641	5,867
Slovakia	5,465	11,970
France	3,789	5,100
United Kingdom	2,349	3,257
Other European Countries	26,136	28,532
Non-European Countries	5,166	4,676
Less: Quantity discount of foreign sales	(1,362)	(2,559)
<b>Total</b>	<b>374,584</b>	<b>411,462</b>

## 20 OTHER OPERATING INCOME

Other operating income as of 31 December 2012 and 2011 were as follows:

	2012	2011
	HUF million	HUF million
Gain on sale of CO <sub>2</sub> emission quota	1,639	73
Default interest received, indemnity, penalties	209	533
Gain on the disposal of tangible assets	158	15
Net gain (loss) on sales of subsidiaries	24	506
Donations received	14	16
Foreign exchange gain on receivables and payables, net	-	2,113
Other	148	108
<b>Total</b>	<b>2,192</b>	<b>3,364</b>

## 21 RAW MATERIALS AND CONSUMABLES USED

Raw materials and consumables as of 31 December 2012 and 2011 were as follows:

	2012	2011
	HUF million	HUF million
<b>Material costs</b>	<b>328,544</b>	<b>356,885</b>
Naphta, AGO and other raw materials	286,638	321,257
Energy	34,614	28,477
Other indirect and auxi. materials	5,087	4,678
Other materials	2,176	2,434
Impairment of materials	29	39
<b>Material type services</b>	<b>13,595</b>	<b>15,462</b>
Transportation, loading, storage	5,150	6,739
Maintenance costs	3,650	4,493
Other costs	3,090	3,012
Sundry sales costs	1,035	599
Information technology service	226	204
Technical development cost	215	198
Other postal service cost	145	155
Hiring cost of labour	63	31
Other administration cost	21	31
<b>Cost of goods sold</b>	<b>21,678</b>	<b>24,554</b>
<b>Cost of services sold</b>	<b>167</b>	<b>399</b>
<b>Total</b>	<b>363,984</b>	<b>397,300</b>

## 22 PERSONNEL EXPENSES

Personnel expenses as of 31 December 2012 and 2011 were as follows:

	2012	2011
	HUF million	HUF million
Wages and salaries	6,130	6,284
Social security	2,068	1,941
Other personnel expenses	1,265	1,179
<b>Total</b>	<b>9,463</b>	<b>9,404</b>

## 23 OTHER OPERATING EXPENSES

Other operating expenses as of 31 December 2012 and 2011 were as follows:

	2012	2011
	HUF million	HUF million
Foreign exchange losses on receivables and payables, net	1,240	-
Insurance premium	968	969
Provision made for excessive emission quotas	597	-
Property protection and fire prevention	439	418
Rental costs, leasing	354	439
Damages, default interest, penalties, fines	328	143
Local and other taxes	311	284
Administrative charges and duties	308	221
Consulting, advisory and auditing costs	289	202
Loss from valuation of emission quotas	274	-
PR and promotion	173	176
Energy sector extra tax	158	138
Public sanitation	139	164
Elimination of waste	123	135
Bank charges	68	91
Donations, contributions to set off costs and expenses	68	66
Environment costs	62	294
Receivables impairment, net	45	44
Other*	530	386
<b>Total</b>	<b>6,474</b>	<b>4,170</b>

\*Including the provision made for litigation

## 24 FINANCIAL INCOME / (EXPENSE)

The financial income / (expense) as of 31 December 2012 and 2011 was as follows:

	2012	2011
	HUF million	HUF million
Foreign exchange gain of loans and other financial assets	1,713	-
Realized gain of non hedge other derivative transactions	687	-
Received amount from given loans	383	-
Interest received	138	143
Impairment, reverse impairment and revaluation of securities	13	9
Other	9	124
<b>Total financial income</b>	<b>2,943</b>	<b>276</b>
Interest expense*	(1,785)	(1,990)
Interest on provision	(139)	(106)
Commitment fee of bank loans	(47)	(96)
Discounts given for early payment of receivables	(15)	(69)
Foreign exchange losses of loans and other financial assets	-	(2,987)
Other	(5)	(9)
<b>Total financial expenses</b>	<b>(1,991)</b>	<b>(5,257)</b>
<b>Total financial income / (expense), net</b>	<b>952</b>	<b>(4,981)</b>

\* Interest expense of the Group for 2012 includes HUF 481 million (2011: HUF 925 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.).

**Corporate income tax**

In 2012, TVK Plc. had a negative profit before taxation, which was further decreased by the tax base corrections, thus no corporate income tax occurred. The current corporate income taxes contain the consolidated companies' corporate income taxes. TVK Plc. recognised a deferred tax asset related to the tax losses carried forward.

**Income taxes**

Total applicable income taxes reported in the consolidated financial statements for the years ended 31 December 2012 and 2011 include the following components:

	2012	2011
	HUF million	HUF million
Local trade tax	470	599
Current corporate income taxes	222	254
Innovation fee	70	14
Robin Hood tax	25	35
Deferred income taxes	(2,465)	(559)
<b>Total income tax expense / (benefit)</b>	<b>(1,678)</b>	<b>343</b>

**Deferred tax**

The deferred income/expense consisted of the following items as of 31 December 2012 and 2011:

	Balance sheet		Effect on profit and loss	
	2012	2011	2012	2011
	HUF million	HUF million	HUF million	HUF million
Depreciation	13,352	13,042	310	6,741
Environmental provision	(445)	(440)	(5)	(237)
Statutory tax losses carried forward	(14,396)	(11,375)	(3,021)	(7,027)
Impairment losses and other provisions	(530)	(544)	14	(53)
Differences due to capitalisation according to IFRS	13	20	(7)	5
Capitalized periodic maintenance cost	403	159	244	12
Other	-	-	-	-
<b>Total deferred tax liability</b>	<b>(1,603)</b>	<b>862</b>	<b>(2,465)</b>	<b>(559)</b>

The Group recognised HUF 14,396 million deferred tax assets from tax losses of HUF 76,345 million (of which TVK Plc. HUF 74,751 million, TVK-Erőmű Kft. HUF 374 million, TVK Ingatlankezelő Kft. HUF 1,220 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 60,612 million as of 31 December 2011. Deferred tax assets arising from negative profit before tax at group companies shall be recognised if it is probable that future taxable income will be available to offset these deferred tax assets. In 2012 the Group has recognised deferred tax effects in respect of losses at Group companies.

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

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

	2012	2011
	HUF million	HUF million
Profit before tax per consolidated income statement	(9,238)	(10,883)
Tax at the applicable tax rate (19%)	(1,755)	(2,068)
Impact of changes in Hungarian tax legislation	-	1,157
Robin Hood tax	25	35
Differences not expected to reverse	(222)	241
Effect of different tax rates	7	81
Local tax	380	486
Other	(113)	411
<b>Total income tax expense / (benefit)</b>	<b>(1,678)</b>	<b>343</b>

## 26 EARNINGS PER SHARE (EPS)

The Group's earnings per share based on consolidated information for 31 December 2012 and 2011 are as follows:

	2012	2011
Net income/(loss), IFRS (million HUF)	(7,560)	(11,226)
Weighted average of shares outstanding in the period (pieces)	24,290,843	24,290,843
EPS (HUF 1,010 face value)	HUF (311)	HUF (462)

The Group's earnings per share (calculated from comprehensive income) based on consolidated information for 31 December 2012 and 2011 are as follows:

	2012	2011
Comprehensive income/(loss), IFRS (million HUF)	(7,565)	(11,292)
Weighted average of shares outstanding in the period (pieces)	24,290,843	24,290,843
EPS (HUF 1,010 face value)	HUF (311)	HUF (465)

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

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

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 amortised cost.

The following tables set out the carrying amount, by maturity of the Group's financial instruments that bear interest as of 31 December 2012:

	Within 1 year	1-2 years	2-3 years	3-4 years	4-5 years	Over 5 years	
	HUF million	HUF million	HUF million	HUF million	HUF million	HUF million	
<b>Floating rate</b>							
Cash and cash equivalents*	6,440	-	-	-	-	-	
Government bonds**(2013/C)	222	-	-	-	-	-	
Loan to MOL	-	-	-	-	-	-	
Borrowing from MOL Plc.	(4,129)	-	-	(23,158)	-	-	
Capital project loan	(1,281)	(1,350)	(1,396)	(1,448)	(1,499)	(306)	
Unsecured loans	(3,562)	-	-	-	-	-	
Short-term loan from parent company participating in cash-pool	(595)	-	-	-	-	-	
Forward quota	-	-	-	-	-	-	

\* Carrying amount of cash and cash equivalents equals to the contracted amounts.

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

	Within 1 year	1-2 years	2-3 years	3-4 years	4-5 years	Over 5 years	Total
	HUF million	HUF million	HUF million	HUF million	HUF million	HUF million	HUF million
<b>Capital project loan</b>							
Net book value	(1,152)	(1,224)	(1,302)	(1,382)	(1,469)	(304)	(6,833)
Interest	(129)	(126)	(94)	(66)	(30)	(2)	(447)
Undiscounted contractual amounts	(1,281)	(1,350)	(1,396)	(1,448)	(1,499)	(306)	(7,280)

	Within 1 year	1-2 years	2-3 years	3-4 years	4-5 years	Over 5 years	Total
	HUF million	HUF million	HUF million	HUF million	HUF million	HUF million	HUF million
<b>Borrowing from MOL Plc.</b>							
Net book value	(4,092)	-	-	(20,390)	-	-	(24,482)
Interest	(37)	-	-	(2,768)	-	-	(2,805)
Undiscounted contractual amounts	(4,129)	-	-	(23,158)	-	-	(27,287)

	Within 1 year	1-2 years	2-3 years	3-4 years	4-5 years	Over 5 years	Total
	HUF million	HUF million	HUF million	HUF million	HUF million	HUF million	HUF million
<b>Unsecured loans</b>							
Net book value	(3,343)	-	-	-	-	-	(3,343)
Interest	(219)	-	-	-	-	-	(219)
Undiscounted contractual amounts	(3,562)	-	-	-	-	-	(3,562)

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

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

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

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

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

	Net book value		Fair value	
	2012	2011	2012	2011
	HUF million	HUF million	HUF million	HUF million
<b>Financial assets</b>				
Loans given (notes 8,11)	2	330	2	330
Trade receivables (note 10)	49,683	50,881	49,683	50,881
Securities	222	-	222	-
Cash and cash equivalents (note 12)	6,440	5,715	6,440	5,715
Other current assets (excluding loans given and prepaid and recoverable taxes) (note11)	579	511	579	511
<b>Total</b>	<b>56,926</b>	<b>57,437</b>	<b>56,926</b>	<b>57,437</b>

	Net book value		Fair value	
	2012	2011	2012	2011
	HUF million	HUF million	HUF million	HUF million
<b>Financial liabilities</b>				
<b>Interest-bearing loans and borrowings:</b>				
Floating rate long-term bank loans (note 15)	6,833	8,457	6,833	8,457
Floating rate other long-term loans (note 15)	20,390	5,519	20,390	5,519
Floating rate other short-term loans (note 18)	4,092	6,623	4,092	6,623
Other (notes 15)	3,194	3,431	3,194	3,431
Unsecured loans (notes 18)	3,343	-	3,343	-
Short-term loan from parent company participating in cash-pool(notes 18)	595	-	595	-
Liabilities from emission allowances	-	2,996	-	2,996
Trade and other payables (note 17)	58,667	58,411	58,667	58,411
<b>Total</b>	<b>97,114</b>	<b>85,437</b>	<b>97,114</b>	<b>85,437</b>

## 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 2012 and 2011.

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 2012	31 December 2011
	HUF million	HUF million
Long-term debt, net of current portion	29,265	16,248
Current portion of long-term debt	1,152	1,159
Short-term debt	8,030	6,623
Less: Cash and cash equivalents	6,440	5,715
<b>Net debt</b>	<b>32,007</b>	<b>18,315</b>
Equity attributable to equity holders of the parent	115,387	122,952
Non-controlling interest	-	-
<b>Total capital</b>	<b>115,387</b>	<b>122,952</b>
<b>Capital and net debt</b>	<b>147,394</b>	<b>141,267</b>
<b>Gearing ratio (%)</b>	<b>21.72</b>	<b>12.96</b>

## 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 2012 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.

Effect on profit from financial activity	2012	2011
	HUF billion	HUF billion
Exchange (change +/- 10 HUF/EUR)	- / + 0.8	- / + 0.4

### 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	2012	2011
	HUF billion	HUF billion
Petrochemical		
Brent crude oil price (change by +/- 10 USD/bbl; with fixed crack spreads and petrochemical margin)	- / +1.7	- / +4.4
Integrated petrochemical margin (change by +/- 10 EUR/t)	+ / - 1.8	+ / - 2.0
Exchange rates (change by +/- 10 HUF/USD; with fixed crack spreads)	- / + 9.4	- / + 12.4
Exchange rates (change by +/- 10 HUF/EUR; with fixed crack spreads / targeted petrochemical margin)	+ / - 9.5	+ / - 10.8

### Credit risk

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

### Interest rate risk management

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

As of 31 December 2012 and 2011, 100% of the Company's debt was at variable rates respectively.

Effect on profit from financial activity	2012	2011
	HUF billion	HUF billion
Interest rate (change +/- 1 percentage point)	- / + 0.2	- / + 0.1

As of 31 December 2012 and 2011, there was no open interest rate swap transaction.

### Liquidity risk

The Company is to maintain sufficient cash and cash equivalents or have available funding through an adequate amount of committed credit facilities to cover the liquidity risk in accordance with its financing strategy. The amount of undrawn facilities as of 31 December 2012 and 2011 consists the followings:

	2012	2011
	HUF million	HUF million
Short - term facilities available		
- bank	2,657	3,000
- majority stakeholder	4,646	2,711
Long - term facilities available		
- majority stakeholder	-	16,261
<b>Total loan facilities available</b>	<b>7,303</b>	<b>21,972</b>

## 28 COMMITMENTS AND CONTINGENCY LIABILITIES

### NTCA revision

TVK Plc. appealed against some resolutions of the tax authority regarding the years 2006-2008. The National Tax and Customs Administration (NTCA) requested by a second-degree resolution the completion of a new procedure with regard to corporate tax, the special tax of corporate enterprises and innovation contribution. In the new procedure the NTCA sent the disputed R+D topics to experts for review to the National Authority of Intellectual Property, where from the 5 topics disputed four have been qualified as R+D topics. The tax authority has specified tax penalty with regard to innovation contribution in the amount of HUF 1,350 thousand, with regard to the special tax of corporate enterprises in the amount of HUF 1,111 thousand and the financial settlement took place after the receipt of the resolution.

The comprehensive tax audit of the years 2009-2010 is in progress. The NTCA has suspended the audit for the time of the expert audit of the own and external R+D topics of the Company to be carried out by the National Authority of Intellectual Property.

## Operating leases

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

	31 December 2012	31 December 2011
	HUF million	HUF million
Due not later than 1 year	-	3
Over 1 year	-	-
<b>Total</b>	<b>-</b>	<b>3</b>

## Capital and contractual commitments

The total value of capital commitments as of 31 December 2012 is HUF 3,728 million, which is fully attributable to TVK Plc. This value doesn't contain those amounts (EUR 67,075,000), which will be for the purchase of materials and services relating to the Butadiene project. Because of the Open Book procurement, these amounts can be changed.

### Gas Purchase Obligation, Take or Pay Contract

The TVK Erőmű Kft. has concluded long-term gas purchase contract with MOL Energiakereskedő Zrt. in order for continuous operation of equipments in the power plant. As of 31 December 2012, 479 million cubic meters of natural gas will be purchased during the period ending 2018 based on this contract. (from which 407 mcm under take-or-pay commitment calculated with a contractual average price)

TVK Plc. signed a long-term natural gas purchase contract with MOL Plc. and MOL Energiakereskedő Zrt.. The buyers (TVK Plc. and MOL Plc.) engage themselves to receive and pay the annual minimum quantity, which is the 85 % of the contractual annual quantity. As of 31 December 2012, 200 million cubic meters of natural gas will be purchased during the period ending 2015 based on this contract.

The Company concluded an agreement with MOL Plc. about the purchase of gas with high inert gas content, undertaking obligations from 2012 to 2016. The buyers engage themselves to receive and pay the annual minimum quantity, which is the 85 % of the contractual annual quantity. As of 31 December 2012, 4,834 TJ high inert content gas will be purchased during the period ending 2016 based on this contract.

## Environmental protection

The company management measured and measures continuously, what kind of actions and investments are needed for the compliance of the company with the environmental requirements stipulated in the new Hungarian regulations issued on the basis of the EU directives.

In 1996, before the privatisation of TVK Plc., an environmental audit of the Company had been carried out. Based on the findings of the audit, the restoration of the contaminated soil in the area of the Olefin plant began. The restoration on the area of the Paint Factory continued.

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

In connection with this, an assessment of the underground pollution of the areas under decontamination began in the second half of 2002. Further to the findings of an environmental review carried out by an external consultant, HUF 2,101 million additional environmental provisions were created for expected extra restoration costs in 2002.

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.

In 2005 the Technical Intervention Action Plan due to the request of the Authority 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.

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

To prevent any pollution from escaping from the area, the Company spent HUF 119 million in 2012 and HUF 92 million in 2011 on actions associated with monitoring and the exploration of the facts performed as part of the additional tests.

TVK Plc. and MOL Plc., involving outsider specialists, set up a research project, called MOLTVKBA, and as a consortium successfully applied for the tender „For a Liveable Environment” invited by the National Research Technological Agency. The main objective of the research programme was 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 application tests of innovative technologies within the project have been completed: the investigation of the possibility to remove hydrocarbons with an individual phase that is heavier than water, the testing of microbiological technologies aimed at the reduction of concentration in areas polluted by in-depth dissolved hydrocarbons. On the basis of the landscape rehabilitation program we plan to involve the environmentally remediated areas into the production. The project was closed at the end of 2012. TVK Plc. spent HUF 90 million on this project, 49% of this amount came from subsidy, the technical and financial investigation will be finalised in 2013.

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

We prepared a closing report on the follow-up process and sent it to both the authority and AKZO. In response to the report, the authority issued decision N° 10431-14/2011 and required both TVK Plc. and AKZO NOBEL Co., under several and joint liability, to make a factual assessment of the situation. The companies will carry out the fact-finding activities on the basis of the cooperation agreement in 2013.

The Company recognised - in consideration of the above-mentioned risks - environmental provision based on the currently available quantifiable future expenses in the amount of HUF 2,346 million as of 31 December 2012 (HUF 2,314 million as of 31 December 2011).

Beyond the provision recognised 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.

**Transactions with associated companies in the normal course of business**

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

The Company concluded a contract with MOL Commodity Trading Kft (MCT) as of 2010 about the purchase of electricity, which is a long-term (indefinite) frame agreement about the purchase of annual products. The agreement was transferred to MOL Plc. by MCT on March 1, 2011. The company concluded an agreement with MOL Plc. about the purchase of the necessary short-term products and about balance group services for 2012.

	2012	2011
	HUF million	HUF million
<b>Sales</b>		
of which: to MOL Group companies	68,185	84,014
of which:		
Slovnaft Pethrochemicals s.r.o.	5,014	11,736
MOL Plc.	58,362	71,895
MOL Commodity Trading.	3,928	73
Petroszolg Kft.	212	152
Slovnaft a.s.	310	-
to other related parties	3	2
of which Tűzoltó és Műszaki Mentő Kft.	3	2
<b>Beszerzés</b>		
of which: to MOL Group companies	339,254	357,110
of which:		
Moltrade-Mineralimpex Zrt.	296,635	320,428
MOL Plc.	19,087	11,731
MOL Energiakereskedő Kft.	7,337	6,593
Petroszolg Kft.	4,924	5,240
Slovnaft Petrochemicals s.r.o.	3,669	1,314
MOL Commodity Trading Kft.	264	268
to other related parties	264	268
of which Tűzoltó és Műszaki Mentő Kft.	264	268

**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 175 million, and HUF 250 million in 2012 and 2011, respectively.

The liabilities related to incentive scheme as of 31 December 2012 and 2011 were as follows:

	31 December 2012	31 December 2011
	HUF million	HUF million
Short-term incentive	239	254
<b>Total</b>	<b>239</b>	<b>254</b>

**Share-option incentive from 2006**

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

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

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

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

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

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

	Number of shares							Total
	2012	2011	2010	2009	2008	2007	2006	
<b>Outstanding at the beginning of 2006</b>	0	0	0	0	0	0	0	0
Granted during the year							13,000	13,000
Forfeited/Exercised during the year								0
<b>Outstanding at the end of 2006</b>	0	0	0	0	0	0	13,000	13,000
Granted during the year						14,939		14,939
Forfeited/Exercised during the year						(1,512)	(583)	(2,095)
<b>Outstanding at the end of 2007</b>	0	0	0	0	0	13,427	12,417	25,844
Granted during the year					15,000			15,000
Forfeited/Exercised during the year								0
<b>Outstanding at the end of 2008</b>	0	0	0	0	15,000	13,427	12,417	40,844
Granted during the year				14,500				14,500
Forfeited/Exercised during the year					(600)			(600)
<b>Outstanding at the end of 2009</b>	0	0	0	14,500	14,400	13,427	12,417	54,744
Granted during the year			7,500					7,500
Forfeited/Exercised during the year							(12,417)	(12,417)
<b>Outstanding at the end of 2010</b>	0	0	7,500	14,500	14,400	13,427	0	49,827
Granted during the year		4,111						4,111
Forfeited/Exercised during the year			(2,500)	(5,996)	(4,400)	(13,427)		(26,323)
<b>Outstanding at the end of 2011</b>	0	4,111	5,000	8,504	10,000	0	0	27,615
Granted during the year	5,600	1,000	2,000	1,000	2,000			11,600
Forfeited/Exercised during the year			(5,500)	(8,504)	(12,000)			(26,004)
<b>Outstanding at the end of 2012</b>	5,600	5,111	1,500	1,000	0	0	0	13,211

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 59 million, and HUF (80) million in 2012 and 2011, respectively, recorded as personnel-type expenses with a corresponding increase in Trade and other payables.

Liabilities (without payroll related contributions) in respect of the share-based payment plans amounted to HUF 42 million as at 31 December 2012 (31 December 2011: HUF 75 million), recorded in Trade and other payables.

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

	2012	2011	2010	2009
				(3 years waiting period)
Weighted average price at grant date*	56.2	72.94	58.69	41.88
Weighted average share price **, **	61.0	61.0	61.0	61.0
Expected volatility based on historical data	44.18%	39.98%	39.31%	34.03%
Expected dividend yield	2.61%	2.61%	2.61%	2.61%
Expected life (years)	4.0	3.0	2.0	1.0
Risk free interest rate	0.15%	0.02%	(0.02)%	0.00%
Weighted average fair value of the options	17.6	11.2	12.3	19.1

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

\*\* Average share price on the last trading day of 2012.

#### Key management compensation

	2012	2011
	HUF million	HUF million
Salaries and other short-term employee benefits	161	241
Severance payment	16	59
Share-based payment	61	(17)
Honoraria	149	87
<b>Total</b>	<b>387</b>	<b>370</b>

#### 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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IFRS, consolidated, audited (HUF million)	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Sales	150,284	175,883	249,693	308,736	337,646	323,406	265,372	365,185	411,462	374,584
Earnings Before Interest and Taxes (EBIT)	4,177	12,153	13,136	22,058	32,973	4,555	(7,510)	800	(5,902)	(10,190)
Depreciation	7,797	6,925	9,723	12,405	12,948	13,148	12,609	13,012	13,331	13,836
EBITDA	11,974	19,078	22,859	34,463	45,921	17,703	5,099	13,812	7,429	3,646
Net profit	5,278	8,947	6,409	17,271	23,684	(146)	(9,192)	(1,170)	(11,226)	(7,560)
Capital expenditure	55,420	42,553	6,981	6,644	7,251	4,539	8,223	7,085	6,495	14,685
Balance sheet total	182,082	202,326	227,714	229,998	234,963	209,781	211,404	210,672	209,030	216,333
Shareholders' equity	102,363	111,282	117,718	133,959	157,642	148,541	137,387	136,241	122,952	115,387
Registered capital	24,501	24,495	24,492	24,534	24,534	24,534	24,534	24,534	24,534	24,534
<b>Major ratios</b>										
EPS – Earnings per share (HUF/share)	218	369	264	712	975	(6)	(378)	(48)	(462)	(311)
ROE – Return on equity (%)	5.16	8.04	5.44	12.89	15.02	(0.10),	(6.69)	(0.86)	(9.13)	(6.55)
ROA – Return on assets (%)	2.90	4.42	2.81	7.51	10.08	(0.07)	(4.35)	(0.56)	(5.37)	(3.49)
<b>Closing price of TVK shares on the Budapest Stock Exchange (HUF)</b>										
- Highest	4.550	5.375	5.890	5.995	8.490	7.060	3.495	3.780	3.540	2.295
- Lowest	3.940	3.400	4.605	4.855	5.250	2.405	1.760	2.760	2.150	1.660
- On December 31	3.955	5.060	5.240	5.345	7.010	2.405	3.400	3.300	2.240	1.705
Capitalisation (on December 31 closing price, million)	95.849	122.628	126.990	129.835	179.752	58.420	82.589	80.160	54.412	41.416
<b>Other Data</b>										
Average headcount	2,015	1,686	1,542	1,396	1,187	1,153	1,158	1,138	1,119	1,097
Number of shares	24,423,843	24,423,843	24,423,843	24,290,843	24,290,843	24,290,843	24,290,843	24,290,843	24,290,843	24,290,843
- Ordinary shares	24,234,843	24,234,843	24,234,843	24,290,843	24,290,843	24,290,843	24,290,843	24,290,843	24,290,843	24,290,843
- Employee stock	189,000	189,000	189,000	0	0	0	0	0	0	0
Number of consolidated companies	7	7	8	10	9	9	9	9	9	7

IFRS, consolidated, audited (EUR thousand)	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Sales	573,100	712,279	987,983	1,223,686	1,332,725	1,221,414	979,811	1,310,081	1,322,476	1,285,949
Earnings Before Interest and Taxes (EBIT)	15,929	49,216	51,976	87,428	130,148	17,203	(27,729)	2,870	(18,970)	(34,982)
Depreciation	29,733	28,044	38,472	49,168	51,107	49,656	46,555	46,680	42,847	47,499
EBITDA	45,662	77,261	90,448	136,595	181,255	66,859	18,827	49,550	23,877	12,517
Net profit	20,127	36,233	25,359	68,454	93,483	(551)	(33,939)	(4,197)	(36,081)	(25,9542)
Capital expenditure	211,341	172,328	27,622	26,334	28,620	17,143	30,361	25,417	20,876	50,414
Balance sheet total	694,360	819,366	901,017	911,605	927,425	792,284	780,549	755,774	671,841	742,672
Shareholders' equity	390,356	450,662	465,786	530,951	622,230	560,998	507,263	488,757	395,179	396,124
Registered capital	93,433	99,198	96,910	97,241	96,838	92,658	90,585	88,014	78,854	84,225
<b>Major ratios</b>										
EPS – Earnings per share (EUR/share)	0.83	1.50	1.04	2.82	3.85	(0.02)	(1.40)	(0.17)	(1.49)	(1.072)
ROE – Return on equity (%)	5.16	8.04	5.44	12.89	15.02	(0.10)	(6.69)	(0.86)	(9.13)	(6.552)
ROA – Return on assets (%)	2.90	4.42	2.81	7.51	10.08	(0.07)	(4.35)	(0.56)	(5.37)	(3.492)
<b>Closing price of TVK shares on the Budapest Stock Exchange (EUR)</b>										
- Highest	17.35	21.77	23.31	23.76	33.51	26.66	12.90	13.60	11.38	7.88
- Lowest	15.02	13.77	18.22	19.24	20.72	9.08	6.50	9.90	6.91	5.70
- On December 31	15.08	20.49	20.73	21.19	27.67	9.08	12.55	11.80	7.20	5.85
Capitalisation (on December 31 closing price, million)	365.52	496.61	502.47	514.61	709.50	220.64	304.94	287.60	174.89	142.18

Remarks: EUR values as was calculated with the below rates

EUR/HUF mid FX rate quoted by the NBH for December 31, 2003: 262.23

EUR/HUF mid FX rate quoted by the NBH for December 31, 2004: 245.93

EUR/HUF mid FX rate quoted by the NBH for December 30, 2005: 252.73

EUR/HUF mid FX rate quoted by the NBH for December 29, 2006: 252.30

EUR/HUF mid FX rate quoted by the NBH for December 28, 2007: 253.35

EUR/HUF mid FX rate quoted by the NBH for December 31, 2008: 264.78

EUR/HUF mid FX rate quoted by the NBH for December 31, 2009: 270.84

EUR/HUF mid FX rate quoted by the NBH for December 31, 2010: 278.75

EUR/HUF mid FX rate quoted by the NBH for December 30, 2011: 311.13

EUR/HUF mid FX rate quoted by the NBH for December 28, 2012: 291.29

# SUSTAINABILITY REPORT



# MAIN RESULTS AND GOALS

We understand that success and social acceptance are not only measured and reflected by economic indicators in this day and age. Our activities tend to be evaluated also in the light of how we perform in terms of our capacity to downsize our environmental footprint. TVK is committed to the sustainable development and communicates its achievements openly to stakeholders. We devote extra attention to creating a cleaner and liveable environment, secure and healthy working conditions. To ensure the attainment of these objectives, we look upon prevention and thinking responsibly as basic principles. The core principles environmentally oriented thinking and sustainability have been integrated solidly into our long term strategy.

Our 2012 results are presented not separately in annual financial and sustainability report, but in this integrated report. Visit our website ([www.tvk.hu](http://www.tvk.hu)) to view detailed information of the below issues. The table of contents of and accurate references to the full SD report are laid out at the end of this chapter.

TVK announced its commitment to sustainable development. In order to support this ambitious commitment, six group-level strategic SD initiatives were identified, aimed to take place in the period of 2011-2015.

These initiatives covering twenty topics such as energy efficiency, climate change, product stewardship and the attraction of talented recruits, embrace all the Company's activities and are indeed considered to be "key success factors" in the achievement of our strategic corporate business objectives. "Strategy" implies action; therefore TVK has launched many projects that will bring the Company closer to its long-term goal of sustainable operations.

Objectives	
<b>1. Climate change</b>	„To manage risks and opportunities related to climate change”.
<b>2. Environment</b>	„Reduce environmental footprint”.
<b>3. Health and safety</b>	„Ensure health & safety of all of our employees and contractors”.
<b>4. Communities</b>	„Enhance trust and credibility among stakeholders”.
<b>5. Human capital</b>	„Focus on the next generation”.
<b>6. Economic sustainability</b>	„Focus on factors contributing to long term economic developments”.

## 2012 PERFORMANCE

### Performance supporting economic sustainability

- Despite of negative effects of the economic environment our Company successfully prepared and carried out the Turnaround actions in year 2012 ensuring the appropriate operation of our equipment and production plants for the coming years.
- Maintenance and reconstruction works have contributed to the economic sustainability and to ensure continuous production.
- In this year a long term boiler-reconstruction project was finished at SC-1 (Olefin-1) unit.
- For sustaining the operational reliability and extending the unit's lifetime and for decreasing the operational costs and environmental impact two long-term projects were prepared in the Tank Yard. Their implementation will begin in 2013.

- Beside the planned maintenance activities we focused on the preparation of implementation tasks of Butadiene Extraction Unit. This strategic project makes possible efficient use of the synergies for refinery and petrochemical in the future.
- Rationalization of feedstock and energy consumption, the cost optimization of existing resources had a positive impact on our production capacity and reduced the CO<sub>2</sub> emissions. The ongoing and now starting projects contribute to improving of petrochemical production efficiency. Several issues were prepared and launched as part of the group level New Downstream programme which realize further energy consumption reduction and efficiency improving actions.

### Increasing the steam crackers' efficiency remained a top-priority target.

- With the SC-1 plant reconstruction we achieved the following advantages: the plant lifetime was extended, operating conditions were improved and an efficient and safe operation was ensured. One part of the reconstruction activities were implemented during the Turnaround in line with the expected Turnaround Programme and within the project budget, while those work which were independent of Turnaround were finished with cost savings.
- Several projects contributed to the efficiency improving of F-8001 boiler in SC-1 unit, thereby reducing the plant's CO<sub>2</sub> emission also:
  - the existing quench oil firing was replaced to natural gas firing: all the six burners of boiler, the connected flue- and firing gas lines, their control systems were replaced. A new pipeline was built between the gas station and the boiler.
  - the combustion air system of boiler was modified. A high-capacity air pre-heater was built in. With utilization of excess low pressure steam the boiler's natural gas consumption could be reduced.
  - high inert contained natural gas (AFG) is utilized in the boiler. To do this, a new hydrocarbon pipeline was built between TIFO and TVK collaboration with MOL KTD, FGSZ and Refining; while TVK ensured the possibility of AFG firing.
- An operation-optimization and energy efficiency improvement program is the replacement of the existing quench coolers in SC-1 plant at F-1001-F-1008 furnaces into new type, up to date coolers. In year 2012 we ordered the BASIC engineering design documentation. We selected -in energy and operational point of view- the best solution from several viable alternatives.
- For this a complex measuring system was built up during the Turnaround in SC-1 plant both for the AFG and for the fuel gas composition measuring and also in SC-2 plant's cracking furnaces for measuring the fuel gas composition. Measurement systems include the on-line measurement of fuel-gases'

composition by gas chromatography, and measurement of the amount of fuel gases with ultrasonic mass flow meters.

### Development of new products is stressed part of our core activity:

- Based on customer requests, some new products were developed and finalized in 2012.
  - The product portfolio of the HDPE-2 plant widened with the implementation of the Tipelin 7111S grade (for extrusion application, with greatly improved colour stability).
  - In connection with the PP-4 plant, the Tipplen K695 (extrusion, injection and blow moulding application) were finalized.
- Also focusing on the newest market needs, for many of our grades, we have worked out modified additive recipes at our laboratories. The implementation of these changes onto plant scale were partly accomplished (6000B and 6300B in the HDPE-2 plant), and partly are in progress (FA 381-10, FS 383-03, FB 472-02 in the HDPE-1 plant; K850, H880 (H890), K880 (K899) in the PP-4 plant).
- Our K850 grade (extrusion and blow moulding application, manufactured in the PP-4 plant) won the Innovation Prize of the Hungarian Chamber of Commerce and Industry.

### Regarding development of new products:

- With the implementation of the TEAL (triethyl-aluminium)/TEB (triethyl-boron) unloading system in the HDPE1 (used basically chromium catalyst) plant, we are now capable to use co-catalysts, with give the opportunity to use Ziegler-Natta catalyst, too. Because of this, we can develop further grades that were determined by the HDPE product portfolio team in 2010. We performed plant trials with TEAL in the FS 383-03 and BS 501-17 grades. After the successful trials, the line 1 of the plant operates with continuous TEAL feeding. We tested the TEB into the BS 550-13 grade; the tests will continue in 2013. With the use of TEB we can produce thinner walls blow moulded bottles with the same mechanical properties.
- In 2012, the first plant trial of a new grade (Tipelin 5100 – pipe coating application) took place in the HDPE-2 plant. These tests are planned to be continued in 2013.
- In the PP-4 plant the plant tests of modified production the K948 (injection moulding, packaging containers application) grade will continue in 2013. Our goal is to produce this grade with much lower C-emission.
- In 2011 the strategy of the additive recipe optimization - mainly about the used clarifying agents - in TVK's clarified random PP grades was determined. The connecting laboratory test series, plant and processors tests were prepared in the 2012 partly. Further plant tests and finalization of the grades will be in 2013.

## Social performance

### Health and Safety

- There were 3 lost time injury work related accident.
- There was no road accident.
- The number of Total Reportable Occupational illness equal with zero.
- The incident inquiry rate (IIR) reached 100%.
- HSE risk assessment was prepared according to COMPASS system.
- Continued Contractor safety program.
- We closed HSE culture development program.
- The attendance rate of PETTVK employees achieved 38% regularity in the STEP (WHP) program by the end of the year.

### Fire Protection

- Our fire protection activity was carried out in accordance with the instructions in force.
- There were two fire incidents in the year 2012.
- In the cause of authority inspections no failures were revealed that would cause imposing of fines.
- We executed the static charge investigations.
- There were 18 emergency response exercises in 2012.
- Prepared PP-4 plant fire protection system revamp.
- Started passive fire protection system improvement in Olefin-1 and PP-3 units.
- FIKE system revamp in PP-4 plant.

### Human Resources

- After the introduction, we have been successfully operating our Performance Evaluation System (PES), which based on performance is 9% of annual basic wage in 2012.
- We continued our Staféta program with 12 participants.
- In 2012 we started a one-and-half year management succession program with 20 selected employees.
- We are running a training course for chemical engineering technicians in cooperation with Erdey-Grúz Tibor Secondary Vocational School in Tiszaújváros. At present there are 15 employees participating.
- 10 fresh graduate degree holders joined the company's Growww programme in 2012.
- We spent 66 million HUF in 2012 on training and education courses with altogether more than 230 persons participating.

## Environmental performance

- The waste collection and storage method formed as a result of opening the Central Waste Collection Yard is satisfactory both to the organisational units of the Company and to our partners under contract. There were no non-compliances.
- By the cost-efficient performing of the tasks included in the Technical Intervention Plan we decreased our environmental protection obligations known at the end of the year 2010, and having fully observed the authority instructions we released HUF 238 million on fulfilling the tasks.
- Improving energy efficiency and decreasing specific CO<sub>2</sub> emission by implementing major technological developments and optimising existing ES&DS and production assets both on the side of supply and demand have specific emission 1.006 tons CO<sub>2</sub>/t HVC.

### Prizes and Recognition

The evaluation board of the 20th Hungarian Innovation Grand Prize recognized several years of developer and marketing work, when awarding the Innovation Prize of the Hungarian Chamber of Commerce and Industry to TVK. The company was recognized for the development of the polypropylene product registered under the name Tipplen K850 and for launching the same on the market. The development started 2008 on the basis of the customer demand on the markets of Austria and Germany and the product was ready for entering the market in 2010. As early as in the first year almost twice as much as planned has been sold from this product, sales tripled in 2011, and this product made up almost 10% of the total polypropylene production of TVK in 2012.

On the basis of our interim performance the National Ministry of Development awarded the prize Bicyclist Friendly Workplace in the category of large enterprises in 2012 too, the official prize award ceremony took place at the end of January 2013. Our company was awarded the prize four times since 2009.

Our company was awarded in 2012 already fifth time (every year since its announcement!) the prize Business Superbrands by Superbrands Hungary. The organisation handed over in 2012 the third time also the Magyarbrands prizes, TVK was awarded the prize among trademarks again. *(The international Superbrands program was launched in Great Britain by prestigious professionals of marketing and communication one and a half decades ago. Indicative of the success of the program, the prize is awarded in 86 countries of five continents, today.)*

TARGETS	EVALUATION	
<b>CONTROL - Promoting HSE culture and management frameworks</b>		
Create a behaviour-based culture; achieve and maintain top quartile HSE performance by 2015.	The project closed successfully	😊
Develop and maintain an effective contractor HSE Management Programme and ensure its mechanism by end 2012.	- Implemented MeFTIR (electronic working permit) software - Started 5 steps for safety project - There were 2 lethal contractor events.	😞
We regard the criteria of sustainable development as an unavoidable factor to our operation, and through our proactive conduct we encourage our partners to do the same in 2012 as well.	SD day was held in 2012.	😊
<b>AWARENESS - Involving employees &amp; contractors</b>		
Implement a programme that aims at zero injuries and occupational illnesses by 2015.		😊
No occupational accident resulting in death should occur among our employees, contractors and third parties directly controlled by the TVK Plc.	2 lethal contractor accidents	😞
Lost Time Injuries Frequency (LTIF) must not exceed 0.61.	1.59	😞
Incident inquiry rate (IIR) reaches 100%.	100 %	😊
Adopt a health promotion programme and keep regularity rates to at least 30% by the end of 2012 and 40% from the end of the implementation programme (2015).	38.18 %	😊
Ensure employees, contractors and our business partners are HSE competent and have the resources necessary to perform their tasks.	- The contractors employees were trained by TMM Ltd. - Special higher level training for contractors work coordinator. - Trained the external companies from Internal Safety Plan. - Special on-site training because of implementation of MeFTIR system.	😊
Extend Defensive & Eco vehicle-driving practices to all relevant employees and the Road Accident Rate (RAR) must not exceed 1.77.	0	😊
<b>RISK - Maintaining operational excellence</b>		
Assess Personnel, Process and Product safety risks systematically (using risk maps) by 2013 to reach levels as low as reasonably practicable by end 2015, eliminate high health-risk workplaces by 2014.	Revised HSE risk assessment what was prepared in 2011 according to COMPASS system.	😊
Create and operate an emergency response framework that supports business continuity.	Implemented and introduced TVK Plc's SEVESO regulation	😊
Operate the Process Safety Management System and keep it's KPI's to avoid Process Incidents.	There was 5 PSM events. There were 119 near-miss PSM events.	😊
<b>ENVIRONMENTAL STEWARDSHIP - Taking a wider environmental perspective</b>		
Improving energy efficiency and decreasing specific CO <sub>2</sub> emission by implementing major technological developments and optimising existing ES&DS and production assets both on the side of supply and demand by 1% on TVK level (compared to 2010).	The specific CO <sub>2</sub> emission was reduced 1.3 %.	😊
By cost-effectively executing the tasks determined in the Technical Intervention Plan decrease the amount of known (year 2010) environmental liabilities of TVK Plc. using risk based approach by 5.8%.	We reduced our provision 5.8% of known liabilities	😊
Reduce total water withdrawal & specific generated wastes from routine operations and increase the ratio of reused/ recycled wastes.	The reused wastes volume were 796 tons instead of 1,263.	😞
According to the Group level Biodiversity Action Plan (GBAP) to develop and implement a Biodiversity Action Plan (BBAP) for new projects from 2012 onwards and monitor the ecological status of critical operations from 2014.	TVK will concern is 2013. The Post cleaning lakes fitoremediation was finished	😊

## FUTURE CHALLENGES 2013

### Economic sustainability objectives

Our main goals from the past and for the near future are closely connected, in our slowly changing industry branch is not characteristic their abrupt change. TVK's basic activity is not supposed to be changed soon; its competitiveness depends on our capability to satisfy real economic needs, to operate supporting economic sustainability.

Main goals carried over to 2013 and goals of the projects initiated in 2013 respectively, are practically same with those defined in the last years:

- high level exploiting of the existing production capacities, efficiency improvement
- enlargement of the product portfolios according to customers' requirements, improving product quality
- further development of the operational safety
- rationalizing the raw materials and energy needs
- reduction of wastes and emissions related to applied technologies
- mitigation of the risks threatening health and impact on environment.

Our economic, environmental and social awareness and responsibility will not change in the future. Our present and future competitiveness has sense only in frame of sustainability.

Projects are planned for the next period are in harmony with our sustainable development strategy, fit to group level New Downstream undertakings, their effects will show up in the energy and feedstock savings and in the reduction of CO<sub>2</sub> emissions. These steps reflects our commitment to environmental awareness and contribute to increasing the efficiency of production.

### Our efficiency improvement projects are continuing

- Implementation phase of the replacement of quench coolers in SC-1 project will starting: as we expect the detail engineering document will be prepared in 2013 as well as the order of the manufacturing of 16 pieces quench coolers. The effective replacement of coolers is planned in two stages in 2014 and 2015.
- With the reconstruction of Propylene storage system we can ensure the operational safety's appropriate level for a long time.
- We will utilize the by-products of SC plants. Surplus hydrogen of SC-2 will used in TVK Power Plant, while the crude C4 fraction will be processed in the Butadiene Extraction Unit.

- Utilization of condense water at LDPE-2 and HDPE-2 units will result savings in demineralized water and HP steam consumption.
- Implementation of a frequency controlled drive for industrial water pump reduces electrical power consumption, which increases the efficiency and decreases the energy costs as well.

In the coming years we will continue to maintaining the suitable level of our existing production equipment and production plants, ensuring the continuous production.

In frame of Tank Yard's reconstruction the obsolete equipments, pipe sections and fittings will be replaced. Aims of these activities are the Tank Yard's lifetime extension and maintenance cost reduction. Results of the reconstruction also have a positive impact for the operational safety of SC-1 and SC-2 plants, and reduce the potential environmental risks too.

The replacements of storage tanks' floating roofs into fix roofs in Tank Yard contribute to decreasing of hydrocarbon evaporation and elimination of corrosive effects. We expect the reduction of the environmental-, and health risks and loads from the roof modifications of storage tanks. These roof replacements affect extra 10-year lifetime extension of tanks.

We analyze continuously the possibilities of MOL Group value chain expansion and the production potentiality of new petrochemical products..

### SD & HSE Objectives and Targets

We draw up TVK's SD and HSE targets and objectives based on the MOL-group accepted guidelines and DS Petrochemicals year 2013 targets and objectives:

- No occupational accident resulting in death should occur among our employees, contractors and third parties directly controlled by the TVK Plc.
- Lost Time Injuries Frequency (LTIF) must not exceed 0.58.
- Incident inquiry rate (IIR) reaches 100%.
- Adopt a health promotion programme and keep regularity rates to at least 30% by the end of 2012 and 40% from the end of the implementation programme (by 2015).
- Extend Defensive & Eco vehicle-driving practices to all relevant employees and the Road Accident Rate (RAR) must not exceed 1.54.
- Improving energy efficiency and decreasing specific CO<sub>2</sub> emission by implementing major technological developments and optimising existing ES&DS and production assets both on the side of supply and demand by 1% on TVK level (compared to 2010).

- By cost-effectively executing the tasks determined in the Technical Intervention Plan decrease the amount of known (year 2010) environmental liabilities of TVK Plc. using risk based approach by 6.6%.

- Reduce total water withdrawal & specific generated wastes from routine operations and increase the ratio of reused/recycled wastes.



# PROTECTING THE ENVIRONMENT



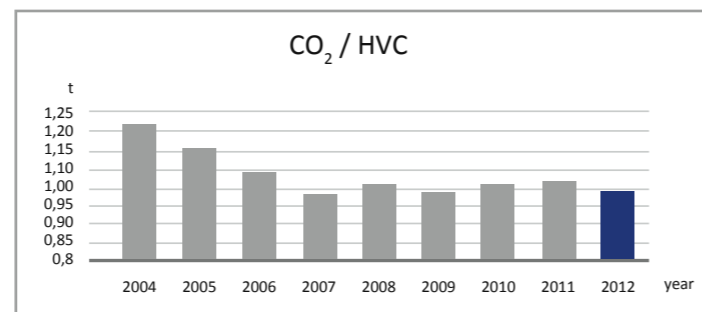
## CLIMATE CHANGE

TVK and MOL have fully harmonized their operations also in connection with green house gases.

We have a permission to emit gases by the UHG5479-1 license. In 2012, CO<sub>2</sub> ETS relevant emissions was 0.916 million tons, which is lower than the allocated quantity recorded in the National Allocation Plan.

In 2012, GHG permission modification was made due to the introduced and used new feedstock. The new feedstock had no influence on our producing capacity.

### Change of CO<sub>2</sub> emissions:



As each process we operate complies with BAT requirements, we have very little room to reduce CO<sub>2</sub> emissions any more. Moreover, petrol chemistry is highly energy intensive and hence energy consumption is a major cost item of our operations. Consequently, improving energy efficiency can couple with further reductions of CO<sub>2</sub> emissions. Recognising this, we have launched several projects aiming at improving our energy efficiency and in doing so we took into account the financial implications of potential CO<sub>2</sub> emissions during the evaluation of our project plans and investment decisions.

We have taken important measures to contribute to implementing our climate strategy and to reaching additional improvements of the efficiency of energy consumption, including the following key actions:

- During the turnaround of SC-1 significant project was implemented from energy efficiency point of view. A number of modification was implemented on heat recovery boiler of SC-1:
  - Previous heavy oil firing was replaced by alternative fuel gas with high inert content, and the piping the boiler was renewed as well. These modifications resulted higher energy efficiency thus lower carbon dioxide emission during normal operation.

- 5 bar steam surplus were totally utilized by a new heat exchanger installation into the boiler air inlet preheater part in order to achieve higher air inlet preheating efficiency. This resulted lower natural gas consumption thus lower carbon dioxide emission as well.
- As a result of both actions mentioned above the natural consumption of the plant decreased by 1.85 million m<sup>3</sup> and carbon emission by 17 ktons in 2012.
- During the turnaround of SC-1 we improved the efficiency of cracked gas compressor which is key equipment. Low pressure drop heat exchanger was installed thus the mechanical power of turbine driven by the compressor is lower and the steam demand of the machine is lower as well. As a result this action, the natural consumption of the plant decreased by 136 thousand m<sup>3</sup> and carbon emission by 264 tons in 2012.
- Modification of high pressure steam pipeline of F-1009 furnace was also implemented at SC-1. This pipeline was a bottleneck which limited the steam generation capacity of the furnace. As a result of this action, the steam generating capacity increased the natural consumption of the plant decreased by 106 thousand m<sup>3</sup> and carbon emission by 206 tons in 2012.
- In order to exploit further opportunities of interconnection pipeline between SC-1 and SC-2, a new connection point was built at SC-2 at gasoline hydrogenation system. Surplus fuel gas from this system can be transferred into SC-1 instead of flaring it. As a result this action, the natural consumption of the plant decreased by 260 thousand m<sup>3</sup> and carbon emission by 502 tons in 2012.
- In HDPE-2 unit, new high capacity road tank car filling station was installed in order to sale the entire amount of low polymer byproduct. Previously it was transferred into SC-2 plant in order to utilize it as pyrolysis raw material and this technological process required steam tracing of transferring pipeline. As a result of stoppage of low polymer transfer 8 thousand tons of High pressure steam was saved thus TVK Power Plant natural consumption decreased by 740 thousand m<sup>3</sup> and carbon emission by 1.4 kilotons in 2012.
- We have modified the current heating system of TVK Power Plant at 2011 and its efficiency improvement was also sustained in this year. As a result this action, the natural consumption of the TVK Power Plant decreased by 116 thousand m<sup>3</sup> and carbon emission by 225 tons in 2012.
- We have built a pipeline cross connection at Tank Yard unit in order to store C2 fraction (ethylene fraction) into the Kalush ethylene pipeline during startup or forced outage event of crackers. By this modification we are able to avoid flaring

high value C2 fraction by storing it in the Kalush ethylene pipeline. When the cracker is on stable operation the saved material can be reprocessed. By the implementation of this action we have reduced the CO<sub>2</sub> emission by 3.3 kilotons in 2012.

### Clean air

Emission monitoring data suggest that plant process emissions of pollutants complied with the effective control limits. We spent HUF 3.2 million on controlling compliance in 2012.

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

We paid HUF 0.3 million website registration fee of our air conditioners (over 3 kg) operated at TVK. Air conditioning devices operated at TVK are filled with ozone decomposing gases. Air conditioners are registered on the Authority website and air conditioner leakage tests are carried out by accredited partners in accordance with the applicable legal requirements.

In 2012, three authority supervision took place in connection with our clean air protection activity. No difference were identified during the supervisions. No penalty is expected in respect of emission of year 2012.

Air conditioning devices operated at TVK are filled with ozone decomposing gases. Air conditioners are registered on the Authority website and air conditioner leakage tests are carried out by accredited partners in accordance with the applicable legal requirements. The website registration fee of air conditioners is HUF 0.28 million.

The National Air Pollutant Monitoring Network performs regular checks of the presence pollutants in the ambient air near TVK and evaluates air quality. Air pollution levels are recorded by the immission measurement stations located in neighbouring settlements and the recorded levels are read and checked by the Northern Hungarian Directorate of Environmental Protection, Nature Conservation and Water Management (the Directorate). We received one notice from the Directorate of pollutant concentrations above control limit. The event was reported the Authority (OKT10001 tank on 3 February 2012). There was no penalty assessed.

## WASTE MANAGEMENT

The basis of our operation is the waste framework contracts contracted on MOL Group a group level.

Through involving the services of both active and passive partners we ensure cost-efficiency of all wastes and monitoring of wastes life time became ensured. As a result of concluding the long-term contracts we realize significant cost saving regarding the normal wastes. The yearly supervision of the price sheets of the contract and the individual handling prices resulted in further cost-cutting. Waste management at our Company is properly regulated in accordance with the European Union's norms. In the year 2012 our waste management activity met the instructions.

The updated recording of wastes (hazardous and non-hazardous) at TVK Plc is carried out in the break-down as per unit line, in accordance with formation processes. In 2012, 5.7 kilotons of waste formed at the Company; we gave 5.6 kilotons to contracted partners for utilization and reuse. We did not realize incomes on waste treatment. In 2012, the hazardous waste treatment it reached HUF 58 million HUF.

### The sold, then recycled products and recycled packaging

In accordance to the legal changes in the environmental product fee regulations, from the year of 2012 the companies must pay fee after only the packaging material among those after which bounded to pay product fee and not after the whole packaging. This obligation must be paid by the first domestic releaser of the packaging material, which were contractually assumed by TVK Plc. in accordance with the legal requirements and was declared towards NTCA in due date.

TVK Plc. meets all recording and declaration obligations, keep records on all used packaging tool, packaging material and subsidiary packaging material; supply declarations to the National Tax and Customs Administration of Hungary (NTCA) quarterly, which includes mass data about the produced and own used packagings in the period.

Product fee payment obligation was accomplished in 2012.

## WATER AND SOIL

Potable water is provided by operating our own plant that produces, cleans and distributes drinking water. This plant also supplies potable water to MOL's TIFO Refinery via our own drinking water network. The AES Tisza Power Plant Ltd. stopped

the operation on March 31, 2012, what was supply the industrial water for TVK Industrial Komplex and MOL TIFO. TVK-TIFO Industrial complex industrial water supply is realized from the Tiszapalkonya Power Plant (operated by TVK) watersystem from April 1, 2012.

### Legal Compliance

- Information and confession report were met the authorities' obligations.
- We have been made renewal water licences documentations
- The remediation and monitoring of after treatment lake system were finished in year 2012. The closing monitoring report was sent to ÉMI-KTVF.

## WATER PERMITTING

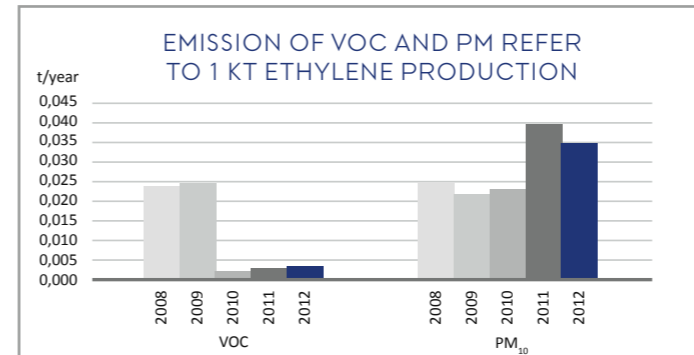
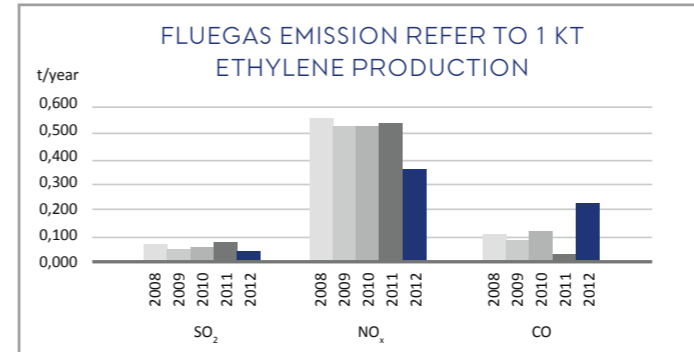
The following water permission were obtained during 2012:

- Fillingfilters of 3 drinkable water producing wells get water permission for operation
- Got water permission for operation water withdrawal unit of Power plant of Tiszapalkonya.
- Renewal of water permission for the operation of No. IVI-V recirculation cooling system.
- Water permit for operation for treatment grondwater from remediation activity (Tank Yard area) at Waste Water Treatment Plant.
- Permission for wastewater emission for apparatus cleaner area at TVK Plc.

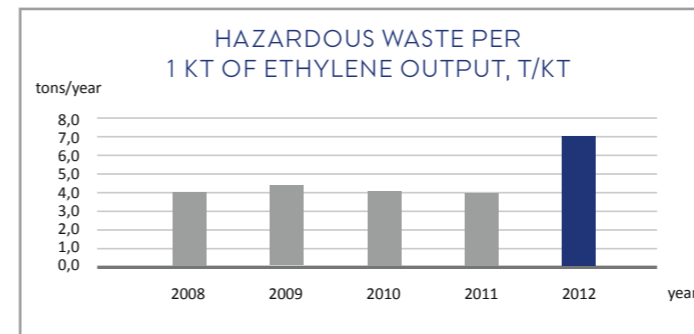
No pollutant emissions in excess of control limit were identified in the waste water discharged into the recipient (River Tisza) during the sewer inspections held by the supervisory authority; hence no penalty was imposed in respect of waste water discharged in 2012.

No environmental spillage of chemical substances in volumes larger than 1 m3 occurred in 2012. We spent HUF 427 million on sewage treatment and kept water quality substantially above the level required under law.

Surface water withdrawal was happened from River Tisza.



Change of hazardous waste volume is detailed in the following diagram:



# HUMAN FOCUS



## HEALTH

Professional medical control is especially important because of the large number of potential hazards of different nature employees may get exposed to and the severity of potential consequences. It is ascertained by job aptitude tests that cover checking general health status, heart, blood, urine, hearing, vision and respiratory functions.

To ensure the provision of professional and rapid first aid, unit managers had to make sure that a person trained in providing first aid is available in each work area and in each shift: at present there are 298 trained first aid providers at 48 locations. At each first aid providing place there is a modern first aid box that contains even more facilities than it is prescribed in the legal rule, and additional equipment (tourniquet, aluminium-covered elastic patch, eye flusher, revitalizing mask, first aid bandage) ensure providing efficient first aid.

Employees receive basic training and professional upgrading from professional ambulance officers specialising in first aid. A round-the-clock emergency service ensures that injuries and impairments are treated professionally and swiftly (ambulance car with ambulance officer).

In 2012 definite steps were made in the area of health improvement. In addition to the measures required in the legal rule the following were introduced:

- in order to survey the health status and to initiate the necessary treatment medical examinations and screening test programs were carried out, at which totally 363 persons took part.

Type of screening	Person
Cardiovascular	69
Abdomen ultrasound	57
Dermatology	43
Tumour-marker	45
movement disorders screening	89
Thermal map screening	13
Allergology	32
Glaucoma screening	87
COPD screening	90

- General health status examinations (blood pressure, blood sugar, body weight-body mass) were institutionally made to several hundred employees in two cases (June festivity and the autumn STEP day);
- 113 people got immunization against H1N1.
- In 2012, a mobile lung screening station was set up in the TVK area and 825 employees made use of the lung screening opportunity.

The Health Improving Program (STEP) approved as part of the New Europe Program continued in the year 2011 as well. Health care is first of all a culture-changing program, aim of which is to provide assistance to our employees in revealing their health status and improving that. The participation rate indicator was introduced to denote those TVK employees who took part in mass sports events or health screenings provided by STEP at least three times. The rate of participants was 31% which demonstrates that the majority of the employees regularly pursuit some sports and do pay attention to the healthy way of life.

TVK won the EU TÁMOP tender at the end of year 2012. The tender's title is the "Health education and awareness programs" The programs will be implemented in 2013.

In 2012, we received again (after 2009, 2010 and 2011) the title of "Cycling-friendly Workplace" advertised by Ministry of Environmental and Water and Ministry of National Development and won by TVK, after the committee approved our summary about actions performed in this year.

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## WORK SAFETY

We are committed to strengthening the culture of work safety and security continuously, which means in plain terms that we try to avoid any and all work related injuries. Our Company has records of work related accidents going back to 1961. In addition to the indicators used across the MOL Group for the analysis of accidents, we also use to a specific value calculated (for one thousand blue collar workers) from reportable incidents (injuries healing over three days) as a benchmark as it allows comparison with other employers and sectors.

Last year there were 6 work related accident and 3 were LTI. All the events were investigated. There were 2 increased expositions and 1 was accepted by Worksafety authority. We prepared the annual report on carcinogenics.

There was penalty regarding contractor fatality happened in HDPE- plant.

We continued to investigate work related accidents in compliance with the relevant laws and professional expectations. We used the TRIPOD methodology with software support for revealing cause and effect relationships and for formulating comprehensive measures.

We also took several measures to improve our accident statistics and to prevent extraordinary events in the course of the year:

- We regularly review security aspects at various stages of construction projects to ensure that future operations comply with the technical requirement of safety.
- We monitor extraordinary events and issue warnings if risks are expected to change.
- We have also performed risk analyses for all job positions concerned.
- In order to enhance safety evaluating of the preliminary risks of repair jobs performed while operating was made in several cases.
- We exerted robust effort to enhance the road safety (by improving road conditions, installing traffic lights, performing checks and posting warnings).
- Public road conditions were examined on a regular (monthly) basis.

For the contractor safety

- We increased the number of on site audits, in 2012 executed x on-site audits
- Quarterly we review the contractors' HSE performance common with SSC.
- "Table Top" exercise during the TA preparation.

The behaviour audits conducted as part of our "Safety at Work" project played a key role in improving our accident statistics. Rolling out behaviour audits to all employees in management positions is likely to make jobs safer and to prevent near misses from turning into accidents.

The case studies published in our HSE Info helped draw conclusions across the organisation.

### Process Safety Management System (PSM):

As part of the analysis of the BP oil refinery catastrophe in Texas we made a self-valuation that was carried out by the independent national authority.

PSM handbook at TVK Plc. has been actualized according to PSM regulations at MOL Group. It has been completed with PSM conformity audit regulations by unifying question lists.

Detailed system safety analysis of C3, LPG and propylene recovering systems in Tank farm has been fulfilled, so the risk analysis has been become comprehensive for all producing areas. These analyses of Energy supply are going to be performed at the first half in 2013.

Concepts for classification criteria of PSM critical equipment on MOL Group level has been elaborated, approach of which is involved in the system of uniform MOL Group regulations.

Education at operators' level was performed in the frame of repeating education.

Recording system of Management of change (MOC) has been introduced.

### Safety on Our Roads (SAFE TRAFFIC PROGRAM)

In view of our functional features, TVK employees are travelling a lot, first of all by car. Therefore the road safety is one of our significant workplace risk factors, which we have to deal with. Instead of the following disposal of the road accidents, we make efforts for prevention. To reduce the risks our colleagues face on the roads, we have arranged defensive driving training and supplemental driving courses for those employees whose work requires regular driving.

Important road-safety events in 2012:

- We prepared an accession contract, joining to the MOL defensive driving training contract, what is made sure to execute defensive driving trainings till 2013.
- We placed two wall-newspapers in connection with road safety in TVK site, and gave attention its regularly updating.
- We inform our colleagues about changing of "KRESZ" in the course of training. We deal with special regard to bicycle traffic.
- We investigated all of road accidents and incidents in 2012. We prepared based on the next year action plans.
- We participate on the MOL Group Road Safety working group works by our expert.
- We make opportunity to those colleagues whose driving a lot to participant supplemental driving training.
- We took part in regularly refresh of MOL Group Road Safety on-line site (MOS) to give specific commitments in connection with road safety.

### Road accidents

We had no road accident involved personal injuries in year 2012. Our RAR (road accident rate, RA/1M driven km) was zero, what lower than the tolerated value (0.85).

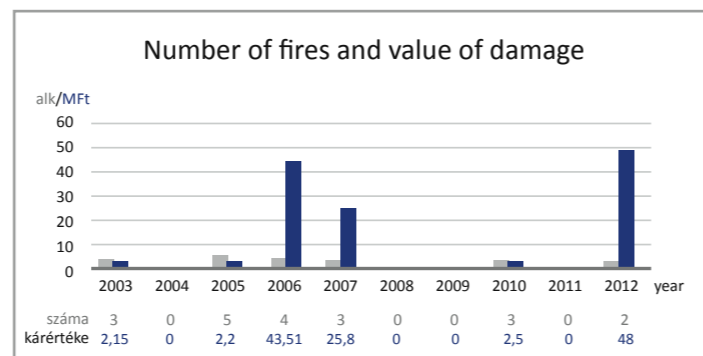
### SEVESO II compliance

Application about disaster management permission of TVK Plc. has been accepted and practising hazardous activities has been authorized by National Directorate General for Disaster Management's decree in August, 2012. Uniform Safety Report modified according to the operative decree changes issued in

this year and Major Accident Preventing Plans for two ethylene pipelines have been accomplished and submitted to the Authority according to schedule. During this year we also took part in modification of relevant organization regulations. In 2012 practice of Internal Emergency Plan according to laws was hold and participated in implementing practice of External Emergency Plan in Tiszaújváros.

## FIRE SAFETY

Prevention of fire and damage cases is a highlighted issue in TVK Plc.'s strategy. In order to achieve these goals, our Company lays emphasis on providing the required proper technical conditions. The fire protection activities followed the change of laws and it happened according to the rules. Unfortunately there were 2 technical failures caused fire in Olefin-1 and LDPE-2 plants.



The fire prevention activity has done according to the relevant legal requirement. During the inspections held by the supervisory authority there wasn't any negligence; hence no penalty was imposed in respect of fire prevention activity in 2012.

According to fire prevention strategy we take the following actions to improve the fire safety.

- PP-4 plant fire protection system revamp.
- Passive fire protection system improvement in Olefin-1 and PP-3.
- FIKE system revamp in PP 4 plant.
- Closing 40 underground hydrants.

### Havaria drills

In order to practice actions to be taken in emergency cases in 2012 we held 18 anti-damage drills, involving the employees and fellow organisations. The above drills were mainly carried out

at the acute fire and explosion dangerous units. After the drills with participating units we evaluated on site the experiences and took measures for eliminating the deficiencies emerged. The drills levels have been increasing. 14 drills have excellent and 2 have good classification. We prepared a cumulative evaluation on the experiences, which was presented to training instructors and at training of voluntary institutional fire-fighters during the courses. Based on the evaluation, an action plan was prepared to solve the problems occurred during the exercises.

## LABOUR PRACTICES AND WORKING CONDITIONS

Recruiting, developing and retaining trained resources of high quality are key components in attaining our corporate strategic goals. We seek to increase employee loyalty, to expose employees to challenging tasks and to offer them opportunities in each operational area while offering the best available working conditions and remuneration. Moreover, our regular employee satisfaction surveys and human resource related indicators offer us continuous feedback about our HR performance and the areas that need to be developed.

### Complex Performance Management System (PMS) for management

The Performance Management System (PMS) - as part of MOL-Group's Annual People Cycle - harmonizes the Group's strategy, the business plan and the individual goals and activities of the managers employed at the company.

Because of the complexity of the PMS it relates with other Human Resource processes as well. The performance evaluation influences the amount of the annual managerial incentive and the fulfilment of the individual goals is a critical input of the annual salary increase as well. As part of the Annual People Cycle it provides information for career and succession planning and for the preparation of the Individual development Plans. So PMS supports the professional and leadership development needs of the managers indirectly.

Managers entitled for PMS – as well as his/her directly managed team – influence divisional and group-level achievements with their performance. Through PMS we ensure that this contribution is realized in a distinguished important area in compliance with the annual business plan. This way the managers can follow up on how they contribute to the success of the company and how they are rewarded for it.

We apply a different performance evaluation system based on quantified performance indicators for those who work in sales areas in order to emphasize the financial and efficiency indicators of the company and to increase employee engagement.

### Performance Evaluation System (PES)

At our company we operate a performance evaluation system (PES) covering all employees in order to increase our employees' motivation. It also helps us successfully adapt to the rapid changes of our economic environment. The goal of the PES is to demonstrate existing relationship between corporate and individual performance thus promoting the realization of business goals. In this system the evaluating manager evaluates the performance of the employee based on a pre-defined and agreed target setting. The objective deliberation does not start at the time of evaluation, but at the time of target setting. Each employee has two organizational goals and two to six individual goals.

### Human capital development

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

### Career Management

Career Management System (CMS) is based on business' strategic requirements and it supports succession planning and the harmonized development of the organization and the individuals as well:

- ensures a formal, targeted and yearly repeated succession planning of managerial and expert positions,
- creates an internal talent pool in order to provide succession for the current organization and therefore also supports the growth strategy,
- supports the definition of the individual and organizational development needs,
- supports the rotation planning within the group,
- ensures unanimous guidelines and transparency for advancing on the individual career paths for all employees who take part in this system.

### Employing Fresh Graduates

We continued fresh graduates program in 2012 as well, what is designed to offer job opportunities in a rapidly developing organisation operating in an international environment to career starters. The participants of this one-year program were selected from several applicants with tests and with the assistance of Assessment Centres. The program itself involves “on-the-job” training and other forms of development as well as events that promote seamless integration and support the attainment of the functional and human competencies needed for performing successfully. In the first year, participants have the option to rotate between various units of the organisation. When they do so, they always receive individually tailored challenging tasks and are thereby offered an insight into the operations of our company. Mentors help participants with integration as well as with personal and professional growth. Once the program is completed, participants and their managers decide jointly about how to progress at the company. 13 out of the 13 graduates who joined the program in 2011 were offered the option to conclude a fixed term employment contract with TVK and continue working with us in 2012. 10 fresh graduates joined the company under similar circumstances in 2012.

### Employing young talents

In 2012 we focussed sharply on chemical secondary education students and engineer students. Strategic recruitment activities were performed at educational institutions. Our experienced colleagues held lectures. Several units of the company received students for professional practice in the summer, students were welcomed to contact TVK engineers to consult about their thesis and we also provided financial and professional support to students of outstanding talent as part of our scholarship program. In 2012 TVK scholarship for chemical secondary school students was carried on. 20 talented children received financial support for a year.

TVK petrochemical departments at the University of Miskolc and at the University of Debrecen keep on supporting our goal to educate the future engineer generation. The off-site petrochemical departments of the Universities at the TVK site promote cooperation in research and education and also support the recruitment activities of both the universities and the company. Our experienced colleagues and world class technologies support the practical part of the education.

### Training and development

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

We have maintained our strategic goal of ensuring the availability of highly trained staff. Accordingly, our employees participate in professional trainings and competence building courses. We give priority to conscious development programs and focus on connecting employees from several units of the organisation.

We spent HUF 66 million in 2012 on training and education.

A succession program has been developed for management positions in 2012, 20 employees (Talents) have been selected to participate in the program. The selection was performed in the course of the CMS evaluation through Assessment Centers organized to measure leadership competences. The scheduled duration of the program is: 18 months. The training program includes three main elements: Learning by Project, Leadership Essentials, Mentoring.

During the Learning by Project phase 10 main project areas were identified covering the entire operating scope of TVK. Efficiency improvement projects were then identified during the status reviews, opportunity assessments, priority setting and evaluation exercises. The process was performed through task force workshops and consultation with the advisors with primary focus on Talent individuals as well as experts and managers from the individual areas in possession of relevant professional expertise. According to the program schedule the efficiency improvement project proposals submitted by the Talents were subject to the decision of TVK’s management to determine which projects were to be managed by the Talents with proper authorization. As part of the management succession plan the main goal of this particular element was to allow participants to learn in real-life, on the job scenarios, gaining experience in surveying a given area in order to progress to the development of specific projects and then implement acting as actual project leads.

On the one hand an additional benefit of the program phase is realized from the actual business earnings achieved through the structured projects generated with a focus on subject-based efficiency improvement to be implemented in going forward. On

the other hand projects were developed not only by Talents but also by colleagues of the individual areas concerned therefore increasing the number of co-workers with potential to extend their knowledge.

The Leadership Essential phase includes a sequence of trainings aimed at the development of leadership competences based on the themes of leadership roles, mobilization, leadership in a matrix organization and systems thinking.

In the Mentoring phase assign MOL managers assumed mentoring roles and conduct monthly personal meetings with Talents to discuss experiences gained from the course elements, leadership dilemmas and issues.

Our Staféta programme, which we launched in 2006, was continued successfully. The program is a conscious and orchestrated effort by the company to develop a second line of foremen and chief system operators in our polymer and olefin plants. Participants receive complex education, including training sessions and a rotation system. Rotation helps employees acquire several technologies operated outside their own plant and understand corporate level processes. Rotation is advantageous as it reduces monotony, creates wider opportunities for substitution, facilitates organising work and increases the potential skills of the company and individuals. Rotation cycles last 5-10 days and a Staféta participant normally has to take part in 5 rotation cycles based on an individually tailored rotation plan. The program was continued by 12 participants in 2012, in the first 4 Staféta class had been already finished by 75 employees.



# OUR INTEGRATED MANAGEMENT SYSTEMS

New challenges, like changes caused by globalization, sustainable development mean new requirements for quality management.

We hold the quality approach as one of the most important core values in our Company's management and operation, as well as in its relationship with social and economic environment.

Our certified standard-based management systems contribute to the improvement of our credibility and strengthening of our business partners' confidence.

In March 2012, SGS Hungária Ltd. conducted a successful - surveillance and re-certification- audit of the integrated management system operating at our company (ISO 9001, ISO 14001, OHSAS 18001).

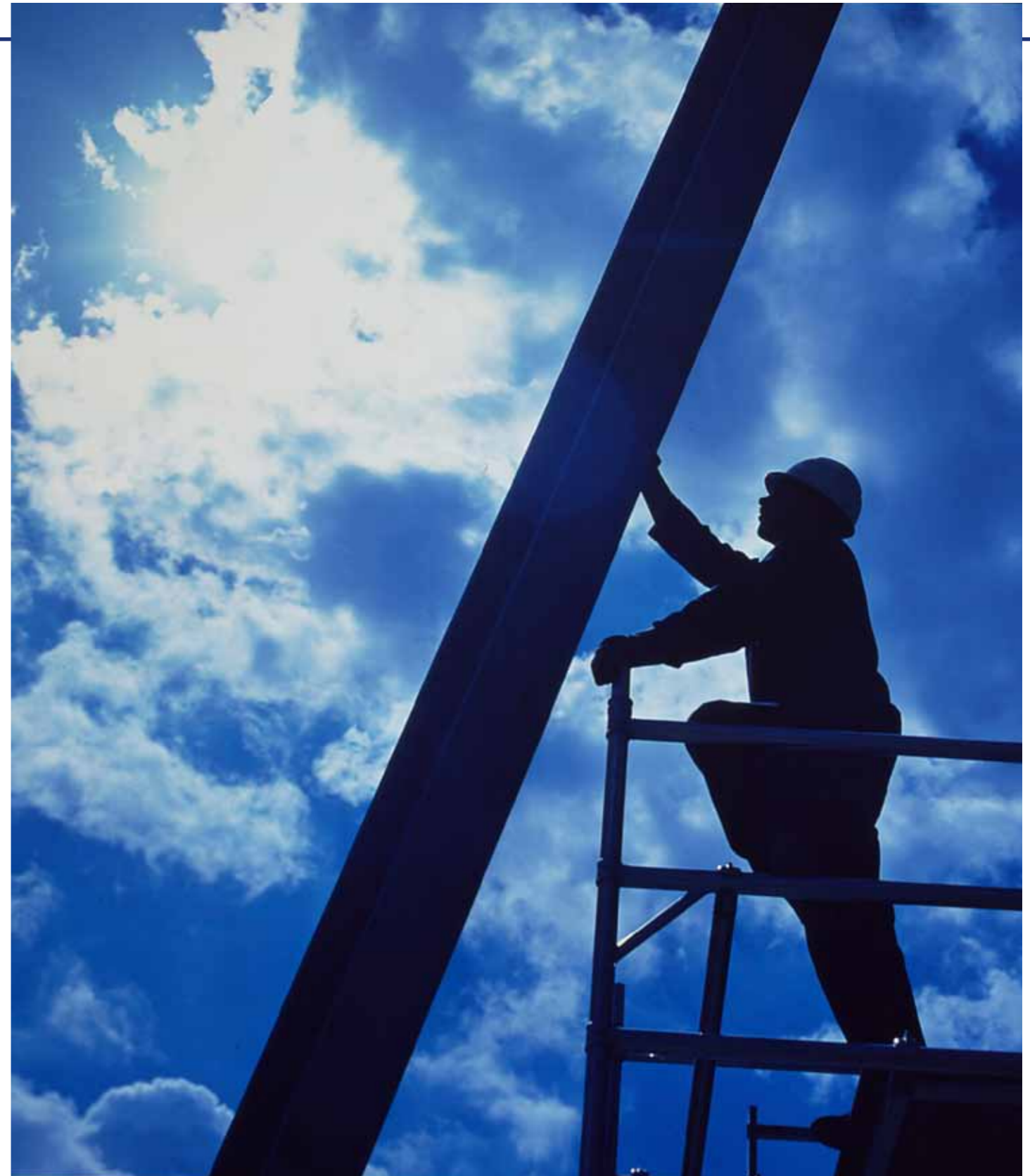
In the operation our accredited laboratories it was important to prepare for the Technical Inspection Technical Investigation Laboratory and the Central Laboratory (according to MSZ EN ISO/IEC 17025) surveillance audits which were conducted by the National Accreditation Organization. Both audits were successful

Major tasks were set for our accredited laboratories: the surveillance audit of Technical Inspection Technical Investigation Laboratory and the renewal certification audit of Central Laboratory (according to MSZ EN ISO/IEC 17025) which were conducted by National Accreditation Organization. Both audits were performed successfully.

The Standards' requirements of the integrated management system and accredited laboratories have been checked in the framework of internal audits. At these audits prevention and the propagation of "best practices" were emphasized. Outsourced activities connecting to the Company's operation are supervised by planned and/or ad hoc audits. Actions to improve the system and to correct determined non-conformities were taken and checked. In order to meet Customers' requirements TQM tools have been applied successfully during the claim investigation process.

The Customer satisfaction has been measured for several years. In the frame of measuring customer satisfaction nearly 500 partners were interviewed in 2012. The purpose of the survey was to identify our strengths as well as the areas needing improvement and to monitor the effects of the corrective measures taken as the result of the previous surveys. After the analysis of the information new action plans will be prepared to improve our activities and processes.

Innovative atmosphere and involving colleagues into improvements have always high importance at our Company. Idea Supporting System (ISS) has been operating since more than 10 years, main purpose of which is to find out and to get to know colleagues' ideas, proposals aiming more efficient and safer operation. Due to ISS significant saving was realized year by year.



# OUR SOCIAL COMMITMENT

Our strategy focuses on the joint implementation of our economic targets, environmental and social objectives. Our social role and environmental objectives associated with the economic targets are implemented through our HSE policy and the quality, environmental, health, and safety systems we operate on a company scale. Our Company regards its commitment to the employees, safe work environment, environmental protection, quality-centred approach, and social role as being its highly important duties.

We treat our employees responsibly. We respect human rights as well as the values and differences of the local and national cultures. Our objective is to secure equal opportunities to all our employees in order to help them further train themselves and do their daily work in safe conditions.

## SOCIAL INVESTMENT

In order to secure sufficiently qualified specialists, we keep close and wide-ranging relationships with the institutes of medium and higher education and support their educational work and research activities. In the past year, we gave development support to four universities and four vocational middle schools. (See the details in subchapters Labour Practice and Work Environment).

In support of the education and training of future generations, we endeavour to work up programs in order to

- Make the operations of the chemical industry and the activity of TVK better known;
- Improve the degree of our social recognition and to make our usefulness acknowledged;
- To make our measures for the preservation of the natural and social environments known;
- Support the demand for the employment of new recruits.

Our project “Within one day around TVK” serves also for these purposes. Adapting to the characteristics of the age of the targeted pupils we present the activities of TVK in the form of cartoons and comics. In order to capture the attention of pupils, the two characters symbolizing the ethylene and propylene molecules, Etila and Propilla guide the kids along the process of first producing polymer pellets from chemical feedstock and then from the pellets plastic products and parts used in our

everyday lives. A sign for the success of the program is that the week of open doors launched in 2009 at the Kazinczy School is organized every year. We have organized this program in 2012 for the second time in the form of a one-day contest for the schools of the region. 19 teams of the schools of 13 settlements participated in the contest.

As part of a program to spread an environmental-conscious attitude, in autumn 2011, we initiated a research program to assess the individual ecological footprints of our employees. By the end of the year more than 430 persons, representing almost 40% of the employees had filled in the electronic questionnaire prepared to collect the data online. In the course of 2012, based on the same questionnaire, we have started to poll 6th-8th graders in the South-Borsod region. We have received more than 1,000 questionnaires from the pupils. At the present the evaluation of the data of the two polls is in progress. After the analysis of the data we will help employees and via the pupils of the region their families with practical advice as to how they can reduce their ecological footprint and their personal CO<sup>2</sup> emission. International experiences prove that employees being environmentally aware in their personal lives follow the same behaviour on the job as well, thus the success of the program can contribute also to the reduction of the CO<sup>2</sup> emission of TVK, and to new generations with ecological awareness.

## SPONSORSHIP POLICY AND PRINCIPLES

Being dedicated to the education of the young generation by tradition, our Company pays special attention to popularize healthy lifestyle, to build a responsible approach to the natural and social environments, and to appreciate sciences and arts.

We make efforts to share our resources with those who do professional work, have high skills, and are able to produce extraordinary individual and group-scale achievements. We intend to build long-term relationships and focus on supporting those whose performance remains outstanding in the long run.

Our sponsorship is concentrated on the region of the Borsod County including the 31 settlements in the South Borsod region and the town of Tiszaújváros. According to the types of support, we give preference to those working in

- culture and sciences;
- sports;
- education and raising of children.

While allocating our donations, we give preference to the applications meeting the above principles, instead of giving ad-hoc donations. Our decision is made on the basis on predetermined professional, strategic, and ethical aspects, while committees of independent professionals assist our social investment programs. According to the principles of credibility, reliability, and independence, our sponsoring and donating actions are made according to the most stringent ethical norms, and we expect all of our employees and supporters to meet those.

Based on these principles, we do not support any political objectives or parties, or governmental organisations or any other organisations or programs, which abuse human rights, or are against common good or public morals, or represent any discriminative opinion.

**Without the intention of completeness, here is a list of our supporters:**

### Foundations:

- For the Future of Tiszaújváros (TJA – operated jointly with the Local Government, Tiszaújváros)
- TVK for the South Borsod Region (DBA for the 31 settlements except Tiszaújváros)

The company has established both foundations in the middle of 2000. In the meantime the total amount of grants awarded via TFF until the end of 2012 amounted to almost HUF 900 million, and the amount of grants awarded via SBF exceeded HUF 150 million in the same period of time.

In the school-year that started in the autumn of 2012 we have supported at 26 schools of the region 43 gifted, disadvantaged pupils over 10 months with a scholarship of HUF 6,000 each. For the furnishing of the community and social rooms of the schools the foundation gave more than HUF 5.2 million by means of 23 applications. For theater visits 21 schools were given grants in the amount of more than HUF 1.6 million.

### Culture and sciences:

- Miskolc National Theatre
- Miskolc International Opera Festival
- Tiszadob Piano Festival
- Herman Ottó Museum
- Hungarian Chemical Museum
- Hungarian Chemists' Association

### Sports:

- TVK-Mali Triathlon Club
- Hungarian Triathlon Association
- TVK Triathlon Week and World Cup
- Tiszaújváros Water Sports Association – Kayak-Canoe

In addition to supporting these highlighted programs, we consider the training of young athletes an equally important task; therefore, we gave financial support to the Tiszaújváros sports clubs securing training opportunities to the children of the region, in relation to the number of the members of each club.

Our Company spent HUF 43.75 million for sponsorship and donations in 2012. Our support is based upon the parties' voluntary participation and agreement, and it is implemented according to predetermined conditions and objectives. During such cooperation, we specifically respect the independence, free opinions, objectives and activities of the sponsored persons, and we do not accept or offer any unfair advantage, either direct or indirect.

# PERFORMANCE INDICATORS

## Economic power indicators

Main business data	2008	2009	2010	2011	2012	GRI
Revenues (mHUF)	323,406	265,372	365,185	411,462	374,584	EC1
Other revenues (mHUF)	216	2,049	2,279	3,364	2,192	EC1
Operating cost (mHUF)	319,067	274,931	366,777	420,728	386,966	EC1
Employee wages and benefits (mHUF)	9,328	9,743	9,646	9,404	9,463	EC1
Payments to capital investors (mHUF)	8,963	1,992	0	1,991	0	EC1
Payments to governments (mHUF)	6,702	7,519	5,032	4,695	4,930	EC1
Financial assistance received from government (mHUF)	1	0	11	15	14	EC4
Customer Satisfaction	2008	2009	2010	2011	2012	GRI
Petrochemicals customer loyalty index (%)*	14.39	19.52	15.52	16.60	19.34	PR6

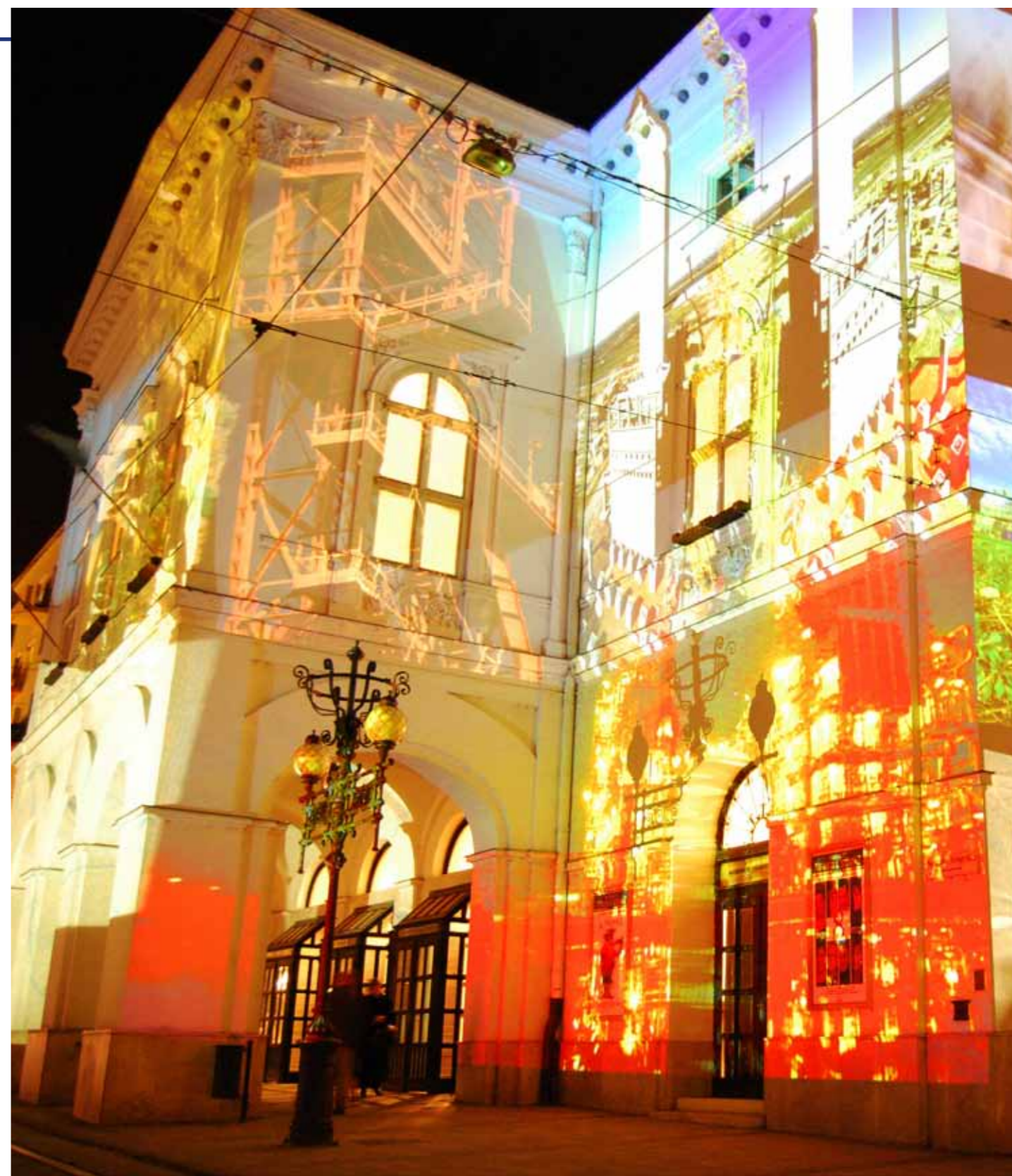
## Environmental power indicators

Air	2008	2009	2010	2011	2012	GRI
CO <sub>2</sub> (ton)	1,147,068	1,056,552	1,127,707	1,116,721	916,922	EN16
CO <sub>2</sub> (under ETS) (ton)	1,147,068	1,056,552	1,127,707	1,116,721	916,922	EN16
Indirect greenhouse gas emissions from electricity consumption – estimated (t)	n.a.	190,041	184,754	181,584	158,975	EN16
Indirect greenhouse gas emissions from other indirect energy consumption (steam, heat, etc.) – estimated (t)	n.a.	141,727	133,210	139,720	167,257	EN16
ODS (Ozone-Depleting Substances) (ton)	0	0	0	0	0	EN19
SO <sub>2</sub> (ton)	62	88.17	53.39	68.24	33.64	EN20
VOC (Volatile Organic Compounds) (ton)	24	28.54	1.75	2.33	2.47	EN20
NO <sub>x</sub> (ton)	560	809.87	539.36	550.95	232.57	EN20
CO (ton)	96	167.6	109.6	163.26	370.12	EN20
PM (Particulate Matter) (ton)	25	16.86	23.08	39.18	34.32	EN20
Hazardous air pollutants (HAP) (ton)	0.0727	0.028	n.a.	n.a.	n.a.	EN20
Water	2008	2009	2010	2011	2012	GRI
Drinking water consumption (m3)	345,385	234,934	260,955	221,298	231,810	EN8
Total water withdrawal (m3)	11,048,817	10,277,495	10,277,095	10,229,938	9,467,320	EN8
Surface water withdrawal (m3)	4,138,027	4,216,203	3,290,075	3,703,767	7,024,739	EN8
Ground water withdrawal (m3)	345,385	234,934	260,955	221,298	231,810	EN8
Rainwater collected directly and stored (m3)	0	0	0	0	0	EN8
Wastewater from another organization (m3)	6,565,406	5,826,358	6,726,065	6,304,873	2,210,771	EN8
Total volume of recycled and reused water (m3)	934,770	859,944	1,372,293	1,373,944	1,278,218	EN8
Total water discharge(m3)	5,075,205	4,864,544	5,214,677	5,031,114	4,861,232	EN21
TPH (Total Petroleum Hydrocarbons) (ton)	11.5	19.20	14.94	14.6	12.0	EN21
COD (Chemical Oxygen Demand) (ton)	172	227.40	179.9	203.8	196.9	EN21
BOD (Biological Oxygen Demand) (ton)	100	121.6	88.6	94.3	93.6	EN21
SS (Solid Substances) (ton)	n.a.	57.4	49.5	66.7	66.8	EN21

Waste (t)	2008	2009	2010	2011	2012	GRI
Hazardous Waste (from the current activity)	2,440	2,507	2,437	2,290	3,388	EN22
Hazardous Waste (from the old activity)	33	44	13	41	27	EN22
Non Hazardous Waste (from the current activity)	854	4,806	1,414	3,036	2,185	EN22
Non Hazardous Waste (Communal)	714	334	326	332	309	EN22
Non Hazardous Waste (From the old activity)	0	6	3,7	0,6	0,08	EN22
All Eliminated Waste	3,200	3,001	3,123	4,941	5,209	EN22
Reused/Recycled Hazardous and Non Hazardous Waste	808	4,653	488	427	396	EN22
Waste Disposed / Landfilled	144	20	0	0	0	EN22
Waste Reused / Recycled	0	0	0	0	0	EN22
Waste Composted	4	566	41	673	1,642	EN22
Waste Incinerated	205	856	490	145	178	EN22
Waste to Deep Well Injection	0	0	0	0	0	EN22
Energy Consumption Data (GJ)	2008	2009	2010	2011	2012	GRI
Natural gas	n.a.	1,403,194	1,693,172	1,167,828	1,331,254	EN3
Other hydrocarbon (fuel, gas, etc.)	n.a.	17,322,049	18,391,049	18,674,513	15,360,739	EN3
Total primary energy consumption	n.a.	18,725,243	20,084,221	19,842,341	16,691,993	EN3
Electricity	n.a.	1,938,093	2,015,495	1,980,912	1,734,276	EN4
Other indirect energy (steam, heat, etc.)	n.a.	2,362,124	2,337,710	2,328,664	2,787,621	EN4
Total indirect energy consumption	n.a.	4,300,217	4,353,205	4,309,576	4,521,897	EN4
Spills and discharges	2008	2009	2010	2011	2012	GRI
Number of spills (pieces)	0	0	0	0	0	EN23
Volume of spills(m3)	0	0	0	0	0	EN23
HSE related expenditures	2008	2009	2010	2011	2102	GRI
Environmental investments (mHUF)	65.7	252.8	85.6	34.1	1,096.9	EN30
HSE related penalties (mHUF)	0	0	0	0.1	0	EN28
Environmental rule contravention (pieces)	0	0	0	1	0	EN28

## Social performance indicators

Employees	2008	2009	2010	2011	2012	GRI
Total workforce(Closing on 31st December)(person)	1,139	1,139	1,114	1,103	1,035	LA1
Number of full-time employees (Annual average) (person)	1,153	1,158	1,138	1,119	1,097	LA1
Number of employees laid off (person)	52	44	60	37	112	LA2
Employee turnover rate (%)	4.5	3.8	5.4	3.3	10.8	LA2
Absentee rate (AR) (%)	15.8	16.4	15.3	14.2	13.0	
Employees represented by trade unions (%)	53	52.6	51.5	49.3	47.5	
Safety	2008	2009	2010	2011	2012	GRI
Lost Time Injury (LTI) (pieces)	1	1	1	1	3	LA7
Lost Time Injury Frequency(LTIF)	0.49	0.50	0.50	0.51	1.59	LA7
TROIF (Total Reportable Occupational Illnesses Frequency)	0	0	0	0	0	LA7
Number of fatalities for employees (pieces)	0	0	0	0	0	LA7
Number of fatalities for contractors(pieces)	0	0	0	0	2	LA7
Number of fires(pieces)	0	0	3	0	2	
Fire damage (mHUF)	0	0	2.5	0	48	
Diversity	2008	2009	2010	2011	2012	GRI
Ratio of women in total workforce (%)	34.5	32.5	32.6	32.1	27.4	LA13
Ratio of women in managerial position (%)	5.3	7.5	7.5	5.4	10.3	LA13
Ratio of women in non- managerial position (%)	36.8	33.5	33.8	33.2	27.9	LA13
Other social	2008	2009	2010	2011	2012	GRI
Total training cost / total FTE (HUF)	150,000	76,212	74,500	67,628	66,000	LA10
Donations (mHUF)	66.7	66.9	49.89	49.95	43.75	
Training hours/total FTE (hours)	n.a.	31.59	79.8	25.5	41.6	LA10



# CORPORATE GOVERNANCE



# CORPORATE GOVERNANCE



TVK has always been committed to apply the highest standards of corporate governance structure and practice. The basis of that is using such corporate governance system that meets the national and even the international expectations. TVK submits its declaration on Corporate Government practice in line with the Corporate Governance Recommendations issued by the Budapest Stock Exchange (BSE) each year since 2004. The Board of Directors accepts and does its best to observe the Recommendations in the course of running the Company and its operations.

The corporate governance of TVK Plc. complies with the requirements of the Budapest Stock Exchange, the guidelines of the Hungarian Financial Supervisory Authority and the relevant capital market regulations. Furthermore TVK regularly reviews the principles it applies in order to comply with international best practices in this area of the business as well. The voluntary approval of the declaration on the Budapest Stock Exchange Corporate Governance Recommendations by the Annual General Meeting in 2006, before the official deadline, served as testament to the Company's commitment to corporate governance. A separate section of the TVK website ([www.tvk.hu](http://www.tvk.hu)) is devoted to corporate governance and where the company publishes its corporate governance policy, convocations to the general meeting, articles of association, and Code of Ethics.

## BOARD OF DIRECTORS

TVK's Board of Directors acts as the highest governance body of the Company and as such has collective responsibility for all corporate operations.

The Board's key activities are focused on achieving increasing shareholder value, improving efficiency and profitability, and ensuring transparency in corporate activities. It also aims to ensure appropriate risk management, environmental protection, and conditions for safety at work.

Given that TVK and its subsidiaries effectively operate as a single unit, the Board is also responsible for enforcing its aims and policies, and for promoting the TVK culture throughout the entire Group.

The principles, policies and goals take account of the Board's specific and unique relationship with TVK's shareholders, the executive management and the Company. The composition of the Board reflects this with the majority (five of seven members) made up of non-executive, non-independent directors.

The members of the Board of Directors and their independence status (professional CVs of the members are available on corporate homepage):

Name	Position	Date of assignment	Independence status
György Mosonyi	Chairman of the Board	26.04.2002	independent
Ferenc Horváth	Deputy Chairman of the Board	01.05.2011	non-independent
Gyula Gansperger	Board member	20.04.2006	independent
Miklós Kamarás	Board member	01.05.2011	independent
Dr. Péter Medgyessy	Board member	20.04.2006	independent
Dr. Zoltán Nagy	Board member	01.05.2011	independent
Zsolt Pethő	Board member	17.04.2012	non-independent

### Operation of the Board of Directors

The Board acts and makes resolutions as a collective body.

The Board adopted a set of rules (Charter) to govern its own activities when the company was founded (on December 31, 1991); these rules are regularly updated to ensure continued adherence to best practice standards.

The Board Charter covers:

- scope of the authority and responsibilities of the Board,
- provision of information to the Board, the frequency of reports,
- main responsibilities of the Chairman and the Deputy Chairman,
- order and preparation of Board meetings and the permanent items of the agenda, and
- decision-making mechanism, and the manner in which the implementation of resolutions is monitored.

Members of the Board have signed a declaration on conflict of interest and they have reported their position as director in the Board to their employer or principal as regards other key management positions.

The Board of Directors and its Committee reviews continuously its activity on a yearly basis.

## Report of the Board of Directors on its 2012 activities

In 2012, the Board of Directors held 4 meetings with an average attendance rate of 92%. Regular agenda items on the meeting are reports by the CEO on the activities pursued since the last Board meeting, an overview of petrochemical market and the current situation of the company.

The Board of Directors respectively paid highlighted attention to the improving efficiency, cost-cutting, decreasing external environment effects, production and sales improvement, market grabbing and product development, and capital expenditure projects.

## Committees of the Board of Directors

Certain specific tasks are carried out by the Board's Committees. The following rules do apply to the Committees, created by the BoD.: These Committees have the right to approve preliminary resolutions concerning issues specified in the Decision-making and Authorities List, which sets out the division of authority and responsibility between the Board and the executive management.

- The responsibilities of the Committees are determined by the Board of Directors.
- The Chairman of the Board of Directors may also request the Committees to perform certain tasks.

The members and chairs of the Committees are elected by the Board of Directors.

Currently, the Board allocates responsibilities to the following Committee:

### Finance and Audit Committee:

Members and dates of appointment (professional backgrounds of members are available on company:

Name	Position	Date of assignment
Ferenc Horváth	Chairman	01.05.2011
Miklós Kamarás	Member	01.05.2011
Dr. Zoltán Nagy	Member	01.05.2011

Responsibilities: The committee is responsible for promoting the efficiency of the Board regarding issues related to finance, risk management and financial audit as well as for matters designated to it by the Board.

### Report of the Audit Committee on its 2012 activities

In 2012, the Finance and Audit Committee held 4 meetings with a 100% average attendance rate. The regular agenda items included the audit of all public financial reports, providing assistance with the auditor's work and the regular monitoring of internal audit.

## RELATIONSHIP BETWEEN THE BOARD AND THE EXECUTIVE MANAGEMENT

The Matrix of Decision Making Competencies (MDMC) specifies the powers and competencies delegated by the Board to the Management in an attempt to ensure the most efficient enforcement of the business, HSEQ, ethics, risk management and internal control policies specified by the Board. The objective of the MDMC is to maximise the shareholder value of the Company and to capture unambiguously the decision-making powers and competencies so as to reach operational and financial excellence.

The role of the MDMC is to "translate" corporate governance rules by capturing the key decision making point in operating the business and the related competences in the organization. Hence the MDMC identifies the major control points required for efficient process development and operation.

## Senior management

Members and dates of appointment (professional backgrounds of members are available on company homepage):

Name	Position	Date of assignment
Zsolt Pethő	Chief Executive Officer	01.06.2011
Gyula Hodossy	Chief Financial Officer	01.07.2007 – 15.07.2012
Balázs Sándor	Chief Financial Officer	15.07.2012
Krisztina Petrényiné Szabó	Polymer Marketing and Sales Manager	01.10.2009 - 24.07.2012
Tivadar Vályi Nagy	Petrochemical Production Manager	01.07.2007
János Bóta	Head of Petrochemical Technology and Project Development	01.08.2007 – 31.12.2012
Adrienn Ráczné Bodnár	Head of Human Resources	03.01.2012

Note:

As from July 15, 2012 Balázs Sándor is the Chief Financial Officer of TVK Plc..

As from July 25, 2012 Zsolt Pethő deals with the duties of Polymer Marketing and Sales Manager.

### Incentives provided for non-executive directors

The basis of the effective incentive scheme for non-executive directors was approved by the ordinary Annual General Meeting (AGM) in 2007.

#### • Fixed remuneration:

A resolution of the Annual Ordinary General Meeting at April 19, 2007 provided that effective as of the day of the Annual General Meeting those Board members who are not employed by TVK Plc. or any other subsidiaries of MOL Group should receive the time proportionate net payment per year of their mandate as follows:

- Board members	50,000 EUR/year
- Chairman	75,000 EUR/year

#### • Other benefits:

Non resident Board members who are non – Hungarian citizens and have to travel to Hungary to attend the meetings shall receive EUR 1,500 for a maximum of fifteen meetings attended in person.

### Incentive system for the top management

The Board evaluates the performance of the management of the Company individually and at company level once a year and sets the responsibilities and the related targets of achievement for management for the given period according to the system of incentives.

Operating a system of compensation and adopting practical solutions in line with the strategy of the company is a guideline for developing the structure of performance evaluation and remuneration in a way that it may be used efficiently for attaining the objectives of the Company whilst giving priority to motivating key employees in the organisation. In case of managers of the company, in all financial year, performance goals, relevant to the business strategy are determined, and these are evaluated by the one level higher manager, in case of the senior management it is done by the CEO.

Other fringe benefits: These include company optional benefits (Cafeteria), cars (also used for private purposes), life insurance, accident insurance, travel insurance, liability insurance, and an annual medical check up.

## Principles and framework of the Company's long-term incentive scheme for senior employees

According to Section 302 of the Company Act, "it is the exclusive competence of the members' meeting to bring obligatory or non-obligatory decisions about the long-term remuneration and the guidelines or frameworks of the long-term incentive system related to the senior officers, supervisory board members and employees in managerial positions, depending on the provisions of the Articles of Association".

The General Meeting has already decided on the remuneration of senior officers with the GM resolutions of 15/2010. (04.15.).

Regarding its senior employees and management, TVK Plc. operates such an incentive system that encourages in short term the achievement of the annual financial indexes and the personal tasks and serves the interest in increasing the share price in long run, while it also creates long-term and sustainable interest in improving profitability.

The long-term incentive system consists of two parts: the incentive based on share options (option incentive) and the incentive built on profit sharing (or based on added value).

The option incentive is a cash-based wage incentive, calculated annually based on the call option related to the MOL shares, which operates in 5-year (2+3 years) periods starting annually. The term of the option is 5 years. The first year of every option period is the year which the incentive aims at. The waiting period lasts till the end of the second year, during this period there is no chance to redeem the incentive. Incentive can be redeemed only in the last three years.

The incentive built on profit sharing encourages the long-term sustainable increase of profitability based on the "methodology of added value", thus ensuring that interests of those participating in the incentive system are the same as the interests of the shareholders of the Company. The incentive built on profit sharing is a cash-based wage incentive, calculated annually based on the increase in the added value acknowledged by the extent of the determined base incentive in comparison with the over-cost result of the invested capital.

The extent of the incentive built on profit sharing is determined according to the classification categories belonging to the managerial levels.

## SUPERVISORY BOARD

The Supervisory Board is responsible for monitoring and supervising the Board of Directors on behalf of the shareholders. The Articles of Association of TVK provides that the Supervisory Board of the Company should have at least three, but no more than fifteen members. At present the Supervisory Board has five members. As provided in the Company Act, 1/3 of the members of this body include employee representatives, hence two members of the Supervisory Board of TVK represent employees and there are three non-executive members appointed by the shareholders.

The members of the Supervisory Board and their independence status (professional backgrounds of members are available on company homepage):

Name	Position	Date of assignment	Independence status
László Gyurovszky	SB chairman	22.06.2007	independent
	SB member	19.04.2007	
Dr. Gyula Bakacsi	SB member	19.04.2007	independent
Dr. György Bíró	SB member	19.04.2007	independent
László Réti	SB member	29.04.2010	non-independent (employee representative)
	SB deputy chair	13.05.2011	
Turóczy Judit	SB member	21.04.2011	non-independent (employee representative)

In 2012, the Supervisory Board held 4 meetings with an average attendance rate of 70%.

## Remuneration of the members of the Supervisory Board

According to the resolution of the Annual General Meeting held on April 19, 2007, effective as of the day of the Annual General Meeting the Supervisory Board members should receive the net payment per month of their mandate as follows:

- Board members 1,000 EUR/month
- Chairman 1,500 EUR/month

Non resident Supervisory Board members who are non – Hungarian citizens and have to travel to Hungary to attend the meetings shall receive EUR 500 for a maximum of fifteen meetings attended in person.

## AUDIT COMMITTEE

In 2007, the general meeting appointed the Audit Committee comprised of independent members of the Supervisory Board. The Audit Committee strengthens the independent control over the financial and accounting policy of the Company. The independent Audit Committee's responsibilities include the following activities:

- providing opinion on the report as prescribed by the Accounting Act,
- auditor proposal and remuneration,
- preparation of the agreement with the auditor,
- monitoring the compliance of the conflict of interest rules and professional requirements applicable to the auditor, co-operation with the auditor, and proposal to the Board of Directors or General Meeting on necessary measures to be taken, if necessary,
- evaluation of the operation of the financial reporting system, proposal on necessary measures to be taken, and
- providing assistance to the operation of the Supervisory Board for the sake of supervision of the financial reporting system.

Members of the Audit Committee and dates of appointment (professional backgrounds of members are available on company homepage):

Name	Position	Beginning of assignment
László Gyurovszky	AC chairman	22.06.2007
	AC member	19.04.2007
Dr. Gyula Bakacsi	AC deputy chair	22.06.2007
	AC member	19.04.2007
Dr. György Bíró	AC member	19.04.2007

## Report of the Audit Committee on its 2012 activities

In 2012, the Audit Committee held 4 meetings with an 83% average attendance rate. In addition to the regular items on the agenda, including the audit of all public financial reports, providing assistance with the auditor's work and the regular monitoring of internal audit, the Committee also devoted a considerable amount of time to the following topics:

- control of financial and relevant reports,
- observation of the effectiveness of internal audit system,
- ensuring the independency and objectivity of the external auditor.

## EXTERNAL AUDITORS

The auditor is elected by the General Meeting of TVK.

Ernst & Young Könyvvizsgáló Kft. acts as the auditor of TVK since 2003. The Ordinary Annual General Meeting held on April 17, 2012 elected Ernst & Young Könyvvizsgáló Kft. once again as auditor of the Company and an agreement was concluded for auditing the annual reports closing the business year of 2012. The engagement is in force until the conclusion of the Ordinary Annual General Meeting held in 2013 to decide on the approval of the 2012 annual reports.

The audit agreement provides that Ernst & Young Kft. should audit the consolidated and non-consolidated annual reports drawn up under the Accounting Act and the consolidated and non-consolidated annual reports drawn up under International Financial Reporting Standards (IFRS, formerly IAS). The aforementioned financial statements have been audited as required by National Audit Standards, International Standards of Auditing and the provisions of the Accounting Act and any other acts and laws on auditing. The auditors ensure the continuous nature of performing the audit assignment by working on site and by participating at the meetings of key TVK bodies as well as through other forms of consultation.

Furthermore, the auditor reviews the quarterly stock exchange flash report but issues no auditor's statement, as flash reports are not fully audited.

In 2012, Ernst & Young Kft. also delivered other services to TVK Plc. as follows: Supervised the data of TVK's Hungarian subsidiaries supplied to the consolidation. (In case of the foreign subsidiaries the operational process became significantly simplified, therefore the control of the accounting process was made by the Accounting department of the company.)

Fees Paid to Auditors, 2011-2012 (HUF million)

	2011	2012
Fee for the audit of TVK Plc.	35.1	35.1
Other audit related services	4.2	4.2
Validation of NRTA project	0.5	0.6
<b>Total</b>	<b>39.8</b>	<b>39.9</b>

The Board of Directors does not think that any of the services rendered by Ernst & Young Kft. under the aforementioned titles jeopardise its independence as auditor.

## INTERNAL AUDIT

TVK's Internal Audit is independent from the operative management, it is directly under the CEO. Internal auditor of the company is assigned by the CEO. Main duties are as follows:

- Exhibition and analysis the real- and essential economic risk factors.
- Evaluation the status of control mechanisms designed for risk management, development of proposals for risk-reduction and monitoring the accepted proposals.
- Exhibits the risks that endanger the attainment of strategic objectives.
- Evaluates the corporate mechanisms connected to external changes.
- Examines the internal norms.
- Provides data for the annual actualization of risk-plan.

The Internal Audit reports to the Board of Directors quarterly and to the Audit Committee yearly at least once.

## RELATIONSHIP WITH THE SHAREHOLDERS, INSIDER TRADING

The Board is aware of its commitment to represent and promote shareholders' interests, and recognises that it is fully accountable for the performance and activities of the TVK Group. To help ensure that the Company can meet shareholders' expectations in all areas, the Board continually analyses and evaluates developments, both in the broader external environment as well as at an operational level.

Formal channels of communication with shareholders include the Annual Report and Accounts and the quarterly results reports, as well as other public announcements made through the Budapest Stock Exchange (primary exchange) and the London Stock Exchange. Regular and extraordinary announcements are published on PSZÁF (Hungarian Financial Supervisory Authority) publication site and on TVK's homepage. In addition, presentations on the business, its performance and strategy are given to shareholders at the Annual General Meeting and extraordinary General Meetings. Furthermore, investors are able to raise questions or make proposals at any time during the year, including the Company's General Meeting. Investor feedbacks are regularly reported to the Board of Directors.

TVK's Investor Relation specialist is responsible for the organisation of the above activities as well as for the day-to-day management of TVK's relationship with its shareholders (contact details are provided in the company's homepage). Extensive information is also made available on TVK's website ([www.tvk.hu](http://www.tvk.hu)), which has a dedicated section for shareholders and the financial community.

TVK Group is committed to the fair marketing of publicly-traded securities. Insider dealing in securities is regarded as a criminal offence in most of the countries in which we carry out business. Therefore, we require not only full compliance with relevant laws, but also the avoidance of even the appearance of insider securities trading and consultancy.

TVK Group employees:

- should not buy or sell shares in TVK or any other company while in possession of insider information,
- should not disclose insider information to anyone outside the company, without prior approval,
- should be careful, even with other TVK Group employees, should disclose insider information to a co-worker when they have permission to do so and if it is necessary to do their job,
- should protect insider information from accidental disclosure.

## EXERCISE OF SHAREHOLDERS' RIGHTS, GENERAL MEETING PARTICIPATION

Voting rights on the general meeting can be exercised based on the voting rights attached to shares held by the shareholders. Every ordinary share entitles the holder thereof to have one and one hundredth vote. The actual voting power depends on how many shares are registered by the shareholders participating in the general meeting.

A condition of participation and voting at the general meeting for shareholders is that the holder of the share(s) shall be registered in the Share Register. The depositary shall be responsible for registering the shareholders in the Share Register pursuant to the instructions of such shareholders in line with the conditions set by the general meeting invitation.

The conditions to participate in the general meeting are published in the invitation to the general meeting. Invitations to the general meeting are published on company homepage. The ordinary general meeting is usually held in late April, in line with the current regulation.

The ordinary general meeting, based on the proposal of Board of Directors approved by the Supervisory Board, shall have the authority to determine profit distribution, i.e. the amount of the profit after taxation to be reinvested into the Company and the amount to be paid out as dividends.

The starting date for the payment of dividends shall be defined by the Board of Directors in such way as to ensure a period of at least 10 working days between the first publication date of such announcement and the initial date of dividend distribution. Only those shareholders are entitled to receive dividend, who are registered in the share register of the Company on the basis of shareholders identification executed on the date published by the Board of Directors in the announcement on the dividend payment. Such date relevant to the dividend payment determined by the Board of Directors may deviate from the date of general meeting deciding on the payment of dividend. However, the date of the shareholder identification made in compliance with the regulations of KELER in respect of the dividend payment shall not take place more than five working days after the general meeting passing a resolution on the payment of dividend.

## INTEGRATED RISK MANAGEMENT

The aim of risk management in TVK is to support corporate operations to be as safe as possible. The risk management policy of the company handles significant risks associated with its business activities.

The risk management guidelines covering the management of foreign exchange rate and commodity price risks, as well as property damage, business interruption, liability, customer, technical, safety, compliance and environmental risks.

Since 2006, the Enterprise Risk Management (ERM) system has been applied to manage risks at MOL Group level. The ERM is a widely accepted risk management method that also contributes to the corporate value creation as a decision-supporting tool thereby enhancing the protection of the shareholder value. The central idea behind the concept is the application of a common method in a consolidated way to calculate and manage the variety of (financial, operating, compliance and strategic) risks. During the ERM process potential risks are identified and the risk-return relationships of individual divisions, projects and decisions become comparable, which contributes to developing a culture of risk awareness within the organization. The measurement of risks facilitates the identification of the root causes of risks and contributes to a greater awareness of different risk types. As a result, senior management can get a firmer grip on the risks that influence corporate profits and can determine the elements of risk to be retained and those ones that require mitigation actions.

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

ERM also sets the framework for developing business continuity plans, crisis management and other risk management activities. In 2009 the framework of Business Continuity Management was prepared at MOL Petrochemical Division. This aims to shorten the period of returning to normal operations after a high impact operational breakdown and will also highlight issues and areas must be developed.

The prices of the most important feedstock used by the company and the olefin and polymer products produced by TVK are pegged to the global market prices of the same products. From economic point of view TVK has a net long position in EUR, while it has net short USD and HUF cash flow positions.

In 2012, TVK did not conclude any derivative transactions to hedge against foreign exchange rate risks however short-term hedge deals were done in order to manage the commodity risk exposure. The company had no open foreign exchange futures positions as of December 31, 2012.

The credit facilities of the company were denominated in EUR in order to reduce the foreign exchange rate risk embedded in the operation.

The company covers most of its trade receivables with credit insurance to mitigate liquidity risk. Also, it carefully examines the credit worthiness of the prospective customers and assesses whether or not the conditions for continuous payment are attainable before signing a new contract.

In order to exploit opportunities of the portfolio effects TVK's financial risk exposures (e.g. commodity, FX rates, interests rates) are managed on MOL Group level.



# ELECTED OFFICERS OF TVK PLC.



# BOARD OF DIRECTORS



## 1. MOSONYI, GYÖRGY

Chairman of the Board since April 26, 2002.

Member of MOL Supervisory Board since 1st May 2011 and Chairman since 8th June 2011

Chairman of the Sustainable Development Committee.

Chairman of the Supervisory Board of SLOVNAFT a. s.

Vice President of the Supervisory Board of INA d.d.

Member of the Board of Directors of Magyar Telekom Plc. since April 2012

From 1974 onwards, Mr. Mosonyi worked for the Hungarian Agency of Shell International Petroleum Co. (Shell) and from 1986 he held the position of commercial director. In 1991 he worked at Shell headquarters in London. Between 1992-1993 he was a managing director of Shell-Interag Ltd and from 1994-1999 he was Chairman and Chief Executive Officer of Shell Hungary Rt. Also in 1997 he became Chairman of Shell's Central & East European Region and CEO of Shell Czech Republic in 1998. He was also vice-chairman of the Hungarian Chamber of Commerce & Industry, member of the Joint Venture Association's Presidium and President of the World Petroleum Council Hungarian National Committee.

He was Chief Executive Officer and a member of the Board of Directors of the Group between 1999 and 2011. He was Chairman of the Sustainable Development Committee between 2006 and 2011

## 2. HORVÁTH, FERENC

Deputy Chairman of the Board since June 22, 2011.

Member of the Board since May 1, 2011.

Executive Vice President of MOL Group Downstream Division since May 1, 2011.

He is the Chairman of the Board of Directors of IES Mantua since November, 2007, he was a member of the Board of Directors of SLOVNAFT a.s. since 2003 and member of the INA's Supervisory Board since 2012.

Certified Economist

From 1984 until 1991, he worked for Mineralimpex, the Hungarian Foreign Trade Company for Oil & Mining Products, in the fields of crude oil and natural gas imports, and crude oil product exports. Between 1991 and 1998, he was Managing Director of Allcom Trading Co., the Hungarian Mineralimpex-Phibro Energy joint-venture, dealing with the European trading of crude oil and crude oil products. He joined MOL Plc in 1998 as Director of LPG Business Unit, and worked from January 2001 onwards as Sales Director, being responsible for the sales of MOL's entire product range (petrol, diesel, petroleum products, bitumen, LPG, lubricants, and so on). Between 2002 and 2003 he was Commercial Director, sales activities having broadened to encompass the supply of crude oil and raw materials necessary for the refining of crude oil. From November 2003 he is the Executive Vice President of MOL Refining & Marketing Division until May 1, 2011 when he has been nominated as the Executive Vice President of MOL Group Downstream Division.



## 3. PETHŐ, ZSOLT

Member of the Board since April 17, 2012.

Chief Executive Officer of TVK Plc. since June 1, 2011.

Vice President, Downstream, MOL Hungary since October 1, 2012.

Mr. Pethő graduated in the year 1991 at Bánki Donát Technical College and then, at the same school, he earned a second degree as engineer specializing in management in 1996. He graduated from the Marketing Academy in Budapest in 1997. He started working at MOL Plc. in various executive positions in 1998. After his position as LPG (propane-butane) Commodity Director he also worked as Fuel Products Director and as Sales Director of the South region, before July 2006 he was assigned as the Sales Director of Refining and Marketing. Afterwards he was appointed as Senior Vice President of MOL Group Petrochemical Division as well as CEO of TVK Plc. as of June 1, 2011. He is member of the Board from April 17, 2012. From October 1, 2012 he nominated as the Vice President, Downstream, MOL Hungary, as well as held the position of CEO of TVK Plc..

## 4. GANSPERGER, GYULA

Member of the Board since April 20, 2006.

Qualified Economist

Mr. Gansperger graduated in 1986 from University of Economics Budapest, Department of Finance. He obtains his professional expertises between 1986-1987 at Elektrocoop Company as Executive Officer, between 1987 and 1990 at CET Budapest Tervező Rt. as Chief accountant, between 1990-1998 at TAXORG Könyvelő és Adótanácsadó Kft. as Managing Director, between 1998 and 2001 at Hungarian Privatization and State Holding Company as Chairman and CEO, between 2001-2002. at Budapest Airport Pte. Ltd. as Chairman and CEO, between 2003-2005 at Wallis Plc. as CFO. He was the Chief Executive Officer of Wallis Ltd. between 2006-2007 and then, until December 2008 the Vice President of KÉSZ Holding Private Limited Company, member of the Board of Directors. At the present he is the CEO of MORANDO Kockázati Tőkealap-kezelő Plc.

Titles:

2009-	MORANDO Kockázati Tőkealap-kezelő Plc., member of the Board of Directors
2008-	ConstansInvest Kft., Managing Director
2006-	TVK Plc., member of the Board of Directors
2007-2008	Kész Holding Plc., Vice President and member of the Board of Directors
2005-2007	Wallis Plc., member of the Board of Directors
2005-2007	Graboplast Plc., member of the Board of Directors
2001-2003	MATÁV Ltd., member of the Board of Directors
1998-2000	Hungarian Post Co. Ltd., member of the Board of Directors
1995-1998	Hungarian Privatization and State Holding Company, member of the Supervisory Board



## 5. KAMARÁS, MIKLÓS

Member of the Board since May 2011.

Qualified Economist

Between 1972-1990 he held various senior positions at ÉPGÉP Co., finishing as CEO. Between 1995-1998 he was Deputy General Manager of ÁPV Plc. (the Hungarian Privatisation & State Holding Co.). From 1998, Mr. Kamarás was a partner at Deloitte & Touche Hungary and head of several auditor firms. Between 2002-2004 he was CEO of ÁPV Plc., a Board member of ÁPV Plc. He was Chairman of the Board of Directors of Budapest Airport Plc., until 30th May, 2005 and Chairman of the Board of Directors of MÁV Plc. until 18th October, 2008. Between 2002-2010 he was member of the Board of Directors of MOL. Between 2009-2010, he was the CEO of the Hungarian State Holding Company (MNV Zrt.).

## 6. DR. NAGY, ZOLTÁN

Member of the Board since May 1, 2011.

Economist by degree

He graduated from Budapest University of Economic Sciences and Public Administration, Department of Finances in 1983. At the same university he took his Ph.D. in 1988 and then he completed a course of postgraduate studies at University of Amsterdam.

Between 1983 and 1985 he worked as researcher of the Industrial Economy Institute of the Ministry of Industry and then he was senior researcher at the Economic Institute of the National Planning Office until 1991. Between January 1991 and January 1994 he was firstly Chief of Cabinet then Permanent Secretary of State of the Ministry of Finance. Then between February 1994 and October 1996 he was President and CEO of OTP Garancia Biztosító Rt. From March 1997 to September 1998 he was the Director of the State Audit Office of Hungary. Between September 1998 and November 2010 he was the President of the Hungarian Competition Authority. Between 2011 and 2012 he was the head of Compliance and Ethics Department of the Hungarian State Railways Company. Currently he is running his own business as an advisor.

## 7. DR. MEDGYESSY, PÉTER

Member of the Board since April 20, 2006.

Former Prime Minister

Qualified Economist

Mr. Medgyessy graduated from Budapest University of Technology and Economics, Department of Theoretical Politics and Economy in 1966. Between 1966-1982 he worked at the Ministry of Finance in different positions. Between 1982-1986 Deputy Minister of Finance. In 1987 Minister of Finance. Between 1988-1990 Deputy Prime Minister, responsible of economic affairs in the government at the time of the change of regime. Between 1990-1994 President and Director General of the French Paribas Bank Ltd. in Hungary. Between 1994-1996 President and Director General of the Hungarian Investment and Development Bank Ltd. Between 1996-1998. Minister of Finance in the Social Democratic-Liberal government. Between 1998-2001 Chairman of the Board of Directors of Inter Európa Bank and Vice President of Atlasz Insurance Ltd. Between 2002-2004 Prime Minister of the Hungarian Republic in the Social Democratic-Liberal government. On August 25, 2004 he resigns for the sake of maintaining the coalition. Extraordinary and Plenipotentiary Ambassador of the Republic of Hungary since October 14, 2004 until May 31, 2008 (Private Representative of Prime Minister).

Other professional and public activities:

- 2008- Chairman of Hungarian-Hong Kong Partner Association and its honorary chairman from February, 2009
- 2006- Member of Comité Européen d' Orientation founded by Jacques Delors
- 1998-2000 Vice President of the Commercial, Industrial and Cultural Chamber of Central European and Gulf Countries
- 1998-2000 Member of the Hungarian Atlantic Council
- 1995-1996 Member of the Board of Directors of the Hungarian Banking Association
- 1994-1996 Member of the Counsellors' Committee of the World Economic Forum in Davos
- 1994-1996. Chairman of the Hungarian Society of Economics
- 1973-1977 Member of the Board of the International Institute for State Finance

# SUPERVISORY BOARD MEMBERS

## GYUROVSZKY, LÁSZLÓ

Chairperson of the Supervisory Board since June 22, 2007.

Member of the Supervisory Board since April 19, 2007.

Financial Consultant, Crisis-Manager

Engineer

He is graduated as an engineer from the Slovakian Technical University of Bratislava in 1983. Between 1983 and 1990 he worked as electrical engineer at DusloSala – Slovakian chemical company. Between 1990 and 1992, as a journalist he published political and economical articles. Between 1992 and 1998, as a businessman, he dealt with the sale of sport and mobile communication articles. Between 1998 and 2002 as a Member of the Parliament of the Slovak Republic, took part in implementing the reforms of the Slovakian Economy and in the work of the Budget and Finance Committee of the Parliament. From 2002 until 2006 he was a minister of the Regional Development and Construction of the Slovak Government. He is a member of TVK Plc's Supervisory Board since April 19, 2007 and Chairman of it since June 22, 2007.

He is the Chairman of the Audit Committee since June 22, 2007.

## RÉTI, LÁSZLÓ

Deputy Chairman of the Supervisory Board since May 13, 2011.

Member of the Supervisory Board since April 29, 2010.

Maintenance Engineer

Mr. Réti graduated at the Miskolc University in 2001 majoring mechanical engineer. He started to work in 1986 at TVK Plc. at the chemical fertilizer plant, and continued to work at the maintenance unit of the olefin plant in 1995. He participated in the reconstruction work of the olefin unit, while took part in the construction of the Olefin-2 plant between 2002 and 2004, as technological controller. He works at the Asset Management as maintenance engineer. He is also member of the Works Council, where he has been doing different tasks in the Human, Sport and Meal Committee in the last 11 years.

## DR. BAKACSI, GYULA

Member of the Supervisory Board since April 19, 2007

Head of Department, professor, at the Corvinus University of Budapest.

Head of Department, professor of the Sapientia Hungarian University of Transylvania.

Economist, doctorate degree, candidate for Economics

Dr. Gyula Bakacsi is the Head of Department, Professor, at the Corvinus University of Budapest, Faculty of Economics, Faculty of Organisational Theory. He is the Head of Department, Professor of the Sapientia Hungarian University of Transylvania, the Faculty of Economics and Human Sciences, Business Sciences.

He is graduated in 1983 at the Faculty of Industry of the Marx Károly University of Economics in Budapest. He got his doctorate degree in 1988, candidate for Economics degree in 1994. Between 1983 and 1985 he worked at the MTA-MKKE (Marx Károly University of Economics) as science associate at the Coordination Secretary of Faculty „Socialist Company” National Perspective Scientific Research. Between 1985 and 1990, he was assistant lecturer at the Faculty of Industrial Business Organisation at MKKE. Between 1990 and 2004 he was adjunct, from 1994 docent at the Faculty of Organisation and Management Theory at the University of Economics, Budapest. Between 2000 and 2002 he was Deputy Rector of the Faculty of University Politics and Development at the University of Economics and State Administration, Budapest. From 2003 he is a Head of

Department of the Business Sciences at the Csíkszereda Unit of the Sapientia Hungarian University of Transylvania. In 2004, he was the Deputy Rector of the University, between 2004 and 2008, he was the Rector of the Faculty of Economics and Human Sciences. From 2005, he is the Head of Department, Professor, at the Corvinus University of Budapest, Faculty of Organisational Theory, and Deputy Director of the Management Sciences Institution. From 2003, he is the Chairman of the Economics Sciences Professional Committee of the National Scientific Student Association. He was a corporate member of the Local Government of Martonvásár between 2004 and 2006. From 2005, he is the Chairman of the Supervisory Board of the PEMŰ Private Limited Company, Chairman of the Supervisory Board of MÁV KfV Ltd. and member of the Supervisory Board of E-Star Alternatív Plc. Since 2012 he is member of the Board of Directory of Díjbeszedő Faktorház Plc.

## DR. BÍRÓ, GYÖRGY

Member of the Supervisory Board since April 19, 2007.

Director and Head of Department, Professor of Civil Sciences Institution of the Faculty of Law, at the University of Miskolc.

Lawyer

He graduated as lawyer at the Faculty of Law at the József Attila University of Sciences in 1978. From 1978 he worked at the Diósgyőri Gépgyár as legal advisor. He works at the University of Miskolc: 1982-84 he was professor assistant, until 1993 professor, between 1993-1999 he was the head of Department of Civil Law, at the University of Miskolc. Between 2000-2006 he was pro-rector of the University, since 2006 he is the rector of the Department of Civil Sciences Institution of the Faculty of Law . Since 1989 he works as a lawyer, since 1997 he is the deputy chairman of the Bar Association of Borsod-Abaúj-Zemplén County. Since 1995 he is member as a censor of the Hungarian Special Legal Exam's Committee.

## TURÓCZY, JUDIT

Member of the Supervisory Board since April 21, 2011.

Mrs. Turóczy is a chemist, she has been working at TVK Plc. since 24 years, at the present she is employed as application technologist in the technical consulting of Polymer Marketing and Sales. Since 2000 she has been the shop-steward of the Trade Union of Petrochemical Workers, since 2010 she has been member of the Workers Council of TVK Plc., she is Vice President of the Mass Sport Committee.

# REPORT OF THE SUPERVISORY BOARD

# STRUCTURE OF ORGANIZATION OF TVK PLC. IN 2012

## REPORT OF THE SUPERVISORY BOARD

to the Shareholders of TVK Plc.

Throughout the business year of 2012, TVK Plc's Supervisory Board performed its activities in the form of regular board meetings. The Supervisory Board presents the General Assembly with its present business report, pertaining to the business year of 2012, based on the report of the Board of Directors (BOD), the independent auditor's report and its continuous review of the operation of the cooperation.

According to the opinion of the Supervisory Board, the BOD's 2012 operation and actions are in line with the laws, with TVK Plc's statutes and bylaws. The Corporate information systems and bylaws ensure the transparency and continuous control of Corporate operations. During the operation of the Corporation each shareholder received equal treatment as required by law.

The Supervisory Board was kept informed by the BOD of the Corporation through the Chief Executive Officer and about the steps taken to implement its strategy.

In 2012 company's business performance fundamentally influenced by the highly unfavourable economic environment. While several company had to shut down their petrochemicals units as a result of the negative effects in the region, TVK could successfully avoid this situation. As member of the MOL Group TVK could keep its customers and performed its contractual obligations as a reliable partner. In the opinion of the Supervisory Board the management made decisions aiming cost cutting and efficiency improvement could slightly decrease the negative effects of the depressed external environment, allowing TVK to be ready to obtain the determinant player role in the regional market by keeping its competitiveness, when recession is over.


In the opinion of the Supervisory Board, the 2012 work of the BOD was successful.

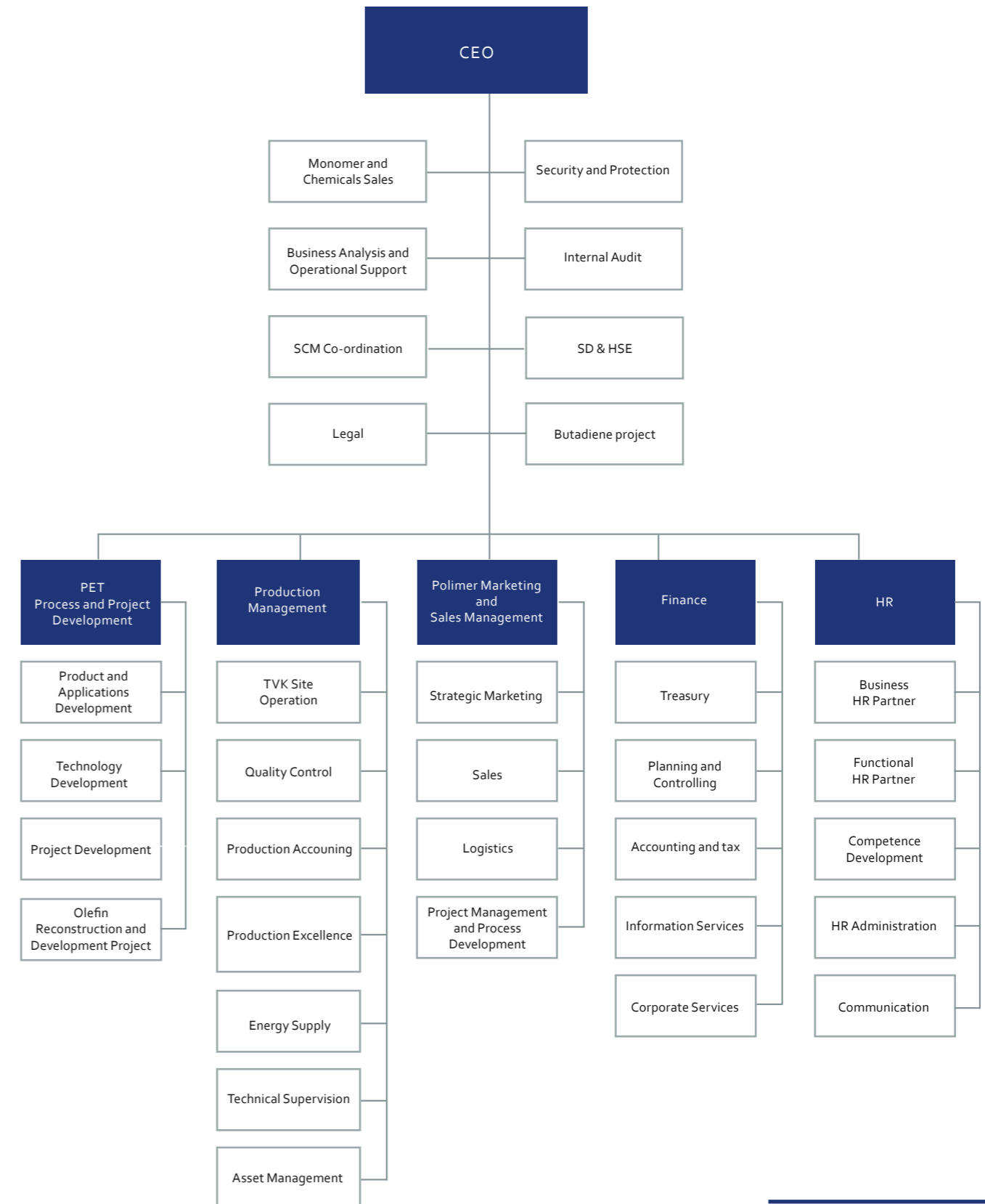
The Supervisory Board recommends the General Assembly to accept TVK Plc's 2012 annual report prepared according to the Hungarian Act on Bookkeeping with a balance sheet total of HUF 202,350 million and after-tax loss of HUF 13,710 million, as well as the TVK Group's 2012 consolidated annual report with a balance sheet total of HUF 216,333 million and an after tax loss of HUF 7,560 million. The Supervisory Board approves the recommendation of the BOD regarding the utilisation of the 2012 result after tax.

The Supervisory Board supports the election of Ernst & Young Könyvvizsgáló Kft. as auditor for 2012 and the establishment of its remuneration.

The Supervisory Board supports the approval of discharge for the senior management.

March 22, 2013.

  
László Gyurovszky  
Chairman of the Supervisory Board



# TOP MANAGEMENT

## PETHŐ, ZSOLT

See CV in the section on the Board of Directors

## HODOSSY, GYULA

Deputy CEO, Chief Financial Officer from July 1, 2007 to July 15, 2012.

Qualified Economist

Mr. Hodossy started his career in 1989 at TVK's Customs and Material Acceptance. Graduated from the Budapest College of Finance and Accounting in 1995 and obtained a Diploma in Management studies at EuroContact Business School in 2002. From 1995 continued his work as an analysing economist at the Controlling Office. He was appointed the group leader of Inventory Management in 1997. From January 2001, he acted as the economic manager at the Olefin Business Unit. In July 2002 he took over the position of the head of the Internal Audit, then from January 2004 he was appointed the head of Energy Supply and Maintenance Management. From July 1, 2007 he acted as Deputy CEO, Chief Financial Officer of TVK Plc. to July 15, 2012.

## SÁNDOR, BALÁZS

Chief Financial Officer, Deputy CEO since July 15, 2012

Qualified Gas Engineer

Mr. Sándor graduated at the University of Miskolc as gas engineer then obtained MBA degree at the Budapest University of Technology and Economics. He works at MOL Group since 1996, first at the Gas Segment in various positions. Until 1999, he was a technological engineer at MOL Rt.'s Crude Oil and Natural Gas Transmission Business Line. Between 2000 and 2003, he was a controlling expert of MOL Rt. Natural Gas Segment's Planning and Controlling Department and had active part in preparing the natural gas market regulation valid since January 2004. Between 2004 and 2007 he was the Business Operation and Support Director of the newly established MOL Natural Gas Transmission Rt. From 2008 until September 2011, he was the Chief Financial Officer and from 2010, he was a member of Board of the Directors of the Company. From September 2011 until July 2012 he took part in the development of MOL Group's new management concept. Since July 15, 2012 he is the Chief Financial Officer of TVK Plc.

## PETRÉNYINÉ SZABÓ, KRISZTINA

Polymer Marketing and Sales Manager, Deputy CEO as from October 1, 2009 to July 25, 2012.

Qualified Economist

Mrs. Petrényi graduated from the University of Economics Miskolc as a qualified economist in 2000 and obtained a professional economist degree in Foreign Trade Management at Budapest Business School in 2003. She started her carrier in 2000 at Sales Department of TVK. From 2002 she has acted as a senior sales executive of polyethylene export sales. She was appointed as an integrated Senior Sales Executive of polymer export sales starting 2003.

In February 2006 she took over the position of Head of Polymer Sales. Mrs. Petrényi was appointed Deputy CEO responsible for Polymer Marketing and Sales at TVK Plc. from October 1, 2009 to July 25, 2012. After this date, Mr. Pethő handles her tasks.

## SZÁNTÓ, ZOLTÁN

Polymer Marketing and Sales Manager as from February 1, 2013

Mr. Szántó graduated as an engineer from the Szent István University in 1998, and in 2000 he attended a one year long training in the Dalarna University in Sweden. He started working in 2000 at Pannon Aldra Ltd., and then he continued at SOLVAY Company as the Regional Sales Manager for East-Europe. In 2005, he worked at GE Plastics, and then at SABIC IP as Sales Manager. He has been working at TVK as senior sales manager since 2009. He dealt with the East-European sales of TVK since 2010. Since February 1, 2013 he works as Polymer Marketing and Sales Manager of TVK Plc.

## VÁLYI NAGY, TIVADAR

Director, Production since July 1, 2007.

Qualified Chemical Engineer

Mr. Vályi-Nagy graduated as a chemical engineer at the Mineral Oil and Coal Technology faculty of the University of Chemical Engineering in Veszprém in 1982. He joined TVK in 1978 and worked as Plant Engineer in various polymerisation plants of the Company before 1994. He acted as Project Manager in the implementation jobs of the ERP application to move on to managing the economics of a business unit starting 1995. Later on he was in charge of planning and analysing in the Petrochemical Division. Mr. Vályi-Nagy has been Chief Controller of the Company since 2000. He worked as Deputy CEO, Chief Financial Officer between January 1, 2005 and June 30, 2007. He was appointed TVK's Production Director on July 1, 2007.

## BÓTA JÁNOS

Director of Petrochemical Technology and Project Development from August 1, 2007 to December 31, 2012.

Chemical Engineer

Mr. Bóta graduated as chemical engineer from the Process Control Faculty of the University of Veszprém in 1985. In 1994 he has received engineer-manager degree at the University of Miskolc. He has been working at TVK since 1985. For ten years he worked in various positions at the Production Unit (HDPE-1 and PP-3 Plants), between 1989 and 1995 he was plant manager. From 1995 he was the sales manager of the HDPE Business Unit, from 1998 worked as PP business unit director. From 2000 he was in the position of marketing and sales manager, from 2002 he held the post of technology development manager. From August 1, 2006 for one year he worked at the Netherlands office of Fluor Company, as process engineering manager. From August 1, 2007 he was the Director of Petrochemical Technology and Project Development to December 31, 2012.

## SUBA, PÉTER

Senior Manager of TVK Plc.'s Technology and Project Development since January 2, 2013

Mr. Suba graduated as chemical engineer at the Budapest University of Technology and Economics in 1998. In 2003, he has received engineer-economist degree at the University of Miskolc. He works at TVK Plc. since 1998. Between 1998 and 2006, he was development engineer and group leader engineer at the Product- and application development department. From November 2006, he was the manager of this department. Since January 2, 2013, he is the Senior Manager of TVK Plc.'s Technology and Project Development.

## RÁCZNÉ BODNÁR, ADRIENN

Human Resources Manager since January 3, 2012

Mrs. Rác obtained her first pedagogical degree in 1995, and then in 1997 a second degree on the University of Polity Budapest specializing in Executive Administration. In 1998 she started her carrier as an organization developer at the legal department of Hungarian Post Ltd., Miskolc. She joined to TVK as an organization development expert in 2007. She has been the member of TVK HR team since 2008. She was appointed as Human Resources Manager of TVK as of January 3, 2012.

# CORPORATE INFORMATION

Date of incorporation of TVK Plc.: December 31, 1991. Registered by the Borsod-Abaúj-Zemplén County Court of Justice acting as Court of Registration on 23 March 1992, with effect as of 31 December 1991. (Date of charter: December 31, 1991., initial date of operation: January 1, 1992)

Legal predecessor: Tiszai Vegyi Kombinát  
Registration number: Cg. 05-10-000065

The Annual Ordinary General Meeting modified the effective Articles of Association on April 17, 2012. The Articles are available for inspection and may be ordered at the head office of the Company and is available for downloading at the Company web site ([www.tvk.hu](http://www.tvk.hu)).

Capital issued: As of December 31, 2012 the capital of the Company included 24,290,843 ordinary shares with a face value of HUF 1,010, each. The capital of the Company upon foundation amounted to HUF 24,533,751,430.

The Registrar of the Company

The Board of Directors of the Company keeps the Share Register of registered shares and their holders. Issues related to TVK shares are handled by the Treasury Office of TVK, located at TVK's registered office in Tiszaújváros:

TVK Plc.  
Mailing Address: H-3581 Tiszaújváros, P.O.Box 20., Hungary  
Phone: +36 (49) 522-377  
Fax: +36 (49) 521-903  
E-mail: [reszvenyiroda@tvk.hu](mailto:reszvenyiroda@tvk.hu)

The securities of the company are traded in the following foreign markets

Market type	City	Date of listing	Category
OTC organised	London	August, 1996	International Order Book
OTC not organised	New York	August, 1996	PORTAL
OTC not organised	Frankfurt	August, 1996	Freiverkehr

## Ownership structure as per the Share Register

Description of owner	December 31, 2012		
	Interest (%)	Voting ratio (%)	Quantity (of shares)
Domestic institution/company	95.93	95.93	23,301,477
Foreign institution/company	1.13	1.13	275,353
Domestic individual	1.21	1.21	294,718
Foreign individual	0.02	0.02	4,571
Senior management, employees	-	-	-
Treasury shares	-	-	-
Shares held by unidentified parties	1.71	1.71	414,724
<b>TOTAL</b>	<b>100.00</b>	<b>100.00</b>	<b>24,290,843</b>

TVK Plc. has no treasury shares.

## Shareholders with more than 5% according to the Share Register December 31, 2012

Shareholder	Quantity (of shares)	Interest (%)	Voting ratio (%)
MOL Hungarian Oil and Gas Public Limited Company (MOL Plc.)	23,042,385	94.86	94.86

Notes:

In accordance with the resolution of 2007 Annual General Meeting, every ordinary share with a par value of HUF 1,010 (i.e. one thousand ten forint) entitles the holder thereof to have one and one hundredth vote.

Please note that in Hungary, the Share Register does not fully reflect the ownership structure, as registration is not mandatory.

## Most Important Data of the TVK Share

	2008	2009	2010	2011	2012
Number of shares (on December 31)	24,290,843	24,290,843	24,290,843	24,290,843	24,290,843
<b>Closing Price of the TVK Share on the Budapest Stock Exchange:</b>					
Highest (HUF)	7,060	3,495	3,780	3,540	2,295
Lowest (HUF)	2,405	1,760	2,760	2,150	1,660
On December 31 (HUF)	2,405	3,400	3,300	2,240	1,705
<b>Other Information</b>					
Capitalisation (HUF million) (on December 31)	58,420	82,589	80,160	54,412	41,416
Annual turnover (HUF million)	5,637	6,031	2,594	1,422	260
Average daily turnover during the year (HUF million)	23	24	10	6	1
Dividend per share (HUF)	82	0	82	0	n.a.

# GLOSSARY OF TERMS

## Elected Officers and Top Management and treasury shares held on March 31, 2013

Name	Position	Beginning of assignment	End /termination/ term of assignment	Shares held (qty)
<b>BOARD OF DIRECTORS</b>				
György Mosonyi	Chairman of the Board	26.04.2002	17.04.2017	0
Gyula Gansperger	Board member	20.04.2006	20.04.2016	0
dr. Péter Medgyessy	Board member	20.04.2006	20.04.2016	0
dr. Zoltán Nagy	Board member	01.05.2011	30.04.2016	0
Miklós K amarás	Board member	01.05.2011	30.04.2016	0
Ferenc Horváth	Board member	01.05.2011	30.04.2016	0
Zsolt Pethő	Board member	17.04.2012	17.04.2017	0
<b>SUPERVISORY BOARD</b>				
László Gyurovszky	SB chairperson SB member	22.06.2007 19.04.2007	17.04.2017 17.04.2017	0
dr. Gyula Bakacsi	SB member	19.04.2007	17.04.2017	0
dr. György Bíró	SB member	19.04.2007	17.04.2017	0
László Réti	SB member, employee representative	29.04.2010	29.04.2015	0
Judit Turóczy	SB member	21.04.2011	20.04.2016	0
<b>TOP MANAGEMENT</b>				
Zsolt Pethő	Chief Executive Officer	01.06.2011	Indefinite term	0
Balázs Sándor	Chief Financial Officer, Deputy CEO	15.07.2012	Indefinite term	0
Tivadar Vályi Nagy	Production Director	01.07.2007	Indefinite term	0
János Bóta	Petrochemical Technology and Project Development Director	01.08.2007	31.12.2013	0
Adrienn Ráczné Bodnár	Human Resources Manager	03.01.2012	Indefinite term	0
Péter Suba	Petrochemical Technology and Project Development Manager	02.01.2013	Indefinite term	0
Zoltán Szántó	Polymer Marketing and Sales Manager	01.02.2013	Indefinite term	0

## CHEMICAL AND ENVIRONMENTAL EXPRESSIONS

### BAT (Best Available Technique)

Application of the best practice in a certain area.

### COD (chemical oxygen demand)

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

### Copolymer

Polymer constructed of two or more different monomers.

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

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

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

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

### ÉKÖVÍZIG

Northern Hungarian Environmental and Water Management Authority.

### ÉKTVF

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

### Ethylene

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

### ETS (Emission Trading Scheme)

The Greenhouse Gas Emission Trading scheme of the European Union is a market based instrument for cost effective reduction of Greenhouse Gas Emissions.

### Frequency of Intense Exposures

Number of reported intense exposures per 1 million hours worked.

### FTE (Full-time equivalent)

Number of employed full-time equivalent employees.

### GRIG (Global Reporting Initiative Guideline)

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

### HDPE

High Density Polyethylene

### Homopolymer

Polymer constructed of identical monomers

**HSE**

The Health, Safety and Environmental Protection organization of TVK

**IPPC**

Integrated Pollution Prevention and Control

**ISO 9001:2000**

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

**ISO 14001:2004**

The standard applicable to environmentally oriented management systems.

**LDPE**

Low Density Polyethylene

**Liquified Propane Gas (LPG)**

Hydrocarbon gas compound mainly consisting of propane and butane, liquefied under high pressure, which is sold in cylinders for household purposes. These days the motoric usage of LPG spreads. This fuel is the „autogas“.

**LTI (Lost Time Injury)**

Injuries leading to lost working hours

**LTIF (Lost Time Injury Frequency)**

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

**MDPE (Medium Density Polyethylene)**

Medium Density Polyethylene

**Monomer**

The basic material of the process of polymerisation

**TIP**

Technical Intervention Plan

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

The number of Reportable Occupational Illnesses per one million hours worked.

**Olefin**

A member of the alkene homologous series with dual bond. Empirical formula  $C_nH_{2n}$ . The simplest representatives of these compounds, ethylene and propylene are basic petrochemicals. The most important asset in olefin production is the so-called steam cracker (olefin plant), which converts naphtha, chemical gasoil and other light hydrocarbons to key products as ethylene and propylene by cracking and dehydrogenation.

**PE 100**

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

**PM (Particulate Matter)**

Particulate matter is finely dispersed solid matter produced by burning and other technological processes; the most dangerous are fractions finer than  $10\ \mu\text{m}$  ( $PM_{10}$ ).

**Polyethylene**

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

**Polymer**

A complexity of repeating units of organic or inorganic macromolecules

**Polypropylene**

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

**PPM**

PPM is a measure of the concentration of a substance in a liquid, used where low levels of concentration are significant. The ppm (parts per million) value is equivalent to the absolute fractional amount multiplied by one million. For example, 10 ppm equals 10 kilogram of a substance for a million kilogram (one kiloton) of a liquid.

**Propylene**

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

**PSM**

Process Safety Management

**Pyrolysis**

Thermal cracking of hydrocarbons at high (usually above  $650^\circ\text{C}$ ) temperature and low (few bars) pressure, which is the basic process in operation of olefin plants. Process is conducted in the presence of steam in order to minimize coke-formation.

**RAR (Road accident rate)**

The number of road accidents per 1 million km driven.

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

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

**SCM**

Supply chain management

**Steam Cracker (Olefin Plant)**

Technology for production of key basic petrochemical products (olefins: ethylene, propylene, and aromatics: benzene, toluene, xylenes), on the basis of thermal decomposition (cracking) and dehydrogenation of petrochemical feedstock (naphtha and chemical gasoil) produced by the refineries or lighter saturated hydrocarbons (ethane, propane, butane) in the presence of steam. Main products of the process (ethylene, propylene) are raw-materials of polyethylene and polypropylene production, while the by-products can widely be used in organic chemical industry, plastics and rubber production or as gasoline blending components.

**TQM (Total Quality Management)**

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

**TRIPOD**

A software based method of investigating the cause of accidents.

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

Total reportable occupational illness frequency per one million hours worked.

**Hazardous wastes**

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

**VOC**

Organic compounds volatile at room temperature, hydrocarbons.

**Financial expressions and abbreviations****CAPEX**

Capital Expenditures.

**EBIT**

Operating profit.

**EBITDA**

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

**EBITDA margin**

Ratio of EBITDA divided by net sales revenues.

**EPS**

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.

**Gearing**

Ratio of net debt to net debt plus equity.

**IFRS**

International Financial Reporting Standards, formerly International Accounting Standards (IAS).

**Market capitalisation**

Number of shares (issued share capital excluding Treasury stock) multiplied by the actual stock market price.

**ROACE (Return on average capital employed)**

Operating profit after taxation / average capital employed

Operating profit after taxation = operating profit x (100% - calculated corporate tax ratio).

**ROE (Return on Equity)**

Net income divided by shareholders equity.

**Shareholder's return**

Return resulting from the movements of the share price and the amount of dividend paid.

# CONTACT INFORMATION

## Corporate Address

Tisza Chemical Group Public Limited Company (TVK Plc.)  
Registered office: 3581 Tiszaújváros, TVK Industrial Site, TVK  
Head Office, Lot number 2119/3 Building 136, Hungary  
Mailing address: H-3581 Tiszaújváros, P.O.Box 20, Hungary  
Central phone: +36 49/522-222  
Central fax: +36 49/521-322  
E-mail: tvkinfo@tvk.hu  
Web-site: www.tvk.hu

## Investor Relations

TVK Plc., Treasury, H-3581 Tiszaújváros, P.O.Box 20, Hungary  
Phone: +36 49/522-377  
Fax: +36 49/521-903  
E-mail: bki@tvk.hu

## Share Registrar

TVK Plc., Treasury, H-3581 Tiszaújváros, P.O.Box 20, Hungary  
Phone: +36 49/522-377  
Fax: +36 49/521-903  
E-mail: reszvenyiroda@tvk.hu

## Stock Exchange Trading Information

Budapest Stock Exchange  
H-1062 Budapest, Andrássy út 93.  
Phone: +36 1/429-6857  
Fax: +36 1/429-6800  
E-mail: info@bse.hu

## GDR Information

The Bank of New York Mellon  
Depositary Receipts Division  
101 Barclay Street, 22nd floor, New York, NY 10286, USA  
Tel: +1 212-815-3503  
Fax: +1 212-571-3050

## Sustainable development

TVK Plc, SD & EBK, H-3581 Tiszaújváros, P.O.Box 20, Hungary  
Tel: 49/522-317  
Fax: 49/522-354  
E-mail: sd@tvk.hu

## Announcements

The company publishes its announcements on the following websites:

- the website of TVK at ([www.tvk.hu](http://www.tvk.hu))
- the website of the Budapest Stock Exchange at ([www.bet.hu](http://www.bet.hu)) and
- the website of the London Stock Exchange at ([www.londonstockexchange.com](http://www.londonstockexchange.com))
- the website of Capital Market Disclosures, operated by PSZÁF at ([www.kozzetetelek.hu](http://www.kozzetetelek.hu)).

## Statement of responsibility

to be attached to the 2012 Annual Report of Tisza Chemical Group Public Limited Company

We the undersigned representatives of Tisza Chemical Group Public Limited Company (TVK Plc., Company), the issuer of TVK ordinary shares hereby declare that TVK Plc. takes full responsibility for the announced Annual Report of the Company for the year ended on 31 December 2012, which has been prepared to the best of our knowledge in accordance with International Financial Reporting Standards as endorsed by the European Union, and give a true and fair view of the assets, liabilities, financial position, and profit of TVK Plc. and its subsidiaries and presents a fair review of the position, development and performance of TVK Plc. and its subsidiaries together with a description of principal risks and uncertainties.

Tiszaújváros, April 18, 2013



Zsolt Pethő  
Chief Executive Officer



Balázs Sándor  
Chief Financial Officer  
Deputy CEO

Tisza Chemical Group Public Limited Company