INFORMATION MEMORANDUM DATED 27 JULY 2011

NITROGÉNMŰVEK ZRT

(***incorporated in the Republic of Hungary with limited liability***)

€50,000,000

11.50 per cent. Notes due 29 January 2013

Issue Price 99.332 per cent.

The €50,000,000 11.50 per cent. Notes due 29 January 2013 (the "**Notes**") will be issued by Nitrogénművek Zrt. (the "**Issuer**" or the "**Company**"). Interest on the Notes is payable semi-annually in arrear on 29 January and 29 July in each year. Payments on the Notes will be made without deduction for or on account of taxes in Hungary. Interest will accrue from and including 29 July 2011 to but excluding the date fixed for redemption and will be at the rate of 11.50 per cent. per annum. If, by 29 January 2012, (a) the Notes have not been assigned a rating by a Rating Agency (as defined in "Terms and Conditions of the Notes – Definitions"), interest will accrue from and including 29 January 2012 at 14.50 per cent. per annum or, (b) the Notes have been assigned a rating of less than B- (or its equivalent) by a Rating Agency, interest will accrue from and including 29 January 2012 at 13.50 per cent. per annum.

The Notes mature on 29 January 2013. The Notes are subject to redemption in whole, at their principal amount, together with accrued interest, at the option of the Issuer at any time in the event of certain changes affecting taxes in Hungary. See "Terms and Conditions of the Notes — Redemption and Purchase". Following a Change of Control, a Noteholder will have the right to require the Issuer to redeem the Notes held by such Noteholder at 101 per cent. of their aggregate principal amount, together with accrued interest. See "Terms and Conditions of the Notes – Redemption and Purchase". The Issuer may redeem the Notes in whole, but not in part, after 29 July 2012 at a redemption price equal to the principal amount of the Notes plus an applicable margin plus accrued interest up to the date for such redemption. See "Terms and Conditions of the Notes – Redemption and Purchase".

The Notes will constitute direct, unsecured and unsubordinated obligations of the Issuer. See "Terms and Conditions of the Notes — Status".

The denomination of the Notes shall be €200,000 and integral multiples of €1,000 in excess thereof, up to and including €399,000. Application has been made to the Luxembourg Stock Exchange for the approval of this document for the purposes of Part IV of the Luxembourg Law dated 10 July 2005 on Prospectuses for Securities (the "**Luxembourg Law**"). Application has also been made to the Luxembourg Stock Exchange for the Notes to be admitted to the official list of the Luxembourg Stock Exchange (the "**Official List**") and to be admitted to trading on the Luxembourg Stock Exchange's Euro MTF market (the "**Euro MTF**"). References in this Information Memorandum to the Notes being "listed" (and all related references) shall mean that the Notes have been admitted to the Official List and admitted to trading on the Euro MTF. The Euro MTF is not a regulated market for the purposes of the Markets in Financial Instruments Directive (2009/39/EC). This Information Memorandum constitutes a prospectus for the purposes of the Luxembourg Law dated 10 July 2005 on Prospectuses for Securities.

The Notes will initially be represented by a Global Note, without interest coupons, which will be deposited with a common depositary on behalf of Euroclear Bank S.A./N.V. ("**Euroclear**") and Clearstream Banking, *société anonyme* ("**Clearstream, Luxembourg**") on or about 29 July 2011. The Global Note will be exchangeable for definitive Notes in bearer form in the denomination of €200,000 and integral multiples of €1,000 in excess thereof not less than 60 days following the request of the Issuer or the holder in the limited circumstances set out in it. No definitive Notes will be issued with a denomination above €399,000. See "Summary of Provisions relating to the Notes while in Global Form".

AN INVESTMENT IN THE NOTES INVOLVES A HIGH DEGREE OF RISK. Prospective investors should have regard to the factors described under the section headed "Risk Factors" in this Information Memorandum.

Lead Manager

BNP PARIBAS

The Issuer takes responsibility for the information contained in this Information Memorandum and, having made all reasonable enquiries, confirms that (i) this Information Memorandum contains all information with respect to the Issuer and its subsidiaries and affiliates taken as a whole (the "**Group**") and the Notes which is material in the context of the issue and offering of the Notes, (ii) the statements contained in this Information Memorandum relating to the Issuer, the Group and the Notes are in every material particular true and accurate and not misleading, (iii) the opinions and intentions expressed in this Information Memorandum with regard to the Issuer, the Group and the Notes are honestly held, have been reached after considering all relevant circumstances and are based on reasonable assumptions, (iv) there are no other facts in relation to the Issuer, the Group and the Notes the omission of which would, in the context of the issue and offering of the Notes, make any statement in this Information Memorandum misleading in any material respect and (v) all reasonable enquiries have been made by the Issuer to ascertain such facts and to verify the accuracy of all such information and statements.

This Information Memorandum does not constitute an offer of, or an invitation by or on behalf of BNP Paribas, the Issuer or the Trustee to subscribe or purchase, any of the Notes. The distribution of this Information Memorandum and the offering of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Information Memorandum comes are required by the Issuer and BNP Paribas to inform themselves about and to observe any such restrictions.

This Information Memorandum may only be used for the purposes for which it has been published.

For a description of further restrictions on offers and sales of Notes and distribution of this Information Memorandum, see "Subscription and Sale".

No person is authorised to give any information or to make any representation not contained in this Information Memorandum and any information or representation not so contained must not be relied upon as having been authorised by or on behalf of the Issuer, BNP Paribas or the Trustee. Neither the delivery of this Information Memorandum nor any sale made in connection herewith shall, under any circumstances, create any implication that there has been no change in the affairs of the Issuer since the date hereof or the date upon which this Information Memorandum has been most recently amended or supplemented, or that there has been no adverse change in the financial position of the Issuer since the date hereof or the date upon which this Information Memorandum has been most recently amended or supplemented, or that the information contained in it or any other information supplied in connection with the Notes is correct as of any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same.

Neither BNP Paribas nor the Trustee has separately verified the information contained in this Information Memorandum. To the fullest extent permitted by law, BNP Paribas and the Trustee accept no responsibility whatsoever for the contents of this Information Memorandum or for any other statement, made or purported to be made by either of them or on their behalf in connection with the Issuer or the issue and offering of the Notes. BNP Paribas and the Trustee accordingly disclaim all and any liability whether arising in tort or contract or otherwise (save as referred to above) which it might otherwise have in respect of this Information Memorandum or any such statement. Neither this Information Memorandum nor any other information supplied in connection with the Notes is intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by the Issuer, BNP Paribas or the Trustee that any recipient of this Information Memorandum or any other such information should purchase the Notes. Each potential purchaser of Notes should determine for itself the relevance of the information contained in this Information Memorandum and its purchase of Notes should be based upon such investigation as it deems necessary. Neither BNP Paribas nor the Trustee undertakes to review the financial condition or affairs of the Issuer during the life of the arrangements contemplated by this Information Memorandum nor to advise any investor or potential investor in the Notes of any information coming to its attention.

The Notes have not been and will not be registered under the U.S. Securities Act of 1933 (the "**Securities Act**") and are subject to United States tax law requirements. Subject to certain exceptions, Notes may not be offered, sold or delivered within the United States.

Unless otherwise specified or the context requires, references to "euros", "Euros", "EUR" and "€" are to the currency introduced at the start of the third stage of the European Economic and Monetary Union pursuant to the Treaty establishing the European Community, as amended by the Treaty on European Union (as amended from time to time), references to "dollars" and "U.S.$" are to United States dollars and references to "forint" and "HUF" are to Hungarian forint. Unless otherwise specified, where financial information in relation to the Issuer has been translated into Euros, it has been so translated, for convenience only, at the rate of HUF 280 equals €1. Such translation should not be construed as a representation that the amounts in question have been, could have been or could be converted into Euros at that or any other rate.

The table below sets forth, for the periods and dates indicated, certain information regarding the exchange rate between HUF and the Euro. This information is based on the exchange rate published by National Bank of Hungary.

Fluctuations in the exchange rate between HUF and the Euro in the past are not necessarily indicative of fluctuations that may occur in the future. These rates may also differ from the actual rates used in the preparation of the Financial Statements and other information presented in this Information Memorandum.

	HUF per EUR	
Year ended 31 December	**Period average**	**Period end**
2008	251.25	264.78
2009	280.58	270.84
2010	275.41	278.75
Month ended		
31 January 2011	275.45	273.30
28 February 2011	271.18	272.34
31 March 2011	270.72	265.78
30 April 2011	265.36	264.14
31 May 2011	266.78	266.78
30 June 2011	266.66	265.61

The buying rate of the National Bank of Hungary of one EUR was HUF 269.40 on 25 July 2011.

FORWARD-LOOKING STATEMENTS

Certain statements included herein may constitute forward-looking statements that involve a number of risks and uncertainties. Certain such forward-looking statements can be identified by the use of forward-looking terminology such as “estimates”, “believes”, “expects”, “may”, “are expected to”, “intends”, “will”, “will continue”, “should”, “would be”, “seeks”, “approximately” or “anticipates”, or similar expressions or the negative thereof or other variations thereof or comparable terminology discussions of strategy, plans or intentions. Such forward-looking statements are necessarily dependent on assumptions, data or methods that may be incorrect or imprecise and that may be incapable of being realised. Such forward-looking statements include, but are not limited to, the Issuer’s objective to maintain or increase its profitability and to remain dominant in the Hungarian fertiliser market, the impact of the anticipated improvements in operational efficiency and statements regarding planned capital expenditures. Factors that might affect such forward-looking statements include, among other things, overall economic and business conditions in Hungary and its neighbouring countries; the demand for the Issuer’s products; competitive factors in the industries in which the Issuer competes; adverse weather conditions; changes in government regulation; changes in tax requirements (including tax rate changes, new tax laws and revised tax law interpretations); results of litigation or arbitration; changes in the price and availability of natural gas, electricity and other raw materials; interest rate fluctuations and other market conditions, including foreign currency rate fluctuations; fluctuations in the price of oil or natural gas; economic and political conditions in international markets, including governmental changes and restrictions on the ability to transfer capital across borders and the timing, impact and other uncertainties of future actions. See “Risk Factors” for a discussion of certain important factors that could cause actual results to differ materially from these forward-looking statements.

The Issuer is not obliged to, and does not intend to, update or revise any forward-looking statements made in this Information Memorandum, whether as a result of new information, future events or otherwise. All subsequent written or oral forward-looking statements attributable to the Issuer, or persons acting on the Issuer’s behalf, are expressly qualified in their entirety by the cautionary statements contained throughout this Information Memorandum. As a result of these risks, uncertainties and assumptions, a prospective purchaser of the Notes should not place undue reliance on these forward-looking statements.

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Overview

This overview must be read as an introduction to this Information Memorandum and any decision to invest in the Notes should be based on a consideration of the Information Memorandum as a whole, including the full terms and conditions. This overview does not purport to be complete and is taken from, and is qualified in its entirety by, the remainder of this Information Memorandum.

Words and expressions defined in the "Terms and Conditions of the Notes" or elsewhere in this Information Memorandum have the same meanings in this summary.

The Issuer	Nitrogénművek Zrt.
Trustee	BNP Paribas Trust Corporation UK Limited
Principal Paying Agent	BNP Paribas Securities Services, Luxembourg Branch
Additional Paying Agent	BNP Paribas Securities Services, London Branch
The Notes	€50,000,000 11.50 per cent. Notes due 29 January 2013.
Issue Price	99.332 per cent. of the principal amount of the Notes.
Issue Date	29 July 2011
Interest and Step-up	Subject as provided below, the Notes will bear interest from and including the Issue Date at a rate of 11.50 per cent. per annum, payable semi-annually in arrear on 29 January and 29 July in each year. If, by 29 January 2012, the Notes: (a) have not been assigned a rating by a Rating Agency (as defined in Condition 18), the interest rate will be 14.50 per cent. per annum; or (b) have been assigned a rating by a Rating Agency of less than B- (or its equivalent), the interest rate will be 13.50 per cent. per annum; or (c) have been assigned a rating by a Rating Agency of at least B- (or its equivalent), the interest rate will remain at 11.50 per cent. per annum, in each case, from and including 29 January 2012.
Status of the Notes	The Notes are direct, unsecured and unconditional obligations of the Issuer.
Form and Denomination	The Notes will be in bearer form in the denomination of €200,000 and integral multiples of €1,000 in excess thereof, up to and including €399,000. See "Summary of Provisions relating to the Notes in Global Form".
Events of Default	The events of default under the Notes are as specified in Condition 8.
Redemption at the option of the Issuer	The Issuer may redeem the Notes in whole, but not in part, at any time on or after 29 July 2012 at a redemption price equal to

	the principal amount of such Notes plus a margin based on the prevailing Rate of Interest (as described in Condition 5(c)) up to the date for such redemption. In addition, the Notes may be redeemed at the option of the Issuer in whole, but not in part, at any time in the event of certain changes affecting taxes as more fully described in Condition 5(b).
Change of Control	Upon the occurrence of a Change of Control (as defined in Condition 18 and pursuant to Condition 5(d)), each Noteholder shall have the option to require the Issuer to redeem its Notes at 101 per cent. of their principal amount, plus accrued and unpaid interest up to the date for such redemption.
Negative Pledge	The Notes will have the benefit of a negative pledge as described in Condition 3(a).
Financial Covenant	The Issuer shall ensure that the ratio of Consolidated Net Indebtedness to Consolidated EBITDA for each Relevant Period will not be more than 3.00 to 1.00.
Restricted Payments	Subject to certain exceptions, the Issuer and its Subsidiaries will be subject to limitations on the making of distributions and similar payments, as described in Condition 3(d).
Limitation on Sales of Assets	Subject to certain exceptions, the Issuer and its Subsidiaries will be subject to limitations on the sale of assets, as described in Condition 3(e).
Taxation and gross-up	The payment of interest and other amounts in respect of the Notes will be made free of withholding taxes in Hungary, unless such taxes are required by law to be withheld. In such case, the Issuer will pay additional amounts as may be necessary in order that the net amounts receivable by the holder, after such deduction or withholding, shall equal the respective amounts which would have been receivable by such holder in the absence of such deduction or withholding except that no such additional amounts shall be payable in certain circumstances. See Condition 7 and "Taxation".
Governing law	The Notes, and any non-contractual obligations arising out of or in connection with them, will be governed by and shall by construed in accordance with English law. The courts of England will have jurisdiction to settle any disputes which may arise out of or in connection with the Notes.
Listing and Trading	Application has been made to list the Notes on the Luxembourg Stock Exchange's Official List and to admit such Notes to trading on the Euro MTF.
Clearing	The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The Notes have the following International Securities Identification Number ("**ISIN**") and

	Common Code:
	ISIN: XS0653648161
	Common Code: 065364816
Selling Restrictions	See “Subscription and Sale”.
Risk Factors	Investing in the Notes involves risks. See “Risk Factors”.

Risk Factors

The Issuer believes that the following factors may affect its ability to fulfil its obligations under the Notes. All of these factors are contingencies which may or may not occur and the Issuer is not in a position to express a view on the likelihood of any such contingency occurring.

Factors which the Issuer believes may be material for the purpose of assessing the market risks associated with the Notes are also described below.

The Issuer believes that the factors described below represent the principal risks inherent in investing in the Notes, but the Issuer may be unable to pay interest, principal or other amounts on or in connection with the Notes for other reasons, and the Issuer does not represent that the statements below regarding the risks of holding the Notes are exhaustive. Prospective investors should also read the detailed information set out elsewhere in this Information Memorandum and reach their own conclusions prior to making any investment decision.

Factors that may affect the Issuer's ability to fulfil its obligations under or in connection with the Notes.

The Company has high exposure to natural gas market volatility

The Company's industry is dependent on natural gas, which is subject to a high level of price volatility. Natural gas is the principal raw material used to produce nitrogen-based fertilisers. The Company uses natural gas both as a chemical feedstock and as a fuel to produce ammonia, urea, CAN, AN and other nitrogen products. The Company's expenditures on natural gas comprised approximately 51 per cent. of the total cost of their nitrogen-based fertiliser sales in 2010.

Because the Company's nitrogen-based fertiliser manufacturing facilities are located in Hungary, the price of natural gas in Central Europe directly impacts a substantial portion of the Company operating expenses. The price of natural gas is highly volatile. During 2010, the median daily price at the Central European Gas Hub ("**CEGH**"), the most heavily-traded natural gas pricing basis in Central Europe, exceeded €18.9 per MWh, reached a low of €11.624 per MWh on 23 March 2010 and escalated to a high of €25.046 per MWh on 20 December 2010. The June contract for the CEGH priced at €23.757 per MWh on 9 May 2011. The market price of natural gas in Europe is also generally higher than the price of natural gas in certain other major fertiliser-producing regions, including the Middle East. Recent declines in the price of natural gas have been driven, in part, by the economic slowdown in the region and globally increasing sources. Any significant change in economic activity in the region could cause the price of natural gas to rise significantly. Given the volatility of pricing and the Company's dependence on European natural gas, the price that the Company pays for natural gas in the future may be higher than prices paid by producers in certain other fertiliser-producing regions of the world, which could make it more difficult for the Company to compete against these producers and any such event or circumstance could have an adverse effect on the Company's financial condition and results of operations.

The Company may not be able to pass along higher operating costs to its customers in the form of higher product prices. A significant increase in the price of natural gas (which can be driven by, among other things, supply disruptions, governmental or regulatory actions, cold weather and oil price spikes) that is not hedged or recovered through an increase in the price of related nitrogen products could result in reduced profit margins and lower product production and any such event or circumstance could have an adverse effect on the Company's financial condition and results of operations.

There is no certainty in demand for the Company's products

The Company's business is cyclical, resulting in periods of industry oversupply during which the Company's results of operations tend to be negatively impacted. Historically, selling prices for the Company's products have fluctuated in response to periodic changes in supply and demand conditions. Demand is affected by population growth, changes in dietary habits, non-food usage of crops, such as the production of ethanol and other biofuels, and planted acreage and application rates, among other things. Supply is affected by available capacity and operating rates, raw material costs and availability, government policies and global trade. Periods of high demand, high capacity utilisation and increasing operating margins tend to result in new plant investment and increased production, causing supply to exceed demand and prices and capacity utilisation to decline. In particular, new production capacity is expected to increase in low-cost regions, although there is no certainty that such products would viably compete in the Company's markets. Future growth in demand for fertiliser may not be sufficient to alleviate any existing or future conditions of excess industry capacity. During periods of industry oversupply, the Company's results of operations tend to be affected negatively as the price at which they sell the products typically declines, resulting in reduced profit margins, write-downs in the value of the inventory, lower production of key products and/or plant closures. Periods of oversupply could adversely effect the Company's financial condition and results of operations.

The Company competes with a number of foreign nitrogen-based fertiliser producers, including state-owned and/or government-subsidised entities

The Company's products are global commodities and the Company faces intense global competition from other fertiliser producers and is subject to intense price competition from foreign competitors. Fertilisers are global commodities, with little or no product differentiation, and customers make their purchasing decisions principally on the basis of delivered price and to a lesser extent on customer service and product quality. The Company competes with a number of foreign producers, including state-owned and government-subsidised entities. Consolidation in the fertiliser industry has increased the resources of several of their competitors, and the Company expects consolidation among fertiliser producers to continue. In light of this industry consolidation, the Company's competitive position could suffer to the extent that they are not able to expand their own resources either through investments in new or existing operations or through acquisitions, joint ventures or partnerships. Any increase in capacity could adversely affect the balance between supply and demand and may put downward pressure on global and regional fertiliser prices, which could adversely affect the Company's results of operations and financial condition.

Adverse weather conditions may decrease demand for fertiliser products and increase the cost of natural gas

Weather conditions that delay or intermittently disrupt field work during the planting and growing seasons may cause agricultural customers to reduce their consumption of nitrogen-based fertilisers. Adverse weather conditions following harvest may delay or eliminate opportunities to apply fertiliser in the autumn. Weather can also have an adverse effect on crop yields, which lowers the income of growers and could impair their ability to purchase fertiliser from the Company or their agents. Weather conditions or, in certain cases, weather forecasts, can also dramatically affect the price of natural gas, the Company's principal raw material used to make nitrogen-based fertilisers. Colder than normal winters and warmer than normal summers increase the natural gas demand for residential use which increases the market price for natural gas. Adverse weather conditions could therefore adversely effect on the Company's financial condition and results of operations.

Demand for the Company's products is seasonal

The Company's inability to predict future seasonal fertiliser demand accurately could result in excess inventory, potentially at costs in excess of market value or product shortages. The fertiliser business is seasonal. The strongest demand for the Company's products occurs during the spring planting season, with a second period of strong demand following the autumn harvest. The Company and their customers generally build inventories during the low demand periods of the year in order to ensure timely product availability during the peak sales seasons. Seasonality is greatest for ammonia due to the short application season and the limited ability of the sales agents and their customers to store significant quantities of this product. The seasonality of fertiliser demand results in sales volumes and net sales being the highest during the spring and working capital requirements being the highest just prior to the start of the spring season. The Company's inability to predict future seasonal fertiliser demand accurately could result in excess inventory, potentially at costs in excess of market value or product shortages. The Company's quarterly financial results can vary significantly from one year to the next due to shifts in planting schedules and purchasing patterns. Such seasonal fluctuations could have an adverse effect on the Company's financial condition and results of operations, and on its ability to comply with its obligations under the Notes.

Seasonal demand and fluctuations in raw material costs can make it difficult for the Company to effectively manage its inventory

If seasonal demand is less than the Company expects, it will be left with excess inventory that will have to be stored (in which case their results of operations will be negatively impacted by any related storage costs) and/or liquidated (in which case the selling price may be below the Company's production, procurement and storage costs). The risks associated with excess inventory and product shortages are particularly acute with respect to the Company's nitrogen-based fertiliser business because of the highly volatile cost of natural gas and nitrogen-based fertiliser prices and the relatively brief periods during which farmers can apply nitrogen-based fertilisers. Any such event or circumstance could have an adverse effect on the Company's financial condition and results of operations.

The Company is subject to potentially onerous environmental and health and safety laws

The Company is subject to numerous environmental and health and safety laws and regulations, including laws and regulations relating to land reclamation; the generation, treatment, storage, disposal and handling of hazardous substances and wastes; and the clean-up of hazardous substance releases, as well as potential environmental liabilities which may require it to make substantial expenditures. There can be no certainty as to how much the cost of compliance with laws and regulations will be in the future. The impact of such laws and regulations, and any costs associated with them, could have an adverse effect on the Company's financial conditions and results of operations.

Capital Investment Programme

The Company is currently implementing an extensive programme to modernise its existing production facilities, which will require significant capital expenditures (see "Description of Issuer – Investment Strategy"). The capital investment programme is subject to a variety of potential problems and uncertainties, including changes in economic conditions, delays in completion, cost overruns and defects in design or construction. There can be no assurance that the modernisation of and planned improvements in the Company's facilities will be completed as originally planned or on schedule or that the expected improvements in production, efficiency or volume will be fully realised.

The current investment programme requires substantial capital expenditure. The Company hopes to spend approximately €30 million to €50 million to complete the proposed investment programme by the end of 2014. If adequate funds are not available or are not available on acceptable terms, the Company may be adversely affected and, in particular, may not be able to pursue its strategy of investing in its production facilities or respond to competitive pressures. This could have a negative impact on the Company's financial condition and results of operation.

Reliance on Key Senior Managers

The Company is dependent on its senior management for the implementation of its strategy and the management of its day-to-day operations. If the Company is unable to retain key members of its senior management and cannot hire new qualified personnel in a timely manner, its business, results of operations and financial condition may be adversely affected as may its ability to satisfy its obligations under the Notes.

Publicly available information about the Company may be limited

The Company's shares are not listed on any exchange. The Company is also unrated and it is not required to undertake the financial reporting or ongoing disclosure obligations which investors may be used to seeing undertaken by other companies in which they invest. A lack of readily available public information may make it more difficult for an investor to assess the performance and current prospects of the Company at any time. If investors experience a delay in important information coming to their intention or if information is not accurately or fully brought to their attention, then it may make it more difficult for them to make informed investment decisions with respect to the Notes.

Interests of persons with beneficial interests in shares in the Company may differ from the interests of Noteholders

All shares of the Company are ultimately owned by two family members. As a result of their interest in the Company, the Shareholders have the ability to significantly influence the Issuer's business through certain actions that require shareholders' approval, including increase or decrease of the Issuer's share capital, appointment of directors, declaration of dividends, appointment of management and other policy decisions. The interests of the Shareholders may be different from those of the Noteholders which may cause the Issuer to take actions that are not in the best interests of the Noteholders.

Volatility of Financial Results

The Issuer's results of operations are substantially affected by variations in the realised sale prices of its products and the costs associated with its production. These elements are affected by many factors, including, among others, the price and availability of raw materials (particularly natural gas), the demand for and prices of the Issuer's products, the efficiency of operations at its facilities, the timing and pricing of orders, industry competition and excess industry capacity. There can be no assurance that these elements, or others that may affect product prices or production costs, will not be adverse to the Issuer's interests. Fluctuations in the realised sale prices of the Issuer's products or the costs associated with its production could have a material adverse effect on the Issuer's operating results or financial condition. Sharp fluctuations in such prices and costs could have an adverse impact on the Issuer's financial condition and results of operation.

Raw Materials and Energy

The continuous supply of raw materials (most notably natural gas) and energy (electricity) is fundamental to nitrogen-based fertiliser production. The price and availability of raw materials and energy are subject to market conditions which can be negatively affected by a number of factors beyond the Company's control, including, but not limited to, interruptions in production by suppliers, suppliers' allocation of materials or energy to other purchasers, industry trends, transport costs, weather and natural disasters. Although the Company seeks to secure adequate supplies of raw materials at competitive rates, there can be no assurance that it will be able to secure such supplies on favourable commercial terms, or at all. Hungary is heavily dependent on natural gas supplies which originate in Russia and, therefore, any major changes in European relations with Russia, or in relations between specific Eastern European countries and Russia, could also make it difficult for the Company to secure supplies of natural gas on favourable commercial terms. Any interruption in the supply of raw materials or energy, or any substantial increases in their costs, could adversely affect the Issuer's ability to produce and sell products which could have an adverse impact on the Issuer's financial condition and results of operation.

If any interruption in electricity supply or natural gas supply were to occur, the Company’s production facilities would shut down, after which a time period may be required to recommence the production processes. Interruptions or failures in electricity supply could have a material adverse effect on the Company’s business, financial condition and results of operations.

The Company is exposed to concentration risk

The Company sells its products directly to clients and to third parties, integrators, who buy agricultural product from manufacturers and provide financing and such products to end-users. The Company's largest sole client is an integrator, KITE Zrt, who in the year ended 31 December 2010 accounted for approximately 25 per cent. of the Company's domestic sales. Although the Company believes its risks toward KITE Zrt are mitigated by the fact that the Company is the only fertiliser manufacturer that can supply KITE Zrt with the amount and type of product it requires, the Company's financial performance is dependant upon its major clients and KITE Zrt in particular. If any major clients of the Company were to use other suppliers or to experience financial difficulties, it would have an adverse effect on the Company's financial condition and results of operations.

The Company’s operations are dependant on it being able to secure and maintain the necessary permits and approvals

The Company’s operations are dependent on numerous required permits, approvals and financial assurance requirements from governmental authorities. The Company holds numerous environmental and other governmental permits and approvals authorising operations at each of its facilities. Expansion of the Company’s operations is also predicated upon securing the necessary environmental or other permits or approvals. A decision by a government agency to deny or delay issuing a new or renewed material permit or approval, or to revoke or substantially modify an existing permit or approval, could have a material adverse effect on the Company’s ability to continue operations at the affected facility and on the Company’s business, financial condition and results of operations.

Operating Risks, Hazards and Disruptions

The Company’s operations are subject to numerous operating risks, including technical failures, fires and accidents at its operating locations and facilities. These risks and hazards could result in damage to, or the destruction of, the Company’s properties or production facilities and may reduce or stop production at such properties or facilities. These risks and hazards may also result in personal injury or death, environmental damage and possible legal liability. Disruptions in operations resulting from such risks or hazards could cause actual production to differ from the Company’s production estimates. The effects of these risks, hazards and potential disruptions could adversely affect the Company’s ability to produce and sell products, which could have a material adverse effect on the Company’s ability to meet its obligations under the Notes.

Litigation and State Aid Reimbursement

The Company is subject to risks relating to legal and regulatory proceedings. Furthermore, the European Commission has concluded that part of the state support granted in 2009 to the Company infringed EU state aid rules, and the Hungarian state has been therefore obliged to recover some of the financial benefit which it afforded to the Company. Although the Company does not expect the litigation and regulatory proceedings to which it is currently a party to have a material adverse effect on its financial condition and results of operations, the Company cannot guarantee the ultimate outcome of such legal proceedings or regulatory proceedings. Furthermore, the Company or its Subsidiaries may become involved in legal proceedings or regulatory proceedings in the future which may have a material adverse effect on results of operations or financial condition. For further information on the legal and regulatory proceedings currently facing the Company, see “Litigation – Shell”, “Litigation EMFESZ”, “Litigation – Ownership Dispute” and “Litigation – State Aid”.

Factors which are material for the purpose of assessing the market risks associated with the Notes

The Notes may not be a suitable investment for all investors

Each potential investor in any Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- have sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained in this Information Memorandum;
- have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact such investment will have on its overall investment portfolio;
- have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes;
- understand thoroughly the terms of the Notes; and
- be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

A potential investor should not invest in the Notes, which are complex financial instruments, unless it has the expertise (either alone or with the help of a financial adviser) to evaluate how the Notes will perform under changing conditions, the resulting effects on the value of such Notes and the impact this investment will have on the potential investor's overall investment portfolio.

There is no public market for the Notes

There is no existing market for the Notes and there can be no assurance regarding the development of any market for the Notes. Application has been made for admission to trading of the Notes on the Euro MTF market. However, an active trading market in the Notes may not develop or be maintained despite a listing. No assurance can be made as to the liquidity of any market that may develop for the Notes, the ability of the Noteholders to sell the Notes or the price at which Noteholders may be able to sell the Notes. The liquidity of any market for the Notes will depend on the number of Noteholders, prevailing interest rates, the market for similar securities and other factors, including general economic conditions and the Company's financial condition, performance and prospects, as well as recommendations of securities analysts. Disruptions recently experienced in the global capital markets have led to reduced liquidity and increased credit risk premiums and have, therefore, resulted in a reduction in investment in securities globally.

The market price of the Notes may be volatile

The market price of the Notes could be subject to significant fluctuations in response to actual or anticipated variations in the Company's operating results and those of the Company's competitors, adverse business developments, changes to the regulatory environment in which the Company operates, changes in financial estimates by securities analysts and the actual or expected sale of a large number of Notes, as well as other factors, including the credit rating (if any) of the Company, and the trading market for notes issued by or on behalf of Hungary as a sovereign borrower. In addition, in recent years, the global financial markets have experienced significant price and volume fluctuations which, if repeated in the future, could adversely affect the market price of the Notes without regard to the Company's operating results, financial condition or prospects or any credit rating of the Issuer.

The Notes may be redeemed prior to maturity

In the event that a change in tax law causes the Company to be obliged to increase the amounts payable in respect of any Notes, due to any withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of Hungary or any political subdivision thereof or any authority therein or thereof having power to tax, the Company may redeem all outstanding Notes in accordance with the Conditions. See "Condition 5 – Redemption and Purchase".

The Company may not be able to finance a redemption at the option of the Noteholders upon a Change of Control

Should a Change of Control (as defined in Condition 18) occur, the Noteholders will have the right to require the Company to repurchase all or part of the Notes at 101 per cent. of their principal amount, plus accrued and unpaid interest. See "Condition 5 – Redemption and Purchase". There can be no assurance made that the Company will be in a position to finance a redemption at the option of the Noteholders upon a Change of Control at all times throughout the term of the Notes.

Financial turmoil in emerging markets could cause the price of the Notes to suffer

The market price of the Notes may be influenced by economic and market conditions in Hungary and, to a varying degree, economic and market conditions in other eastern European and former Soviet Union countries and emerging markets generally. In the past, financial turmoil in emerging markets has adversely affected market prices in the world's securities markets for companies that operate in these economies. Even if the Hungarian economy remains relatively stable, financial turmoil in these other countries could materially adversely affect the market price of the Notes. During and since the recent financial and economic crisis, many global securities markets have experienced extreme price and volume fluctuations. Continuation or intensification of financial or economic turmoil could materially adversely affect the market price of the Notes.

Payments of interest within the jurisdiction of a European Union Member State are subject to the EU Savings Directive

Under EC Council Directive 2003/48/EC (the "**EU Savings Directive**") on the taxation of savings income, Member States are required to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to or for an individual resident in that other Member State or to certain limited types of entities established in that other Member State. However, for a transitional period, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries) subject to a procedure whereby, on meeting certain conditions, the beneficial owner of the interest or other income may request that no tax be withheld. A number of non-EU countries and territories, including Switzerland, have adopted similar measures (a withholding system in the case of Switzerland).

If a payment were to be made or collected through a Member State which has opted for a withholding system and an amount of, or in respect of, tax were to be withheld from that payment, neither the Issuer nor any Paying Agent nor any other person would be obliged to pay additional amounts with respect to any Note as a result of the imposition of such withholding tax. The Issuer is required to maintain a Paying Agent in a Member State that is not obliged to withhold or deduct tax pursuant to the EU Savings Directive.

The European Commission has proposed certain amendments to the EU Savings Directive which may, if implemented, amend or broaden the scope of the requirements described above.

Integral multiples of less than the denomination amount

The denomination of the Notes is €200,000 and integral multiples of €1,000 in excess thereof. Therefore, it is possible that the Notes may be traded in amounts in excess of €200,000 that are not integral multiples of €200,000. In such a case, a Noteholder who, as a result of trading such amounts, holds a principal amount of less than €200,000 will not receive a definitive Note in respect of such holding (should definitive Notes be printed) and would need to purchase a principal amount of Notes such that it holds an amount equal to one or more denominations.

Terms and Conditions of the Notes

The following are the terms and conditions substantially in the form in which they will be endorsed on the Notes:

The issue of the Notes was authorised by a resolution of the General Meeting of the Issuer passed on 17 May 2011. The Notes are constituted by a Trust Deed (the "**Trust Deed**") dated 29 July 2011 between the Issuer and BNP Paribas Trust Corporation UK Limited (the "**Trustee**" which expression shall include all persons for the time being the trustee or trustees under the Trust Deed) as trustee for the holders of the Notes (the "**Noteholders**"). These terms and conditions (the "**Conditions**") include summaries of, and are subject to, the detailed provisions of the Trust Deed, which includes the form of the Notes and the coupons relating to them (the "**Coupons**"). Copies of the Trust Deed, and of the Agency Agreement (the "**Agency Agreement**") dated 29 July 2011 relating to the Notes between the Issuer, the Trustee, BNP Paribas Securities Services, Luxembourg Branch as initial principal paying agent and any other paying agents named in it, are available for inspection during usual business hours at the principal office of the Trustee (presently at 55 Moorgate, London EC2R 6PA, United Kingdom) and at the specified offices of the principal paying agent for the time being (the "**Principal Paying Agent**"). "**Agents**" means the Principal Paying Agent and any other paying agents appointed from time to time with respect to the Notes. The Noteholders and the holders of the Coupons (whether or not attached to the relevant Notes) (the "**Couponholders**") are entitled to the benefit of, are bound by and are deemed to have notice of all the provisions of the Trust Deed and are deemed to have notice of those provisions applicable to them of the Agency Agreement.

1 Form, Denomination and Title

(a) **Form and denomination**: The Notes are serially numbered and in bearer form in the denomination of €200,000 and integral multiples of €1,000 in excess thereof up to and including €399,000, each with Coupons attached on issue. No definitive Notes will be issued with a denomination above €399,000.

(b) **Title**: Title to the Notes and Coupons passes by delivery. The holder of any Note or Coupon will (except as otherwise required by law) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any interest in it, any writing on it, or its theft or loss) and no person will be liable for so treating the holder.

2 Status

The Notes and Coupons constitute (subject to Condition 3(a)) unsecured obligations of the Issuer and shall at all times rank *pari passu* and without any preference among themselves. The payment obligations of the Issuer under the Notes and the Coupons shall, save for such exceptions as may be provided by applicable legislation and subject to Condition 3(a) and (o), at all times rank at least equally with all its other present and future unsecured and unsubordinated obligations.

3 Negative Pledge and Covenants

So long as any amount remains outstanding (as defined in the Trust Deed) under the Notes or Coupons:

(a) **Negative Pledge:**

The Issuer shall not, and shall ensure that none of its Subsidiaries will, create, Incur, assume or suffer to exist any Liens, other than Permitted Liens, on any of its or their assets, now owned or hereafter acquired, or any income or profits therefrom, securing any Indebtedness, unless, at the same time or prior thereto, the Notes and any Coupons are secured equally and rateably with such other Indebtedness or the Issuer grants such other security to the Noteholders as either (i) the Trustee shall in its absolute discretion deem not materially less beneficial to the interests of the Noteholders or (ii) as shall be approved by an Extraordinary Resolution (as defined in the Trust Deed) of the Noteholders.

(b) **Financial Covenant:**

The Issuer shall ensure that the ratio of (x) the Consolidated Net Indebtedness as at the last day of each Relevant Period to (y) Consolidated EBITDA for such Relevant Period will not be more than 3.00 to 1.00. Such amounts shall be computed, in the case of a Relevant Period ending on the last day of a financial year of the Issuer, from the Issuer's consolidated financial statements as at, and in respect of the 12 months ending on, the last day of such Relevant Period and, in the case of a Relevant Period ending on the last day of the first half of the financial year of the Issuer, on a pro forma basis from the consolidated financial statements of the Issuer for the six months ending on the last day of such Relevant Period and the consolidated financial statements of the Issuer for the fiscal year ending during such Relevant Period; in each case after giving effect on a pro forma basis to:

(i) the incurrence, repayment, repurchase or other discharge of any Indebtedness, in each case, during the Relevant Period and the receipt and application of the proceeds therefrom as well as the funds for such repurchase, repayment or other discharge as if any such transaction occurred on the date of determination with respect to paragraph (x) above and on the first date of the Relevant Period with respect to paragraph (y) above; and

(ii) the exclusion of Consolidated EBITDA directly attributable to any Asset Sale or the inclusion of Consolidated EBITDA directly attributable to any Asset Acquisition (including, without limitation, any Asset Acquisition giving rise to the need to make such calculation as a result of the incurrence or assumption of Indebtedness) occurring during the Relevant Period as if any such transaction occurred on the first day of the Relevant Period;

For purposes of this definition, any such pro forma Consolidated EBITDA in respect of an Asset Acquisition may only be so included if such pro forma Consolidated EBITDA shall have been derived from (i) financial statements of, or relating to or including, such acquired entity, that have been prepared in accordance with Accounting Standards or (ii) such other financial statements or financial reports of the acquired entity that the chief financial officer of the Group believes in good faith to present fairly the financial position and results of operations of the acquired entity so as to permit such a pro forma Consolidated EBITDA to be prepared on the basis of reasonable assumptions and estimates. If any Indebtedness bears a floating rate of interest and is being given pro forma effect, the interest on such Indebtedness shall be calculated as if the rate in effect on the date of determination had been the applicable rate for the entire period (taking into account any Interest Rate Agreement applicable to such Indebtedness if such Interest Rate Agreement has a remaining term in excess of 12 months). If any Indebtedness is incurred under a revolving credit facility and is being given pro forma effect, the interest on such Indebtedness shall be calculated based on the average daily balance of such Indebtedness for the two consecutive fiscal six-month periods subject to the pro forma calculation to the extent such Indebtedness was incurred solely for working capital purposes

(c) **Restricted Payments:**

The Issuer shall not, and shall ensure that each of its Subsidiaries will not, directly or indirectly:

(i) declare or pay any dividend, in cash or otherwise, or make any other distribution (whether by way or redemption, acquisition or otherwise) in respect of its share capital (other than a dividend or other distribution payable to the Issuer or a Subsidiary); or

(ii) voluntarily purchase, redeem or otherwise retire for value any Capital Stock or subordinated debt (other than (i) Capital Stock or subordinated debt held by the Issuer or any Subsidiary and (ii) Capital Stock purchased by the Issuer from any Person other than an Affiliate for re-sale to an Affiliate within 90 days of the date of purchase at a price at least equal to the price which the Issuer paid for such Capital Stock),

(any such action, a "**Restricted Payment**") if (w) at such time there exists an Event of Default or any Potential Event of Default, or (x) if such Restricted Payment when aggregated with all other Restricted Payments previously made in respect of the relevant fiscal year exceeds 25 per cent. of the Group's consolidated net profit (calculated in accordance with IFRS) for such fiscal year, or (z) if such Restricted Payment would cause or result in a breach of one or more of the covenants contained in this Condition 3.

(d) **Limitation on Sales of Assets:**

The Issuer shall not and shall ensure that no member of the Group shall, consummate any Asset Sale, unless (a) the value of the consideration received by the relevant member of the Group is at least equal to the Fair Market Value, (b) 75 per cent. of the consideration for each such Asset Sale is received in cash or Cash Equivalents and (c) an amount equal to such proceeds (less any costs incurred in relation to such Asset Sale and any provision for taxes payable as a result of such Asset Sale and amounts to be provided as a reserve in respect of liabilities associated with such Asset Sale retained by members of the Group) (the "**Disposal Proceeds**") is:

(i) applied to repay permanently any indebtedness of the Group (other than Indebtedness of the Issuer subordinated to the Notes); or

(ii) invested in assets of a nature or type that is used or usable in the ordinary course of a Permitted Business of the Group; and

in each case, the Issuer or the member of the Group, as the case may be, shall apply or invest the Disposal Proceeds on or prior to the date falling 12 months after the date when such proceeds are received.

An Asset Sale consummated by way of set-off in order to discharge any indebtedness of the Group (other than Indebtedness of the Issuer subordinated to the Notes), rather than the Issuer or member of the Group receiving proceeds in cash or Cash Equivalents pursuant to (ii) above, shall not be deemed to breach this Condition 3(e) provided that such Asset Sale is consummated on terms no less favourable to the Issuer than if it had received cash or Cash Equivalents pursuant to (ii) above.

(e) **Financial Information:**

(i) The Issuer shall deliver to the Trustee as soon as they become available, but in any event within 150 days after the end of its financial year, copies of its consolidated financial statements for such financial year, audited by the Auditors and prepared in accordance with IFRS consistently applied with the corresponding financial statements for the preceding period.

(ii) The Issuer shall as soon as the same become available, but in any event within 60 days after the end of each first half year of its financial years thereafter, deliver to the Trustee the Issuer's consolidated financial statements for such period.

(iii) The Issuer shall as soon as the same become available, but in any event within (i) 150 days after the end of its financial year, or (ii) 60 days after the end of each first half year, as the case may be, hold a conference call in English, with any Noteholders who so wish, to explain the Issuer's financial results for the latest financial period.

(iv) The Issuer shall ensure that each set of consolidated financial statements delivered by it pursuant to this Condition 3(f) is:

(x) prepared generally on the same basis as was used in the preparation of its Original Financial Statements (including with respect to presentation of prior periods) and in accordance with IFRS and consistently applied;

(y) in the case of the statements provided pursuant to Condition 3(f)(i), accompanied by a report thereon of the Auditors referred to in Condition 3(f)(i) (including opinions of such Auditors with accompanying notes and annexes); and

(z) in the case of the statements provided pursuant to Conditions 3(f)(i) and 3(f)(ii), certified by an Authorised Signatory of the Issuer that the information with respect to the Group included in the financial statements pursuant to Condition 3(f)(v) gives a true and fair view of the Group's consolidated financial condition as at the end of the period to which those consolidated financial statements relate and of the results of the Group's operations during such period.

(v) The Issuer undertakes to furnish such information to the Luxembourg Stock Exchange or any stock exchange or stock exchanges or any relevant authority or authorities on which the Notes may, from time to time, be listed or admitted to trading (the "**Stock Exchange**") (with a copy to the Trustee) as such Stock Exchange may require as necessary in connection with the listing or admission to trading on such Stock Exchange of the Notes.

(vi) The semi-annual and annual financial information to be delivered pursuant to Conditions 3(f)(i) and 3(f)(ii) will be prepared on the basis of accounting principles consistent with those that formed the basis of the Original Financial Statements in respect of the Group, in each case as at and for the periods covered by the relevant financial information, either on the face of the financial statements or in the footnotes thereto.

(f) **Maintenance of Authorisations:**

(i) The Issuer shall, and shall procure that its Subsidiaries shall, take all necessary action to obtain and do or cause to be done all things necessary, in the opinion of the Issuer or the relevant Subsidiary, to ensure the continuance of its corporate existence, its business and/or operations; and

(ii) The Issuer shall, and shall procure that Subsidiaries shall, take all necessary action to obtain, and do or cause to be done all things necessary to ensure the continuance of, all consents, licences, approvals and authorisations, and make or cause to be made all registrations, recordings and filings, which may at any time be required to be obtained or made in any relevant jurisdiction for the execution, delivery or performance of the Notes and the Agreements or for the validity or enforceability thereof;

except where failure not to take such action does not and will not have a Material Adverse Effect.

(g) **Environmental Compliance:**

The Issuer will, and will ensure that its Subsidiaries do, comply with all Environmental Laws and obtain and maintain any Environmental Licences and take all reasonable steps in anticipation of known or expected future changes to or obligations under the same, except where failure to do so does not and will not have a Material Adverse Effect.

(h) **Maintenance of Property:**

The Issuer will, and will procure that its Subsidiaries will, cause all of the property used in the conduct of its or their business to be maintained and kept in good condition, repair and working order and supplied with all necessary equipment and shall cause to be made all necessary repairs, renewals, replacements, betterments and improvements thereof, all as, in the judgment of the Issuer or any of its Subsidiaries, may be reasonably necessary so that the business carried on in connection therewith may be properly conducted at all times, except where failure to do so does not and will not have a Material Adverse Effect.

(i) **Maintenance of Insurance:**

So long as any amount remains outstanding under the Notes or the Coupons, the Issuer and any Subsidiary shall maintain insurance on those of their properties which are of an insurable nature to the extent required under the laws of the relevant jurisdictions where such properties are located, except where failure to do so does not and will not have a Material Adverse Effect.

(j) **Payment of Taxes and Other Claims:**

The Issuer shall, and shall ensure that its Subsidiaries will, pay or discharge or cause to be paid or discharged before the same shall become overdue all taxes, assessments and governmental charges levied or imposed upon, or upon the income, profits or property of, the Issuer and its Subsidiaries provided that none of them shall be in breach of this Condition 3(k) if the Issuer or any Subsidiary has failed to pay or discharge or cause to be paid or discharged any tax, assessment, charge or claim if such amount, applicability or validity is being contested in good faith by appropriate proceedings and for which adequate reserves in accordance with IFRS or other appropriate provision has been made, or if a failure to pay or discharge or cause to be paid or discharged such amount would not have a Material Adverse Effect.

(k) **Officers' Certificates:**

(i) The Issuer will at the same time as delivering its audited annual financial statements pursuant to Condition 3(f)(i), and in addition within 14 days of any request by the Trustee, deliver to the Trustee written notice in the form of an Officers' Certificate stating whether any Potential Event of Default or Event of Default or Change of Control has occurred and, if it has occurred and shall be continuing, what action the Issuer is taking or proposes to take with respect thereto and that the Issuer has complied with its obligations under the Trust Deed and the Conditions upon which the Trustee shall be entitled to rely (without liability to any person).

(ii) The Issuer will at the same time as delivering its audited annual financial statements pursuant to Condition 3(f)(i), and in addition within 14 days of a request from the Trustee, deliver to the Trustee an Officers' Certificate specifying those companies which were, at a date no more than 20 days before the date of such Officers' Certificate, Subsidiaries.

(iii) The Issuer will at the same time as delivering its financial statements pursuant to Conditions 3(f)(i) and 3(f)(ii) respectively, and in addition within 14 days of a request from the Trustee, deliver to the Trustee an Officers' Certificate stating the ratio of Consolidated Net Indebtedness to Consolidated EBITDA for the Relevant Period ending on the balance sheet date of such financial statements and confirming compliance with Condition 3(b) upon which the Trustee shall be entitled to rely (without liability to any person).

(l) **Change of Business:**

The Issuer shall not, and shall ensure that no Subsidiary will, engage in any business other than a Permitted Business.

(m) **Mergers and Similar Transactions:**

The Issuer will not consolidate with or merge with or into, or convey, transfer or lease, in one transaction or a series of transactions, directly or indirectly, all or substantially all its assets to, any Person (other than a Subsidiary), unless:

(i) either (A) the Issuer will be the continuing corporation or (B) the resulting, surviving or transferee Person, if not the Issuer (the "**Successor Company**"), shall be a Person organised and existing under the laws of Hungary or any state which is a member of the European Union and the Successor Company (if not the Issuer) shall expressly assume, by way of supplemental agreement in form satisfactory to the Trustee, all the obligations of the Issuer under the Notes, the Coupons and the Agreements, as the case may be;

(ii) immediately after giving pro forma effect to such transaction (and treating any Indebtedness which becomes an obligation of the Issuer or the Successor Company or any of their respective Subsidiaries as a result of such transaction as having been Incurred by the Issuer such Successor Company or such Subsidiary at the time of such transaction), no Potential Event of Default or Event of Default shall have occurred and be continuing;

(iii) immediately after giving pro forma effect to such transaction, the Issuer or the Successor Company, as the case may be, would be able to Incur an additional €1.00 of Indebtedness pursuant to Condition 3(b)(i);

(iv) the Issuer shall have delivered to the Trustee an Officers' Certificate and an Opinion of Counsel, each stating that such consolidation, merger or transfer and such supplemental trust deed (if any) comply with the Trust Deed; and

(v) the Issuer shall have delivered to the Trustee an Opinion of Counsel to the effect that the Noteholders will not recognise income, gain or loss for United Kingdom or Hungarian income tax purposes as a result of such transaction and will be subject to income tax on the same amounts, in the same manner and at the same times as would have been the case if such transaction had not occurred,

provided, however, that paragraph (iii) will not be applicable to (A) a Subsidiary consolidating with, merging into or transferring all or part of its properties and assets to the Issuer (so long as no Capital Stock of the Issuer is distributed to any Person) or (B) the Issuer merging with an Affiliate of the Issuer solely for the purpose and with the sole effect of reincorporating the Issuer in another jurisdiction.

The Successor Company will be the successor to the Issuer and shall succeed to, and be substituted for, and may exercise every right and power of, the Issuer under, the Trust Deed, and the predecessor Issuer in relation to the Notes, the Coupons and the Trust Deed.

For the purposes of this Condition 3(n), the sale, lease, conveyance, assignment, transfer or other disposition of all or substantially all of the properties and assets of one or more Subsidiaries which properties and assets, if held by the Issuer instead of such Subsidiaries, would constitute all or substantially all of the properties and assets of the Issuer on a consolidated basis, shall be deemed to be the transfer of all or substantially all of the properties and assets of the Issuer.

(n) **Claims *Pari Passu*:**

The Issuer shall ensure that at all times the claims of the Noteholders, the Couponholders and the Trustee against the Issuer under the Trust Deed and the Notes and Coupons, rank at least pari passu with the claims of all its other present and future unsubordinated unsecured creditors, save for those claims that are preferred by any bankruptcy, insolvency, liquidation or similar laws of general application in Hungary or any jurisdiction in which the Issuer has Subsidiaries, assets or operations, or any other mandatory provisions of applicable law.

(o) **Payments for Consent:**

The Issuer will not, and will ensure that no Subsidiary will, directly or indirectly, pay or cause to be paid any consideration to or for the benefit of any holder of Notes or Coupons for or as an inducement to any consent, waiver or amendment of any of the terms or provisions of the Trust Deed or the Notes or Coupons unless such consideration is offered to be paid, and if due to be paid is paid, to all holders of Notes or Coupons that consent, waive or agree to amend in the time frame set forth in the solicitation documents relating to such consent, waiver or agreement.

(p) **Compliance with Laws:**

Except where failure to be so in compliance would not have a Material Adverse Effect, the Issuer will at all times comply, and shall procure that each of its Subsidiaries complies at all times, with all applicable provisions of the laws and directives of government authorities with the force of law and regulations in Hungary, or, so far as the Issuer is aware, any other law or regulation affecting it.

(q) **Transactions with Affiliates:**

The Issuer shall not, and shall ensure that none of its Subsidiaries will, directly or indirectly, conduct any business, enter into or permit to exist any transaction or series of related transactions (including the purchase, sale, transfer, assignment, lease, conveyance or exchange of any property or the rendering of any service) with, or for the benefit of, any Affiliate (an "**Affiliate Transaction**"), including inter-company loans, unless the terms of such Affiliate Transaction are (taking into account the creditworthiness of the relevant Affiliate) no less favourable to the Issuer or such Subsidiary, as the case may be, than those that could be obtained in a comparable arms'-length transaction for Fair Market Value with a Person that is not an Affiliate of the Issuer or any of its Subsidiaries.

4 Interest

Subject as provided in the following paragraph of this Condition 4, the Notes bear interest from and including the Issue Date at the rate of 11.50 per cent. (the "**Rate of Interest**") per annum, payable semi-annually in arrear on 29 January and 29 July in each year (each an "**Interest Payment Date**"). Each Note will cease to bear interest from and including the due date for redemption unless, upon due presentation, payment of principal is improperly withheld or refused. In such event it shall continue to bear interest at such rate (both before and after judgment) until but excluding whichever is the earlier of (a) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant holder, and (b) the day seven days after the Trustee or the Principal Paying Agent has notified Noteholders of receipt of all sums due in respect of all the Notes up to that seventh day (except to the extent that there is failure in the subsequent payment to the relevant holders under these Conditions).

If, by 29 January 2012, the Notes:

(a) have not been assigned a rating by a Rating Agency, the Rate of Interest per annum will be 14.50 per cent. per annum from, and including, 29 January 2012 to, but excluding, the date fixed for redemption; or

(b) have been assigned a rating by a Rating Agency of less than B- (or its equivalent), the Rate of Interest per annum will be 13.50 per cent. per annum from, and including, 29 January 2012 to, but excluding, the date fixed for redemption; or

(c) have been assigned a rating by a Rating Agency of at least B- (or its equivalent), the Rate of Interest per annum will remain 11.50 per cent. per annum,

in each case payable semi-annually in arrear as aforesaid.

Where interest is to be calculated in respect of a period which is equal to or shorter than an Interest Period (as defined below), the day-count fraction used will be the number of days in the relevant period, from and including the date from which interest begins to accrue to but excluding the date on which it falls due, divided by the product of (1) the number of days in the Interest Period in which the relevant period falls (including the first such day but excluding the last) and (2) the number of Interest Periods normally ending in any year.

In these Conditions, the period beginning on and including the Issue Date and ending on but excluding the first Interest Payment Date and each successive period beginning on and including an Interest Payment Date and ending on but excluding the next succeeding Interest Payment Date is called an "**Interest Period**".

5 Redemption and Purchase

(a) **Final Redemption:**

Unless previously redeemed, or purchased and cancelled, the Notes will be redeemed at their principal amount on 29 January 2013.

(b) **Redemption for Taxation Reasons:**

The Notes may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days' notice to the Noteholders (which notice shall be irrevocable), at their principal amount, (together with interest accrued to the date fixed for redemption), if (i) the Issuer satisfies, by way of an Officers Certificate, the Trustee immediately prior to the giving of such notice that it has or will become obliged to pay additional amounts as provided or referred to in Condition 7 as a result of any change in, or amendment to, the laws or regulations of Hungary or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the Issue Date, and (ii) such obligation cannot be avoided by the Issuer taking reasonable measures available to it, provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay such additional amounts were a payment in respect of the Notes then due. Prior to the publication of any notice of redemption pursuant to this Condition 5(b), the Issuer shall deliver to the Trustee an Officer's Certificate stating that the obligation referred to in (i) above cannot be avoided by the Issuer taking reasonable measures available to it and the Trustee shall be entitled to accept such certificate as sufficient evidence of the satisfaction of the condition precedent set out in (ii) above, in which event it shall be conclusive and binding on the Noteholders and the Couponholders.

(c) **Redemption at the Option of the Issuer:**

On and after 29 July 2012, the Issuer may, on giving not more than 60 nor less than 30 days' irrevocable notice to the Noteholders, redeem all, but not some only, of the Notes at an amount equal to the sum of (i) their principal amount and (ii) the product of the principal amount of the Notes multiplied by one-half of the Rate of Interest prevailing on 29 July 2012, together with additional amounts (as referred to in Condition 7), if any, to the redemption date.

(d) **Redemption at the Option of Noteholders:**

The Issuer will, at the option of the holder of any Note, redeem such Note on the subsequent Interest Payment Date at 101 per cent. of its principal amount together with interest accrued to, but excluding, the date fixed for redemption in the event of a Change of Control. To exercise such option, the holder must deposit such Note, together with all Coupons relating to it which mature after the date fixed for redemption, with any Paying Agent together with a duly completed redemption notice in the form obtainable from any of the Paying Agents, not more than 60 nor less than 30 days prior to such date. No Note so deposited may be withdrawn (except as provided in the Agency Agreement) without the prior consent of the Issuer. Neither less than 30 nor more than 45 days' notice of the commencement of the period for deposit of Notes for redemption pursuant to this Condition 5(d) shall be given to the Noteholders and the Trustee.

(e) **Purchase:**

The Issuer and any of its Subsidiaries may at any time purchase Notes in the open market or otherwise at any price (provided that they are purchased together with all unmatured Coupons relating to them). The Notes so purchased, while held by or on behalf of the Issuer or any such Subsidiary, shall not entitle the holder to vote at any meetings of the Noteholders and shall not be deemed to be outstanding for the purposes of the Conditions or the Trust Deed.

(f) **Cancellation:**

All Notes so redeemed or purchased and any unmatured Coupons attached to or surrendered with them will be cancelled and may not be reissued or resold.

6 Payments

(a) **Method of Payment:** Payments of principal, premium and interest will be made against presentation and surrender (or, in the case of a partial payment, endorsement) of Notes or the appropriate Coupons (as the case may be) at the specified office of any Paying Agent.

(b) **Payments subject to laws**: All payments are subject in all cases to any applicable fiscal or other laws and regulations in the place of payment, but without prejudice to the provisions of Condition 7. No commissions or expenses shall be charged to the Noteholders or Couponholders in respect of such payments.

(c) **Surrender of unmatured Coupons**: Each Note should be presented for redemption together with all unmatured Coupons relating to it, failing which the amount of any such missing unmatured Coupon (or, in the case of payment not being made in full, that proportion of the amount of such missing unmatured Coupon which the sum of principal so paid bears to the total principal amount due) will be deducted from the sum due for payment. Each amount of principal so deducted will be paid in the manner mentioned above against surrender of the relevant missing Coupon not later than 10 years after the Relevant Date for the relevant payment of principal.

(d) **Payments on business days**: A Note or Coupon may only be presented for payment on a day which is a business day in the place of presentation. No further interest or other payment will be made as a consequence of the day on which the relevant Note or Coupon may be presented for payment under this Condition 6 falling after the due date. In this Condition "business day" means a day on which commercial banks and foreign exchange markets are open in the relevant city.

(e) **Paying Agents**: The initial Paying Agents and their initial specified offices are listed below. The Issuer reserves the right at any time with the approval of the Trustee to vary or terminate the appointment of any Paying Agent and appoint additional or other Paying Agents, provided that it will maintain (i) a Principal Paying Agent, (ii) Paying Agents having specified offices in at least two major European cities approved by the Trustee (such approval not to be unreasonably withheld or delayed) and (iii) a Paying Agent with a specified office in a European Union member state that will not be obliged to withhold or deduct tax pursuant to any law implementing European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000. Notice of any change in the Paying Agents or their specified offices will promptly be given to the Noteholders.

7 Taxation

All payments of principal, premium and interest by or on behalf of the Issuer in respect of the Notes and the Coupons shall be made free and clear of, and without withholding or deduction for, any taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or within Hungary or any authority therein or thereof having power to tax, unless such withholding or deduction is required by law. In that event the Issuer shall pay such additional amounts as will result in receipt by the Noteholders and the Couponholders of such amounts as would have been received by them had no such withholding or deduction been required, except that no such additional amounts shall be payable in respect of any Note or Coupon presented for payment:

(a) **Other connection:** by or on behalf of a holder who is liable to such taxes, duties, assessments or governmental charges in respect of such Note or Coupon by reason of his having some connection with Hungary other than the mere holding of the Note or Coupon; or

(b) **Presentation more than 30 days after the Relevant Date:** more than 30 days after the Relevant Date except to the extent that the holder of it would have been entitled to such additional amounts on presenting such Note or Coupon for payment on the last day of such period of 30 days; or

(c) **Payment to individuals:** where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive; or

(d) **Payment by another Paying Agent**: by or on behalf of a Noteholder or a Couponholder who would have been able to avoid such withholding or deduction by presenting the relevant Note or Coupon to another Paying Agent in a Member State of the European Union.

8 Events of Default

If any of the following events ("**Events of Default**") occurs and is continuing, the Trustee at its discretion may, and if so requested by not less than two Non-Affiliated Noteholders holding at least 25 per cent. in aggregate principal amount of the Notes then outstanding or if so directed by an Extraordinary Resolution shall, give notice to the Issuer that the Notes are, and they shall immediately become, due and payable at their principal amount together (if applicable) with accrued interest:

(a) **Non-Payment of Principal:** default is made in the payment of principal of any of the Notes when due; or

(b) **Non-Payment of Interest**: default is made in the payment on the due date of any premium or interest in respect of any of the Notes (including any additional interest payable in accordance with Condition 4) provided that such default will not be an Event of Default if the failure to pay is remedied within 14 Business Days; or

(c) **Breach of Specific Covenants:** the Issuer does not perform or comply with any one or more of its obligations under Conditions 3(a), (b), (c), (d), (e) (n) or (o); or

(d) **Breach of Other Covenants:** the Issuer does not perform or comply with any one or more of its obligations under Conditions 3(f), (g), (h), (i), (j), (k), (l), (m), (p), (q) or (r) and such default is not remedied within 45 days after notice of such default shall have been given to the Issuer by the Trustee; or

(e) **Breach of Other Obligations:** the Issuer does not perform or comply with any one or more of its other obligations in the Notes or the Trust Deed which default is incapable of remedy or, if in the opinion of the Trustee capable of remedy, is not in the opinion of the Trustee remedied within 60 days after notice of such default shall have been given to the Issuer by the Trustee; or

(f) **Cross-Default:** (i) any other present or future Indebtedness of the Issuer or any of its Subsidiaries for or in respect of moneys borrowed or raised becomes (or becomes capable of being declared) due and payable prior to its stated maturity by reason of any actual or potential default, event of default or the like (howsoever described), or (ii) any such indebtedness is not paid when due or, as the case may be, within any originally applicable grace period, or (iii) the Issuer or any of its Subsidiaries fails to pay when due any amount payable by it under any present or future guarantee for, or indemnity in respect of, any moneys borrowed or raised provided that the aggregate amount of the relevant indebtedness, guarantees and indemnities in respect of which one or more of the events mentioned above in this Condition 8(f) have occurred equals or exceeds €10 million or its Euro Equivalent; or

(g) **Enforcement Proceedings:** a distress, attachment, execution or other legal process is levied, enforced or sued out on or against any part of the property, assets or revenues of the Issuer or any of its Subsidiaries and is not discharged or stayed within 60 days provided that the value of one or more of the events, or of the relevant property, assets or revenues, mentioned above in this Condition 8(g) which have occurred equals or exceeds €10 million or its Euro Equivalent; or

(h) **Security Enforced:** any mortgage, charge, pledge, lien or other encumbrance, present or future, created or assumed by the Issuer or any of its Subsidiaries becomes enforceable and any step is taken to enforce it (including the taking of possession or the appointment of a receiver, administrative receiver, administrator manager or other similar person) provided that the value of one or more of the events, or of the relevant property, assets or revenues to which the enforcement relates, mentioned above in this Condition 8(h) which have occurred equals or exceeds €10 million or its Euro Equivalent; or

(i) **Insolvency:** the Issuer or any of its Subsidiaries is (or is, or could be, deemed by law or a court to be) insolvent or bankrupt or unable to pay its debts, stops, suspends or threatens to stop or suspend payment of all or a material part of (or of a particular type of) its debts, proposes or makes a general assignment or an arrangement or composition with or for the benefit of the relevant creditors in respect of any of such debts or a moratorium is agreed or declared in respect of or affecting all or any part of (or of a particular type of) the debts of the Issuer or any of its Subsidiaries; or

(j) **Judgment Default**: any one or more judgments or orders is made against the Issuer or any Subsidiary involving an aggregate liability in respect of a matter (or a series of related matters) greater than €10 million or its Euro Equivalent, unless all those judgments and orders are appealed, vacated or discharged within 90 days of their being made; or

(k) **Winding-up:** an order is made or an effective resolution passed for the winding-up or dissolution of the Issuer or any of its Subsidiaries, or the Issuer ceases or threatens to cease to carry on all or substantially all of its business or operations, except for the purpose of and followed by a reconstruction, amalgamation, reorganisation, merger or consolidation (i) on terms approved by the Trustee or by an Extraordinary Resolution of the Noteholders, or (ii) in the case of a Subsidiary, whereby the undertaking and assets of the Subsidiary are transferred to or otherwise vested in the Issuer or another of its Subsidiaries; or

(l) **Nationalisation:** any step is taken by any person which is reasonably likely to result in the seizure, compulsory acquisition, expropriation or nationalisation of all or a material part of the assets of the Issuer or the Issuer and its Subsidiaries taken as a whole; or

(m) **Invalidity or Unenforceability:** (i) the validity of the Notes, Coupons or the Agreements is contested by the Issuer, or the Issuer shall deny any of its obligations under the Notes, Coupons or the Agreements (whether by a general suspension of payments or a moratorium on the payment of debt or otherwise) or (ii) it is or becomes unlawful for the Issuer to perform or comply with one or more of its respective obligations under any of the Notes, Coupons or the Agreements or (iii) all or any of the Issuer’s obligations set out in the Notes, Coupons or the Agreements shall be or become unenforceable or invalid; or

(n) **Analogous Events:** any event occurs which under the laws of any relevant jurisdiction has an analogous effect to any of the events referred to in any of the foregoing paragraphs of this Condition 8.

9 Prescription

Claims against the Issuer for payment in respect of principal, premium and interest will become void unless presentation for payment is made as required by Condition 6 within a period of 10 years (in the case of principal and premium) and five years (in the case of interest) from the appropriate Relevant Date.

10 Replacement of Notes and Coupons

If any Note or Coupon is lost, stolen, mutilated, defaced or destroyed, it may be replaced by the Paying Agent in Luxembourg subject to all applicable laws and stock exchange or other relevant authority requirements, upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as the Issuer may require (provided that the requirement is reasonable in light of prevailing market practice). Mutilated or defaced Notes or Coupons must be surrendered before replacements will be issued.

11 Meetings of Noteholders, Modification, Waiver and Substitution

(a) **Meetings of Noteholders:** The Trust Deed contains provisions for convening meetings of Noteholders to consider matters affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of any of these Conditions or any provisions of the Trust Deed. Such a meeting may be convened by Noteholders holding not less than 10 per cent. in principal amount of the Notes for the time being outstanding. The quorum for any meeting convened to consider an Extraordinary Resolution will be two or more persons holding or representing a clear majority in principal amount of the Notes for the time being outstanding, or at any adjourned meeting two or more persons being or representing Noteholders whatever the principal amount of the Notes held or represented, unless the business of such meeting includes consideration of proposals, *inter alia*, (i) to modify the maturity of the Notes or the dates on which interest is payable in respect of the Notes, (ii) to reduce or cancel the principal amount of, or interest on or to vary the method of calculating the rate of interest on, the Notes, (iii) to change the currency of payment of the Notes or the Coupons, or (iv) to modify the provisions concerning the quorum required at any meeting of Noteholders or the majority required to pass an Extraordinary Resolution, in which case the necessary quorum will be two or more persons holding or representing not less than 75 per cent., or at any adjourned meeting not less than 25 per cent., in principal amount of the Notes for the time being outstanding. Any Extraordinary Resolution duly passed shall be binding on Noteholders (whether or not they were present at the meeting at which such resolution was passed) and on all Couponholders.

The Trust Deed provides that a resolution in writing signed by or on behalf of the holders of not less than 90 per cent. in principal amount of the Notes outstanding shall for all purposes be as valid and effective as an Extraordinary Resolution passed at a meeting of Noteholders duly convened and held. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Noteholders.

(b) **Modification and Waiver:** The Trustee may agree, without the consent of the Noteholders or Couponholders, to (i) any modification of any of the provisions of the Trust Deed which in the opinion of the Trustee is of a formal, minor or technical nature or is made to correct a manifest error, and (ii) any other modification (except as mentioned in the Trust Deed), and any waiver or authorisation of any breach or proposed breach, of any of the provisions of the Trust Deed which is in the opinion of the Trustee not materially prejudicial to the interests of the Noteholders. Any such modification, authorisation or waiver shall be binding on the Noteholders and the Couponholders and, if the Trustee so requires, such modification shall be notified to the Noteholders as soon as practicable.

(c) **Substitution:** The Trust Deed contains provisions permitting the Trustee to agree, subject to such amendment of the Trust Deed and such other conditions as are contained in the Trust Deed or otherwise as the Trustee may require, but without the consent of the Noteholders or the Couponholders, to the substitution of the Issuer's successor in business or any Subsidiary of the Issuer or its successor in place of the Issuer, or of any previous substituted entity, as principal debtor under the Trust Deed and the Notes. In the case of such a substitution the Trustee may agree, without the consent of the Noteholders and Couponholders, to a change of law governing the Notes, the Coupons and/or the Trust Deed provided that such change would not in the opinion of the Trustee be materially prejudicial to the interests of the Noteholders.

(d) **Entitlement of the Trustee:** In connection with the exercise of its functions (including but not limited to those referred to in this Condition) the Trustee shall have regard to the interests of the Noteholders as a class and shall not have regard to the consequences of such exercise for individual Noteholders or Couponholders and the Trustee shall not be entitled to require, nor shall any Noteholder or Couponholder be entitled to claim, from the Issuer any indemnification or payment in respect of any tax consequence of any such exercise upon individual Noteholders or Couponholders.

12 Enforcement

At any time after the Notes become due and payable, the Trustee may, at its discretion and without further notice, institute such steps, actions or proceedings against the Issuer as it may think fit to enforce the terms of the Trust Deed and the Notes and Coupons, but it need not take any such steps, actions or proceedings unless (a) it shall have been so directed by an Extraordinary Resolution or so requested in writing by not less than two Non-Affiliated Noteholders holding at least 25 per cent. in aggregate principal amount of the Notes outstanding, and (b) it shall have been indemnified and/or secured and/or prefunded to its satisfaction. No Noteholder or Couponholder may proceed directly against the Issuer unless the Trustee, having become bound so to proceed, fails to do so within a reasonable time and such failure is continuing.

13 Indemnification of the Trustee

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility. The Trustee is entitled to enter into business transactions with the Issuer and any entity related to the Issuer without accounting for any profit.

The Trustee may rely without liability to Noteholders or Couponholders on a report, confirmation or certificate or any advice of any accountants, financial advisers, financial institution or any other expert, whether or not addressed to it and whether their liability in relation thereto is limited (by its terms or by any engagement letter relating thereto entered into by the Trustee or in any other manner) by reference to a monetary cap, methodology or otherwise. The Trustee may accept and shall be entitled to rely on any such report, confirmation or certificate or advice and such report, confirmation or certificate or advice shall be binding on the Issuer, the Trustee and the Noteholders.

14 Further Issues

The Issuer may from time to time without the consent of the Noteholders or Couponholders create and issue further securities either having the same terms and conditions as the Notes in all respects (or in all respects except for the first payment of interest on them) and so that such further issue shall be consolidated and form a single series with the outstanding securities of any series (including the Notes) or upon such terms as the Issuer may determine at the time of their issue. References in these Conditions to the Notes include (unless the context requires otherwise) any other securities issued pursuant to this Condition and forming a single series with the Notes. Any further securities forming a single series with the outstanding securities of any series (including the Notes) constituted by the Trust Deed or any deed supplemental to it shall, and any other securities may (with the consent of the Trustee), be constituted by a deed supplemental to the Trust Deed. The

Trust Deed contains provisions for convening a single meeting of the Noteholders and the holders of securities of other series where the Trustee so decides.

15 Notices

Notices to the holders of Notes will be valid if published in the leading newspaper having general circulation in London (which is expected to be the Financial Times) and (if at any time the Notes are listed on the Luxembourg Stock Exchange and the rules of that Stock Exchange so require) either on the website of the Luxembourg Stock Exchange (*www.bourse.lu*) or in a leading newspaper having general circulation in Luxembourg (which is expected to be the *Luxemburger Wort*) or, if in the opinion of the Trustee such publication shall not be practicable, in an English language newspaper of general circulation in Europe. Any such notice shall be deemed to have been given on the date of such publication or, if published more than once or on different dates, on the first date on which publication is made.

Couponholders will be deemed for all purposes to have notice of the contents of any notice given to the Noteholders in accordance with this Condition.

16 Contracts (Rights of Third Parties) Act 1999:

No person shall have any right to enforce any term or condition of the Notes under the Contracts (Rights of Third Parties) Act 1999.

17 Governing Law and Jurisdiction

(a) **Governing Law:** The Trust Deed, the Notes and the Coupons and any non-contractual obligations arising out of or in connection with them are governed by, and shall be construed in accordance with, English law.

(b) **Jurisdiction:** The courts of England are to have jurisdiction to settle any disputes that may arise out of or in connection with the Notes or the Coupons and accordingly any legal action or proceedings arising out of or in connection with any Notes or Coupons ("**Proceedings**") may be brought in such courts. Pursuant to the Trust Deed, the Issuer has submitted irrevocably to the jurisdiction of such courts.

(c) **Agent for Service of Process:** Pursuant to the Trust Deed, the Issuer has irrevocably appointed an agent in England to receive service of process in any Proceedings in England based on any of the Notes or the Coupons.

18 Definitions

In these Conditions, unless the context otherwise requires, the following defined terms shall have the meanings set out below:

"**Accounting Standards**" means IFRS or any other internationally recognised set of accounting standards deemed equivalent to IFRS by the Committee of European Securities Regulators from time to time;

"**Affiliates**" of any specified person means any other persons, directly or indirectly, controlling or controlled by or under direct or indirect control with such specified person. For the purposes of this definition, "control" when used with respect to any person means the power to direct the management and policies of such person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise; and the terms "controlling" and "controlled" have meanings correlative to the foregoing; and the term "**Non-Affiliatated**", with respect to any specified persons, means that such specified persons are not Affiliates of each other;

"**Agreements**" means the Agency Agreement and the Trust Deed;

"**Agency**" means any agency, authority, central bank, department, committee, government, legislature, minister, ministry, official or public or statutory person (whether autonomous or not);

"**Approved Jurisdiction**" means England & Wales, Hungary and any member nation of the European Union as constituted on the Issue Date;

"**Asset Acquisition**" means (i) an Investment by the Issuer and its Subsidiaries in any other Person pursuant to which such Person shall become a Subsidiary of the Issuer or any Subsidiaries as the case may be, or shall be consolidated or merged with the Issuer or any Subsidiaries or (ii) the acquisition by the Issuer or any Subsidiaries of assets of any Person which constitute all or substantially all of the assets of such Person or which comprise a material division or line of business of such Person;

"**Asset Sale**" means any direct or indirect lease, sale, sale and lease-back, transfer or other disposition either in one transaction or in a series of related transactions, by the Issuer or any of its Subsidiaries to a Person that is not part of the Group, including any disposition by means of a merger, consolidation or similar transaction, of any of its assets (including any shares of Capital Stock of a member of the Group) or properties, the value of which exceeds 10 per cent. of total Production Assets as shown on the latest available annual or semi-annual consolidated balance sheet of the Group prepared in accordance with Accounting Standards in any 12-month period, other than:

(a) the creation of a Lien (but not the sale or other disposition of the property subject to such Lien) in compliance with Condition 3(a);

(b) the licensing or sublicensing of rights to intellectual property or other intangibles in the ordinary course of business;

(c) the sale, lease or other disposition of damaged, obsolete, worn out, negligible, surplus or outdated equipment or machinery or raw materials or inventory, in each case which is no longer used or usable, in the ordinary course of business;

(d) the lease, assignment or sublease of any property in the ordinary course of business;

(e) sales or other dispositions of assets or property received by the Issuer or any of its Subsidiaries upon the foreclosure on a Lien granted in favour of the Issuer or any of its Subsidiaries or any other transfer of title with respect to any ordinary course secured investment in default;

(f) the surrender or waiver of contract rights or the settlement, release, or surrender of contract, tort or other claims, in the ordinary course of business;

(g) sales and other dispositions of inventory in the ordinary course of business;

(h) sales and dispositions of cash and Cash Equivalents in the ordinary course of business;

(i) the disposition of receivables in connection with the compromise, settlement or collection thereof in the ordinary course of business or in bankruptcy or similar proceeds of any customers or vendors of the Issuer or any of its Subsidiaries;

(j) the sale or transfer of value added tax receivables by the Issuer at Fair Market Value or the sale or transfer of any Investment received in exchange therefor;

(k) any royalty or similar arrangement in connection with a Permitted Business to the extent that such royalty or similar arrangement is included in the definition of Indebtedness; and

(l) any sale or other disposition that complies with Condition 3(n);

"**Attributable Indebtedness**" in respect of a Sale/Leaseback Transaction means, as at the time of determination, the present value (discounted at the interest rate borne by the Notes, compounded semi-annually) of the total obligations of the lessee for rental payments during the remaining term of the lease included in such Sale/Leaseback Transaction (including any period for which such lease has been extended);

"**Auditors**" means KPMG Hungária Kft. or, if they are unable or unwilling to carry out any action requested of them under the Agreements, such other internationally recognised firm of accountants as may be nominated by the Issuer and notified in writing to the Trustee for this purpose;

"**Authorised Signatory**" means, in relation to the Issuer, any Person who is duly authorised and in respect of whom the Trustee has received a certificate or certificates signed by a director or another Authorised Signatory of the Issuer setting out the name and signature of such Person and confirming such Person's authority to act;

"**Business Day**" means a day which is a TARGET Business Day and also a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets settle Euro payments in London with Budapest;

"**Capital Stock**" means, with respect to any Person, any and all shares, interests (including partnership interests), rights to purchase, warrants, options, participations or other equivalents (however designated, whether voting or non-voting) of such Person's equity, including any Preferred Stock of such Person, whether now outstanding or issued after the Issue Date, including without limitation, all series and classes of such Capital Stock but excluding any debt securities convertible into or exchangeable for such Capital Stock;

"**Capitalised Lease Obligations**" means an obligation that is required to be classified and accounted for as a capitalised lease for financial reporting purposes in accordance with IFRS, and the amount of Indebtedness represented by such obligation will be the capitalised amount of such obligation at the time any determination thereof is to be made as determined in accordance with IFRS, and the Stated Maturity thereof will be the date of the last payment of rent or any other amount due under such lease prior to the first date such lease may be terminated without penalty;

"**Cash Equivalents**" means:

(a) any evidence of Indebtedness with a maturity of one year or less issued or directly and fully guaranteed or insured by a corporation organised under the laws of an Approved Jurisdiction or any Agency or instrumentality thereof; provided that the full faith and credit of an Approved Jurisdiction (or similar concept under the laws of the relevant Approved Jurisdiction) is pledged in support thereof;

(b) commercial paper with a maturity of one year or less, issued by a corporation organised under the laws of an Approved Jurisdiction and rated at all times at least A-1/P-1 by Standard & Poor's Ratings Services, Moody's or by Fitch Ratings, as the case may be, to the extent that the aggregate amount of Cash Equivalents (as defined in this paragraph (b)) invested by application of Disposal Proceeds do not exceed at any time €1 million or its Euro Equivalent;

(c) current account balances, deposits, certificates of deposit, promissory notes, acceptances or money market deposits with a maturity of one year or less of (i) any institution organised in an Approved Jurisdiction having combined, consolidated, capital and surplus and undistributed profits (or any similar concept) of not less than U.S.$500 million (or the equivalent in another currency) determined in conformity with Accounting Standards and as set forth in the most recent publicly available financial reports published by such institution or (ii) the Hungarian branch or Subsidiary of an institution referred to in (i);

(d) repurchase agreements and reverse repurchase agreements relating to marketable direct obligations issued or unconditionally guaranteed by the government of an Approved Jurisdiction, which obligations mature within 30 days from the date of acquisition; and/or

(e) interests in any money market funds at least 95 per cent. of the assets of which consist of Cash Equivalents of the type referred to in paragraphs (a) to (d) above;

"**Change of Control**" shall be deemed to have occurred if:

(a) the Controlling Shareholders cease to hold, whether directly or indirectly: (a) more than 50 per cent. of the Voting Stock of the Issuer or any of its Subsidiaries; or (b) Voting Stock having the right in general to cast more than 50 per cent. of the votes capable of being cast in general meetings of the Issuer or any of its Subsidiaries; or (c) the right to determine the composition of the majority of the management board the Issuer or any of its Subsidiaries; or

(b) the Controlling Shareholders cease to have the power to control the management and policies of the Issuer or any of its Subsidiaries; or

(c) any person or group of persons acting in concert, other than the Controlling Shareholders, gains control of the Issuer or any of its Subsidiaries; and,

for the purposes of this definition, "control" when used with respect to any person means the power to direct the management and policies of such person, directly or indirectly, whether through the ownership of Voting Stock, by contract or otherwise;

"**Commodity Hedging Agreement**" means, in respect to any Person, any forward, futures, spot deferred or option contract or other similar agreement or arrangement to which such Person is a party or a beneficiary entered into for protection against or to benefit from fluctuations in the price of any commodity produced or used by the Issuer or any Subsidiaries pursuant to a Permitted Business;

"**Consolidated Depreciation and Amortisation**" means, in respect of any period, the consolidated depreciation and amortisation expense of the Group as shown on the most recent financial statements of the Group prepared in accordance with Accounting Standards (excluding amortisation expense attributable to a prepaid item that was paid in cash in a prior period);

"**Consolidated EBITDA**" for any period means the sum of Consolidated Net Income, plus the following to the extent deducted in calculating such Consolidated Net Income:

(a) Consolidated Interest Expense;

(b) Consolidated Income Tax Expense;

(c) Consolidated Depreciation and Amortisation; and

(d) all other non-cash charges of the Issuer and any of its Subsidiaries (excluding any such non-cash charge to the extent that it represents an accrual of or reserve for cash expenditures in any future period) less all non-cash items of income of the Issuer and any of its Subsidiaries (other than accruals of revenue by the Issuer and any of its Subsidiaries in the ordinary course of business);

in each case for such period;

"**Consolidated Income Tax Expense**" means, in respect of any period, the consolidated expenses of the Group in respect of income taxes as shown on the most recent financial statements of the Group prepared in accordance with Accounting Standards;

"**Consolidated Interest Expense**" means, for any period, the consolidated interest expense (net of interest income) of the Group including bank charges, amortisation of finance costs, net of finance income as shown on the most recent financial statements of the Group prepared in accordance with Accounting Standards;

"**Consolidated Net Income**" means, for any period, the consolidated net income of the Group as shown on the most recent financial statements of the Group prepared in accordance with Accounting Standards; provided, however, that there shall not be included in such Consolidated Net Income:

(a) any net income of any Person (other than the Issuer) if such Person is not a Subsidiary, except that:

(i) subject to the exclusion contained in paragraph (d) below, the Issuer's equity in the net income of any such Person for such period shall be included in such Consolidated Net Income up to the aggregate amount of cash actually distributed by such Person during such period to the Issuer or any of its Subsidiaries as a dividend or other distribution (subject, in the case of a dividend or other distribution paid to a Subsidiary, to the limitations contained in paragraph (c) below); and

(ii) the Issuer's equity in a net loss of any such Person for such period shall be included in determining such Consolidated Net Income but only to the extent that such loss has been funded by cash by the Issuer or any of its Subsidiaries;

(b) any net income of any Subsidiary if such Subsidiary is subject to restrictions, directly or indirectly, on the payment of dividends or the making of distributions by such Subsidiary, directly or indirectly, to the Issuer except that:

(i) subject to the exclusion contained in paragraph (d) below, the Issuer's equity in the net income of any such Subsidiary for such period shall be included in such Consolidated Net Income up to the aggregate amount of cash actually distributed by such Subsidiary during such period to the Issuer or another Subsidiary as a dividend or other distribution (subject, in the case of a dividend or other distribution paid to another Subsidiary, to the limitation contained in this paragraph); and

(ii) the Issuer's equity in a net loss of any such Subsidiary for such period shall be included in determining such Consolidated Net Income;

(c) any gain (or loss) realised upon the sale or other disposition of any assets of the Issuer or its Subsidiaries or any other Person (including pursuant to any sale-and-leaseback arrangement) which are not sold or otherwise disposed of in the ordinary course of business and any gain (or loss) realised upon the sale or other disposition of any Capital Stock of any Person;

(d) any extraordinary net of tax gains or losses that are distinguished by their unusual nature and the infrequency of their occurrence; and in each case, for such period;

"**Consolidated Net Indebtedness**" means at any date of determination (and without duplication) all consolidated Indebtedness of the Group net of cash or Cash Equivalents as shown on the most recent financial statements of the Group prepared in accordance with Accounting Standards;

"**Consolidated Total Asset Value**" means, at any date of determination, the amount of the consolidated total assets of the Issuer and its consolidated Subsidiaries, as calculated in accordance with the then most recent financial statements delivered pursuant to Condition 3(f);

"**Controlling Shareholders**" means Mr. László Bige and Mr. Zoltán Bige;

"**Currency Agreement**" means in respect of a Person, any foreign exchange contract, currency swap agreement or other similar agreement as to which such Person is a party or a beneficiary;

"**Disposal Proceeds**" has the meaning given in Condition 3(e);

"**Disqualified Stock**" means, with respect to any Person, any Capital Stock which by its terms (or by the terms of any security into which it is convertible or for which it is exchangeable at the option of the holder) or upon the happening of any event:

(i) matures or is mandatorily redeemable (other than redeemable only for Capital Stock of such Person which is not itself Disqualified Stock) pursuant to a sinking fund obligation or otherwise;

(ii) is convertible or exchangeable at the option of the holder for Indebtedness or Disqualified Stock; or

(iii) is mandatorily redeemable or must be purchased upon the occurrence of certain events or otherwise, in whole or in part;

"**Environment**" means living organisms including the ecological systems of which they form part and the following media:

(a) air (including within natural or man-made structures, whether above or below ground);

(b) water (including water under or within land and water in drains and sewers); and/or

(c) land (including land under water);

"**Environmental Law**" means all laws and regulations of any relevant jurisdiction which:

(a) have as a purpose or effect the protection or, and/or prevention of harm or damage to, the Environment;

(b) provide remedies or compensation for harm or damage to the Environment; and

(c) relate to hazardous substances or health or safety matters;

"**Environmental Licences**" means any authorisation, consent, approval, resolution, licence, exemption, filing or registration required at any time under Environmental Law;

"**Euro**" or "**€**" means the currency introduced pursuant to Article 109I(4) of the Treaty establishing the European Community as amended by the Treaty on European Union and the Treaty of Amsterdam and as further amended from time to time;

"**Euro Equivalent**" means with respect to any amount denominated in a currency other than Euro, at any time for the determination thereof, the amount of Euro obtained by converting such other currency involved into Euro at the spot rate for the purchase of Euro with such other currency as most recently published under “Currency Rates” in the section of the Financial Times entitled “Currencies, Bonds & Interest Rates” or, otherwise, as reasonably determined by the Trustee;

“**Event of Default**” has the meaning given in Condition 8 hereof;

“**Extraordinary Resolution**” has the meaning given in the Trust Deed;

“**Fair Market Value**” means, with respect to any asset or property, the price which could be negotiated in an arm’s length market transaction, for cash, between a willing seller and a willing and able buyer, neither of whom is under undue pressure or compulsion to complete the transaction. Fair Market Value will be determined in good faith by the Board of Directors of the Issuer, whose determination will be conclusive or, in the case of any sale of the Capital Stock of a Subsidiary exceeding €5 million (or its Euro Equivalent), in writing by an Independent Appraiser;

“**Group**” means the Issuer and its consolidated Subsidiaries taken as a whole;

“**guarantee**” means any financial obligation, contingent or otherwise, of any Person directly or indirectly guaranteeing any Indebtedness of any Person and any obligation, direct or indirect, contingent or otherwise, of such Person:

(i) to purchase or pay (or advance or supply funds for the purchase or payment of) such Indebtedness of such Person (whether arising by virtue of partnership arrangements, or by agreements to keep well, to purchase assets, goods, securities or services, to take or pay or to maintain financial statement conditions or otherwise); or

(ii) entered into for the purpose of assuring in any other manner the obligee of such Indebtedness of the payment thereof or to protect such obligee against loss in respect thereof (in whole or in part),

provided, however, that the term “guarantee” shall not include endorsements for collection or deposit in the ordinary course of business. The term “guarantee” used as a verb has a corresponding meaning. The term “guarantor” shall mean any Person guaranteeing any obligation;

“**Hedging Obligations**” of any Person means the obligations of such Person pursuant to any Interest Rate Agreement, Currency Agreement or Commodity Hedging Agreement;

“**IFRS**” means International Financial Reporting Standards (formerly International Accounting Standards) issued by the International Accounting Standards Board (“**IASB**”) and interpretations issued by the International Financial Reporting Interpretations Committee of the IASB (as amended, supplemented or re-issued from time to time), as consistently applied, and any variation to such accounting principles and practices which is not material;

“**Incur**” means issue, assume, guarantee, incur or otherwise become liable for; provided, however, that any Indebtedness or any other obligation of a Person existing at the time such Person becomes a Subsidiary (whether by merger, consolidation, acquisition or otherwise) shall, whether or not such Indebtedness was Incurred in connection with, as a result of, or in contemplation of such acquired person becoming a Subsidiary, be deemed Incurred at the time such Person becomes a Subsidiary. The term “**Incurrence**” when used as a noun shall have a correlative meaning. Solely for purposes of determining compliance with Condition 3(e) (*Limitation on Sales of Assets and Subsidiary Stock*):

(i) amortisation of debt discount or the accretion of principal with respect to a non interest bearing or other discount security;

(ii) the payment of regularly scheduled interest in the form of additional Indebtedness of the same instrument or the payment of regularly scheduled dividends on Capital Stock in the form of additional Capital Stock of the same class and with the same terms; and

(iii) the obligation to pay a premium in respect of Indebtedness arising in connection with the issuance of a notice of redemption or the making of a mandatory offer to purchase such Indebtedness,

will not be deemed to be the Incurrence of Indebtedness;

"**Indebtedness**" means, with respect to any Person on any date of determination (without duplication);

(i) the principal of and premium (if any) in respect of indebtedness of such Person for borrowed money;

(ii) the principal of and premium (if any) in respect of obligations of such Person evidenced by bonds, debentures, notes or other similar instruments;

(iii) the principal component of all obligations of such Person in respect of letters of credit, bankers' acceptances or other similar instruments (including reimbursement obligations with respect thereto except to the extent such reimbursement obligation relates to a trade payable and such obligation is satisfied within 30 days of Incurrence);

(iv) the principal component of all obligations of such Person to pay the deferred and unpaid purchase price of property (except trade payables), which purchase price is due more than six months after the date of placing such property in service or taking delivery and title thereto;

(v) Capitalised Lease Obligations and all Attributable Indebtedness of such Person;

(vi) the principal component or liquidation preference of all obligations of such Person with respect to the redemption, repayment or other repurchase of any Disqualified Stock or, with respect to any Subsidiary, any Preferred Stock (but excluding, in each case, any accrued dividends);

(vii) the principal component of all Indebtedness of other Persons secured by a Lien on any asset of such Person, whether or not such Indebtedness is assumed by such Person; provided, however, that the amount of such Indebtedness will be the lesser of (a) the Fair Market Value of such asset at such date of determination and (b) the amount of such Indebtedness of such other Persons;

(viii) the principal component of Indebtedness of other Persons to the extent guaranteed by such Person; and

(ix) to the extent not otherwise included in this definition, net obligations of such Person under Hedging Obligations (the amount of any such obligations to be equal at any time to the termination value of such agreement or arrangement giving rise to such obligation that would be payable by such Person at such time).

The amount of Indebtedness of any Person at any date will be the outstanding balance at such date of all unconditional obligations as described above and the maximum liability, upon the occurrence of the contingency giving rise to the obligation, of any contingent obligations at such date.

In addition, "**Indebtedness**" of any Person shall include Indebtedness described in the preceding paragraph that would not appear as a liability on the balance sheet of such Person if:

(i) such Indebtedness is the obligation of a partnership or joint venture that is not a Subsidiary;

(ii) such Person or a Subsidiary of such Person is a general partner of the partnership or joint venture (a "**General Partner**"); and

(iii) there is recourse, by contract or operation of law, with respect to the payment of such Indebtedness to property or assets of such Person or a Subsidiary of such Person; and then such Indebtedness shall be included in an amount not to exceed:

(a) the lesser of (i) the net assets of the General Partner and (ii) the amount of such obligations to the extent that there is recourse, by contract or operation of law, to the property or assets of such Person or a Subsidiary of such Person; or

(b) if less than the amount determined pursuant to clause (a) immediately above, the actual amount of such Indebtedness that is recourse to such Person or a Subsidiary of such Person, if the Indebtedness is evidenced in writing and is for a determinable amount and the related interest expense shall be included in Consolidated Interest Expense to the extent actually paid by the Issuer or any Subsidiary;

"**Indebtedness for Borrowed Money**" means any Indebtedness of any Person for or in respect of (i) moneys borrowed, (ii) amounts raised by acceptance under any acceptance credit facility, (iii) amounts raised pursuant to any note purchase facility or the issue of bonds, notes, debentures, loan stock or similar instruments, (iv) the amount of any liability in respect of leases or hire purchase contracts which would, in accordance with generally accepted accounting standards in the jurisdiction of incorporation of the lessee, be treated as finance or capital leases, (v) the amount of any liability in respect of any purchase price for assets or services the payment of which is deferred primarily as a means of raising finance or financing the acquisition of the relevant asset or service and (vi) amounts raised under any other transaction (including any forward sale or purchase agreement and the sale of receivables or other assets on a "with recourse" basis) having the commercial effect of a borrowing;

"**Independent Appraiser**" means any of PricewaterhouseCoopers LLC, KPMG LLC, Deloitte & Touche LLP, Ernst & Young LLP or such other reputable financial institution, accountancy or appraisal firm of international standing appointed at its expense by the competent management body of the Issuer or relevant Subsidiary; provided it is not an Affiliate of the Issuer or any Subsidiary;

"**Interest Rate Agreements**" means, with respect to any Person, any interest rate protection agreement, interest rate future agreement, interest rate option agreement, interest rate swap agreement, interest rate cap agreement, interest rate collar agreement, interest rate hedge agreement or other similar agreement or arrangement as to which such Person is party or a beneficiary;

"**Investment**" in any Person means any direct or indirect advance, loan (other than advances to customers in the ordinary course of business that are recorded as accounts receivable on the balance sheet of the lender) or other extensions of credit (including by way of guarantee or similar arrangement but excluding amounts represented by deposits with a bank or other financial institution) or capital contribution to (by means of any transfer of cash or other property to others or any payment for property or services for the account or use of others), or any purchase or acquisition of Capital Stock, Indebtedness or other similar instruments issued by such Person, provided that each of the following shall not be deemed to be an Investment:

(a) Hedging Obligations entered into in the ordinary course of business; and

(b) endorsements of negotiable instruments and documents in the ordinary course of business.

If the Issuer or any Subsidiary issues, sells or otherwise disposes of any Capital Stock of a Person that is a Subsidiary such that, after giving effect thereto, such Person is no longer a Subsidiary, any Investment by the Issuer or any Subsidiary in such Person remaining after giving effect thereto will be deemed to be a new Investment at such time. The acquisition by the Issuer or any Subsidiary of a

Person that holds an Investment in a third Person will be deemed to be an Investment by the Issuer or any Subsidiary in such third Person at such time. Except as otherwise provided for herein, the amount of an Investment shall be its Fair Market Value at the time the Investment is made and without giving effect to subsequent changes in value;

"**Issue Date**" means 29 July 2011;

"**Lien**" means any mortgage, pledge, encumbrance, easement, restriction, covenant, right of way, servitude, lien, charge or other security interest (including, without limitation, anything analogous to any of the foregoing under the laws of any jurisdiction and any conditional sale or other title retention agreement or lease in the nature thereof);

"**Material Adverse Effect**" means a material adverse effect on (a) the business, property, condition (financial or otherwise), operations or prospects of the Issuer or any of its Subsidiaries or the Group, (b) the Issuer's ability to perform its obligations under the Notes or the Trust Deed or (c) the validity, legality or enforceability of the Notes or any Agreement; provided that, to the extent that the Trustee is directed to take any action by an Extraordinary Resolution of Noteholders or so requested in writing by not less than two Non-Affiliated Noteholders holding at least 25 per cent. in aggregate principal amount of the Notes outstanding, and any such action requires the determination of whether an event or occurrence has had a Material Adverse Effect, the Trustee shall have no duty to enquire or satisfy itself as to the existence of an event or occurrence having a Material Adverse Effect and shall be entitled to rely conclusively upon such Extraordinary Resolution or request of the Noteholders regarding the same, and shall bear no liability of any nature whatsoever to the Issuer, any Noteholder or any other Person for acting upon such Extraordinary Resolution or request of the Noteholders;

"**Net Cash Proceeds**" with respect to any issuance or sale of Capital Stock or Indebtedness, means the cash proceeds of such issuance or sale net of lawyers' fees, accountants' fees, underwriters' or placement agents' fees, discounts or commissions, and brokerage, consultant and other fees actually incurred in connection with such issuance or sale and net of taxes paid or payable as a result thereof;

"**Officer**" means, with respect to any Person, any managing director, director, general director, the chairman of the board, the president, any vice president, principal executive officer, deputy general director, the chief financial officer, principal financial officer, principal accounting officer, the controller, the treasurer or the secretary of such Person or any general partner or other person holding a corresponding or similar position of responsibility;

"**Officers' Certificate**" means a certificate signed on behalf of the Issuer by two Officers of the Issuer at least one of whom shall be the principal executive officer of the Issuer;

"**Opinion of Counsel**" means a written opinion from legal counsel of international standing who is acceptable to the Trustee;

"**Original Financial Statements**" means the audited consolidated financial statements of the Issuer as at and for the year ended 31 December 2010;

"**Permitted Business**" means (a) the production, transportation and processing of nitrogen-based fertilisers, chemical products and industrial gases, (b) any sales and marketing relating to any of the foregoing, (c) research and development, social responsibility and staff training and infrastructure development; (d) any business reasonably related, ancillary or complementary thereto and (e) any activity as set out in the Issuer's Statutes as activities of the Issuer as at the Issue Date;

"**Permitted Liens**" means, without duplication:

(i) Liens existing as at the Issue Date, provided that the principal amount secured by such Lien has not been increased since the Issue Date;

(ii) Liens granted in favour of the Issuer or any Subsidiary;

(iii) any Liens arising by operation of law or in the ordinary course of business (including, without limitation, Liens arising pursuant to forward gas contracts and other Commodity Hedging Agreements entered into in the ordinary course of business);

(iv) Liens for ad valorem, income or property taxes or assessments and similar charges which either are not delinquent or are being contested in good faith by appropriate proceedings and for which the Issuer or any Subsidiary has set aside in its accounts reserves to the extent required by Accounting Standards;

(v) Liens on the property, income or assets of the Issuer or any Subsidiary securing Indebtedness to the extent that the total value of any such property, income or assets secured by such Liens does not exceed €10,000,000;

(vi) a right of set off, right to combine accounts or any analogous right which any bank or other financial institution may have relating to any credit balance of any of the Issuer or its Subsidiaries;

(vii) any Liens arising out of the refinancing, extension, renewal or refunding of any Indebtedness secured by a Lien permitted by any of the above exceptions, provided that the Indebtedness thereafter secured by such Lien does not exceed the amount of the original Indebtedness and such Lien is not extended to cover any property not previously subject to such Lien;

"**Person**" means any individual, corporation, partnership, limited liability company, joint venture, association, joint stock company, trust, unincorporated organisation, government, or any agency or political subdivision thereof or any other entity;

"**Potential Event of Default**" means any event or circumstance which in the Issuer's reasonable opinion could, with the expiry of a grace period, the passage of time, the giving of notice and/or the fulfilment of any other requirement become an Event of Default;

"**Preferred Stock**" as applied to the Capital Stock of any Person, means Capital Stock of any class or classes (however designated) which is preferred as to the payment of dividends or distributions, or as to the distribution of assets upon any voluntary or involuntary liquidation or dissolution of such Person, over shares of Capital Stock of any other class of such Person;

"**Production Assets**" means property, plant and equipment of the Group determined in accordance with Accounting Standards;

"**Rating Agency**" means Standard & Poor's Ratings Services, Moody's and/or Fitch Ratings, or their respective successors or any rating agency substituted for any of them by the Issuer from time to time with the prior written approval of the Trustee;

"**Relevant Date**" in respect of any Note or Coupon means the date on which payment in respect of it first becomes due or (if any amount of the money payable is improperly withheld or refused) the date on which payment in full of the amount outstanding is made or (if earlier) the date seven days after that on which notice is duly given to the Noteholders or Couponholders that, upon further presentation of the Note or Coupon being made in accordance with the Conditions, such payment will be made, provided that payment is in fact made upon such presentation;

"**Relevant Period**" means

(a) each financial year of the Issuer; and

(b) each period beginning on the first day of the second half of a financial year of the Issuer and ending on the last day of the first half of its next financial year.

"**Sale/Leaseback Transaction**" means an arrangement relating to property now owned or hereafter acquired whereby the Issuer or a Subsidiary transfers such property to a Person and the Issuer or a Subsidiary leases it from such Person;

"**Stated Maturity**" means

(a) with respect to any Indebtedness, the date specified in such Indebtedness as the fixed date on which the final instalment of principal of such Indebtedness is due and payable; and

(b) with respect to any scheduled instalment of principal of or interest on any Indebtedness, the date specified in such Indebtedness as the fixed date on which such instalment is due and payable;

"**Subsidiary**" means any corporation, partnership, joint venture, association or other business entity, whether now existing or hereafter organised or acquired, (a) in the case of a corporation, of which more than 50 per cent. of the total voting power of the Voting Stock is held by the Issuer and/or any of its Subsidiaries and the Issuer and/or any of its Subsidiaries has the power to direct the management, policies and affairs thereof; or (b) in the case of a partnership, joint venture, association, or other business/entity, with respect to which the Issuer or any of its Subsidiaries has the power to direct or cause the direction of the management and policies of such entity by contract, if (in the case of each of (a) or (b) above) in accordance with IFRS such entity would be consolidated with the Issuer for financial statement purposes;

"**TARGET Business Day**" means a day on which the TARGET System is open for the settlement of payments in Euro;

"**TARGET System**" means the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET2) system or any successor thereto;

"**taxes**" means any taxes (including any penalty or interest payable in connection with any failure to pay or any delay in paying any of the same) which are now or hereafter imposed, levied, collected, withheld or assessed by any competent taxing authority;

"**Total Assets**" means the consolidated assets of the Issuer as shown on the latest available annual or semi-annual consolidated balance sheet of the Issuer prepared in accordance with IFRS;

"**U.S.$**" denotes the lawful currency of the United States of America; and

"**Voting Stock**" of a Person means all classes of Capital Stock of such Person then outstanding and normally entitled (without regard to the occurrence of any contingency) to vote in the election of the board of directors, managers or trustees (or Persons performing similar functions).

Summary of Provisions relating to the Notes while in Global Form

The Global Note contains provisions which apply to the Notes while they are in global form, some of which modify the effect of the terms and conditions of the Notes set out in this Information Memorandum. The following is a summary of certain of those provisions:

1 Principal Amount and Exchange

The Global Note is exchangeable in whole but not in part (free of charge to the holder) for the Definitive Notes described below in the event that the Global Note is held on behalf of a relevant Clearing System and such relevant Clearing System is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so. Thereupon, the holder may give notice to the Principal Paying Agent of its intention to exchange the Global Note for Definitive Notes on or after the Exchange Date (as defined below) specified in the notice.

On or after the Exchange Date, the holder of the Global Note may surrender the Global Note to or to the order of the Principal Paying Agent. In exchange for the Global Notes, the Issuer shall deliver, or procure the delivery of, an equal aggregate principal amount of duly executed and authenticated Definitive Notes (having attached to them all Coupons in respect of interest which has not already been paid on the Global Note), security printed in accordance with any applicable legal and stock exchange requirements and in or substantially in the form set out in Schedule 1 to the Trust Deed. On exchange of the Global Note, the Issuer will, if the holder so requests, procure that it is cancelled and returned to the holder together with any relevant Definitive Notes.

"Exchange Date" means a day falling not less than 60 days after that on which the notice requiring exchange is given and on which banks are open for business in the city in which the specified office of the Principal Paying Agent is located and in the cities in which the relevant clearing system is located.

2 Payments

Payments of principal, premium and interest in respect of Notes represented by the Global Note will be made against presentation for endorsement and, if no further payment falls to be made in respect of the Notes, surrender of the Global Note to or to the order of the Principal Paying Agent or such other Paying Agent as shall have been notified to the Noteholders for such purpose. A record of each payment to made will be endorsed in the appropriate schedule to the Global Note, which endorsement will be *prima facie* evidence that such payment has been made in respect of the Notes. For the purpose of any payment made in respect of a Global Note, Condition 6(d) shall not apply and all such payments shall be made on a day on which commercial banks and foreign exchange markets are open in the financial centre of the currency of the Notes.

3 Notices

So long as the Notes are represented by the Global Note and the Global Note is held on behalf of a relevant Clearing System, notices to Noteholders may be given by delivery of the relevant notice to that relevant Clearing System for communication by it to entitled accountholders in substitution for publication as required by the Conditions, except that, so long as the Notes are listed on the Luxembourg Stock Exchange's Euro MTF market and the rules of that Exchange so require, notices shall also be published either on the website of the Luxembourg Stock Exchange (www.bourse.lu) or in a leading newspaper having general circulation in Luxembourg (which is expected to be the *Luxemburger Wort*).

4 Prescription

Claims against the Issuer in respect of principal, premium and interest on the Notes while the Notes are represented by the Global Note will become void unless it is presented for payment within a period of 10 years (in the case of principal and premium) and five years (in the case of interest) from the appropriate Relevant Date (as defined in Condition 18).

5 Meetings

The holder of the Global Note shall (unless the Global Note represents only one Note) be treated as being two persons for the purposes of any quorum requirements of a meeting of Noteholders and, at any such meeting, as having one vote in respect of each €1,000 in principal amount of Notes.

6 Purchase and Cancellation

Cancellation of any Note following its purchase will be effected by reduction in principal amount of the Global Note.

7 Trustee's Powers

In considering the interests of Noteholders while the Global Note is held on behalf of a relevant Clearing System, the Trustee may have regard to any information provided to it by such relevant Clearing System or its operator as to the identity (either individually or by category) of its accountholders with entitlements to the Global Note and may consider such interests as if such accountholders were the holder of the Global Note.

Similarly, where the Conditions provide that the Trustee shall act if requested to do so by not less than two Noteholders, the Trustee may accordingly regard directions from individual accountholders as if such accountholders were individual respective Noteholders.

8 Put Option

The Noteholders' put option in Condition 5 may be exercised by the holder of the Global Note giving notice to the Principal Paying Agent of the principal amount of Notes in respect of which the option is exercised within the time limits and pursuant to the conditions specified in Condition 5.

Use of Proceeds

The net proceeds of the issue of the Notes, expected to amount to approximately €49,666,000 less fees, will be used solely for the repayment of two loans granted by Magyar Fejlesztési Bank Zrt. in favour of the Company (see “**Banking Facilities**”).

Description of Issuer

OVERVIEW

Nitrogénművek Zrt. (the "**Company**") is the sole producer of nitrogen-based fertilisers in Hungary with an annual capacity of approximately one million tonnes of fertiliser and a market share of the Hungarian nitrogen-based fertiliser market of 67 per cent. as at 31 December 2010.

The legal name of the Company is Nitrogénművek Vegyipari Zártkörűen Működű Részvénytársaság, and its registered office is at H-8105 Pétfürdő, Hősök tere 14, Hungary. The Company was incorporated as a private company with limited liability (*zártkörűen működő részvénytársaság*) under the Act Nr. VI./1988 on the Business Associations (recent effective legislation Act Nr. IV./2006) on 1 February 1990.

The Company's principal products are calcium ammonium nitrate ("**CAN**"), ammonium nitrate, urea and nitrosol. The Company's products are largely sold to agricultural producers, both in Hungary and in neighbouring countries.

In the year ended 31 December 2010, the Company produced 518,149 tonnes of CAN, 167,525 tonnes of ammonium nitrate, 146,883 tonnes of urea and 81,613 tonnes of nitrosol.

Total sales revenues for the same period amounted to HUF 59,885 million, comprising HUF 23,780 million for CAN, HUF 10,124 million for ammonium nitrate, HUF 10,182 million for urea and HUF 2,793 million for nitrosol.

Total sales revenues for the years ended 31 December 2010 and 31 December 2009 amounted to HUF 59,884 million and HUF 47,625 million respectively.

The Company's headquarters and main production facilities are situated in Pétfürdő, between Veszprém and Székesfehérvár, south-west from Budapest, Hungary.

Mr. László Bige together with his son, Mr. Zoltán Bige, own all of the shares in the Company.

History

Fertiliser production began in Petfürdő in 1931 when the Hungarian Ammonia Factory was established to produce nitrogen-based chemicals from the locally-mined lignite. In the same year the Pét Nitrogen Fertiliser Factory was established. In 1933, the two factories merged under the name of Péti Nitrogén Műtrágyagyár Rt.

The production facilities underwent modernisation and expansion programmes at various stages during the next 30 years in order to implement more efficient technologies and to meet the increasing demand from Hungarian agricultural users. In 1968, an ammonia plant (running on natural gas) was built, together with atmospheric nitric acid plants (partially pressurised) and a urea plant and complex fertiliser factory. With this change in plant, the principal raw material used in the production of ammonia was changed from lignite to natural gas. The switch to natural gas resulted in improvements to the Company's productivity and energy consumption levels; it also brought environmental benefits and represented a move away from the less healthy working conditions that are associated with mining and with coal-fired/lignite production facilities.

A new fertiliser factory was built close to the original site as part of a large Hungarian state investment between 1970 and 1975 to meet a growth in agricultural demands experienced in the late 1960s and early 1970s. These plants are still in operation today and they represent the Company's main production site.

During the 1990s, the Company renewed its focus on improving energy efficiency and reducing the environmental impact of production, as well as shutting down inefficient activities and products. The majority of the old production units were closed due to the decline in market demand or inefficient technologies used (for instance, the NPK fertiliser, isopropyl amine and furfurylalcohol production facilities). The old ammonia, urea, nitric acid and fertiliser units were closed.

Bige Holding Invest Kft, which is solely owned by Mr. László Tibor Bige and Mr. Zoltán Bige, bought Nitrogénművek in 2002 from MOL Magyar Olaj- és Gázipari Rt. (MOL Hungarian Oil and Gas Public Limited Company) and Hydro Central Europe B.V.

László Tibor Bige and his son, Zoltán Bige, became the direct shareholders of Nitrogénművek in 2003.

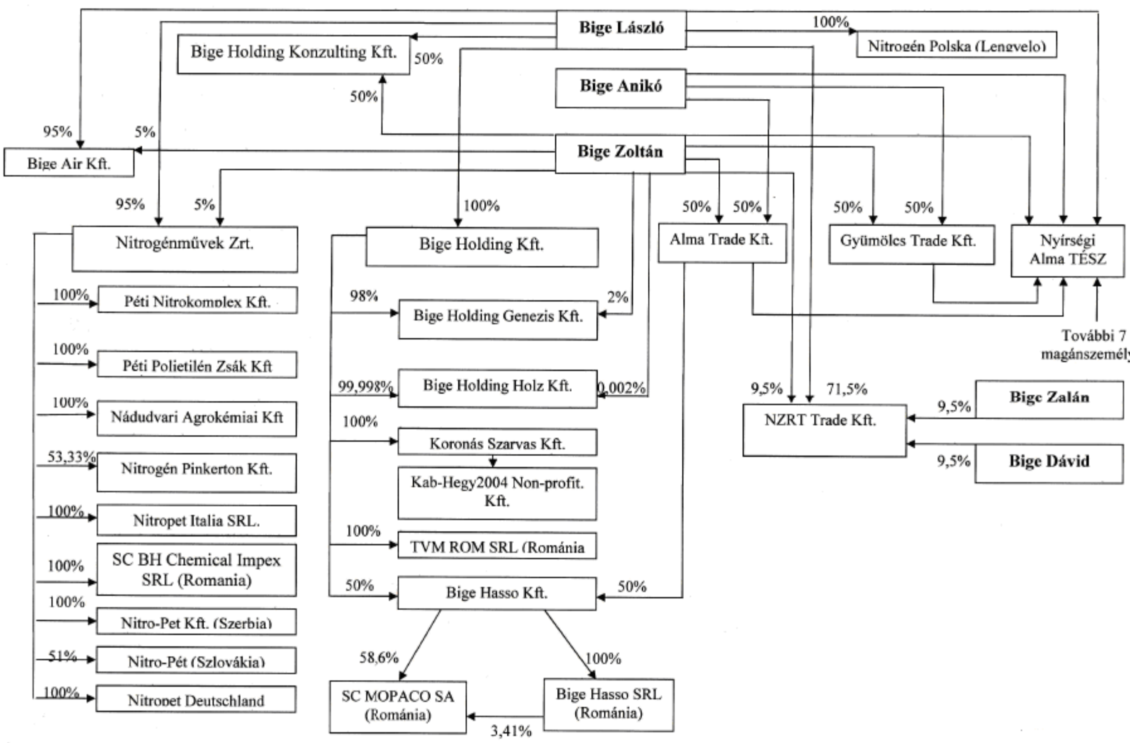
In 2003, the Company joined the European Fertiliser Manufacturers Association ("**EFMA**"), and since 2004 the Company has marketed its products under the Genezis brand name and has developed a national sales network (as further described under "Sales and Marketing").

In 2004, a nationwide consulting network was set up and the company started to sell the fertiliser products of Bige Holding Kft. In 2005, an investment project was launched by the Company at a cost of approximately EUR 100 million; this included the construction of a dual-pressure acid plant, a fertiliser plant to produce granulated fertiliser, a cooling tower system and a flexible fertiliser packaging plant. In 2007, these plants went into operation. The new plants enhanced the energy efficiency of the Company and raised its annual capacity, and thus enabled the old nitric acid plants to be closed down.

The value of fixed assets of the Company's fertiliser factories and of the Pét Nitrogen Fertiliser Factory was valued at EUR 400 million as of 30 June 2010 by American Appraisal Co.

Organisational structure

The following chart describes the Bige group's corporate structure:



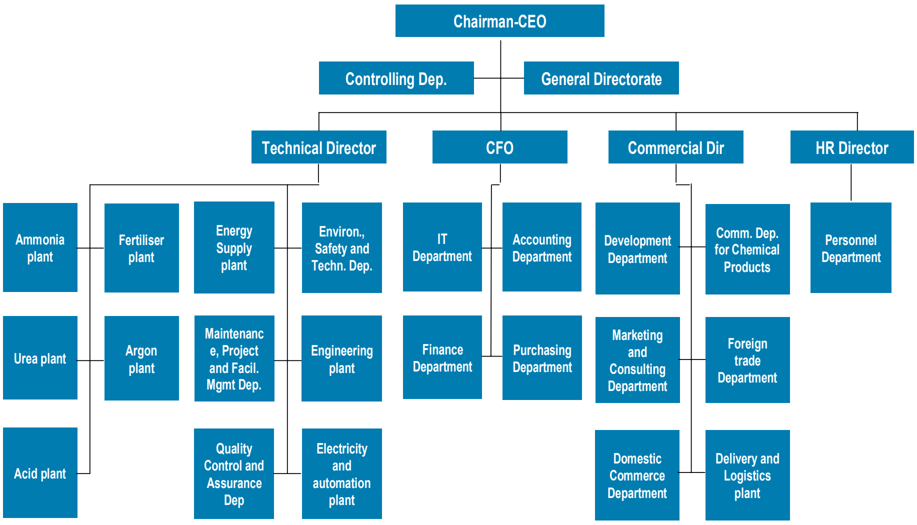
The Company is a private company limited by shares with a registered share capital of HUF 1,518,000,000. As at 31 December 2010, the Company had 1,600 issued and outstanding shares of the same class with a nominal value of HUF 330,000 each, all of which were fully paid, and 3,000 shares which are currently not paid for and have not yet been issued. Each share is entitled to one vote. Mr. László Tibor Bige owns 95 per cent. of the shares. The remaining 5 per cent. are owned by Mr. Zoltán Bige.

Mr. László Tibor Bige is the Chairman CEO of the Company.

Following the change of regime in 1991, Mr. Lászó Tibor Bige founded his first company, Bige Holding Kft., (which initially was called, Bige Heringh Kft.), which was a chemicals trading company.

Mr. Lászó Tibor Bige's company – Bige Holding Kft. – acquired the majority of shares of Tiszamenti Vegyiművek Rt. in 1997 when it was privatised. Tiszamenti Vegyiművek Rt. has operated as Bige Holding Kft. since 2004.

The following diagram shows the internal organisational structure of the Company:



Competitive Strengths

The Company's principal competitive strengths can be summarised as follows:

- Regional leader

  The Company is the sole producer of nitrogen-based fertilisers in Hungary and one of the largest in Central Europe with a total 1 million tonne/year production capacity. The Company's share of the Hungarian nitrogen-based fertiliser market stood at 67 per cent. in 2010 and the Company aims to keep it around that level in the future. The Company believes that such market presence allows it to better understand local trends, react faster to demand changes and seasonality, and optimise margins.

  The Company's production facilities operate to high technological standards, which provide the Company with operational flexibility to adjust its product mix quickly and at an optimal cost to respond to evolving demand. The Company's total sales volumes amounted to 926,000 tonnes in 2010, compared to 809,000 tonnes in 2009 and 637,000 tonnes in 2008.

- Strategic location and cost advantages

  The Company's location in Central Europe and within the European Union gives it unique access to serve a diversified mix of large and high-growth markets, such as Poland, Germany, Austria, the Czech Republic, Slovakia, Romania, Serbia and Slovenia. The Company considers its position in those markets is assisted by (i) transportation costs that make it uneconomical to transport nitrogen-based fertilisers beyond a 1000- km radius from the production centre, (ii) EU tariffs for fertilisers produced outside the EU and (iii) its proximity and regional transportation infrastructure that allows the Company to react quickly to evolving demand.

Additionally, being the largest producer in the region generates economies of scale in procurement, production and transportation that the Company's Central European competitors cannot match. Furthermore, physical proximity of abundant dolomite significantly reduces its costs to produce high margin products such as calcium ammonium nitrate.

- Procurement strategy

Following the 2008 economic crisis, the Company decided to change its natural gas procurement policy from U.S. Dollar-, oil-linked long-term contracts to a more dynamic combination of spot and short-term purchases on the Central European Gas Hub ("**CEGH**") in Vienna. The Company believes this strategy adopted in early 2009 generates the following advantages: (i) it matches procurement practices followed by global industry leaders; (ii) it provides a natural hedge to the Company's former foreign exchange exposure by switching purchases in U.S. Dollars for natural gas denominated in Euros that match the Company's sales in Euros; and (iii) CEGH prices have been on average 35 per cent. lower, including transportation costs, in 2010 than the oil-linked natural gas prices paid by many of the Company's regional competitors. Please see "Procurement and Supply" for further details on cost differentials related to natural gas prices.

- Product diversity and quality

The Company can offer to its clients and partners a wide range of nitrogen-based and other complex fertilisers such as NPK. Many of the Company's regional competitors have smaller plants that can only produce one or a limited amount of prilled products. The Company's ability to offer granulated calcium ammonium nitrate and ammonium nitrate that optimise timely dosage into the soil differentiates the Company from many of its Eastern European competitors. Additionally, the Company can package its products in several formats and sizes that match the consumption patterns of its clients.

- Distribution network and strong brand recognition

The Company employs a network of 45 sales agents in Hungary to distribute and promote its products. The Company estimates that it reaches 6,000 clients and end-users per month, the sales force identifies client consumption patterns early on which informs production plans as well as competitive changes. The Company believes this is a critical element of its ability to defend its domestic market share and profitability. Moreover, its network acts as adviser to end users by providing technical knowledge and analysis of soil samples and crop yields to design optimal fertilisation plans.

In 2004, the Company consolidated all its products under the Genezis brand and developed a marketing strategy to differentiate its products from the products of its competitors. The Company believes its clients and partners in Hungary associate the brand with high quality products that warrant a price premium.

- Strong management team and stable, experienced workforce

The Company has a dynamic management team with extensive domestic and international expertise and a proven management track record in improving the operating results of the Company's production assets. Members of the Group's senior management team combine industry and marketing expertise with extensive financial and management experience.

Business Strategy

The Company's main strategic objective is to continue to be the leading Central European nitrogen-based fertiliser producer. To achieve this objective, the Company intends to implement a strategy which includes the following key elements.

- Retain a dominant position in Hungary

  Hungary is the Company's largest and most profitable market and it will preserve and seek to improve its relationships with end users and partners to address their needs and sustain its brand recognition. To do so, the Company will continue to invest in its distribution network to provide advice to consumers and adjust the Company's production plans to match domestic demand.

- Diversify and seize organic growth opportunities in high-potential neighbouring markets

  The Company will pursue international growth as a means to diversify economic risk. This initiative is destined to create buffers in case of unexpected slowdowns in domestic demand and as a tool to protect profitability in Hungary. Furthermore, the Company believes some of the neighbouring markets offer high growth opportunities that could absorb contemplated capacity upgrades in its plants. Among others, Germany represents a priority for the Company with very attractive pricing dynamics and market size. Poland is another priority market with high volume potential and a fragmented market that is open for new entrants.

  In order to tackle this opportunity, the Company intends to continue expending the Company's network of international distributors and partners, keeping its operational shutdown time to 30 days every two years, as well as invest selectively to increase the Company's capacity in their production bottlenecks. Namely, the Company plans to invest up to €40 million in the period from 2011 to 2014 in the expansion of their ammonia plant from 1,200 tonnes/day up to 1,400 or 1,650 tonnes/day (see "Investment Strategy").

- Environmental protection

  The Company continues to strive to achieve high standards of environmental protection, health and safety and plans to continue to promptly adapt to evolving environmental legislation.

- Generate cost savings by actively managing energy consumption

  The Company's energy consumption - both natural gas and electricity - represents 60 per cent. of total operating cost. The Company is committed to keep improving its operations to reduce the specific energy consumption in its processes. The Company is planning investments of up to 40 million over the next three years intended to reduce energy consumption by 10 per cent. in its ammonia plant.

  The Company's natural gas procurement strategy is critical in its attempts to reduce costs. The Company has secured transportation capacity on a long-term basis for the main pipelines serving its plants. Although it is currently purchasing natural gas in the CEGH, the Company remains vigilant to market prices and will opportunistically commit to longer term contracts or consider purchasing a portion of their required volumes in other markets and under different pricing formulae.

- Maintain a prudent financial strategy

  The fertiliser business remains volatile and unexpected margin and demand swings can affect the Company's ability to deploy capital. Accordingly, the Company will continue to be disciplined and use its partners to provide financing to fertiliser end users. The Company's sales will continue to be pre-paid by its clients in order to minimise credit risk and working capital needs. Furthermore, the

Company is diversifying its funding sources away from commercial banks in order to preserve working capital availability. Finally, the Company intends to maintain a prudent capital structure with net debt not exceeding two-and-a-half times EBITDA in the future.

PRODUCTS

Nitrogen-based fertilisers

Nitrogen-based fertilisers are one of three main groups of artificial fertilisers, along with phosphorus-bearing products and potassium-bearing products. According to the International Fertiliser Association, global agricultural consumption for the three principal crop nutrients in 2008 was approximately 169 million tonnes. This amount comprised approximately 101 million tonnes, or 60 per cent., of nitrogen, 39 million tonnes, or 23 per cent., of phosphate and 29 million tonnes, or 17 per cent., of potassium-bearing products. Nitrogen, the key element of nitrogen-based fertilisers, is essential for plant growth and development as it is the main constituent of protein. Nitrogen supply performs an important role in determining a plant's growth, vigour, colour and yield. Nitrogen is the plant nutrient most widely needed to meet the requirements for high crop yields. It is also an important constituent of chlorophyll. As a basis of nearly all nitrogen-based fertilisers, ammonia can be applied directly to the soil; however, for a number of reasons, including environmental, more often it is processed into other nitrogen-based products before application.

The Company's core product range includes:

- Ammonium Nitrate ("**AN**");
- Calcium Ammonium Nitrate ("**CAN**");
- Urea;
- Nitrosol; and
- Other chemical products and industrial gases.

Set out below are further details for each of these categories of products and the primary products they include.

Ammonium nitrate

Ammonium nitrate is produced by way of neutralisation of ammonia gas with unconcentrated nitric acid and subsequent granulation. It is sold by the Company as a finished product and is mainly used as a fertiliser in agriculture. AN fertiliser comprises 34 per cent. nitrogen. It has advantages in its uniform particle size (in both prilled and granulated form) and low transportation costs.

Calcium Ammonium Nitrate

Ammonium nitrate was traditionally the principal fertiliser made by the Company. However, more recently it has become more popular to combine ammonium nitrate with calcium oxide and magnesium oxide. This product, containing 27 per cent. nitrogen, 7 per cent. calcium oxide and 5 per cent. magnesium oxide, has been proved to improve environmental and agronomical properties. It is now the most popular nitrogen-based fertiliser among Hungarian and many foreign agricultural producers. AN and CAN products are marketed under the name *Pétisó*. The Company owns the patent to the name "**Pétisó**" (registered under Number 114929 at the Hungarian Patent Office), and it renews this patent on an annual basis. The product range includes prilled and granulated form *Pétisó*, as well as *Pétisó* combined with sulphur. The calcium oxide, and other 'dolomite' raw materials used in the production of CAN, are mined locally around the Pétfürdő production site.

Urea

Urea is an organic compound of carbon, nitrogen (46 per cent.), oxygen and hydrogen and is produced from synthetic ammonia and carbon dioxide as an assortment of granules, flakes, pellets, crystals and solutions. Urea is the most widely used dry nitrogen-based fertiliser. It is a solid nitrogen product typically applied in granular form. Once applied to the soil, urea is converted to ammonia, which reacts with water to form ammonium.

Nitrosol

Nitrosol is a liquid fertiliser containing 30 per cent. nitrogen. Agricultural producers can apply Nitrosol as a spray. This has the advantage of being able to be applied in a more accurate uniform dosage.

NPK

NPK is the name given to a group of compound fertilisers to which have been added further agronically 'active' ingredients such as phosphates and potassium. The exact amounts of the active ingredients is accurately measured in order to produce NPK products which are tailored to meet specific customer needs.

In 2010, 84 per cent. of the Company's sales revenue were attributable to *Pétisó*, ammonium nitrate, urea and nitrosol products. The remaining 16 per cent. of sales revenue was from the sales of raw chemical products and other chemical products.

Production Volumes

The following table sets out the production volumes of the Company's primary products for the three years ended 31 December 2008, 2009 and 2010.

	Year ended 31 December		
	2008	**2009**	**2010**
		(Thousand tonnes)	
Pétisó/CAN	303,504	421,184	517,289
Ammonium nitrate	200,312	198,697	167,525
UREA	119,452	139,319	146,882
Nitrosol	67,892	62,183	81,602
Total	**691,600**	**821,383**	**913,298**

Note: The table above sets out the volume of production of certain principal products of the Company, irrespective of whether such products are sold to the Company's customers or utilised in other production processes by the Company.

PRODUCTION

The Company's main production facilities are situated on a 140 hectare site at Pétfürdõ village, between Veszprém and Székesfehérvár, south-west from Budapest, Hungary. The Company owns 434 hectares in the surrounding area on which, for instance, the Company's sewage treatment plant is located and from where water used by the production facilities is sourced. The current production facilities comprise five main production plants: (i) the ammonia plant (which started production in 1975), (ii) nitric acid plant (2007); urea plant (1975); (iv) granulation plant (2007) and CAN plant (1975). The production units and the closely related energy supply units (water, natural gas, steam and electricity) are intended to be used continuously, and production is most efficient if energy and raw materials are supplied at a continuous rate. The Company, therefore, plans on the basis of shutting down production entirely for a period of approximately one month every two years, during the summer months, in order to perform any maintenance required on the production facilities.

Almost 60 per cent. of production and service units are controlled by computer-aided process management systems (DCS systems). This process also includes some safety benefits. The Company has purchased software licences in respect of its DCS systems which it can use for an unlimited period (the licensors are Honeywell & Emerson Co.).

The main contractor for the Nitric Acid plant is Chemoproject s.a., and for the Ammonium Nitrate and CAN plants it is Prochem s.a., both of whom have granted the necessary patents and licences to the Company for an unlimited period.

The Company's ammonia plant produces on average 1,200 tonnes per day ammonia using the 'Kellogg process'. This is the standard production method used throughout the world by nitrogen-based fertiliser producers.

Ammonia is used as a raw material for urea and ammonium nitrate-based solid and liquid fertilisers. 30 per cent. of ammonia is used for urea production in the Company's 'CO2 stripping' type urea plant, where the Company produces 600 tonnes/day of prilled urea.

Half of the remaining ammonia is used for nitric acid production in the Company's new, high capacity dual pressure nitric acid plant, where the Company produces 1,650 tonnes/day diluted nitric acid (60 per cent. concentration). The vaporised ammonia mixed with air is reacted in a high temperature (900 degrees Celsius) platinum gauze, forming nitrogen-monoxide. The exotherm reaction heat is used for steam production. Nitrogen oxide is reacted with remaining oxygen forming nitrogen dioxide that after compressing to a higher pressure is absorbed in an absorption column forming nitric acid.

In the Company's fertilisers plants, nitric acid is neutralised with ammonia gas in atmospheric pressure or under pressurised reactors. Some of the exothermic reaction heat is used for removing the majority of the water content of the acid. The remaining moisture is removed in different evaporators to produce a practically water free ammonium-nitrate melt. This melt is mixed together with previously milled, dried dolomite powder. In the older plant – originally a Norsk Hydro complex fertiliser process – the Company produces either CAN-27 or AN-34 (if dolomite powder is not used) with a prilling process. After screening, cooling and anti-caking, the Company stores the fertilisers in bulk or smaller packaging (50 kg package or 700 kg larger bags). In the new granulation plant – so called 'pug-mill' granulation process, licensed by Zaklady Azotowe Kendzezyn ("**ZAK**"), Poland, is used. This process involves the ammonium nitrate melt being fed to the 'pug-mill' granulator. After shaping, the moisture content is removed in a long large diameter drying drum. After screening, the normal particle size fraction is cooled and transported to either the bulk storage or to the packaging plant.

Production Capacity

95 per cent. of production takes place in five core plants (ammonia, nitric acid, urea and the two fertiliser plants).

The following table sets out the current annual production capacity for the Company's principal products:

	Capacity (tonne/day)	Capacity (tonne/year)
Ammonia	1,200	400,000
Nitric Acid	1,650	560,000
Urea	600	200,000
Ammonium nitrate, 34 per cent. Nitrogen in Prilling Plant	1,400	450,000
Pétisó (CAN, 27 per cent. Nitrogen in Prilling Plant)	1,400	435,000
Ammonium nitrate, 34 per cent.) Nitrogen in Granulation Plant)	1,100	330,000
Pétisó (CAN, 27 per cent. Nitrogen in Granulation Plant)	1,400	435,000
Nitrosol	1,800	500,000

Note: The ratios between daily and yearly capacities are different due to plant shut downs and planned maintenance.

The Company has had an MSZ EN ISO 9001 quality assurance system in place since 1997, and has operated since 2000 in accordance with the provisions of the MSZ EN ISO 14001 environmental management system.

PROCUREMENT AND SUPPLY

The basic component for fertiliser production is ammonia which is produced by the Company from natural gas. Energy costs are the key cost elements of the Company (being responsible for approximately 65 per cent. of total operating costs in the year ended 31 December 2010). The natural gas consumption of the Company was 500 million m3 in the year ended 31 December 2010. The Company is one of the largest gas consumers in Hungary. After natural gas, the next main source of energy in terms of volume is electricity, and the Company's consumption was approximately 150 GWh.

Natural Gas Procurement

The natural gas supplier to the Company prior to 2008 was EMFESZ, and later E.ON Földgáz Trade and Shell before the crisis at the end of 2008. Pricing was based on the 'Gazprom formula' (under which the gas price follows the price of two oil distillates). Following a commercial dispute with EMFESZ and Shell, the supply contracts were terminated and the Company was supplied by E.ON until February 2009. See the sections "Litigation – Shell" and "Litigation – EMFESZ".

Since the beginning of 2009, the Company has been purchasing its natural gas supplies from Western European gas markets directly (from the Netherlands, England, Germany and Austria). The natural gas is directly sourced in Austria through the Central European Gas Hub ("**CEGH**"). Both 'over-the-counter' and stock exchange trading takes place through the CEGH, where there are almost 100 active traders. CEGH is the only gas trading outlet in Central and Eastern Europe and the Company believes that it benefits from a significant competitive advantage over its regional rivals since it is close to the CEGH outlet and the Company has secured access to this infrastructure.

Purchasing Strategy

The Company purchases natural gas on the 'spot' market, ensuring that the Company stays abreast of market trends. Currently the 'spot' market price is generally found to be lower than the 'Gazprom formula' price because it reflects prevailing supply and demand of natural gas in the region rather than across trends in general oil prices. Many industrial users have committed themselves to long-term contracts linked to the Gazprom formula, and are currently – at a competitive disadvantage due to the lower prevailing gas market.

The following table shows the historical natural gas prices; spot market versus GAZPROM formula (in USD/1000m3):

	2009				2010			
	Q1	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**
Spot Prices (TTF Heren basis)	165	151	140	175	184	210	253	291
GAZPROM-formula prices (on an individual traders' basis (on a bilateral contract basis))	483	362	265	281	329	361	379	384

The composition of the purchasing portfolio changes constantly based on market forecasts and analyses. The main purchasing horizons are for daily, weekly, monthly, quarterly and six-monthly products. The number of suppliers is stable and the Company purchases gas from several suppliers, thus aiming to minimise supplier risk.

In the event that acquiring gas directly from Russia (and therefore using the then prevailing 'Gazprom formula') proves to be more beneficial in the long run, the Company also has access to the gas from Ukrainian-Hungarian cross-border capacities which is priced using this method.

The 'spot' price currently sourced through the CEGH is quoted in EUR (whereas the 'Gazprom formula' is quoted in U.S.$), thus the Company considers its FX exposure to be reduced when using the 'spot' price owing to the Company's export revenues principally being denominated in EUR. In the Company's view, this provides a form of natural currency hedge. The Company does not currently employ any other means of currency hedge.

Transaction Capacity

There is currently a bottleneck on the Hungarian-Austrian Gas ("**HAG**") pipeline which is the only supply alternative to cheaper Western European 'spot' gas. The Company has secured long-term access to the Austrian-Hungarian cross-border pipelines. The contract covers the period from 1 July 2009 to 30 June 2019, with Földgázszállító Zrt (Natural Gas Transmission Company) ("**FGSZ**") for the Hungarian side of the shipment. On the Austrian side the access is secured with a long-term capacity contract which was signed with OMV Gas GmbH, and which is to run from 1 October 2016 to 1 October 2026. Annual contracts are in place until this contract enters into force on 1 October 2016. In the event that acquiring gas directly from Russia proves to be more advantageous in the long run, the Company also has access to Ukrainian-Hungarian cross-border capacities, which could be contracted into on the same basis as the FGSZ contract.

Electrical Power

Recent liberalisation of the Hungarian electricity market triggered significant changes to purchasing methods within Hungary. There are currently more than 100 licensed traders on the Hungarian electricity market, including the major European energy companies. The Hungarian electrical energy market (known as HUPX) was launched on 20 July 2010. This market provides traders with relative security and aims to ensure the efficient procurement of energy in Hungary.

The electrical energy requirements of the Company are currently served by entering into trades on a monthly basis, for which suppliers also compete on a monthly basis. If the market environment sees it become advantageous to do so, the Company would be able to switch to a longer-term electricity trading strategy. Currently, however, the Company believes that monthly pricing for electricity offers the more competitive pricing strategy.

Within Hungary, transportation costs and tariffs which the Company faces were approximately 10 per cent. of the Company's electricity cost in the year ended 31 December 2010. Transportation and tariffs represent a minor expense of the Company, being responsible for approximately 0.65 per cent. of total operating cost in the year ended 31 December 2010.

Hungarian Natural Gas Market

The total natural gas consumption is approximately 13 to 15 billion m3 in Hungary annually (this figure represents the average total natural gas consumption amount before economic downturn in 2008) with strong seasonality in demand due to higher consumption in the winter heating season.

The vast majority (approximately 90 per cent.) of Hungarian demand is supplied from import and the proportion is set to increase in the longer-term due to decreasing domestic production.

Two international pipelines enter into Hungary: one from Ukraine (Brotherhood Pipeline) and one from Austria (HAG pipeline). Brotherhood transit pipeline carries Russian gas to Hungary for internal consumption and exports to the former Yugoslavia via Serbia. Approximately 80 per cent. of the export arrives through this pipeline, while the remaining 20 per cent. comes from Austria (HAG pipeline). Since 1996, the Hungarian grid has been interconnected with the western European grid via the HAG pipeline that runs between Gyor in Hungary and Baumgarten in Austria. Much of the natural gas arriving from Austria comes in the first instance from Russia. Therefore 80 to 90 per cent. of the imported gas comes either directly or indirectly from Russia (and other former Soviet Union countries). Hungary's gas supplies are, therefore, heavily dependent on the Russian gas company, Gazprom (see "Risk Factors – Raw Materials and Energy").

It is typical in the region that Gazprom supplies the local regional distributor or wholesaler with natural gas based on a long-term contract, the duration of which is typically 20 to 25 years, with prices set by 'the Gazprom formula'. The price formula applied by Gazprom is generally calculated quarterly, reflecting the average price of the previous nine months various petrochemical product prices. The price is then fixed for the following quarter and is quoted in U.S.$. This is the pricing method applied in Hungary. The price is set quarterly, in accordance with a long-term gas supply agreement between Gazprom and the Hungarian wholesaler, E.ON Földgáz Trade.

The wholesalers and regional distributors and most traders in Hungary apply this formula in their sales pricing for natural gas, thus the final consumers are able (almost exclusively) to purchase natural gas in accordance this formula. All of the Company's suppliers (local regional distributors and gas trading companies) use this formula for the purchase and/or sale of natural gas.

Security of Supply

The amount of commercial reserves in Hungary is approximately 4 billion m3, and the strategic reserves are approximately 1.2 billion m3. This represents sufficient gas to supply total Hungarian consumption for a couple of months during the winter period. During the Russian/Ukrainian gas crisis in 2009, the strategic reserves were not used; moreover, during this time, Hungary in fact sold natural gas to Serbia from its commercial reserves. However, during this time the consumption of large consumers was restricted in order to protect households, e.g. the power plants had to switch to oil burning for a short period. This situation did not influence the operation of the Company.

SALES AND MARKETING

The following table sets out the total sales volumes, and the split between domestic and export sales, of the Company's principal products for the three years ended 31 December 2008, 2009 and 2010.

	Year ended 31 December		
	2008	**2009**	**2010**
		(Thousand tonnes)	
Ammonium Nitrate	200	180	187
Domestic	*171*	*149*	*144*
Export	*29*	*31*	*43*
Pétisó/CAN	273	421	509
Domestic	*167*	*239*	*208*
Export	*106*	*182*	*301*
Urea	97	146	163
Domestic	*43*	*49*	*47*
Export	*54*	*97*	*116*
Nitrosol	67	67	67
Domestic	*46*	*18*	*17*
Export	*21*	*49*	*50*

As the above table illustrates, the Pétisó export volumes have significantly increased since 2008. This is as a result of the new granulated Pétisó product being more competitive on the export markets than the prilled version of the product. The change in ratio between the domestic and export volumes in 2010 was also for this reason. The sale volume figures for urea on the export markets also shows an increasing trend due to increases in sales of urea to industrial users (industrial uses for urea include glue production and formaldehyde production, for instance).

The following table sets out the total sales revenue contribution per principal product during the three years ended 31 December 2008, 2009 and 2010.

	Year ended 31 December		
	2008	**2009**	**2010**
		(million HUF)	
Ammonium Nitrate	14,103	10,701,	10,124
Pétisó/CAN	15,941	19,058	23,780
Urea	8,189	8,378	10,182
Nitrosol	3,753	2,590	2,793

Domestic sales

Historically, the domestic Hungarian market, which according to the Annual Report of the Hungarian Research Institute of Agricultural Economics has a total annual consumption of 1.2 million tonnes of fertiliser products of which 1 million comprises nitrogen-based products, has played a strategic role for the Company due to transportation costs and domestic prices. Hungarian agricultural users currently remain the primary target market for the Company. However, the Company believes its current share of the Hungarian market (67 per cent. of the total nitrogen-based domestic fertiliser consumption in 2010 according to the Hungarian Research Institute of Agricultural Economics, and the monthly reports of the Hungarian Central Statistics Office and Hungarian Customs and Finance Guard) represents the optimal market share in terms of its pricing strategy. Significantly higher domestic market share is not a target for the Company, because extra volumes would be expected to increase the sales costs of the distribution network and thus reduce the average price level.

Distribution

The Company uses third party distributors to sell its products as well as its own sales force. The distributors were responsible for 80 per cent. of total domestic sales in 2009, and 87 per cent. in 2010.

Key partner distributors are classified into two main groups based on their activities:

(i) Genezis brand dealers: fertiliser distributors who sell the Genezis products relying on their own sales teams in narrow geographical areas. Some of the Company's most important partners include Chemical-Seed Kft., Hőgyészi Agrokémiai Kft., Fertilia Kft. and Novochem Kft.

(ii) Integrators: companies who play a major role in Hungarian agriculture. One of the largest partners in this context is KITE Zrt. These 'integrators' are able to supply financing solutions to end users, in order to help them to secure forward-purchase agreements over the Company's fertiliser products.

KITE Zrt is the Company's largest single customer accounting for 25 per cent. of domestic sales volumes in the year ended 31 December 2010. Although the size of Kite poses a concentration risk for the Company, the Company's risks in this regard are mitigated by the fact that Kite is unable to source similar products from another supplier on economical terms. Kite offers a range of agricultural services to the farming users in Hungary through a network of 52 sales agents. Many of the shareholders of Kite Zrt. are Hungarian agricultural companies.

The Genezis partner network

In August 2009, the Company created a national organisation called the Genezis partner network with a view to reaching consumers directly and in an effort to ensure the sustainability of its business. Genezis offers tailored products and prices to producers in the Hungarian agricultural industry and its agents visit more than 6,000 Hungarian agricultural producers and end users every month.

To improve its relationship with key end users, the partner network established a nationwide specialist advisory network which gives end users nutrient management recommendations as well as crop nutrition technology based on the needs of the given crops and end users, thus helping to disseminate good agricultural practices as widely as possible. The Genezis partner network offers farmers valuable professional support in Hungary, helping to boost the competitiveness of Hungarian agricultural producers in the domestic and international markets.

The following map shows the number of Genezis sales agent operating on a county-by-county basis within Hungary as at 31 December 2010:

The majority of Hungarian end users are small farmers who rely on financial assistance or other financing options in order to be able to secure the purchase of the amounts of fertiliser that they require. The Company does not offer any form of financing options or initiatives to its suppliers or end users. 70 per cent. of the end users that are reached by the Genezis sales network purchase the Company's products through traders, or 'integrators', who provide the necessary funding to them. The remaining 30 per cent. of end users contract with the Company directly and pay upfront for their product requirements.

The following table sets out the Hungarian domestic historical prices by HUF/tonnes for the Company's primary products for the three years ended 31 December 2008, 2009 and 2010:

	Year ended 31 December		
	2008	**2009**	**2010**
		(HUF/tonnes)	
Ammonium Nitrate	71,506	61,391	57,443
Pétisó/CAN	56,094	51,458	51,218
Urea	84,657	69,911	67,958
Nitrosol	58,485	54,154	39,808

The decline in prices for the Company's products during the last two years, as illustrated in the above table, reflects decreases in international prices which serve as benchmark for the Company's products. Additionally, in 2009 and 2010 the Company actively lowered its prices in order to regain market share.

The following table sets out the Company's historical percentage market share in the Hungarian nitrogen-based fertiliser market:

	2010	2009	2008	2007	2006	2005
The Company	67	54	51	63	77	76
Other producers	33	46	49	37	23	24

Source: Annual market and sales reports of the Company, the Hungarian Research Institute of Agricultural Economics and monthly reports of Hungarian Central Statistical Office and Hungarian Customs and Finance Guard.

Export sales

Nitrogénművek's objective is to prioritise sales into those markets where it can realise the highest margins. As Hungary represents the most profitable opportunity by virtue of prevailing local prices and limited transportation costs, volumes allocated for the export markets primarily depend on Hungarian demand and production quantities. Moreover, the Company also seeks to preserve its relationship with key partners by ensuring product availability for them, thus serving to maintain the Company's consistent participation in the markets in which it competes.

The Company's primary export target destinations are the neighbouring markets of Germany, Poland, Austria, Slovakia, Czech Republic, Italy, Romania, Serbia and Croatia. Given the nature and bulk of fertiliser products, they cannot viably and economically be transported to destinations further than approximately 1,000 km from the production site. Therefore, the export radius is effectively restricted to a well-determined limit. However, conversely this factor also serves to restrict the number of competitors which can viably operate within the Company's distribution area.

In 2010, Poland became the largest export market for the Company with 101% sales volume growth since 2009. Nitrogénművek is currently reinforcing its local commercial representation to better serve this priority market as its total size, rising purchasing power and fragmented competition make it an attractive market for large producers such as Nitrogénművek. Germany offers the highest sales prices due to demand for high-specification products. However, high customer concentration and aggressive incumbents create hurdles for the Company's growth in the country. Slovakia, the Czech Republic and Romania are the closest and historically the most important export markets where the Company has well established distribution arrangements. The north of Italy has historically been the main destination of urea exports. However, as urea consumption increases in Hungary, the Company has redirected increasing urea volumes to the domestic market.

The following table sets out historical export prices by HUF/tonnes for the Company's primary products for the six years ended 31 December 2010:

	2010*	2009	2008	2007	2006	2005
Ammonium nitrate	43,570	50,732	66,676	40,823	41,044	35,723
Pétisó/CAN	43,561	37,082	61,777	34,437	34,677	29,551
Urea	60,174	52,044	84,171	57,310	51,983	43,347
Nitrosol	42,306	32,875	51,707	30,339	31,688	27,489

If the price trend of Pétisó and urea continues to increase, the Company expects to increase sales volumes of these products by decreasing ammonium nitrate volumes by a corresponding amount. The corresponding production volume ratio between the Pétisó and ammonium nitrate is 1.26 : 1.00.

The following table sets out the total export sales volumes of the Company's primary products for the three years ended 31 December 2008, 2009 and 2010:

	Year ended 31 December		
	2008	**2009**	**2010**
	(Thousand tonnes)		
Ammonium nitrate	28	30	43
Pétisó/CAN	106	183	300
Urea...	54	102	116
Nitrosol	21	49	50

The following table sets out the export volumes in tonnes per year of the Company's principal products to neighbouring countries for the two years ended 31 December 2009 and 2010:

(tonnes per year)	Austria		Czech Republic		Germany		Italy		Poland		Serbia		Slovenia		Slovakia		Romania	
	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010
Ammonium Nitrate	-	-	1,100	5,100	-	-	3,800	5,100	6,900	14,100	-	1,500	1,100	-	7,600	5,900	5,800	8,500
CAN	18,800	38,400	46,500	33,400	51,300	53,600	6,000	5,700	26,000	58,300	4,300	1,000	8,900	6,700	16,800	39,000	3,800	6,300
Nitrosol	-	-	45,100	-	-	-	-	-	-	-	-	-	4,000	-	-	-	-	-
Urea	18,200	17,200	17,000	16,000	1,100	1,100	14,300	6,000	11,700	17,400	3,400	-	26,200	21,800	10,500	16,900	3,000	1,400

MARKETING STRATEGY

The Company aims to combine its marketing and fertiliser advisory capacity. By co-ordinating activities that are closely related, the Company aims to raise awareness of its products and brands among end users and thus increase sales of fertiliser products.

As part of the Bige group, the Company has the advantage that it is able to offer its entire product portfolio in order to satisfy many of the various requirements that agricultural producers might have for nitrogen-based products. The Company not only aims to support users with products satisfying broad demands, but also by providing other advisory services too.

The main task of the nationwide Genezis partner network is to offer the right type and price of fertilisers on a customised basis for individuals, businesses and areas, bearing in mind the notion of sustainable development.

The Genezis partner network aims to offer farmers a valuable professional support service in Hungary, helping to boost the competitiveness of Hungarian agricultural products generally.

Marketing communication

Establishing a unique image is a crucial issue for the Company and, in particular, for its marketing strategy. The Company seeks to create a clear and unified image both internally and externally that distinguishes itself from its competitors. The Company attaches great importance to participating in trade fairs and exhibitions. Besides the main domestic fairs - Agro+Mashexpo, Bábolna International Farm Show - the Company also takes part in agricultural fairs organised on target markets. The key objective here is to raise awareness of the Genezis brand name and show that the Company is active in the relevant market.

Participating in the various professional events is an important part of the sales and advisory activity. Sales agents and advisers are able to forge close contacts with users.

The Company believes that it is also important to co-operate with other companies on the agricultural market, such as partners which focus on crop protection and seed sales. The Company organises shows and presentations in relation to the experiments set up in the various agricultural regions.

In addition to providing general information on products, materials specific to crops are also compiled and disseminated to clients and prospective clients as well as advertisements on crop-specific technologies.

Since 2010, the packaging bags used by the Company in both in Hungary and abroad have looked the same. This approach revolves around the Genezis brand name as well as the "HUNGARIAN LAND, JOBS, FERTILISER" logo.

The Company places advertisements and public relations articles in respected agricultural journals to strengthen its image and present new products, as well as crop-specific articles depending on the given farming season. Since 2008 the Company has organised campaigns at the start of the spring and the autumn, supported by newspaper and radio advertisements. Other industrial journals (e.g. chemical industry, environment) along with daily county newspapers and specialised books are also useful media for advertisements and public relations promotion. In the electronic media (such as TV), the Company often organises short advertisements around programmes connected with agriculture or which are popular.

The Company's website is crucial from the perspective of effective marketing communication. The www.nitrogen.hu and www.genezispartner.hu websites provide comprehensive content and contain regularly updated information for agricultural producers.

The Company has received several awards for its activities in the industry. In 2008, the Company received an Environmental Innovation Award for undertaking significant technical and technological innovations during the major investment in its new nitric acid plant.

BANKING FACILITIES

The following table sets out the breakdown of loans outstanding and working capital facilities available to the Company as at 19 July 2011:

Credit institution	Type/purpose	Amount of loan/borrowing	Currency	Account balance as at 19 July 2011	Expiration
Commerzbank	Multicurrency overdraft facility	294,444,418	HUF	283,103,173	31August 2011
Budapest Bank	Multicurrency revolving loan agreement	1,500,000	EUR	1,266,000	30 June 2015
Volksbank	Overdraft facility	1,892,800,000	HUF	1,892,800,000	12 August 2011
Budapest Bank	Long-term multicurrency current asset loan	6,500,000	EUR	4,955,000	30 June 2015
MFB	Current asset loan	8,000,000,000	HUF	8,000,000,000	31 January 2013
MFB	Investment loan	51,230,735	EUR	29,867,519	15 December 2014
Raiffeisen Bank Zrt.	Trading House	35,700,000	EUR	Zero	31 May 2014
Various credit institutions	Other leasing arrangements	141,495,000	HUF	141,495,000	July 2013

As at 31 March 2011, the Company had indebtedness of HUF 10,622,262,757 and EUR 40,748,162. The following is a summary of the security granted by the Company in respect of its financing arrangements:

(i) Commerzbank (HUF 729,462,757 multicurrency overdraft facility) collateral in the form of ability to withdraw moneys from the Company's bank accounts.

(ii) Budapest Bank (EUR 1,344,000 multicurrency revolving credit facility) General mortgage of HUF 3,000,000,000 on one of the Company's properties. Furthermore assignment to the bank from the Company's existing and future receivables in respect of Fertitia Kgt. up to an amount of sales revenue in proportion to the credit, together with collateral in the form of ability to withdraw moneys from the Company's bank accounts.

(iii) Volksbank (HUF 1,892,800,000 overdraft facility) secured by a third ranking mortgage of up to HUF 2,000,000,000 over the Company's CAN prilling plant, together with collateral in the form of ability to withdraw moneys from the Company's bank accounts.

(iv) Budapest Bank (EUR 5,264,000 long-term multicurrency working capital loan) secured by a general mortgage up to HUF 3,000,000,000 over the Company's properties, together with collateral in the form of ability to withdraw moneys from the Company's bank accounts.

(v) Magyar Fejlesztési Bank Zrt. ("**MFB**") (HUF 8,000,000,000 current asset loan) secured by a first rank mortgage of up to HUF 10,000,000,000 on the Company's new Nitric Acid plant, new Granulation plant, Packaging plant, Ammonia plant, Urea plant and, new cooling tower and the fertiliser plant, together with collateral in the form of ability to withdraw moneys from the Company's bank accounts.

(vi) Magyar Fejlesztési Bank Zrt. (EUR 34,140,162 investment loan) secured by a second ranking mortgage of up to EUR 52,000,000 on the Company's Nitric Acid plant, Granulation plant, Packaging plant, Ammonia plant, Urea plant and cooling tower, together with collateral in the form of ability to withdraw moneys from the Company's bank accounts.

The following table sets out additional operating payment obligations of the Company subject to encumbrances as at 31 March 2011:

Credit Institution	**Amount**	**Currency**	**Expiration**
Raiffeisen Bank Zrt.	2,491,423.46	EUR	15 June 2011
CIB Bank Zrt	144,116,000	HUF	1 July 2011

The Company has registered a lien in favour of Raiffeisen Bank Zrt. over all current and future receivables derived from the 2,000,000 dinitrogen oxide emission reduction unit quota purchase agreement concluded on 14 July 2005 between the Company and Kommunalkredit Public Consulting GmbH. Raiffeisen Bank Zrt. provided an advance payment guarantee in respect of the above purchase agreement to the value of EUR 2,491,423.46, and, accordingly, Raiffeisen Bank Zrt. has the right to make instant collections from the Company's bank accounts over the term of the agreement. The agreement is currently due to expire on 15 June 2011, but the Company expects to renew this agreement.

CIB Bank Zrt has guaranteed the Company's contractual obligation to pay on a monthly basis for its gas pipeline usage.

INVESTMENT STRATEGY

Strategic Investments carried out between 2005-2007

In 2005 the Company began an extensive investment project at a cost of approximately EUR 100 million. The investment focused on the construction of four new facilities; a nitric acid plant; a CAN granulated fertiliser plant; a cooling water supply unit; and a fertiliser packing unit.

Nitric Acid Plant and Emission Reduction Unit (ERU) Quotas

Nitric acid is one of the raw materials (together with ammonia) used in the production of CAN. The Company installed a new dual-pressure nitric unit at a cost of EUR 58 million. It was commissioned in August 2007. The current capacity of the unit is 1650 (60 per cent.) tonnes/day nitric acid.

Grande Paroisse is the licensor for the technical process used at the plant, and the so called "EnviNOx" environment protection process technology was made by Uhde. The project was overseen by Chemoproject.

The new unit eventually decreased the nitrous-oxides ("**NO_x**") and di-nitrogen-oxide ("**N20**") emission at the Company. This reduction enabled the Company to participate in N2O emission reduction unit ("**ERU**") trade, which the Company expects to amount to approximately 1 million ERU annually between 2008 and 2012.

AN/CAN Fertiliser Granulation Plant

A new unit that can produce either 1,100 tonnes/day capacity ammonium-nitrate or 1,400 tonnes/day capacity CAN started its production at the end of 2007. This plant has been operating continuously since January 2008.

The investment cost for this plant was EUR 33 million. The licensor of the neutraliser part of the process was Uhde, while the granulation processing part was made by ZAK.

The unit is able to produce either granulated AN or granulated CAN which is a product currently in high demand in the Company's market area.

Cooling Water Supply Unit

The Company invested in a new cooling water system for the new nitric acid and AN/CAN fertiliser plants in May 2007, manufactured by EGI-GEA Ltd. The investment cost was EUR 3.5 million.

Fertiliser Packing Unit

A new 2X400 tonnes/day big bag or alternatively unit package fertiliser packing facility was commissioned in May 2007.

The investment cost was EUR 4 million. Packing machines were made by Beumer, and the main contractor of the project was Javer & Boecker.

Capacity expansion at ammonia plant

Capital expenditure in the next five years is expected to total up to a maximum of EUR 50 million. Over that period, the Company intends to continue to invest with the aim of increasing production capacities and reducing energy consumption. In preparation for increasing the export volumes of nitrate fertiliser, the Company plans to expand the capacity of the ammonia plant to 1,400 tonnes/day by 2014, and reduce energy consumption by a further 10 per cent. The cost of this investment is expected to amount to up to EUR 40 million.

The project to boost capacity and lower energy consumption is currently at the study preparation phase. The plan is to prepare the feasibility study with the help of M.W. Kellogg by mid-2011, which will be in respect of the investments which the Company plans to be carry out by 2014.

Capacity expansion at nitric acid plant

The actual capacity of the Company's nitric acid plant is currently 1,650 tonnes/day (60 per cent. nitric acid); during the overhaul in the summer of 2010, the capacity of the heat recovery boiler in one of the core facilities of the plant, the burning element, was raised to 1,800 tonnes/day.

In December 2010, Grande Paroisse completed a study which aims to bring the capacity of the nitric acid plant up to 1,800 tonnes/day and the Company is preparing to raise the capacity of the nitric acid plant to 1,800 tonnes/day. It is expected that the investment required for this expansion will total up to EUR 10 million.

The capacity boost for the ammonia plant and nitric acid plant capacities referred to above are intended to then allow for an increase in production and exports of nitrogen-based fertilisers.

Planned (and prepared) investments aim to reduce energy consumption

Recently the Company has planned two important investment projects:

Electrical energy production with expansion steam turbine generator system

In the production facility's steam system, expansion valves are used to reduce roughly 50 to 60 tonnes per hour of steam from a pressure of 40 bar to 13.5 bar. The Company plans to replace the steam expansion through valves with a steam turbine generator in the thermal energy supply system, producing around 3 MW of electrical energy. By generating 3 MW of the Company's own electricity they will aim to reduce electricity purchases by around 20 per cent.

The cost of this investment is expected to be in the region of EUR 1.5 million, and it is anticipated that the investment costs would be effectively recovered within two years on account of the resulting savings in electricity purchases. The investment project will take 12 to 14 months.

Ammonia plant, conversion of process condensate cleaning unit

At the start of 2010, the Company purchased a conversion licence from Instytut Nawozów Sztucznych Pulawy in Poland to convert the process condensate cleaning unit, along with basic engineering plans. During the overhaul in July 2010, the Company made it possible to connect the new solution to the system during operations.

Once the investment funds are available, it is intended that this project will be carried out over approximately an eight to 12 month period. The annual natural gas demand is expected by the Company to fall by approximately 5 Mm3 as a direct result of this planned investment.

This investment will cost in the region of EUR 1 million and it is expected that the payback time of the investment will be approximately one year.

FERTILISER INDUSTRY OVERVIEW

Fertilisers serve an important role in the global agriculture industry by providing vital nutrients that help increase both the yield (including sometimes the frequency of the yield) and the quality of farmed crops. The performance of the global fertiliser industry is driven by several key factors, including population growth, changes in dietary habits, planted acreage and fertiliser application rates, available production capacity and operating rates, raw material costs, government policies and the global trade in agricultural produce. According to a 2009 report by the United States Department of Agriculture, the global consumption of coarse grains, a key food staple, grew steadily between 1990 and 2002, and then at an accelerated rate beginning in 2003. According to the Organisation for Economic Co-operation and Development – Food and Agriculture Organisation of the United Nations ("**OECD-FAO**"), global consumption of coarse grain is expected to have an average compound annual growth rate of 1.6 per cent. per year between 2008 and 2018.

To meet the expected growth in demand, the Company believes that, due to the limited amount of arable land available for agricultural use, increases in crop production will come primarily from improved crop yields. Historically, yield improvement has been driven by the use of higher quality seed, more efficient farming practices and increased fertiliser application. According to Fertecon, an independent fertiliser industry consultant, global consumption of nitrogen-based and phosphate-based fertilisers is projected to grow at CAGRs of 1.7 per cent. and 3.2 per cent., respectively, between 2008 and 2020.

The fertiliser sales strategy of the Company in the coming five years is expected to be principally led by domestic sales. The Company intends to place 55 to 70 per cent. of production quantities on the domestic market during this time. This is also the Company's strategy for the longer term.

The Company believes that the use of fertilisers by Hungarian agricultural users is likely to increase in the coming five years, by an average growth rate of 4 to 5 per cent. each year. Assuming such growth, the use of fertiliser products per hectare could rise in five years by around 10 to 20 per cent. above its present level. The

Company expects its relative share of the Hungarian market to fall if the use in fertiliser increases. This is because the Company does not expect that its production capacity will be able to continue to grow at such a rate as the expected rise in domestic demand.

Demand for fertiliser in the region has generally been higher than the available supply. This is because demand for foodstuffs, and therefore for agricultural products - like fertilisers, has tended to rise at a faster rate than fertiliser production capacity has been able to.

Expected Hungarian market trends

Research by EFMA predicts growth in fertiliser use of 4 to 5 per cent. per annum for Hungary in the coming 10 years. Accordingly, average fertiliser use per hectare is expected to grow in a similar trend.

International and European trends

Based on independent market research, the Company does not expect any new production unit investments or the appearance of new producers in the European Economic Area – at least in the short-term future. (Source: Forecast of Food, Farming and Fertiliser Use in the European Union 2007-2017, European Fertiliser Manufacturers Association, Annual Forecast Issue.)

In the long run, the Company expects to see a decreasing inflow of imported fertiliser products and the declining competitiveness of competitors in the countries to the east of Hungary (notably Ukraine, Russia, Kazakhstan and Uzbekistan). This expectation is predicated on the convergence of energy prices towards European levels (for example, an International Monetary Fund loan agreement which the Ukraine is currently party to has prohibited the Ukrainian government from subsidising the fertiliser industry in the Ukraine), which in turn is expected to result in higher production costs in those countries. The majority of plants in these countries are outdated, and manufacturers will have to invest substantial capital in order to significantly increase production.

The Company expects an increase in demand for corn, oil-seed crops and rapeseed, since these are the principal raw materials currently used in the production of bioethanol and biodiesel. The demand for bioethanol and biodiesel is expected to grow if the global price of oil rises. The use of bioethanol and biodiesel as a substitute for traditional petrochemical products may lead towards the increasing importance of agriculture and, indirectly, towards an increase in the demand for fertiliser.

Competition

Fertiliser products can viably be transported economically within a geographical radius of approximately 1,000 km. The transportation costs for imported products coming from further away than this is high. Moreover, Hungary is a landlocked country and the Company's production site and surrounding distribution area is a long way from any seaport. This fact makes it economically less viable for competitor producers to export fertiliser to Hungary from, for instance, the Middle East or from North-West Europe.

The main competitors in the region are: Borealis Agrolinz Melamine (Linz, Austria), Petrokemija d.d. (Kutina, Croatia), Azomures (Tirgu Mures, Romania), and Duslo, a member of the Agrofert Group (Sala, Slovakia).

Producers in the former Soviet Union countries

Nitrogen-based fertiliser producers in the former Soviet Union countries, notably Russia, are currently able to operate at a lower cost than European producers due to the significantly lower price of natural gas in those countries. This fact represents a competitive advantage for some non-European producers. However, these producers do also suffer certain competitive disadvantages compared to the European producers.

Many of the production facilities currently operating in the former Soviet Union countries are relatively old, and transportation costs can be significantly higher than in Europe. Ammonium nitrate represents the main nitrogen-based fertilisers which is currently produced in the former Soviet Union countries. Although the active ingredient content of CAN is smaller than the content of ammonium nitrate, CAN is generally the more favoured nitrogen-based fertiliser among users on account of its composition. First, this is because the explosive resistance of CAN fertiliser is better than that of ammonium nitrate (ammonium nitrate is highly explosive). For this reason, in some countries (Germany and certain Scandinavian countries for instance), ammonium nitrate is not authorised for distribution to agricultural users. Secondly, CAN has agronomical advantages owing to the presence of calcium and magnesium carbonate which helps to neutralise some of the hydrogen ions produced during the process of nitrification in the soil. For this reason, the use of CAN can help to prevent the acidification of the farmland. Depending on soil quality and climate, acidification can result in significant production decreases for agricultural land.

Furthermore, the majority of former Soviet Union country-based producers do not currently have granulation technology operational in their facilities. On most Western European markets, owing to a lack of demand, it is difficult to sell prilled products even at a significantly lower price.

The quality of nitrogen-based fertilisers produced in the former Soviet Union countries is often poorer than those produced by the Company.

The domestic agricultural production of Russia and Ukraine has experienced a 3.5 fold growth rate during the recent couple of years, and hence the domestic market currently absorbs the majority of the fertiliser produced in the local production facilities.

Finally, the European Union has implemented measures to protect its fertiliser markets, with import tariffs currently being imposed on imports of ammonium nitrate-based fertiliser products from certain non-EU countries. A specific duty of EUR 47.07/tonne is applied to imports from Russia, and a specific duty of EUR 32.82/tonne is applied to imports from Ukraine.

Fertilisers Europe (formerly known as “EFMA” or, the European Fertiliser Manufacturers Association), of which the Company is a member, has been actively lobbying the EU to have these specific duties maintained and/or extended. The duties are dictated based on the 661/2008 EU regulation on anti-dumping duty for ammonium nitrate imported from the Russian Federation.

In the longer term, the Company expects that natural gas prices will tend to converge toward the levels then found among the countries of Europe, and which in turn the Company anticipates may have a downward pressure on the inflow of imported nitrogen-based products.

Barriers to Entry

The Company believes that the following barriers of entry should be considered when considering the eventuality of a new competitor establishing a new production site either in Hungary or in the neighbouring countries:

(i) the Company estimates that it would cost a minimum of HUF 100 billion if it or a competitor were to rebuild or build new production facility to their current production scale;

(ii) production of nitrogen-based fertiliser has significant infrastructure requirements which would have to be met, such as a bilateral electricity network, access to continuous water for cooling, and access to gas pipelines;

(iii) construction of a new facility, on the scale of the Company’s but with state-of-the art technology, would be expected to take approximately five years to complete from the date all relevant permissions were obtained;

(iv) fertiliser producers in the EU are required to meet strict security requirements;

(v) if production plants and related technologies are not in the immediate vicinity of each other, then production would suffer due to significant transport costs (with furthermore very specific and thus expensive transport facilities needed (e.g. ammonia can be transported only in liquid form)) of the different components needed for the production process; and

(vi) the final product can viably be distributed and sold within a radius of 1,000 km. Above this distance, transport costs make the product not competitive on the given market from sales price point of view.

MANAGEMENT

Details of the Company's senior management are given below:

László Tibor Bige, Age 53, Chairman-CEO

László Tibor Bige has been the majority owner of the Company since 2002, with a shareholding of 95 per cent.

Mr. L. Bige has founded, developed and managed different companies in Hungary and Romania in the chemical and fertiliser industries. In previous ventures, his responsibilities included purchasing and distributing chemicals and fertilisers as well as scheduling their transportation and delivery to customers. His 25 years of experience in the sector provide him with considerable insights into customer preferences, logistics and distribution dynamics. Mr. L. Bige holds a degree in pharmacology from the Babes-Bolyai University, Kolozsvárand is the board member of the Hungarian Chemical Industry Association.

Chairman of the Board of Directors at the Company.

Zoltán Bige, Age 33, General Manager

Zoltán Bige holds a minority of the Company's shares (5 per cent.) and has been the general manager since 2004. His main responsibilities include risk management and designing and executing the Company's natural gas and power purchasing strategy. Prior to his position at Nitrogénművek, Mr. Z. Bige held different responsibilities in companies in the chemical industry (Bige Holding Ltd.), in the milling and baking industry (SC MOPACO SA) and fruit-growing (Alma Trade Ltd.). He holds a bachelor degree in business administration and management from the University of Corvinus, Budapest. He speaks English fluently.

Member of the Board of Directors at the Company.

Dr. István Blazsek, Age 64, Chief Executive Officer

Dr. István Blazsek has been the chief executive officer at the Company since 2006. After graduating from the Chemical University of Veszprém as a chemical engineer, he went on to obtain a degree in economics from the Budapest University of Economics, specialising in industry. He has been working at the company since 1971 and has held different positions in Technology and Operations departments. In 1992, he was appointed technical director and deputy CEO. Dr. Blazsek is a well-recognized chemical expert who is invited regularly to speak in specialized forums and universities. He is the president of the Foundation for the Environmental Engineering Education at the University of Pannonia, Veszprém and vice-president of the Hungarian Chemical Industry Association and the Chamber of Commerce and Industry, Veszprém. Dr. Blazsek holds a PhD from the Chemical University of Veszprém and is an honourable associate professor at the University of Pannonia. He speaks English fluently.

Member of the Board of Directors at the Company.

Eszter Fábry, Age 58, Chief Finance Officer

Eszter Fábry has been working at the Company since 2001 and was appointed the company's chief financial officer in 2006. Eszter Fábry graduated as an industrial economist from the College of Finance and Accounting in Budapest in 1985, and she went on to specialise in tax and financial control at the College of Finance and Accounting in Zalaegerszeg in 1994. She speaks German fluently.

Member of the Board of Directors at the Company.

Based on a government resolution on the unconditional state payment guarantee related to loans of the Company, the Hungarian Development Bank designated the following Board members from 26 October 2010:

Sándor Ormándi, Board member

László Haraszti, Board member

The designation of the Board members is indeterminate.

The members of the Company's board of directors can be contacted at H-8105 Pétfürdő, Hősök tere 14, Hungary.

Other members of the Company's management team:

János Szilágyi, Age 61, Technical director

János Szilágyi holds a degree in chemical engineering from the Chemical University of Veszprém. He has been working at the Company for 38 years and has held various positions in Technology and Operations departments. From 2001, he was the company's production director and has held his current position since 2007. He speaks English fluently.

Péter Suba, Age 39, Commercial director

Péter Suba has been the head of the commercial division since 2007. He previously worked as a sales manager in various industries such as in the petrochemical segment of the Hungarian Oil Company (MOL), as the Head of Domestic Sales at TVK Group, and in the fast moving consumer goods (FMCG) sector as a channel-manager of the Hungarian affiliate of Pepsi Co. He obtained a Master's degree in Business Administration from the Faculty of Economics and Economic Sciences at the University of Debrecen. He speaks English fluently.

József Medve, Age 56, HR director

József Medve graduated as a chemical engineer from the Budapest University of Technology before obtaining further qualifications in economic engineering in the chemical industry, tax consulting and employment law consulting. He has been working at the Company since 1980, and has held the position of human resources director since 2001.

PRODUCTION SHUTDOWN IN 2008/2009

Under normal circumstances, the Company shuts down its production facilities for approximately one month every two years (during the summer) for maintenance reasons.

Some plants can produce different products; it is the management's decision to switch from one product to another if necessary. Such a change generally only requires a maximum of two hour shut down of the plant.

The global liquidity crisis and abrupt movements in foreign exchange markets in the latter part of 2008 resulted in cashflow issues for the Hungarian agriculture industry because financial institutions curtailed credit to the agricultural sector, and this forced the Company's clients to postpone and reduce their fertiliser purchases.

Due to this situation, the Company was forced to suspend operations from October 2008 until February 2009. During this period, the Company only ran its plants at maintenance level and had to cancel purchases of natural gas under its take-or-pay contracts. The latter resulted in litigation with different natural gas suppliers. See "Litigation – Shell".

In order to restart production the company took a loan in the amount of HUF 10 billion (approximately EUR 35.7 million) from MFB Bank Zrt., to which the Hungarian State has provided a guarantee in accordance with the decision of the Hungarian government. Other Hungarian companies received similar assistance during this period.

The European Commission has concluded that part of the state support granted in 2009 to the Company infringed EU state aid rules. The aid was nevertheless found to be compatible with the Commission's temporary rules for the economic crisis but the remuneration of the State was insufficient and the Hungarian state was therefore be obliged to recover some of the financial benefit which it afforded to the Company. See "Litigation – State Aid".

LITIGATION

Shell

In October 2008, Shell unilaterally modified the payment terms of a contract for gas with the Company by requesting prepayment instead of payment-on-delivery. The Company did not accept this payment term and, therefore, refused to off-take the gas.

Shell sued the Company for an amount of approximately U.S.$ 16 million based on a take-or-pay clause in the contract. In its arbitration award of December 2010, the Arbitration Court ordered the Company to pay the claimed amount, together with ancillary costs. The Company subsequently filed a lawsuit against Shell, aiming to declare the invalidity of the arbitration award. On 16 May 2011 the Municipality Court of Budapest upheld the decision of the Arbitration Court. As a result of this decision, the Company paid an amount equivalent to U.S.$ 15.73 million, together with procedural costs, to Shell. The Company intends to file a petition with the Supreme Court for a revision of the Municipality Court's judgement.

EMFESZ

The Company had filed lawsuit against EMFESZ as a consequence of the latter unilaterally increasing the contractual price of its gas, and terminating gas supply in July 2008. The Company's claims had been partially decided by the Arbitration Court in favour of the Company, and EMFESZ had, therefore, been obliged to pay an amount of approximately EUR 5.5 million. The partial decision was, however, challenged by EMFESZ on the grounds of invalidity of the competent court, but subsequently the court dismissed EMFESZ's action. Following this, EMFESZ applied to the Supreme Court for a legal review of the decision, which was rejected.

In respect of the remaining but yet to be awarded claims of the Company, in the event that the court does not find in favour of the Company, no payment obligation would be expected to fall on the Company other than for the eventual payment of procedural costs (this is owing to the fact that EMFESZ has not yet raised any counterclaim in the lawsuit against the Company).

EMFESZ also filed a lawsuit against the Company expecting the Arbitration Court to rule that the termination of the gas supply contract on their part had been valid, but the Arbitration Court dismissed the action of EMFESZ. EMFESZ subsequently filed a lawsuit against Nitrogénművek, aiming to declare the invalidity of the arbitration award, which procedure is still pending before the Metropolitan Court. In the event that the court does not find in favour of the Company, no payment obligation would be expected to fall on the Company other than for the eventual payment of procedural costs.

Ownership Dispute

In the middle of 2008, a private individual, György Rozsnyói, claimed that he was entitled to exercise a call option in respect of 50 per cent. of the common stock of the Company, and initiated a lawsuit before the competent court asking for the handing over of such common stock. In 2010, the court of first instance (Szabolcs-Szatmár-Bereg County Court) dismissed György Rozsnyói's action on the basis that his option right had ceased to exist when the loan secured by such option right was repaid. The judgement was upheld by the Court of second instance (Court of Appeal Szeged). The judgement is legally binding (final) and may not be appealed, however a petition for review may be submitted to the Supreme Court within 60 days from the receipt of the written judgement on the grounds of infringement of law.

Since the action was initiated, the common stock value of the Company has increased from HUF 528 million to HUF 1.518 billion. Accordingly, the proportion of the common stock which is the subject of György Rozsnyói's claim has been reduced, and it now represents a claim in respect of ownership of 17 per cent. of the common stock of the Company.

The increase in common stock has been recognised by the cognisance Registry Court in Veszprém County and no person or party has contested this or sought legal remedy for this so far. The Hungarian law firm, Kovács Réti Szegheő, has advised the Company that, in that law firm's legal opinion, György Rozsnyói has no viable claim to entitlement in respect of the increased part of the common stock of the Company. However, if György Rozsnyói intends to file for the review of the judgment and his claim is successful, then the shareholdings of Mr. Lászlo Bige might be reduced.

State Aid

The European Commission has concluded that part of the state support granted in 2009 to the Company infringed EU state aid rules. The aid was nevertheless found to be compatible with the Commission's temporary rules for the economic crisis but the remuneration of the state was of an insufficient amount and the Hungarian state was, therefore, obliged to recover some of the financial benefit which has been afforded to the Company. An EU resolution has declared that Hungary must recover the difference between the cost paid by the Company and the relevant interest based on the Commission's temporary rules for the economic crisis.

For the HUF-denominated loan provided by MFB, no additional payment obligation had arisen for the period until 31 December 2010. For the EUR-denominated loan provided by MFB, an additional payment obligation in the amount of EUR 345,640 arose which was duly paid by the Company for the period until 31 December 2010. The Company concluded an agreement with the Hungarian State represented by the Ministry of National Development of Hungary on the amendment of the payment of the guarantee fees previously concluded. According to the agreement, in the period after 31 December the difference between the cost paid by the Company and the relevant interest based on the Commission's temporary rules shall be paid by the

Company to the Hungarian State as a guarantee fee for the interest periods set forth in the loan contracts. Nitrogénművek intends to file an action with the General Court of the European Union against the European Commission for the annulment of the Commission Decision.

RELATED PARTY TRANSACTIONS

The Company has entered into various intra-group transactions with other members of the Bige Holding Group.

The Company purchases from other members of the Group pallets, packaging materials and NPK which it then on-sells to agents and end users. The other members of the Group also take part in the sale of nitrogen-based fertilisers, and "small packaged" nitrogen-based fertiliser products which the Company produces. There can be no assurance that the Issuer would not have been able to obtain different or more favourable terms for such transactions from third parties.

Mr. László Tibor Bige's loan debt to the Company as at 31 December 2010 is HUF 1,108,128,000, and the current outstanding interest is HUF 372,391,000. The expiry date of the loan agreement 3 December 2011. The interest payment obligation according to the loan agreement is the current basis rate of the Central Bank of Hungary plus 5 per cent.

RECENT DEVELOPMENTS

Since 31 December 2010, production has been at maximum capacity and the Company's present intention is to maintain this capacity level up until 31 December 2011. If this is achieved, any investment programmes will be limited to those which can be undertaken despite continuous production.

Short term investment will, therefore, be limited to those projects which are required for compliance with environmental and safety restrictions. Such investments will aim to reduce risks posed by the 10,000 tonnes atmospheric ammonia tank (for instance, by the addition of a safety water curtain, an acoustic emission measurement system and a new lightning protection system). The project design and selection of the contractors has now been completed; the necessary purchases have been made and the implementation of the investment project is currently underway.

A total of EUR 1 million is planned to be spent on these works together with further noise reduction, environmental and safety developments that are also currently under preparation and design stages.

A further investment currently being undertaken is the partial replacement of insulation in the high temperature steam and technology systems in the ammonia plant, together with a corrosion preventive treatment for the structure. The aim of this investment is to decrease the specific natural gas consumption in that facility. The cost is expected to be in the region of HUF 100 million. The constructor has already been selected and works are planned to commence before the end of 2011.

The Company started the corrosion protection and cover replacement for its two fertiliser storage warehouses (with total 70,000 tonnes capacity) in March 2011. The project was finalised in July 2011 at a cost of nearly HUF 500 million.

The Company has also recently commenced the modification of a third fertiliser storage warehouse. After this investment the Company hopes to be able to store 90,000 tonnes fertiliser in bulk. Coupled with this investment, the Company is constructing two high capacity modern big-bag fillers and a filling station for bulk fertiliser. The Company expects that this will significantly increase its filling capacity. The cost of this investment is expected to be up to HUF 500 million. The design, requests for proposals and technical preparations are currently underway. Construction is expected to be completed in the third quarter of 2011.

Taxation

Hungarian Taxation

The following is a general discussion of certain Hungarian tax consequences of the acquisition, ownership and disposition of Notes. It does not purport to be a comprehensive description of all tax considerations which may be relevant to a decision to purchase Notes, and, in particular, does not consider any specific facts or circumstances that may apply to a particular purchaser. This summary is based on the laws of Hungary currently in force and as applied on the date of this Information Memorandum, which are subject to change, possibly with retroactive effect.

Prospective purchasers of Notes are advised to consult their own tax advisers as to the tax consequences of the purchase, ownership and disposition of Notes, including the effect of any state or local taxes, under the tax laws of Hungary and each country in which they are tax resident. The acquisition of the Notes by non-Hungarian tax-resident Noteholders or the payment of interest under the Notes may trigger additional tax payments in the country of tax residence of the Noteholder, which is not covered by this summary but is where the provisions of the treaties on the avoidance of double taxation should be taken into consideration.

Taxation of non-Hungarian tax-resident Noteholders other than individuals

Non-Hungarian tax-resident Noteholders other than individuals are not subject to Hungarian withholding tax on interest received. Profits realised by non-Hungarian tax-resident Noteholders, other than individuals in the form of interest or as capital gains on the sale of the Notes, are not subject to corporate income tax in Hungary, provided that the acquisition, ownership and disposition of the Notes are not attributable to any Hungarian permanent establishment of such Noteholders.

Taxation of individual non-Hungarian tax-resident Noteholders

Individual non-Hungarian tax-resident Noteholders are subject to tax in Hungary only with respect to their Hungarian source income or income that is otherwise taxable in Hungary if an international treaty or reciprocity so requires. Interest received with respect to the Notes is regarded as Hungarian source income if the Issuer obliged to pay the interest is Hungarian tax-resident. In general, such income is subject to a 16 per cent. withholding tax in Hungary. However, provided that Hungary has an applicable treaty on the avoidance of double taxation in place with the country of residence of the Noteholder, such treaty may fully exempt Noteholders from withholding tax or may reduce the applicable withholding tax rate.

Interest, as defined in Schedule 7 of Act XCII of 2003 on the Rules of Taxation (ART) implementing certain provisions of the EU Savings Directive, realised on the Notes by citizens of any Member State of the European Union other than Hungary is not subject to Hungarian withholding tax where the payor (*kifizeto*) of such interest provides data to the Hungarian state tax authority in accordance with Schedule 7 of the ART.

An individual non-Hungarian tax-resident Noteholder, as defined under Schedule 7 of the ART, is not subject to tax in Hungary where such Noteholder realises capital gains income from Hungary since such income is not considered to be Hungarian source income.

Taxation of Hungarian tax-resident Noteholders other than individuals

Under Act LXXXI of 1996 on Corporate Tax and Dividend Tax (Corporation Tax Act), Hungarian resident, non-individual taxpayers are subject to full, all-inclusive corporate income tax liability. Resident entities are those established under the laws of Hungary. Foreign persons having their place of management in Hungary are also considered to be Hungarian resident taxpayers. Taxable income is based on the pre-tax profit as shown in the financial statements and adjusted by certain increasing and decreasing items set forth by tax legislation. Taxable income includes all types of income realised during the financial year, such as interest income and income from capital gains. The regular rate of Hungarian corporate income tax is 10 per cent. in respect of amounts up to 500 million on a before-tax basis, and 19 per cent. thereafter.

Taxation of individual Hungarian tax-resident Noteholders

Individual Hungarian tax-resident Noteholders are subject to tax on their worldwide income. Interest received and capital gains realised with respect to publicly traded debt securities, such as the Notes, are subject to tax at 16 per cent. Individual Hungarian tax residents are persons: (i) who are Hungarian citizens; (ii) whose stay in Hungary exceeds 183 days within a calendar year; (iii) who have a permanent domicile (állandó lakóhely) in Hungary; or (iv) whose centre of vital interests (létérdekek központja) is in Hungary, if they do not have a permanent domicile in Hungary or have permanent domiciles both in Hungary and in any other country.

Luxembourg Taxation

The following summary is of a general nature and is included herein solely for information purposes. It is based on the laws presently in force in Luxembourg, though it is not intended to be, nor should it be construed to be, legal or tax advice. Prospective investors in the Notes should therefore consult their own professional advisers as to the effects of state, local or foreign laws, including Luxembourg tax law, to which they may be subject.

Withholding Tax

Non-resident holders of Notes

Under Luxembourg general tax laws currently in force and subject to the laws of 21 June 2005 (the "**Laws**") mentioned below, there is no withholding tax on payments of principal, premium or interest made to non-resident holders of Notes, nor on accrued but unpaid interest in respect of the Notes, nor is any Luxembourg withholding tax payable upon redemption or repurchase of the Notes held by non-resident holders of Notes.

Under the Laws implementing the EC Council Directive 2003/48/EC of 3 June 2003 on taxation of savings income in the form of interest payments and ratifying the treaties entered into by Luxembourg and certain dependent and associated territories of EU Member States (the "**Territories**"), payments of interest or similar income made or ascribed by a paying agent established in Luxembourg to or for the immediate benefit of an individual beneficial owner or a residual entity, as defined by the Laws, which is a resident of, or established in, an EU Member State (other than Luxembourg) or one of the Territories will be subject to a withholding tax unless the relevant recipient has adequately instructed the relevant paying agent to provide details of the relevant payments of interest or similar income to the fiscal authorities of his/her/its country of residence or establishment, or, in the case of an individual beneficial owner, has provided a tax certificate issued by the fiscal authorities of his/her country of residence in the required format to the relevant paying agent. Where withholding tax is applied, it will be levied at a rate of 15 per cent. during the first three-year period starting 1 July 2005, at a rate of 20 per cent. for the subsequent three-year period and at a rate of 35 per cent. thereafter. Responsibility for the withholding of the tax will be assumed by the Luxembourg paying agent. Payments of interest under the Notes coming within the scope of the Laws would at present be subject to withholding tax of 15 per cent.

Resident holders of Notes

Under Luxembourg general tax laws currently in force and subject to the law of 23 December 2005 (the "**Law**") mentioned below, there is no withholding tax on payments of principal, premium or interest made to Luxembourg resident holders of Notes, nor on accrued but unpaid interest in respect of Notes, nor is any Luxembourg withholding tax payable upon redemption or repurchase of Notes held by Luxembourg resident holders of Notes. Under the Law payments of interest or similar income made or ascribed by a paying agent established in Luxembourg to or for the immediate benefit of an individual beneficial owner who is a resident of Luxembourg will be subject to a withholding tax of 10 per cent. Such withholding tax will be in full discharge of income tax if the beneficial owner is an individual acting in the course of the management of his/her private wealth. Responsibility for the withholding of the tax will be assumed by the Luxembourg paying agent. Payments of interest under the Notes coming within the scope of the Law would be subject to withholding tax of 10 per cent.

EU Savings Directive

Under EC Council Directive 2003/48/EC on the taxation of savings income, Member States are required to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to an individual resident or certain other persons established in that other Member State. However, for a transitional period, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). A number of non-EU countries and territories, including Switzerland, have adopted similar measures (a withholding system in the case of Switzerland).

Subscription and Sale

BNP Paribas has, pursuant to a Subscription Agreement dated 27 July 2011, agreed with the Issuer, subject to the satisfaction of certain conditions, to subscribe the Notes at 99.332 per cent. of their principal amount less an arrangement fee plus accrued interest, if any. A portion of such fee may be re-allowed to certain investors. In addition, the Issuer has agreed to reimburse BNP Paribas for certain of its expenses in connection with the issue of the Notes. The Subscription Agreement entitles BNP Paribas to terminate it in certain circumstances prior to payment being made to the Issuer.

BNP Paribas will make offers and sales into the United States through United States registered broker dealer affiliates.

BNP Paribas and its affiliates have performed and are expected to perform in the future various financial advisory, investment banking and commercial banking services for, and may arrange loans and other non-public market financing for, and enter into derivative transactions with, the Issuer and its affiliates.

General

Neither the Issuer nor BNP Paribas has made any representation that any action will be taken in any jurisdiction by BNP Paribas or the Issuer that would permit a public offering of the Notes, or possession or distribution of this Information Memorandum (in preliminary, proof or final form) or any other offering or publicity material relating to the Notes (including roadshow materials and investor presentations), in any country or jurisdiction where action for that purpose is required. BNP Paribas has agreed that it will comply, to the best of its knowledge and belief, in all material respects, with all applicable laws and regulations in each jurisdiction in which it acquires, offers, sells or delivers Notes or has in its possession or distributes this Information Memorandum (in preliminary, proof or final form) or any such other material, in all cases at its own expense. It will also ensure that no obligations are imposed on the Issuer in any such jurisdiction as a result of any of the foregoing actions.

United States

The Notes have not been and will not be registered under the Securities Act and Notes are subject to United States tax law requirements. Subject to certain exemptions, Notes may not be offered, sold or delivered within the United States or to United States persons. BNP Paribas has represented and agreed that it has not offered, sold or delivered and will not offer, sell or deliver any Notes within the United States or to United States Persons, except as permitted in the Subscription Agreement.

In addition, until 40 days after the commencement of the offering, an offer or sale of Notes within the United States by a dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act.

United Kingdom

BNP Paribas has represented and agreed that:

(a) it has only communicated or caused to be communicated, and will only communicate or cause to be communicated, an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000 ("**FSMA**") received by it in connection with the issue or sale of the Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and

(b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

Hungary

BNP Paribas has represented and agreed that if the Notes are offered in a private placement in Hungary (i) all written documentation prepared in connection with a private placement in Hungary will clearly indicate that it is a private placement; (ii) it will ensure that all investors receive the same information which is material or necessary to the evaluation of the Issuer's current market, economic, financial or legal situation and its expected development, including that which was discussed in any personal consultation with an investor; and (iii) the following standard wording will be included in all such written communication:

"PURSUANT TO SECTION 18 OF ACT CXX OF 2001 ON THE CAPITAL MARKETS, THIS -*NAME OF DOCUMENT*- WAS PREPARED IN CONNECTION WITH A PRIVATE PLACEMENT IN HUNGARY."

General Information

1. Application has been made to the Luxembourg Stock Exchange for the Notes to be admitted to the Official List and to be admitted to trading on the Euro MTF market.

2. The Issuer has obtained all necessary consents, approvals and authorisations in Hungary in connection with the issue and performance of the Notes. The issue of the Notes was authorised by a decision of the general meeting of the Company passed on 17 May 2011.

3. There has been no significant change in the financial or trading position of the Issuer or of the Group since 31 December 2010 and no material adverse change in the financial position or prospects of the Issuer or of the Group since 31 December 2010.

4. Neither the Issuer nor any of its Subsidiaries is nor has been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware) during the 12 months preceding the date of this Information Memorandum, which may have or has had in the recent past significant effects on the financial position or profitability of the Issuer or the Group.

5. Each Bearer Note and Coupon will bear the following legend: "*Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in Sections 165(j) and 1287(a) of the Internal Revenue Code*".

6. The Notes have been accepted for clearance through the Euroclear and Clearstream, Luxembourg systems (which are the entities in charge of keeping the records) with a Common Code of 065364816. The ISIN for the Notes is XS0653648161.

   The address of Euroclear is 1 Boulevard du Roi Albert II, B-1210 Brussels, Belgium and the address of Clearstream, Luxembourg is 42 Avenue JF Kennedy L-1855 Luxembourg.

7. There are no material contracts entered into other than in the ordinary course of the Issuer's business, which could result in any member of the Issuer's group being under an obligation or entitlement that is material to the Issuer's ability to meet its obligations to Noteholders in respect of the Notes being issued.

8. Where information in this Information Memorandum has been sourced from third parties, this information has been accurately reproduced, and, as far as the Issuer is aware and is able to ascertain from the information published by such third parties, no facts have been omitted which would render the reproduced information inaccurate or misleading. The source of third party information is identified where used.

9. For as long as the Notes are listed on the Luxembourg Stock Exchange, and starting on the date on which this Information Memorandum is made available to the public, copies (and English translations where the documents in question are not in English) of the following documents will be available, during usual business hours on any weekday (Saturdays and public holidays excepted), at the office of the Issuer:

   (a) the Trust Deed (which includes the form of the Global Notes, the definitive Bearer Notes, the Coupons and the Receipts);

   (b) the Memorandum and Articles of Association of the Issuer;

   (c) the published annual report and audited accounts of the Issuer for the three financial years ended 31 December 2008, 31 December 2009 and 31 December 2010;

(d) a copy of this Information Memorandum together with any supplement to this Information Memorandum or further Information Memorandum; and

(e) all reports, letters and other documents, balance sheets, valuations and statements by any expert any part of which is extracted or referred to in this Information Memorandum.

10. KPMG Hungária Kft. have audited, and rendered unqualified audit reports on, the accounts of the Company for the years ended 31 December 2008, 31 December 2009 and 31 December 2010 in accordance with International Financial Reporting Standards. The auditors of the Company are members of *Magyar Könywizsgálói Kamara* (the Chamber of Hungarian Auditors).

Index to Financial Statements

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This is an English translation of the Independent Auditor's Report on the 2010 Consolidated Financial Statements of Nitrogénművek Zrt. issued in Hungarian. If there are any differences, the Hungarian language original prevails. This report should be read in conjunction with the complete Consolidated Financial Statements it refers to.

Independent Auditors' Report

To the shareholders of Nitrogénművek Zrt

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Nitrogénművek Zrt. ("the Company"), which comprise the consolidated statement of financial position as at 31 December 2010, the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with 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.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our 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, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

KPMG

This is an English translation of the Independent Auditor's Report on the 2010 Consolidated Financial Statements of Nitrogénművek Zrt. issued in Hungarian. If there are any differences, the Hungarian language original prevails. This report should be read in conjunction with the complete Consolidated Financial Statements it refers to.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Company as at 31 December 2010, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by EU.

Budapest, 17 May 2011

KPMG Hungária Kft.

László Kajtár
Partner, Professional Accountant
Registration number: 000269

Nitrogénművek Vegyipari Zártkörűen Működő Részvénytársaság

Consolidated Financial Statements
2010

prepared in accordance with
International Financial Reporting Standards
as adopted by the EU

Pétfürdő, 17 May 2011

Nitrogénművek Zrt.

Dr. István Blazsek
Chief Executive Officer

Consolidated statement of financial position

Description	Note	2010	2009
ASSETS			
Non-current assets			
Property, plant and equipment	(1)	29,024,486	29,567,045
Intangible assets	(2)	134,651	101,130
Investments	(4)	17,297	33,869
Other non-current assets	(5)	1,165,858	763,542
Deferred tax assets	(22)	53,709	71,664
Total non-current assets		30,396,001	30,537,250
Current assets			
Inventories	(6)	11,250,147	12,670,545
Emission allowances	(3)	193,054	91,549
Current tax assets		82,584	256,574
Trade receivables	(7)	6,250,068	7,866,512
Other financial assets and derivatives	(8)	10,540,917	10,407,548
Other receivables	(9)	1,664,706	1,823,878
Cash and cash equivalents	(10)	9,768,409	4,296,972
Assets classified as held for sale	(11)	37,012	79,908
Total current assets		39,786,897	37,493,486
TOTAL ASSETS		**70,182,898**	**68,030,736**

Nitrogénművek Zrt.

Pétfürdő, 17 May 2011

Dr. István Blazsek
Chief Executive Officer

Consolidated statement of financial position (continued)

Description	Note	2010	2009
EQUITY AND LIABILITIES			
Equity			
Share capital	(12)	1,518,000	1,518,000
Translation reserve	(13)	5,819	736
Hedging reserve		0	0
Retained earnings	(14)	16,877,450	12,092,148
Total equity attributable to equity holders of the Company		18,401,269	13,610,884
Total equity		18,401,269	13,610,884
Liabilities			
Non-current liabilities			
Loans and borrowings	(15)	16,370,977	21,562,957
Other non-current financial liabilities	(16)	1,258,044	650,614
Other non-current liabilities	(17)	7,782,113	8,255,499
Provisions	(21)	0	40,000
Deferred tax liability	(22)	410,870	1,042,265
Total non-current liabilities		25,822,004	31,551,335
Current liabilities			
Loans and borrowings	(15)	5,881,270	8,384,850
Current tax liabilities		624	143
Trade payables	(18)	2,372,358	2,854,175
Other financial liabilities and derivatives	(19)	3,818,933	216,659
Other current liabilities	(20)	13,366,351	10,811,401
Provisions	(21)	520,089	601,289
Total current liabilities		25,959,625	22,868,517
TOTAL EQUITY AND LIABILITIES		**70,182,898**	**68,030,736**

Nitrogénművek Zrt.

Pétfürdő, 17 May 2011

Dr. István Blazsek
Chief Executive Officer

Consolidated statement of comprehensive income

Description	Note	2010	2009
Revenue	(23)	54,820,422	44,756,033
Other income	(24)	5,064,488	2,869,022
Total operating income		59,884,910	47,625,055
Material-type expenses	(25)	41,202,107	29,859,832
Staff costs	(26)	4,536,992	3,602,915
Depreciation and impairment	(1,2)	1,613,999	1,598,960
Other expenses	(27)	5,854,805	1,825,720
Changes in self-manufactured stocks		210,857	2,002,623
Capitalised value of self-manufactured assets		-314,363	3,205
Total operating expenses		53,104,397	38,893,255
Results from operating activities		6,780,513	8,731,800
Finance income		1,202,406	1,979,994
Finance costs		3,029,206	5,717,038
Finance losses/gains	(28)	-1,826,800	-3,737,044
Profit before income tax		4,953,713	4,994,756
Income tax expense	(29)	168,411	1,194,770
Profit for the period		4,785,302	3,799,986
Other comprehensive income			
Translation difference		5,083	1,580
Effective portion of changes in fair value of cash flow hedges		0	0
Net change in fair value of cash flow hedges transferred to profit or loss		0	0
Income tax on other comprehensive income		0	0
Total other comprehensive income		**5,083**	**1,580**
Total comprehensive income for the period		**4,790,385**	**3,801,566**
Profit for the period attributable to:			
Owners of the Company		4,785,302	3,799,986
Comprehensive income for the period attributable to:			
Owners of the Company		4,790,385	3,801,566

Nitrogénművek Zrt.

Pétfürdő, 17 May 2011

Dr. István Blazsek
Chief Executive Officer

Consolidated statement of changes in equity

			Attributable to equity holders of the Company								
	Note	Equity	Share capital	Translation reserve	Hedging reserve	Revaluation reserve	Fair value reserve	Retained earnings	Total	Non-controlling interest	Total equity
Balance at 1 January 2009			**528,000**	**-844**				**8,124,102**	**8,651,258**		**8,651,258**
Profit for the period								3,799,986	3,799,986		3,799,986
Other comprehensive income											
Translation difference				1,580					1,580		1,580
Effective portion of changes in fair value of cash flow hedges, net of tax											
Net change in fair value of cash flow hedges transferred to profit or loss, net of tax											
Net change in fair value of available-for-sale financial assets, net of tax											
Net change in fair value of available-for-sale financial assets transferred to profit or loss, net of tax											
Total other comprehensive income				***1,580***					***1,580***		***1,580***
Total comprehensive income				***1,580***				***3,799,986***	***3,801,566***		***3,801,566***
Transactions with owners, recorded directly in equity											
Contributions by and distributions to owners								168,060	168,060		168,060
Issue of shares			990,000						990,000		990,000
Dividends											
Total transactions with owners			***990,000***					***168,060***	***1,158,060***		***1,158,060***
Balance at 31 December 2009			**1,518,000**	**736**				**12,092,148**	**13,610,884**		**13,610,884**

Nitrogénművek Zrt.

Pétfürdő, 17 May 2011

Dr. István Blazsek
Chief Executive Officer

Consolidated statement of changes in equity (continued)

	Note	Equity	Attributable to equity holders of the Company								
			Share capital	Translation reserve	Hedging reserve	Revaluation reserve	Fair value reserve	Retained earnings	Total	Non-controlling interest	Total equity
Balance at 1 January 2010			**1,518,000**	**736**				**12,092,148**	**13,610,884**		**13,610,884**
Profit for the period								4,785,302	4,785,302		4,785,302
Other comprehensive income											
Translation difference				5,083					5,083		5,083
Effective portion of changes in fair value of cash flow hedges, net of tax											
Net change in fair value of cash flow hedges transferred to profit or loss, net of tax											
Net change in fair value of available-for-sale financial assets, net of tax											
Net change in fair value of available-for-sale financial assets transferred to profit or loss, net of tax											
Total other comprehensive income				5,083					5,083		**5,083**
Total comprehensive income				5,083				**4,785,302**	***4,790,385***		***4,790,385***
Transactions with owners, recorded directly in equity											
Contributions by and distributions to owners											
Issue of shares											
Dividends											
Total transactions with owners											
Balance at 31 December 2010			1,518,000	5,819				16,877,450	18,401,269		18,401,269

Nitrogénművek Zrt.

Pétfürdő, 17 May 2011

Dr. István Blazsek
Chief Executive Officer

Consolidated statement of cash flows

Description	Note	2010	2009
Profit after tax		4,785,302	3,799,986
Depreciation, amortisation and impairment	(1,2)	1,704,559	1,613,086
Impairment and reversal on inventories	(6)	1,637	1,769
Impairment on receivables and reversal thereof		32,473	7,202
Increase/Decrease in provisions	(21)	-121,200	240,888
Gains/Losses on sale of property, plant and equipment		-5,315	-7,430
Unrealised exchange gains/losses		348,005	300,123
Decrease/Increase in inventories	(6)	1,418,761	1,645,164
Decrease/Increase in available-for-sale assets		42,896	0
Decrease/Increase in emission allowances	(3)	-101,505	-91,549
Increase/Decrease in trade receivables		1,660,060	-2,802,877
Decrease/Increase in other financial assets		-122,482	-3,200,760
Decrease/Increase in other receivables		330,653	-59,533
Decrease/Increase in other assets		-402,316	-741,434
Decrease/Increase in other non-current liabilities	(17)	-473,386	1,627,752
Decrease/Increase in trade payables		-426,111	-2,422,157
Decrease/Increase in other financial liabilities		3,674,448	81,599
Decrease/Increase in other current liabilities		2,554,950	1,154,441
Net change in income tax assets, liabilities		-438,969	1,172,054
Change in receivables and liabilities from derivative transactions		0	0
Cash flows from operating activities		14,462,460	2,318,324
Interest income		-244,478	-307,356
Interest expense		1,638,741	2,727,986
Income tax paid		-171,481	-359,297
Net cash flows from operating activities		**15,685,242**	**4,379,657**

Nitrogénművek Zrt.

Pétfürdő, 17 May 2011

Dr. István Blazsek
Chief Executive Officer

Consolidated statement of cash flows (continued)

Description	Note	2010	2009
Dividends received		0	0
Interest received		233,697	306,430
Acquisition of property, plant and equipment	(1,2)	-1,276,854	-862,922
Sale of property, plant and equipment	(1,2)	7,190	17,627
Granting and repayment of loans		15,487	144,101
Disbursement/Repayment of loans to employees		1,279	848
Proceeds from sale of subsidiaries and business units		0	0
Cash used for acquisition of subsidiaries, business units		0	0
Net cash flows from investing activities		**-1,019,201**	**-393,916**
Issue of shares		0	990,000
Borrowings	(15)	7,914,445	26,726,063
Repayment of loans and borrowings	(15)	-15,403,217	-26,341,515
Dividends paid		0	0
Interest paid	(28)	-1,710,915	-2,710,690
Net cash flows from financing activities		**-9,199,687**	**-1,336,142**
Net changes in cash and cash equivalents		**5,466,354**	**2,649,599**
Cash and cash equivalents at 1 January	(10)	4,296,972	1,645,793
Effect of exchange rate fluctuations on cash held		5,083	1,580
Cash and cash equivalents at 31 December	(10)	**9,768,409**	**4,296,972**

Nitrogénművek Zrt.

Pétfürdő, 17 May 2011

Dr. István Blazsek
Chief Executive Officer

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 31 DECEMBER 2010

I. GENERAL

Nitrogénművek Zrt. (hereinafter referred to as "the Company") was established on 1 February 1990. Registered office: 8105 Hungary, Pétfürdő, Hősök tere 14.

The consolidated financial statements of the Company as at and for the year ended 31 December 2009 comprise the Company and its subsidiaries (together referred to as the "Group" and individually as "Group entities").
Péti Gépészeti Kft. and Péti VMA Kft. were wound up through voluntary liquidation in 2010, the related interests were derecognised, and the assets and liabilities of the companies were taken over by Nitrogénművek Zrt., thus the liquidation had no impact on the consolidated financial statements.

In the period covered by the consolidated financial statements the Company held no interest in associates or jointly controlled entities.

The Group primarily is involved in the manufacture of artificial fertilisers containing solid nitrogen and nitrogen solution. The group also manufactures industrial gases (argon, hydrogen, nitrogen).

Group subsidiaries:

Company	Country	Scope of activities	Ownership share in 2010	Ownership share in 2009
Nádudvari Agrokémiai Kft.	Hungary	Manufacture and distribution of artificial fertilisers and nitrogen compounds	100%	100%
Nitrogén – Pinkerton Kft.	Hungary	Investigation and security services	53.33%	53.33%
Nitropet Deutschland GmbH.	Germany	Retail and wholesale	100%	100%
Nitropet Italia S.R.L.	Italy	Retail and wholesale	100%	100%
NITROPÉT Slovakia s.r.o.	Slovakia	Retail and wholesale of agricultural products and chemicals	51%	51%
NITRO PET d.o.o.	Serbia	Transportation and agency activities; retail distribution of chemical products and artificial fertilisers	100%	100%
PÉTI NITROKOMPLEX Kft.	Hungary	Manufacture, packaging and distribution of artificial fertilisers	100%	100%
Péti Polietilén Zsák Kft.	Hungary	Manufacture and distribution of polythene packaging materials	100%	100%
SC BH CHEMICAL IMPEX S.R.L.	Romania	Wholesale of chemical products	100 %	100 %
RSR Nitro Kft. "under v.l."	Hungary	Logistics	100 %	100 %

1. ADOPTION, STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION

(a) Adoption and statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU.

The consolidated financial statements were authorised for issue by the Annual General Meeting on 17 May 2011.

(b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for the following material items in the statement of financial position:

- available-for-sale financial assets are measured at fair value.

The financial year corresponds to the calendar year.

(c) Functional and presentation currency

These consolidated financial statements are presented in Hungarian forint (HUF), which is the Company's functional currency. The functional currency of each subsidiary is the currency of the country where the relevant subsidiary is registered, since selling prices are typically determined by the economy of the country where the subsidiary is active.
Financial information presented in forint has been rounded to the nearest thousand (THUF), while information presented in other currencies has been rounded to one currency unit.

(d) Use of estimates and judgments

The preparation of the consolidated financial statements in conformity with the following accounting policies requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements relating to the following areas is included in Note 4.

- determination of useful lives of items of property, plant and equipment
- valuation of emission reduction units (ERU)
- recovery of deferred tax assets
- recovery of investment tax credit

2. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by Group entities.

(a) Basis of consolidation

Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group.

Acquisition of entities under common control

Acquisitions whereby an entity that is under the control of the shareholder that controls the Group, are accounted at the date of acquisition by recognising the acquired assets and liabilities at the carrying amounts recorded previously in the books of the acquired entity. The components of equity of the acquired entity are added to the same components within Group equity. Any cash paid for the acquisition is recognised directly in equity. The part of cash paid for the acquisition in excess to the net asset value acquired is recognised as a deduction from retained earnings.

Transactions eliminated on consolidation

Intra-group balances, and any unrealised income and expenses arising from intra-group transactions are eliminated in preparing the consolidated financial statements.

(b) Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in the consolidated profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments and differences from cash flow hedges, which are recognised in other comprehensive income. Non-monetary items measured at cost are translated using the exchange rate at the date of the transaction.

(ii) Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments, if any, arising on acquisition, are translated to the presentation currency at exchange rates at the reporting date. The income and expenses of foreign operations are translated to the presentation currency at exchange rates at the dates of the transactions.

Foreign currency differences are recognised in other comprehensive income in the foreign currency translation reserve. When a foreign operation is disposed of, in part or in full, the relevant amount in the translation reserve is transferred to profit or loss.

When the settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely in the foreseeable future, foreign exchange gains and losses arising from such a monetary item are considered to form part of a net investment in a foreign operation and are recognised within other comprehensive income in the translation reserve.

(c) Financial instruments

Non-derivative financial instruments

The Group initially recognises loans and receivables, sight deposits and borrowings on the date that they are originated. All other financial instruments are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred.
The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market.
Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale and that are not classified in any of the other categories of financial assets. The Group's investments in equity and debt securities are classified as available-for-sale financial assets.
Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to

initial recognition, they are measured at fair value and changes therein, other than impairment losses and foreign currency differences on equity instruments, are recognised in other comprehensive income and presented within equity in the fair value reserve. When an investment is derecognised, the cumulative gain or loss in other comprehensive income is transferred to profit or loss. However, if an equity investment has no quoted price in an active market and its fair value cannot be measured reliably, it is measured subsequent to initial recognition at cost less impairment.

Other financial liabilities

Financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortised cost using the effective interest method.

(d) Equity

Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity, net of any tax effects.

(e) Property, plant and equipment

Recognition and Measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the assets and restoring the site on which they are located, as well as borrowing costs attributable to the acquisition, construction or production of a qualifying asset.

Purchased software that is integral to the functionality of the related equipment increases the cost of that equipment.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and are recognised net within other income or other expenses in profit or loss.

Subsequent costs

The cost of replacing a part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group, and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

Depreciation

Depreciation is calculated over the cost of an asset, less its residual value.
Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Leased assets under finance lease are depreciated over their useful lives, since the Group will obtain ownership by the end of the lease term. Land is not depreciated.
The residual value of production plants and related production machinery and equipment is zero, since their expected useful lives correspond to their expected economic lives, considering that the Group intends to use such assets until exhaustion.

The estimated useful lives for the current and comparative period are as follows:

- buildings 35-50 years
- plant and equipment 5-35 years
- fixtures and fittings 2 years

Depreciation methods, useful lives and residual values are reassessed annually at each reporting date.

(f) Intangible assets

Measurement

Other intangible assets that are acquired by the Group and have finite useful lives are measured at cost less accumulated amortisation and accumulated impairment losses.

Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in profit or loss as incurred.

Amortisation

Amortisation is calculated over the cost of the asset, less its residual value.
Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, from the date that they are available for use.

The estimated useful lives for the current and comparative period are as follows:

- rights and concessions 2-5 years

(g) Leased assets

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.
Other leases are operating leases and the leased assets are not recognised in the Group's statement of financial position.

(h) Inventories

Inventories are measured at the lower of cost and net realisable value.
Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

Purchased inventories

The cost of purchased inventories is determined based on average weighted purchase price and includes direct acquisition expenditure incurred, as well as costs incurred in bringing the inventories to their existing location and condition.

Manufactured inventories

Cost of manufactured inventories is determined based on their direct production cost on the reporting date and includes production or conversion costs and other costs incurred in bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity.

(i) Emission allowances, emission reduction units (ERU)

Carbon dioxide (CO2) quota

The Group receives emission allowances free of charge in Hungary as part of the European Emission Trading System since it emits greenhouse gases. These allowances are valid until the end of a pre-determined emissions period. The allowances are credited each year based on the National Allocation Plan. The group must settle its liability based on actual emissions by surrendering the emission allowances. In the event the actual emissions exceed the quantity of emission allowances received, the difference may be purchased from a third party to settle the liability.
The initial measurement of emission allowances received free of charge is at fair value as of the acquisition date, which is the market price traded on the active market (bluenext.com). See Note I.2.q. These allowances received free of charge are recognised as emission allowances under fixed assets or current assets as part of intangible assets. Emission allowances purchased from third parties are initially measured at the same amount paid for the allowances. Thereafter the emission allowances are measured at cost net of impairment. Emission allowances are not amortised.
Emission allowances can be sold on the market while valid. Emission allowances are derecognised when sold, or when surrendered to settle liability based on actual emissions.
Emission allowances to be surrendered within one year are recognised under current assets.
The Group records provisions for liabilities which arise on account of actual emissions. Provisions are measured based on a best estimate of the expense required to settle the liability prevailing as of the reporting date. See Note I.2.m.

Dinitrogen oxide (N_2O) emission reduction units

The quantity of emission reduction units (ERU) in the acid plant (JI project) changes every year depending on production and the level of emission reduction achieved. In connection with the company's JI project and in line with the Kyoto Protocol, the state must be informed of the emission reduction achieved, which involves submitting a verified report to the Minister of Environment and Water; once in possession of the approval and the emissions reduction purchase agreement (ERPA) an application must be made for the state to transfer the

emission reduction units to the Company's clients who are contracted for emission units (Kommunalkredit Public Consulting GmbH, UHDE GmbH). When the ERUs are transferred they are recognised in the consolidated profit or loss as other income at the values stated in the purchase agreements.
If the Group becomes entitled to emission reduction units, but they have not been transferred, then these emission reduction units are recognised as part of intangible assets as emission allowances under current assets. The initial measurement of emission reduction units received free of charge is at fair value as of the acquisition date, which is the market price traded on the active market (bluenext.com). See note I.2.q. For lack of any active market the price is based on available market information, a price that would be applied between two informed and willing independent parties. Since there was no active market for ERUs in the reporting year, and the purchase agreements are generally not public, the group construed the market price to be the price stated in the previous purchase agreement.

(j) Impairment

Financial assets

A financial asset is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that one or more events had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost can also be objective evidence of impairment.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are accounted as other expenses in profit or loss. Interest on the impaired asset continues to be recognised through the unwinding of the discount.

Individually significant financial assets are tested for impairment on an individual basis.Other financial assets are grouped together based on similar credit risk characteristics and are assessed for impairment collectively.

Impairment losses on available-for-sale financial assets are recognised by transferring the cumulative loss that has been recognised in other comprehensive income, and presented in the fair value reserve, to profit or loss. The cumulative loss that is transferred to profit or loss is the difference between the cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost and available-for-sale financial assets that are debt securities, the reversal is recognised in profit or loss. In the case of available-for-sale equity securities, the reversal is recognised in other comprehensive income.

Non-financial assets

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.
In the case of emission allowances, fair value less costs to sell is a good approximate for the recoverable amount, and since costs to sell are negligible, the Group considers the price as at the reporting date quoted in an active market to be the recoverable amount, if available, otherwise the market price determined based on information available (see Note I.2).
For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets ("cash-generating unit or CGU").

Assets not involved directly in production do not generate separate cash inflows. If there is an indication that such an asset may be impaired, then the recoverable amount is determined for the CGU to which the asset belongs.

An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses recognised in respect of CGUs are allocated to the assets in the unit in proportion to their carrying amounts. All impairment losses are recognised in profit or loss.

In respect of assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(k) Non-current assets held for sale

Non-current assets, or disposal groups comprising assets and liabilities, that are expected to be recovered primarily through sale rather than through continuing use, are classified as held for sale. Immediately prior to the classification as held for sale the assets (or components of the disposal group) are remeasured in accordance with the Group's accounting policies. Thereafter, the assets (or disposal group) are measured at the lower of the carrying amount and the fair value less cost to sell.
Impairment losses on initial classification as held for sale and subsequent gains or losses on remeasurement are recognised in profit or loss. Gains are not recognised in excess of any cumulative impairment loss.

(l) Employee benefits

Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an employee benefit expense in profit or loss in the periods during which services are rendered by employees. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

Termination benefits

Termination benefits are recognised as expense when the Group is demonstrably committed to a detailed formal plan to terminate employment before the normal retirement date or to provide termination benefits as a result of an offer made in order to encourage voluntary redundancy, without a realistic possibility of withdrawal. Termination benefits for voluntary redundancies are recognised as expense if the Group has made an offer encouraging voluntary redundancy, it is probable that the offer will be accepted and the number of acceptances can be estimated reliably.

Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.
A liability is recognised for the amount expected to be paid under short-term cash bonus if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(m) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be measured reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. When unwinding the discount representing elapse of time the balance sheet value of the provision increases year-by-year by the effect of discount. The increment is accounted as interest expense.

Provisions are typically allocated for emission quotes, termination benefits and early retirement pensions, disputes and environmental protection liabilities.

Emission quotas

The Group allocates provisions for the liability to deliver emission allowances based on actual carbon dioxid emission (see Note I.2), the amount of which is set to the extent of emission allowances existing at the reporting date based on their carrying amount and for liabilities not covered by existing emission allowances based on market value of emission allowances as at the reporting date, since such liabilities can be settled by purchasing emission allowances.

Provisions for termination benefits and early retirement pensions

Provisions for termination benefits and early retirement pensions connected to redundancies are recognised, if by the reporting date the Group created justified expectations on the part of employees relating to the redundancy. As a prerequisite, the redundancy plan has to be approved by the Board and communicated to those concerned by the reporting date.
The provision is allocated based on best estimate relating to the costs incurred. Where the liability will be settled several years later, the amount booked is the present value of expected future costs.

Provisions for environmental protection liabilities

Provisions for environmental protection costs are recognised if environmental remediation is probable and related costs are reliably quantifiable. The provision is accounted generally parallel to the acceptance of a relevant formal plan or task, if it is earlier, to the sale or closing down of inactive places. The provision is allocated based on best estimate relating to the costs incurred. Where the liability will be settled several years later, the amount booked is the present value of expected future costs.

(n) Revenues

Goods sold
Revenue is recognised when economic benefit in connection with the transaction is likely to inflow to the Group and its amount can be measured reliably. Revenue is booked net of taxes related to sales and discounts when goods are delivered or services provided and risks and rewards are transferred.

Revenue from the sale of goods is measured at the fair value of the consideration net of returns, trade discounts and volume rebates. Revenue does not include value added tax.
Revenue from the sale of goods is recognised when all the following conditions are met:

- persuasive evidence exists, usually in the form of an executed sales supply agreement, that the significant risks and rewards of ownership have been transferred to the buyer;
- the Group has no actual control over the goods and there is no continuing management involvement with the goods;
- the consideration can be measured reliably;
- financial settlement of the consideration is probable; and
- the associated costs and possible return of goods can be estimated reliably.

The Group sells its products on domestic markets in a "bill and hold" system. In the case of bill and hold transactions revenue is booked when all the following conditions are met in addition to the above:

- the buyer obtains ownership;
- it is probable that delivery will take place
- the goods are ready for delivery, physically separated under the name of the buyer;
- the buyer expressly acknowledges the demand for subsequent delivery,
- normal payment terms apply;

or if one or more of these conditions are not met, revenue is booked at the latest when the buyer obtains ownership and delivery takes place.

The timing of the transfers of risks and rewards varies depending on the individual terms of the contract of sale. If transportation is carried out by the Group, usually transfer occurs when the product is received at the destination indicated by the customer; however, for shipments arranged by the costumer, transfer occurs upon loading the goods onto the carrier of the transporter. For inventories stored at the customer's site (as an external venue), transfer occurs when the goods are released from warehouse for the given customer.

If it is probable that discounts will be granted and the amount can be measured reliably, then the discount is recognised as a reduction of revenue as the sales are recognised.

Services

Revenue from services rendered is recognised in profit or loss in proportion to the stage of completion of the transaction at the reporting date. The stage of completion is assessed by reference to surveys of work performed.

Revenue from services is recognised when all the following conditions are met:

- the consideration can be measured reliably;
- financial settlement of the consideration is probable; and
- the associated costs can be estimated reliably.

Commissions

When the Group acts in the capacity of an agent rather than as the principal in a transaction, the revenue recognised is the net amount of commission made by the Group and it is booked when conditions listed in point

(ii) are met.

Usually the Group sells the products of its related companies in the capacity of an agent. Revenue is booked when sale takes place based on the contract concluded by the principal and the customer and the Group is entitled to receive the commission.

Rental income

Rental income from operative leases is recognised evenly over the term of the lease in the profit or loss. Lease incentives granted are recognised as an integral part of the total rental income, over the term of the lease.

(o) Lease payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

(p) Finance income and expense

Finance income comprises the following: interest income on funds invested (including available-for-sale financial assets), dividend income, exchange gains on FX items and gains on the disposal of available-for-sale financial assets. Interest income is recognised as it accrues in profit or loss, using the effective interest method. Dividend income is recognised in profit or loss on the date that the Group's right to receive payment is established, which in the case of quoted securities is the ex-dividend date, while for unlisted securities it is the date when the relevant authorised body makes decision relating to distribution.

Finance expenses comprise the following: interest expense on borrowings, unwinding of the discount on provisions, exchange losses on FX items and impairment losses recognised on available-for-sale financial assets.

(q) Government grants

An unconditional government grant is recognised in profit or loss, if it will be received.
Other government grants are recognised in profit or loss when there is reasonable assurance that they will be received and the Group will comply with the conditions associated with the grant.
Grants related to asset purchases are booked at fair value as deferred income and are recognised in profit or loss as other income in proportion to expensing the asset.
Grants that compensate the Group for expenses incurred (including government grants received in the form of emission allowances received free of charge, see Note I.2.i) are recognised in profit or loss as other income at fair value in the same periods in which the expenses are incurred. Investment tax credits are recognised similarly to government grants related to asset purchases.

(r) Income tax

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries to the extent that they probably will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(s) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2009, and have not been applied in preparing these consolidated financial statements. None of these expected to have an effect on the consolidated financial statements of the Group.

3. DETERMINATION OF FAIR VALUES

The Group's accounting policies and disclosures require the determination of fair value for financial instruments. Fair values have been determined for measurement and disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the individual notes.

(a) Trade receivables, other financial assets not arising from derivative transactions

Fair value of trade receivables and other financial assets for disclosure is determined based on present value of future cash flows discounted at market rate as of the reporting date.

(b) Trade payables, other financial liabilities not arising from derivative transactions

Fair value of trade payables and other financial liabilities for disclosure purposes is determined based on present value of future principal and interest cash flows discounted at market rate as of the reporting date.

4. IMPORTANT ACCOUNTING ASSUMPTIONS AND ESTIMATES

Critical estimates and assumptions

When applying accounting policies detailed in Section 2, management of the Group used certain assumptions which have an impact on the reported amounts (apart form effects of estimates). These key assumptions are:

- Emission reduction units (ERU): ERUs are initially measured at market price, however, since in the reporting year ERUs had no active market and sale agreements are typically not public, the Group deemed the price set forth in the sale agreement already concluded to be the market price.

Estimation uncertainties

The preparation of financial statements in conformity with IFRSs requires the use of estimates that affect the amounts presented in the consolidated financial statements and the related notes. These estimates are based on management's best knowledge of current events, however, actual results may differ from these estimates. These most important estimates are described below:

- Useful lives of property, plant and equipment: The estimate of the useful lives of property, plant and equipment was made based on the technical content of the assets and past experience of the individual asset types, such as the frequency of replacements and faults. The fact that the actual useful life of the assets can differ depending on the capacity in use, technology changes or technical factors does cause some uncertainty, and therefore the Group analyses on an annual basis whether the previous estimate is still pertinent, and revises the useful life estimate where necessary.

- Recovery of deferred tax liabilities: Recovery of deferred tax liability is subject to future taxable profit. The availability of future taxable profits is supported by a business plan that is prepared for a period in relation to which the Group is able to prepare a reliable plan.

- Use of investment tax credits: The use of investment tax credits depends on future taxable profits. The Group confirms the availability of future taxable profits with a business plan, prepared for the period that the investment tax credits may be used. The recovery of investment tax credits is contingent upon the uncertainties inherent in the estimates used for the business plan. Such factors of uncertainty include, among others, expected sales volumes, market sales prices, the market price of material costs (principally gas), capacity in use, tax rates and items reconciling the tax base.

II. NOTES TO THE FINANCIAL STATEMENT ITEMS

1. PROPERTY, PLANT AND EQUIPMENT

Description	Land and buildings	Plant and equipment	Other equipment and fittings	Assets under construction	Total
Opening gross value at 1 January 2009	**9,846,308**	**21,379,394**	**257,039**	**4,686,106**	**36,168,847**
- Additions from business unit acquisitions	0	0	0	585,394	**585,394**
- Addition due to expanded consolidation scope	0	9,911	64	0	**9,975**
- Derecognitions	-15,938	-121,611	-24,287	0	**-161,836**
- Transfers and reclassification ±	-5,948	14,115	-9,131	0	**-964**
- Capitalisation	1,303,172	3,631,287	22,135	-4,956,594	**0**
- Subsequent capitalisation	6,757	487,413	0	0	**494,170**
- Translation differences	0	0	-133	0	**-133**
Closing gross value at 31 December 2009	**11,134,351**	**25,400,509**	**245,687**	**314,906**	**37,095,453**
- Additions from business unit acquisitions	0	0	0	1,206,785	**1,206,785**
- Derecognitions	-908	-51,319	-17,944	-84,438	**-154,609**
- Decrease due to removal from consolidation scope	0	-70,067	-7,098	0	**-77,165**
- Transfers and reclassification ±	0	0	0	-6,342	**-6,342**
- Capitalisation	139,635	996,727	43,360	-1,179,722	**0**
- Translation differences	0	175	-232	0	**-57**
Closing gross value at 31 December 2010	**11,273,078**	**26,276,025**	**263,773**	**251,189**	**38,064,065**
Opening accumulated depreciation 1 January 2009	**1,217,527**	**4,648,428**	**220,632**	**0**	**6,086,587**
- Depreciation	339,348	1,210,760	23,465	0	**1,573,573**
- Increase in depr. due to expanded cons. scope	0	5,627	64	0	**5,691**
- Derecognitions	-2,650	-110,222	-23,869	0	**-136,741**
- Transfers ±	-194	4,329	-4,637	0	**-502**
- Translation differences	0	-70	-130	0	**-200**
Closing accumulated depreciation at 31 December 2009	**1,554,031**	**5,758,852**	**215,525**	**0**	**7,528,408**

1. PROPERTY, PLANT AND EQUIPMENT (continued)

Description	Land and buildings	Plant and equipment	Other equipment and fittings	Assets under construction	Total
- Depreciation	333,416	1,254,939	26,380	0	**1,614,735**
- Derecognitions	-507	-43,701	-17,943	0	**-62,151**
- Decrease due to removal from consolidation scope	0	-37,413	-3,896	0	**-41,309**
- Transfers (+-)	0	0	0	0	**0**
- Translation differences	0	116	-220	0	**-104**
Closing accumulated depreciation at 31 December 2010	**1,886,940**	**6,932,793**	**219,846**	**0**	**9,039,579**
Net opening value at 1 January 2009	**8,628,781**	**16,730,966**	**36,407**	**4,686,106**	**30,082,260**
Net closing value at 31 December 2009	**9,580,320**	**19,641,657**	**30,162**	**314,906**	**29,567,045**
Net closing value at 31 December 2010	**9,386,138**	**19,343,232**	**43,927**	**251,189**	**29,024,486**

Assets under construction

In 2010 renovation work was completed in the Nitric Acid plant, in the Ammonia plant and in the Board's Headquarters. Within capital expenditure resulting in additions to assets, only acquisition of loading machines exceeded THUF 100,000.

As part of the granulation plant investment project started in 2004, the granulation unit was capitalised on 1 April 2009. The expense incurred by 1 April 2009 in connection with the granulation plant unit – including borrowing costs – totalled THUF 10,854,510.

Contractual investment liabilities

As of 31 December 2010 the Group's contractual commitments for property, plant and equipment purchases amounted to THUF 2,260,189 (as of 31 December 2009: THUF 2,166,018).

Value of leased assets

Assets acquired under finance lease are included in property, plant and equipment.

Description	2010	2009
Gross value	352,974	250,780
Accumulated depreciation	122,991	55,925
Net value	**229,983**	**194,855**

The Group leases loading machines and passenger cars under finance lease; ownership will betransferred to the Group at the end of the lease term.

Value of assets pledged as collaterals

As at 31 December 2010 land and buildings with a carrying amount of THUF 9,793,007 (31 December 2009: THUF 9,914,201) and plant and equipment with a carrying amount of THUF 17,123,951 (31 December 2009: THUF 17,360,373) were pledged as collateral for bank loans. See Note 15.

2. INTANGIBLE ASSETS

Description	Rights and concessions	Other	Total
Gross opening value at 1 January 2009	**103,754**	**499,175**	**602,929**
- Addition due to expanded cons. scope	128	0	**128**
- Other additions	3,172	76,103	**79,275**
- Derecognitions	-489	0	**-489**
- Transfers	344,957	-501,455	**-156,498**
Closing gross value at 31 December 2009	**451,522**	**73,823**	**525,345**
- Other additions	56,473	0	**56,473**
- Derecognitions	-265	0	**-265**
- Decrease due to removal from cons. scope	-2,844	0	**-2,844**
Closing gross value at 31 December 2010	**504,886**	**73,823**	**578,709**
Opening accumulated depreciation 1 January 2009	**58,359**	**340,830**	**399,189**
- Depreciation	15,210	10,177	**25,387**
- Incr. in depr. due to exp. cons. scope	128	0	**128**
- Derecognitions	-489	0	**-489**
- Transfers	341,065	-341,065	**0**
Closing accumulated depreciation at 31 December 2009	**414,273**	**9,942**	**424,215**
- Depreciation	12,152	11,200	**23,352**
- Derecognitions	-264	0	**-264**
- Decrease due to removal from cons. scope	-3,245	0	**-3,245**
Closing accumulated depreciation at 31 December 2010	**422,916**	**21,142**	**444,058**
Net opening value at 1 January 2009	**45,395**	**158,345**	**203,740**
Net closing value at 31 December 2009	**37,249**	**63,881**	**101,130**
Net closing value at 31 December 2010	**81,970**	**52,681**	**134,651**

Rights and concessions primarily include purchased software.

3. EMISSION ALLOWANCES

Emission allowances are CO_2 emission allowances received based on Government Decree 66/2006.III., and N_2O emission reduction units as per ACT LX of 2007.

Changes in terms of quantity and carrying amount is presented in the table below:

Description	N_2O emission reduction unit		CO_2 emission quota		Total
	Unit	THUF	Unit	THUF	THUF
Opening balance at 1 January 2009	**0**	**0**	**0**	**0**	**0**
Receipt in relation to 2009 emission	750,780	1,519,420	25,708	100,485	1,619,905
Purchase of 2009 quota	0	0	448	1,786	1,786
Delivery due to 2009 emission	0	0	26,156	102,271	102,271
Sale in 2009	717,412	1,427,871	0	0	1,427,871
Closing balance at 31 December 2009	**33,368**	**91,549**	**0**	**0**	**91,549**
Receipt in relation to 2010 emission	797,010	1,715,580	12,854	44,093	1,759,673
Purchase of 2010 quota (CER and EUA)	0	0	11,055	39,773	39,773
Delivery due to 2010 emission	0	0	23,909	83,866	83,866
Sale in 2010	761,587	1,614,075	0	0	1,614,075
Closing balance at 31 December 2010	**68,791**	**193,054**	**0**	**0**	**193,054**

4. INVESTMENTS

Description	2010	2009
Loans granted	5,117	6,502
Long-term receivables from contracts	0	15,488
Other investments	12,180	11,879
Total	**17,297**	**33,869**

Loans granted include housing loans provided to employees under favourable terms.
No impairment was booked on loans disbursed neither in the reporting year, nor in the previous year.
Long-term receivables include trade receivables overdue by more than one year.

Other investments include the amount of capital investments not consolidated.

5. OTHER NON-CURRENT ASSETS

Description	2010	2009
Advances to suppliers of investment projects	1,043,470	655,701
Other non-current assets	122,388	107,841
Total	**1,165,858**	**763,542**

6. INVENTORIES

Description	31 December 2010	31 December 2009
Raw materials and consumables	3,258,348	3,546,033
Work in progress, semi-finished goods	357,286	354,530
Finished goods	7,420,266	7,413,825
Goods	214,247	1,356,157
Total	**11,250,147**	**12,670,545**

Cost and net realisable value in 2010 of inventories carried at net realisable value

Description	Cost 31 December 2010	Net realisable value 31 December 2010	Cost 31 December 2009	Net realisable value 31 December 2009
Finished goods	2,825	1,188	2,804,845	2,602,778
Total	**2,825**	**1,188**	**2,804,845**	**2,602,778**

The Group booked impairment on own-manufactures stocks which did not met quality requirements.

7. TRADE RECEIVABLES

Description	2010	2009
Trade receivables	6,282,541	7,873,914
- of which related:	3,977,795	5,273,746
Impairment for doubtful receivables	32,473	7,402
Total trade receivables	**6,250,068**	**7,866,512**

Trade receivables bear no interest and in general have a term of 30 days.
No impairment was booked on receivables from related parties neither in the reporting year, nor in the previous year.

8. OTHER FINANCIAL ASSETS AND DERIVATIVES

Description	2010	2009
Receivables from government	7,368,497	8,022,080
Loans granted	1,488,831	1,108,649
- of which to related parties:	1,487,018	1,106,729
Debt securities	273,750	221,241
Subscribed, but unpaid capital	990,000	990,000
Other financial assets	419,839	65,578
Total	**10,540,917**	**10,407,548**

The receivable derived from the development (investment) tax credit is recognised in the 'receivables from the state' row. The Company can use the investment tax credit for the new acid plant capitalised in 2007 and for the granulation plant investment capitalised in 2009 up to the sum of THUF 6,100,178 and THUF 2,370,000, respectively. The amount of the development tax credit that can be used in the given year is 80% of the corporate tax payable. The credit may be used in the year of capitalisation and in the 9 subsequent fiscal years (2007-2016 and 2009-2018), provided that in the four fiscal years after the tax credit was first used (2008-2011) the annual wage cost accounted at the Company exceeds the annual wage cost of the fiscal year prior to the start of the development by at least three times the minimum wage calculated for the fiscal year as of the first day of the fiscal year. In 2008 (and 2007) the Company met this criterion, and so a tax credit of THUF 653,583 was used in 2010 (2007 and 2008: THUF 448,098).
In 2009 the Company did not use tax credit based on Sections 28 and 145(4) of Act CXVI of 2009, and declared that the 2009 wage cost did not decrease below the wage cost in the fiscal year preceding the start of the project.

The Group disbursed loan to related parties in HUF. As at 31 December 2010 loans amounting to THUF 378,891 bear no interest (31 December 2009: THUF 274,336) and loans amounting to THUF 1,108,127 are interest-bearing loans (31 December 2009: THUF 834,313). This item also includes loans to senior officers, which are disbursed in HUF and bear interest. The interest equals the prevailing central bank base rate + 5%. See Note 34.
Loans disbursed are unsecured.
No impairment was booked on loans disbursed neither in the reporting year, nor in the previous year.

Debt securities include discounted treasury bills.

On 17 July 2009 the general meeting of Nitrogénművek Zrt. decided to issue registered ordinary shares. The shares were subscribed by existing owners in proportion to their holding. Negotiations regarding reschedulement of the payment deadline specified in the resolution on capital increase were under process when these financial statements were approved.

9. OTHER RECEIVABLES

Description	2010	2009
Budgetary support due	0	58
Advances paid to suppliers of investment projects	0	4,057
Advances on stocks	788,928	302,167
- of which related:	0	37,351
Prepayments on services	12,167	6,282
Other prepaid expenses and accrued income	329,504	338,693
Prepaid and reclaimable taxes and duties (except for income taxes)	488,711	631,474
Receivables from self-governments	7,515	12,200
Receivables from employees	3,790	3,747
Interest and penalties receivable	0	268,370
Other receivables	34,091	256,830
Total	**1,664,706**	**1,823,878**

Advances on stocks include the amount paid in advance on the grounds of natural gas purchase
Other prepaid expenses and accrued income typically include items which will be accounted as costs only in the next period when actually occurred.

Prepaid and reclaimable taxes and duties comprise reclaimable VAT included in suppliers' invoices and on continuous services, reclaimable energy tax and receivables from the Customs and Finance Guard; these items were settled in the year following the reporting year.
The penalty and default interest receivables from the granulation plant general contractor, Prochem s.a. were settled in 2010 Q1.

10. CASH AND CASH EQUIVALENTS

Description	2010	2009
Cash	2,243	10,202
Bank deposits	1,626,346	994,158
KELER Zrt. security deposit account	151,320	0
Short-term fixed deposits	7,988,500	3,292,612
Total	**9,768,409**	**4,296,972**

The Group had no cash equivalents as at 31 December 2009 and 2010.

11. ASSETS HELD FOR SALE

The assets held for sale contain the property, plant and equipment of the old, decommissioned acid plant.
After the capitalisation of the new acid plant the Group decided to close the old Russian (2C) and Japanese (3C) acid plants and shut down the production there. The plants were reclassified as of 30 October 2007 under assets held for sale. The Company also decided to sell the assets and the related components if a suitable bid was received.
The 2C acid plant was demantled and assets were sold to based on the contract concluded with the Russian firm OJSC "Nevinnomyssky Azot".See Note 24.

No contract has been signed yet relating to the sale of assets of the 3C acid plant.

Dexcription	Net value of asset 2010	Net value of asset 2009
Acid plants	37,012	79,908
Total	**37,012**	**79,908**

Equity

12. SHARE CAPITAL

Composition of share capital:

Description	31 December 2010		31 December 2009	
	Number	Nominal value		Number
Tibor László Bige	4,370	1,442,100	4,370	1,442,100
Zoltán Bige	230	75,900	230	75,900
Balance of share capital	**4,600**	**1,518,000**	**4,600**	**1,518,000**

The Company has only ordinary shares with a face value of THUF 330 each.
The holders of the ordinary shares are entitled to receive dividends and have one vote per share at the Company's general meeting.

13. TRANSLATION RESERVE

Translation reserve includes all exchange differences arisen from translating the financial statements of foreign operations from 1 January 2007, the date of transition to IFRS for the Group.

14. RETAINED EARNINGS

The following amounts cannot be distributed as dividends from the retained earnings in the given financial year:

Financial year	Amount
2009	1,000,000
2010	1,348,029

Dividends

The Group paid no dividends in 2009 and 2010.

15. LOANS AND BORROWINGS

Interest rates: one third of 1-6-month BUBOR/EURIBOR or central bank base rate, as reference rate + interest margin between 0.5 and 4.00 %.

Terms and conditions of existing loans and borrowings:

Loans as at 31 December 2009

Financial institution	Type of loan	Collaterals	Balance 31.12.2009 (Thousand)	Currency	Balance THUF	Long-term portion THUF	Short-term portion THUF
MFB	current asset loan	(i)	9,624,392	HUF	9,624,392	9,624,392	0
MFB	investment loan	(ii)	42,685	EUR	11,560,927	9,246,521	2,314,406
K&H Bank	German carbon aid II	(iii)	6,104	HUF	6,104	0	6,104
UniCredit Bank	multicurrency multipurpose credit facility	(iv)	810,372	HUF	810,372	0	810,372
Commerzbank	multicurrency overdraft facility	(v)	2,942,691	HUF	2,942,691	1,177,779	1,764,912
Budapest Bank	long-term multicurrency current asset loan	(vi)	5,882	EUR	1,593,081	1,509,391	83,690
Budapest Bank	multicurrency revolving loan agreement	(vii)	1,500	EUR	406,260	0	406,260
OTP Bank Nyrt.	investment loan	(viii)	45,000	HUF	45,000	0	45,000
CIB Bank Zrt.	warehouse warrant coverage loan	(ix)	2,784,046	HUF	2,784,046		2,784,046
RB Kereskedőház Kft.	trading house		135,112	HUF	135,112	0	135,112
RB Kereskedőház Kft.	trading house		32,232	HUF	32,232	0	32,232
CIB Credit Zrt.	vehicle loan		3,330	HUF	3,330	2,728	602
Merkantil Bank	vehicle loan		3,195	HUF	3,195	2,017	1,178
Merkantil Car	vehicle loan		539	HUF	539	44	495
Merkantil Car	vehicle loan		526	HUF	526	85	441
Total long-term loans						**21,562,957**	
Total short-term loans							**8,384,850**

15. LOANS AND BORROWINGS (continued)

Interest rates: one third of 1-6-month BUBOR/EURIBOR or central bank base rate, as reference rate + interest margin between 0.5 and 4.00 %.

Loans as at 31 December 2010

Financial institution	Type of loan	Collaterals	Balance 31.12.2009 (Thousand)	Currency	Balance THUF	Long-term portion THUF	Short-term portion THUF
MFB Zrt.	current asset loan	(i)	7,715,271	HUF	7,715,271	7,715,271	0
MFB Zrt.	investment loan	(ii)	34,140	EUR	9,516,570	7,134,572	2,381,998
Volksbank Zrt.	multicurrency multipurpose credit facility	(iii)	1,892,800	HUF	1,892,800	0	1,892,800
Commerzbank Zrt.	multicurrency overdraft facility	(iv)	1,172,917	HUF	1,172,917	0	1,172,917
Budapest Bank	long-term multicurrency current asset loan	(v)	5,573	EUR	1,553,474	1,208,939	344,535
Budapest Bank	multicurrency revolving loan agreement	(vi)	1,422	EUR	396,382	309,412	86,970
Raiffeisen Bank Zrt.	overdraft facility		2	HUF	2	0	2
CIB Credit Zrt.	vehicle loan		2,728	HUF	2,728	2,075	653
Merkantil Bank	vehicle loan		2,017	HUF	2,017	708	1,309
Merkantil Car	vehicle loan		86	HUF	86	0	86
Total long-term loans						**16,370,977**	
Total short-term loans							**5,881,270**

(a) Loan collateral

Collateral for loans drawn by the Group:

(i) Magyar Fejlesztési Bank Zrt. (MFB)

Collateral for THUF 10,000,000 loan contract for working capital financing.

- Mortgage up to THUF 10,000,000 on the new acid plant, the new granulation and packaging plant, the new cooling tower, ammonia plant, urea plant and the fertiliser plant, all wholly owned by the company, and the movable property contained thereon/in up to THUF 10,000,000.
- Unconditional payment guarantee from the Hungarian state up to 80% of the THUF 10,000,000 loan and related charges.
- Right to make instant collections from the Company's bank accounts over the term of the contract.

15. LOANS AND BORROWINGS (continued)

(a) Loan collateral (continued)

(ii) Magyar Fejlesztési Bank Zrt. (MFB)

Collateral for EUR 52,000,000 investment loan contract

- Mortgage up to EUR 52,000,000 on the new acid plant, the new granulation and packaging plant, the new cooling tower, the ammonia plant, urea plant and the fertiliser plant, all wholly owned by the Company, and the movable property contained thereon/in up to EUR 52,000,000.
- Unconditional payment guarantee from the Hungarian state up to 80% of the EUR 52,000,000 loan and related charges based on point 1 of Government Resolution 1086/2008 (XII.20) on the unconditional payment guarantees of the state for the credits of Nitrogénművek Zrt.

Right to make instant collections from the Company's bank accounts over the term of the contract.

(iii) Volksbank Zrt.

Collateral for THUF 2,000,000 loan

- Third rank mortgage up to THUF 2,000,000 and related charges over the CAN plant wholly owned by the Company.

(iv) Commerzbank Zrt.

Collateral for THUF 5,300,000 overdraft facility

The Bank has a right to make instant collections from the Company's bank accounts over the term of the contract.

(v) Budapest Bank Nyrt.

Collateral for long-term multi-currency working capital credit facility of EUR 6,500,000
(Long-term multi-currency working capital loan of Budapest Bank)

- General mortgage of THUF 3,000,000 on one of the Company's properties.
- Right to make instant collections from the Company's bank accounts over the term of the contract.

(vi) Budapest Bank Nyrt.

Collateral for an EUR 1,500,000 multi-currency revolving credit facility
(Budapest Bank multi-currency revolving credit facility)

- Assignment to the bank from the Company's existing and future receivables vis-à-vis Fertilia Kft. up to an amount of sales revenue in proportion to the credit.
- Right to make instant collections from the Company's bank accounts over the term of the contract.

(vii) OTP Bank Nyrt. investment loan collateral
(Liability existing as at 31 December 2010, cancelled on 24 March 2011.)

- mortgage on machinery to be purchased from the loan, up to the amount of the loan and related charges
- mortgage on all the current and future assets of Péti Polietilén Zsák Kft. up to a loan amount of THUF 225,000 and related charges
- right to make instant collections from the bank accounts of Péti Polietilén Zsák Kft.
- third-ranked mortgage on all the current and future assets of Péti Polietilén Zsák Kft. up to the bank guarantee value of THUF 180,000

15. LOANS AND BORROWINGS (continued)

(a) Loan collateral (continued)

(viii) Raiffeisen Bank Zrt.

Collaterals for a bank guarantee of EUR 2,491,423.46

Based on the lien contract related to the bank guarantee agreement, Nitrogénművek Zrt. registered a lien for the bank on all current and future receivables derived from the 2,000,000 dinitrogen oxide emission reduction units (quota) purchase agreement concluded on 14 July 2005 between Nitrogénművek Zrt. and Kommunalkredit Public Consulting GmbH.

- Right to make instant collections from the Company's bank accounts over the term of the contract.

(b) Breach of loan covenants

The Group complied with loan covenants in all cases.

(c) Finance leases

The following table details finance lease obligations:

	31 December 2010			31 December 2009		
Description	**Minimum lease payments**	**Interest**	**Present value of finance lease obligations**	**Minimum lease payments**	**Interest**	**Present value of finance lease obligations**
Due within 1 year	70,551	12,618	57,933	56,520	14,247	42,273
Due within 1-5 years	150,940	10,420	140,520	125,249	14,711	110,538
Due over 5 years	2,288	214	2,074	0	0	0
Present value of finance lease obligations	**223,779**	**23,252**	**200,527**	**181,769**	**28,958**	**152,811**

16. OTHER NON-CURRENT FINANCIAL LIABILITIES

Description	2010	2009
Long-term liabilities from contracts	1,117,857	542,933
Other non-current financial liabilities	140,187	107,681
Total	**1,258,044**	**650,614**

Long-term liabilities from contracts include gas bill payment liability to BOTHLI TRADE AG due in 2014.

17. OTHER NON-CURRENT LIABILITIES

Description	2010	2009
Deferred income	7 430 888	7 743 611
Other non-current liabilities	351 225	511 888
Total	**7 782 113**	**8 255 499**

Deferred income includes the amount due to investment tax credit (see Note 8), which were accounted as government grant relating to assets. The amount is recognised over the average useful life of the assets (24 years) in the profit for the period starting from the capitalisation of the related investment projects, that is 2007 and 2009.

Other non-current liabilities include the portion to be accounted in years 2012-2013 in an amount of THUF 351,225 from the advance payment transferred based on a contract concluded with Kommunalkredit Public Consulting GmbH (KPC) for the sale of N_2O emission reduction units produced in the period 2009-2012 at Nitrogénművek Zrt.

18. TRADE PAYABLES

Description	2010	2009
Trade payables	2,372,358	2,854,175
- of which to related parties:	285,703	338,511
Total trade payables	**2,372,358**	**2,854,175**

19. OTHER FINANCIAL LIABILITIES AND DERIVATIVES

Description	2010	2009
Other financial liabilities	3,818,933	216,659
Total	**3,818,933**	**216,659**

Other financial liabilities include THUF 3,478,666 payable to Shell Zrt. based on an Arbitration Court award. Fulfilment of the liability was suspended until a further decision of the court relating to the invalidity of the arbitration award. See Note 27.

20. OTHER CURRENT LIABILITIES

Description	2010	2009
Budgetary support received	0	49,000
Deferred income	505,913	407,153
Advances from customers	10,771,507	8,034,457
- of which related	965,960	52,811
Taxes and duties payable (except for income taxes)	1,453,814	1,869,699
Liabilities to self-governments	20,604	4,570
Liabilities to employees	369,946	134,775
Liabilities to Magyar Szénhidrogén Készletező Szövetség (Mszksz)	238,648	207,913
Rentals and other fees received in advance	1,033	3,940
Accrued costs	3,823	98,301
Other current liabilities	1,063	1,593
Total	**13,366,351**	**10,811,401**

Deferred income includes the portion of deferred income connected to investment tax credit which has not yet been accounted in the profit or loss for the period. Deferred income is released in proportion to depreciation. In 2010 THUF 276,752 (2009: THUF 274,005). See Note 8.

Liabilities to employees comprise wages, bonuses and related contributions.

Advances from customers include normal advances from customers as well as amounts received in relation to storage contracts concluded with third parties. These are amounts which were received from customers but do not qualify for revenue accounting.

Fee payment liabilities to Magyar Szénhidrogén Készletező Szövetség include the amount booked among other expenses but financially not settled.

21. PROVISIONS

Description	Emission quotas	Early retirement pensions and termination benefits	Environmental protection	Other	Total
Balance at 01 January 2009	**111,289**	**15,112**	**50,000**	**224,000**	**400,401**
Allocation	0	0	0	326,000	326,000
Use	0	-15,112	-10,000	-60,000	-85,112
Balance at 31 December 2009	**111,289**	**0**	**40,000**	**490,000**	**641,289**
Allocation	0	0	0	204,800	204,800
Use	0	0	0	326,000	326,000
Balance at 31 December 2010	**111,289**	**0**	**40,000**	**368,800**	**520,089**
Short-term portion 2009	111,289	0	0	490,000	601,289
Long-term portion 2009	0	0	40,000	0	40,000
Short-term portion 2010	111,289	0	40,000	368,800	520,089
Long-term portion 2010	0	0	0	0	0

21. PROVISIONS (continued)

Emission quotas

The Group allocated provisions for its obligation to deliver carbon dioxide emission allowances. See Note 3.

Environmental protection

The Company updated the tasks to be carried out using provisions allocated for environmental protection. The tasks identified are renwing the „Integrated Environmental Permit" and partially emptying the calcareous sluge reservoir.

Other

The provision for expenses expected in relation to litigations and for the compensated penalty contested by CHEMOPROJEKT s.a. are recorded on these grounds.

22. DEFERRED TAX ASSETS AND TAX LIABILITIES

Recognised deferred tax assets and tax liabilities

Deferred tax recognised in the consolidated statement of financial position and accounted in profit or loss as at 31 December 2010 and 2009 comprises the following:

	31 December 2010			31 December 2009		
	Tax asset	Tax liability	Net	Tax asset	Tax liability	Net
Property, plant and equipment	14,387	-1,036,500	-1,022,113	18,375	-1,505,247	-1,486,872
Emission allowances	0	-35,551	-35,551	0	-17,394	-17,394
Trade receivables	247,023	0	247,023	20,410	0	20,410
Inventories	15,316	-863,534	-848,218	52,487	-582,864	-530,377
Other assets	373	-17,911	-17,538	4,953	-20,632	-15,679
Loans and borrowings	0	-52,432	-52,432	19,635	-71,366	-51,731
Trade payables	3,162	-1	3,161	192	-1	191
Other liabilities	1,290,078	-38,987	1,251,091	904,545	-43,272	861,273
Provisions	95,774	0	95,774	121,845	0	121,845
Derivative transactions	0	0	0	0	0	0
Other items	0	0	0	0	0	0
Development tax allowance	0	0	0	0	0	0
Tax loss carried forward	21,642	0	21,642	127,733	0	127,733
Tax assets (tax liabilities)	1,687,755	-2,044,916	-357,161	1,270,175	-2,240,776	-970,601
Sweeping of accounts	-1,634,046	1,634,046	0	-1,198,511	1,198,511	0
Net tax assets (tax liabilities)	53,709	-410,870	-357,161	71,664	-1,042,265	-970,601

22. DEFERRED TAX ASSETS AND TAX LIABILITIES (continued)

Recognised deferred tax assets and tax liabilities (continued)

Analysis of changes in net deferred tax assets and tax liabilities:

	Opening balance at 1 January 2009	Accounted in profit or loss for the period	Accounted in other comprehensive income	Closing balance at 31 December 2009	Accounted in profit or loss for the period	Accounted in other comprehensiv e income	Closing balance at 31 December 2010
Property, plant and equipment	-899,081	-587,791	0	-1,486,872	464,759	0	-1,022,113
Emission allowances	0	-17,394	0	-17,394	-18,157	0	-35,551
Trade receivables	68,826	-48,416	0	20,410	229,581	0	249,991
Inventories	-1,868,649	1,338,269	0	-530,380	-317,841	0	-848,221
Other assets	131,197	-146,876	0	-15,679	-4,827	0	-20,506
Loans and borrowings	1,119,807	-1,171,538	0	-51,731	-701	0	-52,432
Trade payables	186	5	0	191	2,969	1	3,161
Other liabilities	1,478,075	-616,799	0	861,276	389,818	0	1,251,094
Provisions	23,716	98,129	0	121,845	-26,071	0	95,774
Other items	0	0	0	0	15,288	-15,288	0
Tax loss carried forward	3,169	124,843	-279	127,733	-105,682	-409	21,642
Net tax assets (tax liabilities)	**57,246**	**-1,027,568**	**-279**	**-970,601**	**629,136**	**-15,696**	**-357,161**

Other amounts accounted in other comprehensive income derive from translation differences of deferred tax due to changes in exchange rates.

23. REVENUE

Description	2010	2009
Sale of own products	44,314,761	34,298,323
Sale of goods	6,746,942	8,867,910
Sale of materials	2,867,575	840,616
Rendering of services	891,144	749,184
Total	**54,820,422**	**44,756,033**

Composition of revenue by geographical regions:

Description	2010	2009
Hungary	28,738,340	28,988,362
Italy	1,354,748	1,216,315
Austria	3,325,494	1,826,057
Slovakia	4,251,784	1,919,094
Czech Republic	4,808,626	3,802,289
Romania	1,483,219	790,585
Poland	4,244,663	1,618,764
Germany	3,902,349	2,442,559
Bosnia - Hercegovina	11,062	18,967
Slovenia	1,947,656	1,507,281
Croatia	0	9,354
Switzerland	387,604	0
Serbia	142,121	514,623
Russian Federation	70,001	0
Other European countries	152,755	101,040
Other CEE	0	743
Total	**54,820,422**	**44,756,033**

24. OTHER INCOME

Description	2010	2009
Gain on sale of property, plant, equipment and intangible assets	6,814	9,501
Result from the sale of N_2O emission reduction units. See Notes 3 and 17.	1,591,330	1,454,714
Reversal of impairment allocated on inventories	200,369	299
Release of provisions	24,000	85,112
Grants received	329,894	324,779
Default interest received	11,463	12,828
Damages	155,306	31,728
Penalties	0	488,021
Item due to forgiven default interest required by the tax authority	88,359	0
Liabilities forgiven by creditors	10,579	0
Assignment of trade receivables	191,040	0
Reimbursed legal and court costs	82,345	0
Gain on sale of acid plant assets (See Note 11)	2,334,162	0
Income from the sale of impaired self-manufactured products	1,769	0
Free receipt of CO_2 emission quota	0	100,485
Subsequent discouts received	15,573	0
Other	21,485	361,555
Total	**5,064,488**	**2,869,022**

Grants received include THUF 276,752 release of deferred income due to investment tax credit (31 December 2009: THUF 274,005).

25. MATERIAL-TYPE EXPENSES

Description	2010	2009
Costs of raw and auxiliary materials	2,687,451	1,697,973
Costs of wire/pipeline energy	26,881,972	21,183,838
Costs of maintenance and other materials	850,800	454,007
Transportation costs	1,540,172	1,492,432
Maintenance costs	521,684	217,762
Keep-up costs	279,583	216,992
Security costs	132,400	118,719
Travel and accommodation costs, inland and abroad	24,816	14,865
Rentals and utilisation fees	147,638	149,787
Hiring of labour	116,528	0
Accounting and audit fees	35,350	25,856
Advisory and expert fees	52,053	75,454
Advertising costs	55,774	43,167
Bank charges	105,448	100,476
Insurance premiums	153,793	171,172
Fees and duties paid to authorities	104,614	0
Membership fees	50,930	0
Release of costs in connection with N_2O quota emission units	31,299	0
Dismantling costs of closed plants	318,833	0
Packaging utilisation fees	59,387	0
Legal fees	241,632	0
Costs of sale	110,229	0
Research and development costs	74,277	0
Other services[1]	215,744	691,176
Costs of goods sold (COGS)	6,237,075	3,152,190
Services sold (mediated)	172,625	53,966
Total	**41,202,107**	**29,859,832**

[1] The European Commission launched a procedure against Hungary to examine state aid C 14/2009 provided by Hungary to Nitrogénművek Zrt., for the purpose of establishing whether the joint and several guarantees provided by the Government of the Republic of Hungary on 20 December 2008 along with the loans extended by the MFB Hungarian Development Bank Ltd (to which the guarantees were related), qualified as state aid in accordance with Article 107 (1) of the Treaty on the Functioning of the European Union.

25. MATERIAL-TYPE EXPENSES (continued)

The Resolution of the Commission received on 28 October 2010 found that the aid provided by Hungary was only partly compatible with the internal market, and therefore it ordered the Hungarian State to recover the unlawful state aid from the beneficiary (Nitrogénművek Zrt.) amounting to the difference between the total effective financing costs and the subsidised rate as per the Temporary Framework (*Communication of the Commission: Temporary Union framework for State aid measures to support access to finance in the current financial and economic crisis*).

For the period prior to 28 December 2010, Nitrogénművek Zrt. settled the amount of (re)payable aid as determined by the Hungarian State together with the guarantee fee, upon request by the Ministry of the Economy. Nitrogénművek Zrt. is currently negotiating with the Ministry of the Economy on the (re)payment conditions for the period after 28 December 2010. The period during which Nitrogénművek Zrt. can attempt to seek legal remedy against the decision made by the European Commission has yet to commence.

26. STAFF COSTS

Description	2010	2009
Wage cost	3,182,567	2,452,873
Other staff benefits	410,095	337,599
Wage contributions	944,330	812,443
Total	**4,536,992**	**3,602,915**

27. OTHER EXPENSES

Description	2010	2009
Loss on sale of property, plant, equipment and intangible assets	1,896	2,072
Use of CO_2 emission quotas	39,773	102,271
Impairment on trade receivables	32,473	7,402
Impairment on inventories	1,637	202,067
Provisioning	204,800	326,000
Scrapped and missing assets	228,450	76,700
MSZKSZ membership fee	818,428	404,711
Amount awarded to Shell Zrt.[1]	3,176,666	0
Taxes and contributions	695,798	410,303
Support given	71,524	1,476
Damage	212,542	20,478
Damages	16,693	23,932
Default interest payable	53,571	87,572
Bad debts written off	1,476	0
Fines and penalties paid	15,721	0
Assignment of trade receivables	191,040	0
Self-revision and default charge	19,434	98,195
Self-revision items	0	11,432
Other	72,883	51,109
Total	**5,854,805**	**1,825,720**

[1] In October 2008, Shell unilaterally modified the payment terms for the Company by requesting prepayment instead of payment-on-delivery. The Company did not accept this payment term and, therefore, refused to off-take the gas.

Shell sued the Company for an amount of USD 15,730,246 at the Court of Arbitration of the Hungarian Chamber of Commerce and Industry based on a take or pay clause in the contract.

In arbitration award Vb/09221 dated 29 December 2010, the Arbitration Court ordered Nitrogénművek Zrt. to pay the claimed amount and its ancillary costs, also providing thet such amount must be paid in three instalments by 31 May 2011.

27. OTHER EXPENSES (continued)

Although Nitrogénművek Zrt. filed a lawsuit against Shell to the Budapest Municipal Court, aiming to declare the invalidity of the arbitration award and, following this, in the proceeding under case number 9.G.40.314/2011 the Company has obtained the suspension of the execution of the arbitration award until a further decision of the court, Nitrogénművek Zrt. has reduced its profit for 2010 by the amount that might be payable to Shell Hungary Zrt.See Note 19.

28. FINANCE INCOME AND FINANCE COSTS

Finance income and finance costs recognised in profit or loss

Description	2010	2009
Interest income on loans and receivables	20,609	25,264
Interest income on bank deposits	223,869	288,481
Net exchange gain on FX items without forward exchange transactions	957,928	1,666,049
Reversal of impairment on trade receivables	0	200
Other finance income Total finance income	**1,202,406**	**1,979,994**
Interest expense on financial liabilities measured at amortised cost	1,729,621	3,088,477
Net exchange loss on FX items without forward exchange transactions	1,299,585	2,628,223
Other finance costs	0	338
Total finance costs	**3,029,206**	**5,717,038**
Net finance costs	**-1,826,800**	**-3,737,044**

Finance income and finance costs recognised in other comprehensive income

Description	2010	2009
Translation difference	5,083	1,580
Effective portion of changes in fair value of cash flow hedges	0	0
Net changes in fair value of cash flow hedges transferred to profit or loss for the period	0	0
Income tax on finance income and finance costs recognised in other comprehensive income	0	0
Finance income/costs recognised in other comprehensive income, net of tax	**5,083**	**1,580**

29. INCOME TAX EXPENSE

The Group considers corporation tax and in Hungary special tax (until 2009) as income tax. The base for special tax differs from the corporation tax base.

Income tax rates for the Company:

Description	2010	2009
Corporation tax	18.49 %	16 %
Special tax	0 %	4 %
Income tax rate	18.49 %	20 %

29. INCOME TAX EXPENSE (continued)

According to laws effective as at the reporting date, for 2011 and 2012 corporation tax rate is 10 % in respect of the amount of tax profit up to HUF 500 million, and 19 % for the part of tax profit over such limit. As from 2013 there will be a standard corporation tax rate of 10%.
Due to the statutory tax rate changes, the Group assessed deferred tax on temporary differences reversing in 2011 and 2012 using the tiered tax rates, while for temporary differences reversing after 2013 using a tax rate of 10%.

Income tax recognised in the profit or loss for the period in the consolidated annual report for the years ended 31 December 2009 and 2010 comprises the following:

Description	2010	2009
Current period income tax expense		
Current period income tax expense	797,834	132,452
Previous years adjustments	-287	34,750
Total current period income tax expense	797,547	167,202
Deferred tax expense		
Origination and reversal of temporary differences	-629,136	1,027,568
Total deferred tax expense	-629,136	1,027,568
Income tax	**168,411**	**1,194,770**

Reconciliation of income tax calculated based on accounting profit and current period income tax, as well as of applicable tax rate and average effective tax rate is presented in the table below:

Description	2010		2009	
Profit for the period		4,785,302		3,799,986
Income tax expense		168,411		1,194,770
Profit before income tax		4,953,713		4,994,756
Expected income tax calculated at the income tax rate of the Company	18.49%	915,979	20%	998,951
Impact of tax rate in foreign countries	0%	23,995	0%	4,371
Impact of different tax rates	0%	-14,064	0%	766
Impact of tax rate changes	-14%	-699,699	3%	139,855
Non-deductible expenses	2%	92,012	2%	106,190
Income exempt of tax	-2%	-90,811	-2%	-100,708
Tax allowances	-1%	-47,850	0%	0
Current year tax loss for which no deferred tax assets were allocated	0%	0	0%	8,177
Changes in unrecognised temporary differences	0%	0	0%	2,418
Previous years adjustments	-1%	-24,951	1%	34,750
Income tax	**3%**	**168,411**	**24%**	**1,194,770**

30. FINANCIAL INSTRUMENTS AND MANAGEMENT OF FINANCIAL RISKS

The Group is exposed to the following risks derived from financial instruments:

- credit risk
- liquidity risk
- market risk (including currency and interest rate risk)

This note presents information about the Group's exposure to the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital.

The chief executive officer of the Company is responsible for setting the risk management guidelines and frameworks for the Group. His task is to design and set up a standard risk management policy and strategy, and continuously monitor the risks to which the Company is exposed. The CEO is also responsible for regularly reviewing risk management policies and strategies, as well as updating and modifying them if market circumstances change.

Carrying amount of financial instruments of the Group by categories:

Description	31 December 2010	31 December 2009
Cash and cash equivalents	9,768,409	4,296,972
Loans granted	1,493,948	1,115,150
Trade receivables	6,250,068	7,882,000
Other financial assets	8,822,417	9,078,157
Total loans and receivables	**26,334,842**	**22,372,279**
Holdings	12,180	11,879
Debt securities	229,669	220,743
Total available for sale financial assets	**241,849**	**232,622**
Loans and borrowings	22,252,247	29,947,807
Other non-current financial liabilities	1,258,044	650,614
Trade payables	2,372,358	2,854,175
Other financial liabilities and derivatives	3,818,933	216,659
Total other financial liabilities	**29,701,582**	**33,669,255**

There were no open derivatives in 2010 and at the reporting date (2009: THUF 0).

30. FINANCIAL INSTRUMENTS AND MANAGEMENT OF FINANCIAL RISKS (continued)

(a) Credit risk

Credit risk is the risk of financial loss if a customer or counterparty fails to meet its contractual obligations. From the perspective of the Group this primarily means the non-payment risk of clients.

Trade receivables and other financial assets

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, the Group also considers the geographical position of its customer base, past experience, features of agriculture, the seasonal nature of fertiliser use and the impact of the economic crisis on the Company's primary customers. The Company monitors the payment abilities of its primary customers and any influencing factors. The Group sets the payment conditions offered to individual customers based on provisional and if necessary ad-hoc reviews of creditworthiness as well as the factors outlined above. The Group prescribes payment by letters of credit for some export customers. The Group maintained for both domestic and foreign customers the system of sales with advance payments introduced as a response to the economic crisis.

In Hungary the Group primarily sells to a relatively low number of wholesalers.

Maximum value as at 31 December of assets exposed to credit risk is presented in the following table:

Description	31 December 2010	31 December 2009
Domestic trade receivables – wholesalers	2,987,479	5,603,538
Domestic trade receivables – other	2,312,232	925,837
Foreign trade receivables	950,357	1,352,625
Loans granted	1,493,948	1,115,150
Cash and cash equivalents	9,768,409	4,296,972
Other financial assets	8,822,417	9,078,157
Debt securities	229,669	220,743
Maximum value of assets exposed to credit risk as at 31 December	**26,564,511**	**22,593,022**

21 wholesalers accounted for THUF 2,987,479 of domestic trade receivables as of 31 December 2010 (THUF 5,603,538 for 16 wholesalers as of 31 December 2009).

Collection policy

For trade receivables past their payment deadline the Group sends reminder letters to partners every fortnight, who then have eight days to settle their debts. For accounts not settled, payment by transfer is prohibited and goods may only be sold going forward with cash payments. After the third reminder letter the collection is enforced through legal channels.

Default interest

Letters confirming default interest are sent to our debtors every quarter.

30. FINANCIAL INSTRUMENTS AND MANAGEMENT OF FINANCIAL RISKS (continued)

(a) Credit risk (continued)

Rating and impairment of receivables

The receivables in the accounting records are rated per debtor – based on the maturity date of the receivable, the willingness and ability of the debtor to pay, and past experience of the debtor. During the rating process, impairment is recorded on overdue and doubtful receivables with due consideration of their recoverability.

The Group's credit risk exposure is reflected by the carrying value of the financial assets.

The impairment recorded on trade receivables is presented in the following tables broken down by maturity and the reporting year changes to impairment. There are no matured receivables under loans and other financial receivables, and so no impairment is recorded.

The following table shows cost and impairment of trade receivables by maturity:

Description	31 December 2010		31 December 2009	
	Cost	Impairment		Cost
Not yet due	4,727,607	0	6,542,043	0
Between 1 - 90 days	1,396,817	117	1,003,094	5,318
Between 91 - 180 days	6,493	76	30,255	251
Between 180 - 360 days	81,551	26,587	276,224	5,231
Over 360 days	97,891	33,511	67,478	26,294
Total	**6,310,359**	**60,291**	**7,919,094**	**37,094**

Changes in impairment allocated on trade receivables:

Description	2010	2009
Opening balance at 1 January	37,094	42,948
Current year impairment	32,473	7,402
Current year reversal	0	-200
Derecognition of impairment	9,276	13,056
Balance of impairment at 31 December	**60,291**	**37,094**

30. FINANCIAL INSTRUMENTS AND MANAGEMENT OF FINANCIAL RISKS (continued)

(b) Liquidity risk

Liquidity risk is the risk that the Group will be unable to settle its financial liabilities when they fall due. The purpose of liquidity management is to ensure sufficient resources for the settlement of liabilities when they fall due.

Management of liquidity risk

The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group prescribes for its entities that they must maintain a strong liquidity position and shape the liquidity profiles of their assets, liabilities and contingent liabilities to ensure balanced cash flows and the settlement of all liabilities when due.

In light of the demand for the Group's products and the seasonality of the agricultural sector the Group really has to focus on ensuring continuous liquidity. Adequate liquidity is ensured by aligning sales prices to demand, using prepaid sales as well as short-term working capital loans and overdraft facilities secured by goods.

As of 31 December 2010 and 31 December 2009 the Group had no unused credit facility. As of 31 December 2010 and 31 December 2009 the Group had no current account credit facility due to changes in its loan structure.

30. FINANCIAL INSTRUMENTS AND MANAGEMENT OF FINANCIAL RISKS (continued)

(b) Liquidity risk (continued)

Financial liabilities by maturity (principal and interest cash flows):

Description	Carrying amount	Contractual cash flows	Between 0-6 months	Between 6-12 months	Between 1-2 years	Between 2-5 years	Over 5 years
31 December 2009							
Non-derivative financial liabilities	**33,791,694**	**37,328,379**	**9,786,635**	**2,945,008**	**5,092,122**	**19,699,479**	**173,936**
Loans and borrowings	29,947,807	33,825,067	6,614,480	2,909,962	5,018,946	19,107,743	173,936
Other non-current financial liabilities	650,614	664,912	0	0	73,176	591,736	0
Trade payables	2,838,400	2,838,400	2,829,073	9,327	0	0	0
Other financial liabilities	354,873	0	343,082	25,719	0	0	0

There were no derivative financial liabilities as at 31 December 2009.

30. FINANCIAL INSTRUMENTS AND MANAGEMENT OF FINANCIAL RISKS (continued)

(b) Liquidity risk (continued)

Description	Carrying amount	Contractual cash flows	Between 0-6 months	Between 6-12 months	Between 1-2 years	Between 2-5 years	Over 5 years
31 December 2010							
Non-derivative financial liabilities	**29,701,582**	**32,443,586**	**11,082,795**	**2,199,089**	**4,405,562**	**14,753,852**	**2,288**
Loans and borrowings	22,252,247	24,865,051	4,807,614	2,164,106	3,775,259	14,115,784	2,288
Other non-current financial liabilities	1,258,044	1,268,371	0	0	630,303	638,068	0
Trade payables	2,372,358	2,372,358	2,372,358	0	0	0	0
Other financial liabilities	3,818,933	3,937,806	3,902,823	34,983	0	0	0

There were no derivative financial liabilities as at 31 December 2010. (2009: THUF 0)

The above tables present the undiscounted cash flows of the Groups financial liabilities according to their earliest possible maturity. The gross nominal outflow reflects the undiscounted contractual cash flows of financial liabilities.

30. FINANCIAL INSTRUMENTS AND MANAGEMENT OF FINANCIAL RISKS (continued)

(c) Market risk (continued)

At 31 December 2010 (in THUF):

Description	EUR	USD	Other
Trade receivables	1,979,646	0	0
Cash and cash equivalents	2,182,838	79,412	0
Total loans and receivables	**4,162,484**	**79,412**	**0**
Holdings	10,579	0	0
Total available for sale financial assets	**10,579**	**0**	**0**
Loans and borrowings	11,466,426	0	0
Other non-current financial liabilities	63,508	630,443	0
Trade payables	496,995	0	35,255
Other financial liabilities and derivatives	24,894	0	739
Total other financial liabilities	**12,051,823**	**630,443**	**35,994**

The Group applied the following significant exchange rates expressed in HUF

	Average rate		Spot exchange rate at the reporting date	
Currency	2010	2009	2010	2009
1 EUR =	275.41	280.58	278.75	270.84
1 CHF =	199.94	185.82	222.68	182.34
1 RON =	65.41	66.19	65.07	63.94
1 RSD =	2.67	2.99	2.62	2.83
1 USD =	208.15	202.26	208.65	188.07

30. FINANCIAL INSTRUMENTS AND MANAGEMENT OF FINANCIAL RISKS (continued)

(c) Market risk (continued)

Analysis of exchange-rate sensitivity

The appreciation in the HUF around the reporting date would have increased or decreased equity and profit vis-à-vis the following currencies as shown in the following table. The analysis was based on exchange rate changes deemed reasonably possible by the Group on the reporting date. The analysis assumes that all other variables remain constant, including interest rates. The analysis is based on the same principles as for comparative data, with the exception of the exchange rate fluctuation deemed reasonably possible, which is different, as demonstrated in the table below.

	2010			2009		
Currency	Rate of strengthening (%)	Equity	Result	Rate of strengthening (%)	Equity	Result
HUF/EUR	11	1,795,147	1,793,983	16	2,782,991	2,782,991
HUF/USD	21	149,082	149,082	24	321,913	321,913

The table shows the impact on equity and profit or loss of an appreciation in the HUF against the given foreign currencies.

If the HUF were to weaken as of the reporting date against the currencies above, this would have the same but opposing effect on equity and profit or loss, provided that all other variables remain constant.

In the table above, the change in profit or loss is also included in the amount of the change in equity.

Interest risk

Interest rate risk is derived from the changes in the interest rates on the Group's interest-bearing assets and drawn loans.

30. FINANCIAL INSTRUMENTS AND MANAGEMENT OF FINANCIAL RISKS (continued)

(c) Market risk (continued)

Interest rate structure of the interest-bearing financial instruments of the Group as at the reporting date:

Description	2010	2009
Fixed-interest instruments		
Financial assets	10,005,007	4,529,033
Financial liabilities	630,443	559,525
Total carrying amount	**10,635,450**	**5,088,558**
Floating-rate instruments		
Financial assets	1,108,128	843,313
Financial liabilities	22,449,961	30,079,631
Total carrying amount	**23,558,089**	**30,922,944**

Fair value sensitivity analysis for fixed rate financial instruments

The Group generally does not have fixed rate financial assets and liabilities which are measured at fair value through profit or loss, nor did it conclude interest rate swaps for hedging purposes. Therefore a change in the interest rate as at the reporting date would not affect the Company's equity and profit or loss.

Cash flow sensitivity analysis for variable rate financial instruments

The following increases in interest rates as of the reporting date would have decreased equity and profit or loss as shown in the table below. This analysis assumed that all other variables, in particular foreign currency rates, remain constant.

Description	2010			2009		
	Increase (basis point)	Equity	Result	Increase (basis point)	Equity	Result
Floating-rate instruments (HUF)	60	85,686	85,686	104	150,586	150,586
Floating-rate instruments (USD)	8	0	0	14	3,576	3,576
Floating-rate instruments (EUR)	10	14,081	14,081	11	20,511	20,511
Cash flow sensitivity, net		**99,767**	**99,767**		**174,673**	**174,673**

A fall in the interest rate as of the reporting date would have the same but opposing effect on equity and profit or loss, provided that all other variables remain constant.
In the table above, the change in profit or loss is also included in the amount of the change in equity.

30. FINANCIAL INSTRUMENTS AND MANAGEMENT OF FINANCIAL RISKS (continued)

(d) Fair value of financial instruments

The following table presents fair values and carrying amounts of financial instruments:

Description	Note	31 December 2010 Carrying amount	31 December 2010 Fair value	31 December 2009 Carrying amount	31 December 2009 Fair value
Loans granted		1,493,948	1,493,948	1,115,150	1,115,150
Trade receivables		6,250,068	6,250,068	7,882,000	7,882,000
Other financial assets		8,822,417	8,822,417	9,078,157	9,078,157
Cash and cash equivalents		9,768,409	9,768,409	4,296,972	4,296,972
Total loans and receivables		**26,334,842**	**26,334,842**	**22,372,279**	**22,372,279**
Holdings		12,180	12,180	11,879	11,879
Debt securities		229,669	229,669	220,743	220,743
Total available for sale financial assets		**241,849**	**241,849**	**232,622**	**232,622**
Loans and borrowings		22,252,247	22,252,247	29,947,807	29,947,807
Other non-current financial liabilities		1,258,044	1,258,044	650,614	650,614
Trade payables		2,372,358	2,372,358	2,854,175	2,854,175
Other financial liabilities and derivatives		3,818,933	3,818,933	216,659	216,659
Total other financial liabilities		**29,701,582**	**29,701,582**	**33,669,255**	**33,669,255**

30. FINANCIAL INSTRUMENTS AND MANAGEMENT OF FINANCIAL RISKS (continued)

(d) Fair value of financial instruments (continued)

Fair value hierarchy

The table below analyses financial instruments carried at fair value, by valuation method. The different levels of the fair value hierarchy have been defined as follows:

- Level 1: quoted prices in active markets for identical assets or liabilities
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly (i.e. as prices) or indirectly (i.e. derived from prices)
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs)

Description	31 December 2010			31 December 2009		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Total available for sale financial assets	0	241,849	0	0	232,622	0
Total carrying amount	**0**	**241,849**	**0**	**0**	**232,622**	**0**

There were no reclassification among levels in the above periods.

(e) Capital management

The Group aims to establish a strong equity position to retain the confidence of investors, creditors and the market and support the future development of its business activities. The management constantly monitors the yields achieved, which are the operating profit, profit before tax and the debt service indicator. The management also monitors the registered capital/equity ratios of the Company and the subsidiaries to ensure they comply with statutory levels.

Debt service indicator:
(Profit after tax in reporting year – dividend + reporting year depreciation + reporting year interest on long-term liability + reporting year interest on member loan) / (next year's repayment instalment of long-term liability and member loan + reporting year interest of long-term liability)

The debt service indicator is calculated based on the figures in the Company's separate Hungarian financial statements and the Company's bank loan agreements.

30. FINANCIAL INSTRUMENTS AND MANAGEMENT OF FINANCIAL RISKS (continued)

(e) Capital management (continued)

Operating profit of the Company for 2010 in the annual report prepared in accordance with Hungarian accounting rules amounted to THUF 5,571,918, (in 2009: THUF 3,407,052), profit before taxation in 2010 amounted to THUF 5,588,309, (in 2009: THUF 1,730,068).

Debt service indicator in 2010 1.55 (in 2009 0.75).

When managing its capital the Group strives towards achieving a balance between the highest possible profit, dividend and liabilities as well as a strong equity position.
The Group aims to keep the debt service ratio at the level permitted by the loan agreements.
Withdrawing dividends is subject to a debt service ratio of at least 1.3.

Legal regulations applicable for the Company and its Hungarian subsidiaries prescribe the following provisions for equity:

To protect creditors, the Business Associations Act prescribes the following in terms of equity compliance: "If, according to the annual report prepared pursuant to the Accounting Act, a business association does not have sufficient equity to cover the share capital prescribed for its form of business association over two consecutive financial years, and the members (shareholders) of the business association fail to provide for the necessary equity within a period of three months after approval of the annual report prepared pursuant to the Accounting Act for the second year, the business association shall be required to adopt a decision within sixty days of this deadline on restructuring the enterprise into a different form of business association, or for its termination without legal succession"

Serbian laws do not contain any restrictive sanctions with regard to the Serbian subsidiaries.

All of the Group members complied with the capital requirements above in 2009 and 2010.

31. OPERATING LEASES

Operating leases with the Group as lessee

The amount of minimum lease payments in connection with non-cancellable operative lease obligations was zero both in 2009 and 2010.

Operating leases with the Group as lessor

Minimum lease payments under non-cancellable operating leases are as follows:

Description	2010	2009
Due within 1 year	21,023	24,264
Total	**21,023**	**24,264**

Operating leases relate to temporary lease of parts of property and other equipment not used for own purposes.

32. CONTINGENT RECEIVABLES AND CONTINGENT LIABILITIES

Guarantee

The Company provided guarantees as follows:

- to Koronás Szarvas Kft. for the THUF 60,000 working capital loan and related charges as provided by Pilisvörösvár és Vidéke Savings Cooperative, an agent of the Hungarian Development Bank, with Pilisvörösvár és Vidéke Savings Cooperative as the beneficiary.

Other contingent liabilities

- In order to resolve on amicable terms the legal dispute in process at the Arbitration Court and suspended until 30 June 2011 with E.ON Földgáz Trade Zrt., Nitrogénművek Zrt. concluded a contract to purchase a given quantity of natural gas. The commitment has already been fulfilled with respect to a significant part of the quantity undertaken, and Nitrogénművek Zrt. will fulfill the remaining obligation by 30 June 2011.

Litigation

As of the reporting date the Group had the following pending litigation:

- Nitrogénművek Zrt., claimant, launched an action against OTP Bank Nyrt., respondent, at the Budapest Municipal Court for the payment of compensation. The company lodged an appeal against the first-instance ruling passed on 21 July 2010. The Budapest Municipal Court of Appeal set a date for the second-instance hearing of 31 March 2011. (FB. 22.G.41.593/2009/16)
- In lawsuit VB09221 launched by Shell Hungary Zrt. the Court of Arbitration obligated the respondent, Nitrogénművek Zrt., to pay USD 15,730,246 plus charges to Shell Hungary Zrt. on take or pay grounds. Nitrogénművek Zrt. applied to the Budapest Municipal Court to have this ruling annulled under case number 9.G.40.314/2011, and the Budapest Municipal Court suspended the obligation to pay the amount of USD 15,730,246. The first hearing in this legal action is set for 18 May 2011.
- Nitrogénművek Zrt., claimant, filed an application against Shell Hungary Zrt., respondent, on 1 June 2010 at the Court of Arbitration of the Hungarian Chamber of Commerce and Industry regarding "unlawfulness of termination". The first hearing of this case was on 24 February 2011. The hearing was held then postponed without setting a date for the new hearing; no ruling has yet been made. (VB/10097)
- Nitrogénművek Zrt., claimant, filed an application against Shell Hungary Zrt., respondent, at the Court of Arbitration of the Hungarian Chamber of Commerce and Industry regarding the "lack of integrity of the take or pay clause". The first hearing of this case was on 12 April 2011. The hearing was held then postponed without setting a date for the new hearing; no ruling has yet been made. (VB/10116)
- Chemoprojekt a.s. launched legal action against Nitrogénművek Zrt. at the Vienna Court of Arbitration to establish whether the fine imposed on Chemoprojekt a.s was justified.
  The Court of Arbitration has yet to reach a decision.
- On 29 September 2009 EMFESZ Kft., claimant, filed an application at the Court of Arbitration of the Hungarian Chamber of Commerce and Industry against Nitrogénművek Zrt. regarding the "validity and legitimacy of the claimant's rescission statement as of 21 November 2008 and thus the retroactive termination of the Gas Supply Agreement". The Court of Arbitration rejected the application of EMFESZ Kft. and ordered it to pay the legal costs. (VB/09208)

32. CONTINGENT RECEIVABLES AND CONTINGENT LIABILITIES (continued)

- In the pending legal action launched by Nitrogénművek Zrt., claimant, against EMFESZ Kft., respondent, under number VB/08170 the Court of Arbitration found in favour of Applications I and II of Nitrogénművek Zrt. with a partial ruling. For applications III and IV, the applications by the claimant in the case submitted to the Court of Arbitration but suspended until a ruling is reached in case VB/09208 are as follows:
  = third application "to obligate EMFESZ Kft. to pay a penalty of HUF 4,130,042,580 and default interest on account of short shipment,"
  = fourth application "the rescinding by the respondent (EMFESZ) of the Gas Supply Agreement concluded between the parties is not valid, and therefore the Agreement was not terminated". (VB/08170)

- EMFESZ Kft., claimant, submitted an application to the Budapest Municipal Court on 28 July 2010, requesting that partial ruling VB/08170 from 12 July 2010 (ordering the payment of HUF 2,063 million) be annulled, and also requesting that the execution of the partial ruling be suspended. (FB 15.G.41.425/2010.)
  On 2 February 2011 the Budapest Municipal Court rejected the application of EMFESZ Kft. for the annulment of the partial ruling, as a result of which the suspension of the execution of the partial ruling was lifted. This ruling may no longer be appealed. Due to the lack of any voluntary action the company launched execution proceedings in 2011.
  EMFESZ Kft. submitted a petition for review to the Supreme Court against the ruling rejecting its application for the annulment of the partial ruling. The date of the review hearing is 21 June 2011.

- On 10 August 2009 E.ON Földgáz Trade Földgázkereskedő Zrt., claimant, submitted an application to the Court of Arbitration at the Hungarian Chamber of Commerce and Industry requesting that it obligate Nitrogénművek Zrt. to pay a fine of USD 16,952,685 and default interest thereon.
  At the request of both parties the council suspended the proceedings until 30 June 2011. (VB/09182)

- On 20 July 2010 Vertis Környezetvédelmi Pénzügyi Zrt., claimant, submitted an application to the Veszprém County Court, requesting that Nitrogénművek Zrt. be obliged to pay EUR 201,671 + VAT along with default interest, and requesting that it be established "the claimant is entitled in the future to the contractual success fee for all further sales completed between the claimant and the Customer".
  The Veszprém County Court postponed the first hearing set for 9 December 2010. At the hearing on 7 March 2011 the Veszprém County Court passed an interim and partial ruling, in which it found that Nitrogénművek Zrt. has an obligation to pay success fee. Nitrogénművek Zrt. submitted an application dated 21 March 2011 against the ruling to the Győr Court of Appeal, requesting the change of the interim and partial ruling thus the rejection of the application of the claimant. The Győr Court of Appeal has not set a date for the hearing yet. (1.G.40.101/2010/10.)

Provisions were allocated for the Company's other payment liabilities as well, in the amount of expected payments. See Note 21.

33. SUBSEQUENT EVENTS

At the general meeting of Nitrogénművek Zrt. held on 22 March 2011 the owners decided to distribute THUF 1,350,000 dividends.

There were no events after the reporting date which would require modifications in the financial statements.

34. RELATED PARTIES

Transactions with key management personnel

Key management personnel received the following benefits:

Description	2010	2009
Short-term benefits (honoraria, bonus)	544,536	228,138
Total	**544,536**	**228,138**

There were no other transactions with key management personnel.

Transactions with other related parties

Balances with related parties are detailed in the individual notes. Balances are unsecured.

Transactions with related parties are as follows:

Description	2010	2009
Sale of goods to related parties	11,628,044	4,519,539
Purchase of goods from related parties	5,424,059	2,150,441
Services provided to related parties	90,219	827
Services used from related parties	121,787	93,940
Loans granted to related parties	103,731	0
Loans repaid by related parties	103,731	0
Loans receivaed from related parties	103,731	0
Loans repaid to related parties	103,731	0
Interest on loans to key management personnel	87,374	113,729
Unconditional payment guarantee to key management personnel	273,815	0
Interest on unconditional payment guarantee to key management personnel	21,997	0

The Group used maintenance and security services provided by related companies.

Balance of loans to key management personnel:

Description	2010	2009
Loans to key management personnel	1,108,127	834,312
Interest on loans to key management personnel	372,391	263,019

The loans were granted to owners who are at the same time key management personnel. Terms and conditions of the loans are detailed in Note 8.

Other transactions were concluded at arm's length prices.

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This is an English translation of the Independent Auditor's Report on the 2009 Consolidated Financial Statements of Nitrogénművek Zrt. issued in Hungarian. If there are any differences, the Hungarian language original prevails. This report should be read in conjunction with the complete Consolidated Financial Statements it refers to.

Independent Auditors' Report

To the shareholders of Nitrogénművek Zrt.

We have audited the consolidated financial statements of Nitrogénművek Zrt. ("the Company"), which comprise the consolidated statement of financial position as at 31 December 2009, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our 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, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

This is an English translation of the Independent Auditor's Report on the 2009 Consolidated Financial Statements of Nitrogénművek Zrt. issued in Hungarian. If there are any differences, the Hungarian language original prevails. This report should be read in conjunction with the complete Consolidated Financial Statements it refers to.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of Nitrogénművek Zrt. as at 31 December 2009, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by EU.

Budapest, 16 July 2010

KPMG Hungária Kft.

László Kajtár
László Kajtár
Partner, Registered Auditor
Identification number: 000269

Nitrogénművek Vegyipari Zártkörűen Működő Részvénytársaság

Consolidated Financial Statements
2009
prepared in accordance with
International Financial Reporting Standards
as adopted by the EU

Pétfürdő, 16 July 2010

Dr. István Blazsek
Chief Executive Officer

Consolidated statement of financial position

Description	Note	2009	2008
ASSETS			
Non-current assets			
Property, plant and equipment	(1)	29,567,045	30,082,260
Intangible assets	(2)	101,130	203,740
Investments	(4)	33,869	178,310
Other non-current assets	(5)	763,542	22,108
Deferred tax assets	(22)	71,664	69,049
Total non-current assets		30,537,250	30,555,467
Current assets			
Inventories	(6)	12,670,545	14,317,478
Emission allowances	(3)	91,549	0
Current tax assets		256,574	590,164
Trade receivables	(7)	7,866,512	5,034,877
Other financial assets and derivatives	(8)	10,407,548	7,206,140
Other receivables	(9)	1,823,878	1,405,048
Cash and cash equivalents	(10)	4,296,972	1,645,793
Assets classified as held for sale	(11)	79,908	79,908
Total current assets		37,493,486	30,279,408
TOTAL ASSETS		**68,030,736**	**60,834,875**

Pétfürdő, 16 July 2010

Dr. István Blazsek
Chief Executive Officer

Consolidated statement of financial position (continued)

Description	Note	2009	2008
EQUITY AND LIABILITIES			
Equity			
Share capital	(12)	1,518,000	528,000
Translation reserve	(13)	736	-844
Hedging reserve		0	0
Retained earnings	(14)	12,092,148	8,124,102
Total equity attributable to equity holders of the Company		13,610,884	8,651,258
Total equity		13,610,884	8,651,258
Liabilities			
Non-current liabilities			
Loans and borrowings	(15)	21,562,957	14,576,934
Other non-current financial liabilities	(16)	650,614	533,641
Other non-current liabilities	(17)	8,255,499	6,627,747
Provisions	(21)	40,000	214,000
Deferred tax liability	(22)	1,042,265	11,803
Total non-current liabilities		31,551,335	21,964,125
Current liabilities			
Loans and borrowings	(15)	8,384,850	14,799,333
Current tax liabilities		143	189,526
Trade payables	(18)	2,854,175	5,101,448
Other financial liabilities and derivatives	(19)	216,659	117,764
Other current liabilities	(20)	10,811,401	9,825,020
Provisions	(21)	601,289	186,401
Total current liabilities		22,868,517	30,219,492
TOTAL EQUITY AND LIABILITIES		**68,030,736**	**60,834,875**

Pétfürdő, 16 July 2010

Dr. István Blazsek
Chief Executive Officer

Consolidated statement of comprehensive income

Description	Note	2009	2008
Revenue	(23)	44,756,033	47,981,465
Other income	(24)	2,869,022	464,076
Total operating income		47,625,055	48,445,541
Material-type expenses	(25)	29,859,832	40,311,642
Staff costs	(26)	3,602,915	4,168,617
Depreciation and impairment	(1.2)	1,598,960	1,372,337
Other expenses	(27)	1,825,720	1,575,681
Changes in self-manufactured stocks		2,002,623	-5,980,068
Capitalised value of self-manufactured assets		3,205	-67,498
Total operating expenses		38,893,255	41,380,711
Results from operating activities		8,731,800	7,064,830
Finance income		1,979,994	2,849,423
Finance costs		5,717,038	8,835,455
Finance losses/gains	(28)	-3,737,044	- 5,986,032
Profit before income tax		4,994,756	1,078,798
Income tax expense	(29)	1,194,770	155,566
Profit for the period		3,799,986	923,232
Other comprehensive income			
Translation difference		1,580	-774
Effective portion of changes in fair value of cash flow hedges		0	-1,156,525
Net change in fair value of cash flow hedges transferred to profit or loss		0	2,608,748
Income tax on other comprehensive income		0	-290,464
Total other comprehensive income		**1,580**	**1,160,985**
Total comprehensive income for the period		**3,801,566**	**2,084,217**
Profit for the period attributable to:			
Owners of the Company		3,799,986	923,232
Comprehensive income for the period attributable to:			
Owners of the Company		3,801,566	2,084,217

Pétfürdő, 16 July 2010

Dr. István Blazsek
Chief Executive Officer

Consolidated statement of changes in equity

	Note	Equity	Attributable to equity holders of the Company								
			Share capital	Translation reserve	Hedging reserve	Revaluation reserve	Fair value reserve	Retained earnings	Total	Non-controlling interest	Total equity
Balance at 1 January 2008			**528,000**	**-51**	**-1,161,778**	**0**	**0**	**7,200,870**	**6,567,041**	**0**	**6,567,041**
Profit for the period			0	0	0	0	0	923,232	923,232	0	923,232
Other comprehensive income											
Translation difference			0	-793	0	0	0	0	-793	0	-793
Effective portion of changes in fair value of cash flow hedges, net of tax			0	0	-1,156,525	0	0	0	-1,156,525	0	-1,156,525
Net change in fair value of cash flow hedges transferred to profit or loss, net of tax			0	0	2,318,303	0	0	0	2,318,303	0	2,318,303
Net change in fair value of available-for-sale financial assets, net of tax			0	0	0	0	0	0	0	0	0
Net change in fair value of available-for-sale financial assets transferred to profit or loss, net of tax			0	0	0	0	0	0	0	0	0
Total other comprehensive income			***0***	***-793***	***1,161,778***	***0***	***0***	***0***	***1,160,985***	***0***	***1,160,985***
Total comprehensive income			***0***	***-793***	***1,161,778***	***0***	***0***	***923,232***	***2,084,217***	***0***	***2,084,217***
Transactions with owners, recorded directly in equity											
Contributions by and distributions to owners			0	0	0	0	0	0	0	0	0
Issue of shares			0	0	0	0	0	0	0	0	0
Dividends			0	0	0	0	0	0	0	0	0
Total transactions with owners			***0***	***0***	***0***	***0***	***0***	***0***	***0***	***0***	***0***
Balance at 31 December 2008			**528,000**	**-844**	**0**	**0**	**0**	**8,124,102**	**8,651,258**	**0**	**8,651,258**

Pétfürdő, 16 July 2010

Dr. István Blazsek
Chief Executive Officer

Consolidated statement of changes in equity (continued)

	Note	Attributable to equity holders of the Company								Non-controlling interest	Total equity
		Equity	Share capital	Translation reserve	Hedging reserve	Revaluation reserve	Fair value reserve	Retained earnings	Total		
Balance at 1 January 2009			**528,000**	**-844**				**8,124,102**	**8,651,258**		**8,651,258**
Profit for the period								3,799,986			3,799,986
Other comprehensive income											
Translation difference				1,580					1,580		1,580
Effective portion of changes in fair value of cash flow hedges, net of tax											
Net change in fair value of cash flow hedges transferred to profit or loss, net of tax											
Net change in fair value of available-for-sale financial assets, net of tax											
Net change in fair value of available-for-sale financial assets transferred to profit or loss, net of tax											
Total other comprehensive income				*1,580*					*1,580*		*1,580*
Total comprehensive income				*1,580*				*3,799,986*	*1,580*		*3,801,566*
Transactions with owners, recorded directly in equity											
Contributions by and distributions to owners								168,060	168,060		168,060
Issue of shares			990,000						990,000		990,000
Dividends											
Total transactions with owners			*990,000*					*168,000*	*1,158,060*		*1,158,060*
Balance at 31 December 2009			**1,518,000**	**736**				**12,092,148**	**13,610,884**		**13,610,884**

Pétfürdő, 16 July 2010

Dr. István Blazsek
Chief Executive Officer

Consolidated statement of cash flows

Description	Note	2009	2008
Profit after tax		3,799,986	923,232
Depreciation, amortisation and impairment	(1.2)	1,613,086	1,375,889
Impairment and reversal on inventories	(6)	1,769	47,548
Impairment on receivables and reversal thereof		7,202	4,787
Increase/Decrease in provisions	(23)	240,888	309,876
Gains/Losses on sale of property, plant and equipment		-7,430	-12,608
Unrealised exchange gains/losses		300,123	474,137
Decrease/Increase in inventories	(6)	1,645,164	-6,579,765
Decrease/Increase in emission allowances	(3)	-91,549	4,912
Increase/Decrease in trade receivables		-2,802,877	1,193,870
Decrease/Increase in other financial assets		-3,200,760	-370,913
Decrease/Increase in other receivables		-59,533	-744,885
Decrease/Increase in other assets		-741,434	-18,979
Decrease/Increase in other non-current liabilities	(19)	1,627,752	-144,595
Decrease/Increase in trade payables		-2,422,157	1,143,816
Decrease/Increase in other financial liabilities		81,599	-2,362
Decrease/Increase in other current liabilities	(22)	1,154,441	3,988,969
Net change in income tax assets, liabilities		1,172,054	13,247
Change in receivables and liabilities from derivative transactions		0	-4,542,192
Cash flows from operating activities		2,318,324	-2,936,016
Interest income		-307,356	-279,190
Interest expense		2,727,986	2,027,222
Income tax paid		-359,297	-189,803
Net cash flows from operating activities		**4,379,657**	**-1,377,787**

Pétfürdő, 16 July 2010

Dr. István Blazsek
Chief Executive Officer

Consolidated statement of cash flows (continued)

Description	Note	2009	2008
Dividends received		0	0
Interest received		306,430	286,598
Acquisition of property, plant and equipment	(1,2)	-862,922	-1,401,784
Sale of property, plant and equipment	(1,2)	17,627	17,627
Granting and repayment of loans		144,101	1,050,253
Disbursement/Repayment of loans to employees		848	-1,210
Proceeds from sale of subsidiaries and business units		0	140,000
Cash used for acquisition of subsidiaries, business units		0	-9,142
Net cash flows from investing activities		**-393,916**	**82,342**
Issue of shares		990,000	0
Borrowings	(15)	26,726,063	11,549,221
Repayment of loans and borrowings	(15)	-26,341,515	-10,627,738
Dividends paid		0	0
Interest paid	(28)	-2,710,690	-1,994,913
Net cash flows from financing activities		**-1,336,142**	**-1,073,430**
Net changes in cash and cash equivalents		**2,649,599**	**-2,368,875**
Cash and cash equivalents at 1 January	(10)	-2,369,668	4,015,461
Effect of exchange rate fluctuations on cash held		1,580	-793
Cash and cash equivalents at 31 December	(10)	**281,511**	**1,645,793**

Pétfürdő, 16 July 2010

Dr. István Blazsek
Chief Executive Officer

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 31 DECEMBER 2009

I. GENERAL

A Nitrogénművek Zrt (hereinafter referred to as "the Company") was established on 1 February 1990. Registered office: 8105 Hungary, Pétfürdő, Hősök tere 14.

The consolidated financial statements of the Company as at and for the year ended 31 December 2009 comprise the Company and its subsidiaries (together referred to as the "Group" and individually as "Group entities"). In the period covered by the consolidated financial statements the Company held no interest in associates or jointly controlled entities.

The Group primarily is involved in the manufacture of artificial fertilisers containing solid nitrogen and nitrogen solution. The group also manufactures industrial gases (argon, hydrogen, nitrogen).

Group subsidiaries:

Company	Country	Scope of activities	Ownership share in 2009.	Ownership share in 2008.
Nádudvari Agrokémiai Kft.	Hungary	Manufacture and distribution of artificial fertilisers and nitrogen compounds	100%	100%
Nitrogén – Pinkerton Kft.	Hungary	Investigation and security services	53.33%	53.33%
Nitropet Deutschland H. GmbH.	Germany	Retail and wholesale	100%	100%
Nitropet Italia S.R.L.	Italy	Retail and wholesale	100%	100%
NITROPÉT Slovakia	Slovakia	Retail and wholesale of agricultural products and chemicals	51%	51%
Nitro-Pét d.o.o.	Serbia	Transportation and agency activities; retail distribution of chemical products and artificial fertilisers	100%	100%
Péti Gépészeti Kft.	Hungary	Metallurgy	100%	100%
Péti Nitrokomplex Kft.	Hungary	Manufacture, packaging and distribution of artificial fertilisers	100%	100%
Péti Polietilén Zsák Kft.	Hungary	Manufacture and distribution of polythene packaging materials	100%	100%
Péti VMA Kft.	Hungary	Technical review and analysis	100%	100%
SC BH CHEMICAL IMPEX SRL	Romania	Wholesale of chemical products	100 %	100 %
RSR Nitro Kft.	Hungary	Logistics	100 %	0

1. ADOPTION, STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION

(a) Adoption and statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU.

The consolidated financial statements were authorised for issue by the Board of Directors on 16 July 2010.

(b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for the following material items in the statement of financial position:

- derivative financial instruments are measured at fair value
- available-for-sale financial assets are measured at fair value.

The financial year corresponds to the calendar year.

(c) Functional and presentation currency

These consolidated financial statements are presented in Hungarian forint ("Ft" or HUF), which is the Company's functional currency. The functional currency of each subsidiary is the currency of the country where the relevant subsidiary is registered, since selling prices are typically determined by the economy of the country where the subsidiary is active.
Financial information presented in forint has been rounded to the nearest thousand (THUF), while information presented in other currencies has been rounded to one currency unit.

(d) Use of estimates and judgments

The preparation of the consolidated financial statements in conformity with the following accounting policies requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements relating to the following areas is included in Note 4.

- determination of useful lives of items of property, plant and equipment
- valuation of emission allowances (ERU)
- measurement of hedging transactions
- recovery of deferred tax assets
- recovery of investment tax credit

2. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements and to the opening statement of financial position as at 1 January 2007, and have been applied consistently by Group entities.

(a) Basis of consolidation

Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group.

Acquisition of entities under common control

Acquisitions whereby an entity that is under the control of the shareholder that controls the Group, are accounted at the date of acquisition by recognising the acquired assets and liabilities at the carrying amounts recorded previously in the books of the acquired entity. The components of equity of the acquired entity are added to the same components within Group equity. Any cash paid for the acquisition is recognised directly in equity. The part of cash paid for the acquisition in excess to the net asset value acquired is recognised as a deduction from retained earnings.

Transactions eliminated on consolidation

Intra-group balances, and any unrealised income and expenses arising from intra-group transactions are eliminated in preparing the consolidated financial statements.

(b) Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in the consolidated profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments and differences from cash flow hedges, which are recognised in other comprehensive income. Non-monetary items measured at cost are translated using the exchange rate at the date of the transaction.

(ii) Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments, if any, arising on acquisition, are translated to the presentation currency at exchange rates at the reporting date. The income and expenses of foreign operations are translated to the presentation currency at exchange rates at the dates of the transactions.

Foreign currency differences are recognised in other comprehensive income in the foreign currency translation reserve. When a foreign operation is disposed of, in part or in full, the relevant amount in the translation reserve is transferred to profit or loss.

When the settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely in the foreseeable future, foreign exchange gains and losses arising from such a monetary item are considered to form part of a net investment in a foreign operation and are recognised within other comprehensive income in the translation reserve.

(c) Financial instruments

Non-derivative financial instruments

The Group initially recognises loans and receivables, deposits and borrowings on the date that they are originated. All other financial instruments are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred.
The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market.
Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale and that are not classified in any of the other categories of financial assets. The Group's investments in equity and debt securities are classified as available-for-sale financial assets.
Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses and foreign currency differences on equity instruments, are recognised in other comprehensive income and presented within

equity in the fair value reserve. When an investment is derecognised, the cumulative gain or loss in other comprehensive income is transferred to profit or loss. However, if an equity investment has no quoted price in an active market and its fair value cannot be measured reliably, it is measured subsequent to initial recognition at cost less impairment.

Other financial liabilities

Financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortised cost using the effective interest method.

Derivative financial instruments

The Group holds derivative financial instruments to hedge its foreign currency risk exposures.

Derivatives are recognised initially at fair value. Attributable transaction costs are recognised in profit or loss when incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are accounted for as described below.

Cash flow hedges

A cash flow hedge is hedging the exposure arising from the variability in cash flows attributable to a particular risk associated with a recognised asset or liability or a probable forecast transaction that could affect profit or loss.

When a hedge is concluded, the Group formally designates and documents the hedging relationship to which hedge accounting is to be applied, as well as the risk management goals and strategies of the hedge. Documentation includes identification of the hedge, the related hedged item or transaction, the nature of the risk being hedged and how the entity will assess hedge effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. These hedges are expected to be highly effective in offsetting changes in cash flows. Effectiveness is assessed on the reporting date.

When a derivative is included in a hedging relationship, the effective portion of changes in the fair value of the derivative is recognised in other comprehensive income and presented in the hedging reserve in equity, while any ineffective portion is recognised in profit or loss. The amount recognised in other comprehensive income is removed and included in profit or loss in the same period as the hedged cash flows affect profit or loss, e.g. when the forecast transaction takes place. In the case of an effective hedge, the amount transferred to profit or loss is included under the same line item in the statement of comprehensive income as the result of the hedged transaction.

If the forecast transaction is no longer expected to occur, then the balance in other comprehensive income is recognised immediately in profit or loss. If the hedge expires or is sold, terminated, exercised, or the designation is revoked, amounts previously recognised within equity in other comprehensive income remain in equity until the forecast transaction occurs, then are transferred to profit or loss. If the forecast transaction is no longer expected to occur, then these amounts are recognised immediately in profit or loss.

Other non-trading derivatives

Other non-trading derivatives are financial instruments measured at fair value through profit or loss. When a derivative financial instrument is not held for trading, and is not designated in a qualifying hedge relationship, all changes in its fair value are recognised immediately in profit or loss under results of financial transactions.

(d) Equity

Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity, net of any tax effects.

(e) Property, plant and equipment

Recognition and Measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the assets and restoring the site on which they are located, as well as borrowing costs attributable to the acquisition, construction or production of a qualifying asset.

Purchased software that is integral to the functionality of the related equipment increases the cost of that equipment.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and are recognised net within other income or other expenses in profit or loss.

Subsequent costs

The cost of replacing a part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group, and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

Depreciation

Depreciation is calculated over the cost of an asset, less its residual value.
Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Leased assets under finance lease are depreciated over their useful lives, since the Group will obtain ownership by the end of the lease term. Land is not depreciated.
The residual value of production plants and related production machinery and equipment is zero, since their expected useful lives correspond to their expected economic lives, considering that the Group intends to use such assets until exhaustion.

The estimated useful lives for the current and comparative period are as follows:

- buildings 35-50 years
- plant and equipment 5-35 years
- fixtures and fittings 2 years

Depreciation methods, useful lives and residual values are reassessed annually at each reporting date.

(f) Intangible assets

Measurement

Other intangible assets that are acquired by the Group and have finite useful lives are measured at cost less accumulated amortisation and accumulated impairment losses.

Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in profit or loss as incurred.

Amortisation

Amortisation is calculated over the cost of the asset, less its residual value.
Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, from the date that they are available for use.

The estimated useful lives for the current and comparative period are as follows:

- rights and concessions 2-5 years

(g) Leased assets

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and the leased assets are not recognised in the Group's statement of financial position.

(h) Inventories

Inventories are measured at the lower of cost and net realisable value.
Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

Purchased inventories

The cost of purchased inventories is determined based on average weighted purchase price and includes direct acquisition expenditure incurred, as well as costs incurred in bringing the inventories to their existing location and condition.

Manufactured inventories

Cost of manufactured inventories is determined based on their direct production cost on the reporting date and includes production or conversion costs and other costs incurred in bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity. Cost also may include any gain or loss on cash flow hedges concluded to hedge foreign exchange risk of forecasted purchases of raw materials, transferred from comprehensive income through row item changes in manufactured inventories.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

(i) Emission allowances

Carbon dioxide (CO2) quota

The Group receives emission allowances free of charge in Hungary as part of the European Emission Trading System since it emits greenhouse gases. These allowances are valid until the end of a pre-determined emissions period. The allowances are credited each year based on the National Allocation Plan. The group must settle its liability based on actual emissions by surrendering the emission allowances. In the event the actual emissions exceed the quantity of emission allowances received, the difference may be purchased from a third party to settle the liability.
The initial measurement of emission allowances received free of charge is at fair value as of the acquisition date, which is the market price traded on the active market (bluenext.com) (see Note I.2.q.). These allowances received free of charge are recognised as emission allowances under fixed assets or current assets as part of intangible assets. Emission allowances purchased from third parties are initially measured at the same amount paid for the allowances. Thereafter the emission allowances are measured at cost net of impairment. Emission allowances are not amortised.
Emission allowances can be sold on the market while valid. Emission allowances are derecognised when sold, or when surrendered to settle liability based on actual emissions.
Emission allowances to be surrendered within one year are recognised under current assets.
The Group records provisions for liabilities which arise on account of actual emissions. Provisions are measured based on a best estimate of the expense required to settle the liability prevailing as of the reporting date (see Note I.2.m.).

Dinitrogen oxide (N_2O) emission reduction units

The quantity of emission reduction units (ERU) in the acid plant (JI project) changes every year depending on production and the level of emission reduction achieved. In connection with the company's JI project and in line with the Kyoto Protocol, the state must be informed of the emission reduction achieved, which involves submitting a verified report to the Minister of Environment and Water; once in possession of the approval and the emissions reduction purchase agreement (ERPA) an application must be made for the state to transfer the units to the company's clients who are contracted for emission units (Kommunalkredit Public Consulting GmbH, UHDE GmbH). When the ERUs are transferred they are recognised in the consolidated profit or loss as other income at the values stated in the purchase agreements.
If the Group becomes entitled to emission reduction units, but they have not been transferred, then these emission reduction units are recognised as part of intangible assets as emission allowances under current assets. The initial measurement of emission reduction units received free of charge is at fair value as of the acquisition date, which is the market price traded on the active market (bluenext.com) (see note I.2.q.). For lack of any active market the price is based on available market information, a price that would be applied between

two informed and willing independent parties. Since there was no active market for ERUs in the reporting year, and the purchase agreements are generally not public, the group construed the market price to be the price stated in the previous purchase agreement.

(j) Impairment

Financial assets

A financial asset is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that one or more events had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost can also be objective evidence of impairment.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are accounted as other expenses in profit or loss. Interest on the impaired asset continues to be recognised through the unwinding of the discount.

Individually significant financial assets are tested for impairment on an individual basis.Other financial assets are grouped together based on similar credit risk characteristics and are assessed for impairment collectively.

Impairment losses on available-for-sale financial assets are recognised by transferring the cumulative loss that has been recognised in other comprehensive income, and presented in the fair value reserve, to profit or loss. The cumulative loss that is transferred to profit or loss is the difference between the cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost and available-for-sale financial assets that are debt securities, the reversal is recognised in profit or loss. In the case of available-for-sale equity securities, the reversal is recognised in other comprehensive income.

Non-financial assets

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.
In the case of emission allowances, fair value less costs to sell is a good approximate for the recoverable amount, and since costs to sell are negligible, the Group considers the price as at the reporting date quoted in an active market to be the recoverable amount, if available, otherwise the market price determined based on

information available (see Note I.2).
For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets ("cash-generating unit or CGU").

Assets not involved directly in production do not generate separate cash inflows. If there is an indication that such an asset may be impaired, then the recoverable amount is determined for the CGU to which the asset belongs.

An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses recognised in respect of CGUs are allocated to the assets in the unit in proportion to their carrying amounts. All impairment losses are recognised in profit or loss.

In respect of assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(k) Non-current assets held for sale

Non-current assets, or disposal groups comprising assets and liabilities, that are expected to be recovered primarily through sale rather than through continuing use, are classified as held for sale. Immediately prior to the classification as held for sale the assets (or components of the disposal group) are remeasured in accordance with the Group's accounting policies. Thereafter, the assets (or disposal group) are measured at the lower of the carrying amount and the fair value less cost to sell.
Impairment losses on initial classification as held for sale and subsequent gains or losses on remeasurement are recognised in profit or loss. Gains are not recognised in excess of any cumulative impairment loss.

(l) Employee benefits

Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an employee benefit expense in profit or loss in the periods during which services are rendered by employees. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

Termination benefits

Termination benefits are recognised as expense when the Group is demonstrably committed to a detailed formal plan to terminate employment before the normal retirement date or to provide termination benefits as a result of an offer made in order to encourage voluntary redundancy, without a realistic possibility of withdrawal. Termination benefits for voluntary redundancies are recognised as expense if the Group has made an offer encouraging voluntary redundancy, it is probable that the offer will be accepted and the number of acceptances can be estimated reliably.

Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the

related service is provided.
A liability is recognised for the amount expected to be paid under short-term cash bonus if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(m) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. When unwinding the discount representing elapse of time the balance sheet value of the provision increases year-by-year by the effect of discount. The increment is accounted as interest expense.

Provisions are typically allocated for emission quotes, termination benefits and early retirement pensions, disputes and environmental protection liabilities.

Emission quotas

The Group allocates provisions for the liability to deliver emission allowances based on actual carbon dioxid emission (see Note I.2), the amount of which is set to the extent of emission allowances existing at the reporting date based on their carrying amount and for liabilities not covered by existing emission allowances based on market value of emission allowances as at the reporting date, since such liabilities can be settled by purchasing emission allowances.

Provisions for termination benefits and early retirement pensions

Provisions for termination benefits and early retirement pensions connected to redundancies are recognised, if by the reporting date the Group created justified expectations on the part of employees relating to the redundancy. As a prerequisite, the redundancy plan has to be approved by the Board and communicated to those concerned by the reporting date.
The provision is allocated based on best estimate relating to the costs incurred. Where the liability will be settled several years later, the amount booked is the present value of expected future costs.

Provisions for environmental protection liabilities

Provisions for environmental protection costs are recognised if environmental damage assessment or remediation is probable and related costs are reliably quantifiable. The provision is accounted generally parallel to the acceptance of a relevant formal plan or task, if it is earlier, to the sale or closing down of inactive places. The provision is allocated based on best estimate relating to the costs incurred. Where the liability will be settled several years later, the amount booked is the present value of expected future costs.

(n) Revenues

Goods sold
Revenue is recognised when economic benefit in connection with the transaction is likely to inflow to the Group and its amount can be measured reliably. Revenue is booked net of taxes related to sales and discounts when goods are delivered or services provided and risks and rewards are transferred.

Revenue from the sale of goods is measured at the fair value of the consideration net of returns, trade discounts and volume rebates. Revenue does not include value added tax.
Revenue from the sale of goods is recognised when all the following conditions are met:

- persuasive evidence exists, usually in the form of an executed sales supply agreement, that the significant risks and rewards of ownership have been transferred to the buyer;
- the Group has no actual control over the goods and there is no continuing management involvement with the goods;
- the consideration can be measured reliably;
- financial settlement of the consideration is probable; and
- the associated costs and possible return of goods can be estimated reliably.

The Group sells its products on domestic markets in a "bill and hold" system. In the case of bill and hold transactions revenue is booked when all the following conditions are met in addition to the above:

- the buyer obtains ownership;
- it is probable that delivery will take place
- the goods are ready for delivery, physically separated under the name of the buyer;
- the buyer expressly acknowledges the demand for subsequent delivery,
- normal payment terms apply;

or if one or more of these conditions are not met, revenue is booked at the latest when the buyer obtains ownership and delivery takes place.

The timing of the transfers of risks and rewards varies depending on the individual terms of the contract of sale. If transportation is carried out by the Group, usually transfer occurs when the product is received at the destination indicated by the customer; however, for shipments arranged by the costumer, transfer occurs upon loading the goods onto the carrier of the transporter. For inventories stored at the customer's site (as an external venue), transfer occurs when the goods are released from warehouse for the given customer.

If it is probable that discounts will be granted and the amount can be measured reliably, then the discount is recognised as a reduction of revenue as the sales are recognised.

Services

Revenue from services rendered is recognised in profit or loss in proportion to the stage of completion of the transaction at the reporting date. The stage of completion is assessed by reference to surveys of work performed.

Revenue from services is recognised when all the following conditions are met:

- the consideration can be measured reliably;
- financial settlement of the consideration is probable; and
- the associated costs can be estimated reliably.

Commissions

When the Group acts in the capacity of an agent rather than as the principal in a transaction, the revenue recognised is the net amount of commission made by the Group and it is booked when conditions listed in point (ii) are met.

Usually the Group sells the products of its related companies in the capacity of an agent. Revenue is booked when sale takes place based on the contract concluded by the principal and the customer and the Group is entitled to receive the commission.

Rental income

Rental income from operative leases is recognised evenly over the term of the lease in the profit or loss. Lease incentives granted are recognised as an integral part of the total rental income, over the term of the lease.

(o) Lease payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

(p) Finance income and expense

Finance income comprises the following: interest income on funds invested (including available-for-sale financial assets), dividend income, exchange gains on FX items, gains on the disposal of available-for-sale financial assets, derivatives held for trading, and changes in the fair value of hedges to be recognised in profit or loss. Interest income is recognised as it accrues in profit or loss, using the effective interest method. Dividend income is recognised in profit or loss on the date that the Group's right to receive payment is established, which in the case of quoted securities is the ex-dividend date, while for unlisted securities it is the date when the relevant authorised body makes decision relating to distribution.

Finance expenses comprise the following: interest expense on borrowings, unwinding of the discount on provisions, exchange losses on FX items, changes in the fair value of derivatives held for trading, changes in the fair value of hedges to be recognised in profit or loss and impairment losses recognised on available-for-sale financial assets.

(q) Government grants

An unconditional government grant is recognised in profit or loss, if it will be received.
Other government grants are recognised in profit or loss when there is reasonable assurance that they will be received and the Group will comply with the conditions associated with the grant.
Grants related to asset purchases are booked at fair value as deferred income and are recognised in profit or loss as other income in proportion to expensing the asset.
Grants that compensate the Group for expenses incurred (including government grants received in the form of emission allowances received free of charge, see Note I.2.i) are recognised in profit or loss as other income at fair value in the same periods in which the expenses are incurred. Investment tax credits are recognised similarly to government grants related to asset purchases.

(r) Income tax

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.
Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not

recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries to the extent that they probably will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(s) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2009, and have not been applied in preparing these consolidated financial statements. None of these expected to have an effect on the consolidated financial statements of the Group, except for IFRS 9 *Financial Instruments*, which becomes mandatory for the Group's 2013 consolidated financial statements and might have an effect on classification and measurement of financial assets; however, the expected effects have not been assessed yet.

3. DETERMINATION OF FAIR VALUES

The Group's accounting policies and disclosures require the determination of fair value for financial instruments. Fair values have been determined for measurement and disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the individual notes.

(a) Available-for-sale financial assets

Fair value of available-for-sale financial assets is based on the closing bid price quoted on an active market valid on the reporting date.

(b) Trade receivables, other financial assets not arising from derivative transactions

Fair value of trade receivables and other financial assets for disclosure is determined based on present value of future cash flows discounted at market rate as of the reporting date.

(c) Trade payables, other financial liabilities not arising from derivative transactions

Fair value of trade payables and other financial liabilities for disclosure purposes is determined based on present value of future principal and interest cash flows discounted at market rate as of the reporting date.

(d) Derivative transactions

The fair value of forward exchange contracts is based on their listed market price, if available. If a listed market price is not available, then fair value is estimated based on the present value of the difference between the contractual forward price and the forward price as at the reporting date discounted using a risk-free interest rate (based on government bonds) for the residual maturity of the contract.

4. IMPORTANT ACCOUNTING ASSUMPTIONS AND ESTIMATES

Critical estimates and assumptions

When applying accounting policies detailed in Section 2, management of the Group used certain assumptions which have an impact on the reported amounts (apart form effects of estimates). These key assumptions are:

- Emission reduction units (ERU): ERUs are initially measured at market price, however, since in the reporting year ERUs had no active market and sale agreements are typically not public, the Group deemed the price set forth in the sale agreement already concluded to be the market price.

Estimation uncertainties

The preparation of financial statements in conformity with IFRSs requires the use of estimates that affect the amounts presented in the consolidated financial statements and the related notes. These estimates are based on management's best knowledge of current events, however, actual results may differ from these estimates. These most important estimates are described below:

- Useful lives of property, plant and equipment: The estimate of the useful lives of property, plant and equipment was made based on the technical content of the assets and past experience of the individual asset types, such as the frequency of replacements and faults. The fact that the actual useful life of the assets can differ depending on the capacity in use, technology changes or technical factors does cause some uncertainty, and therefore the Group analyses on an annual basis whether the previous estimate is still pertinent, and revises the useful life estimate where necessary.

- Hedges: Gains or losses on hedges are calculated based on estimates relating to future exchange rates and interests as well as the timing and amount of hedged future gas purchases. Uncertainty lies in the fact that these factors are subject to market expectations and changes in the economic environment.

- Recovery of deferred tax liabilities: Recovery of deferred tax liability is subject to future taxable profit. The availability of future taxable profits is supported by a business plan that is prepared for a period in relation to which the Group is able to prepare a reliable plan.

- Use of investment tax credits: The use of investment tax credits depends on future taxable profits. The Group confirms the availability of future taxable profits with a business plan, prepared for the period that the investment tax credits may be used. The recovery of investment tax credits is contingent upon the uncertainties inherent in the estimates used for the business plan. Such factors of uncertainty include, among others, expected sales volumes, market sales prices, the market price of material costs (principally gas), capacity in use, tax rates and items reconciling the tax base.

II. NOTES TO THE FINANCIAL STATEMENT ITEMS

1. PROPERTY, PLANT AND EQUIPMENT

Description	Land and buildings	Plant and equipment	Other equipment and fittings	Assets under construction	Total
Opening gross value at 1 January 2008	**7,296,106**	**19,257,888**	**262,288**	**8,427,396**	**35,243,678**
- Additions from business unit acquisitions	0	0	0	1,167,508	**1,167,508**
- Derecognitions	-97,023	-61,237	-23,247	-4,710	**-186,217**
- Transfers and reclassification ±	2,426	-57,583	-733	0	**-55,890**
- Capitalisation	2,644,799	2,240,326	18,963	-4,904,088	**0**
- Translation differences	0	0	-232	0	**-232**
Closing gross value at 31 December 2008	**9,846,308**	**21,379,394**	**257,039**	**4,686,106**	**36,168,847**
- Additions from business unit acquisitions	0	0	0	585,394	**585,394**
- Addition due to expanded consolidation scope	0	9,911	64	0	**9,975**
- Derecognitions	-15,938	-121,611	-24,287	0	**-161,836**
- Transfers and reclassification ±	-5,948	14,115	-9,131	0	**-964**
- Capitalisation	1,303,172	3,631,287	22,135	-4,956,594	**0**
- Subsequent capitalisation	6,757	487,413	0	0	**494,170**
- Translation differences	0	0	-133	0	**-133**
Closing gross value at 31 December 2009	**11,134,351**	**25,400,509**	**245,687**	**314,906**	**37,095,453**
Opening accumulated depreciation at 1 January 2008	**909,537**	**3,740,346**	**218,291**	**0**	**4,868,174**
- Depreciation	311,857	1,016,836	24,770	0	**1,353,463**
- Derecognitions	-3,329	-55,238	-21,523	0	**-80,090**
- Transfers ±	-538	-53,516	-733	0	**-54,787**
- Translation differences	0	0	-173	0	**-173**
Closing accumulated depreciation at 31 December 2008	**1,217,527**	**4,648,428**	**220,632**	**0**	**6,086,587**

1. PROPERTY, PLANT AND EQUIPMENT (continued)

Description	Land and buildings	Plant and equipment	Other equipment and fittings	Assets under construction	Total
- Depreciation	339,257	1,186,349	23,465	0	**1,549,071**
- Increase in depr. due to expanded cons. scope	0	5,627	64	0	**5,691**
- Depreciation on subsequent capitalisation	91	24,411	0	0	**24,502**
- Derecognitions	-2,650	-110,222	-23,869	0	**-136,741**
- Transfers ±	-194	4,329	-4,637	0	**-502**
- Translation differences	0	-70	-130	0	**-200**
Closing accumulated depreciation at 31 December 2009	**1,554,031**	**5,758,852**	**215,525**	**0**	**7,528,408**
Net opening value at 1 January 2008	**6,386,569**	**15,517,542**	**43,997**	**8,427,396**	**30,375,504**
Net closing value at 31 December 2008	**8,628,781**	**16,730,966**	**36,407**	**4,686,106**	**30,082,260**
Net closing value at 31 December 2009	**9,580,320**	**19,641,657**	**30,162**	**314,906**	**29,567,045**

Assets under construction

As part of the granulation plant investment project the granulation unit was capitalised on 1 April 2009. The expense incurred by 1 April 2009 in connection with the granulation plant unit – including borrowing costs – totalled THUF 10,854,510 E FT (by 31 December 2008 THUF 10,438,398).
The packaging and neutralisation plant units were capitalised in 2007 and 2008, respectively.

Reclassification to assets held for sale

The Group reclassified the company's old decommissioned acid plant to assets held for sale. See Note 11.

Capitalised borrowing costs

The costs of investment loans capitalised on investments amounted to THUF 599,413 by 1 April 2009, the capitalisation date for the granulation plant (THUF 552,774 by 31 December 2008).

Contractual investment liabilities

As of 31 December 2009 the Group's contractual commitments for property, plant and equipment purchases amounted to THUF 2,166,018 (as of 31 December 2008: THUF 170,425).

Value of leased assets

Assets acquired under finance lease are included in property, plant and equipment.

Description	2009	2008
Gross value	250,780	63,764
Accumulated depreciation and impairment	55,925	19,837
Net value	**194,555**	**43,927**

The Group leases passenger cars under finance lease; the cars will be owned by the Group at the end of the lease term.

Value of assets pledged as collaterals

As at 31 December 2009 land and buildings with a carrying amount of THUF 9,914,201 (31 December 2008: THUF 8,883,724) and plant and equipment with a carrying amount of THUF 17,360,373 (31 December 2008: THUF 14,408,609) were pledged as collateral for bank loans. See Note 15.

2. INTANGIBLE ASSETS

Description	Rights and concessions	Other	Total
Gross opening value at 1 January 2008	**78,385**	**503,935**	**582,320**
- Other additions	25,446	470	**25,916**
- Derecognitions	-77	0	**-77**
- Transfers	0	-5,230	**-5,230**
Closing gross value at 31 December 2008	**103,754**	**499,175**	**602,929**
- Addition due to expanded cons. scope	128	0	**128**
- Other additions	3,172	76,103	**79,275**
- Derecognitions	-489	0	**-489**
- Transfers	344,957	-501,455	**-156,498**
Closing gross value at 31 December 2009	**451,522**	**73,823**	**525,345**
Opening accumulated depreciation 1 January 2008	**43,815**	**336,577**	**380,392**
- Depreciation	14,621	4,253	**18,874**
- Derecognitions	-77	0	**-77**
Closing accumulated depreciation at 31 December 2008	**58,359**	**340,830**	**399,189**
- Depreciation	15,210	10,177	**25,387**
- Incr. in depr. due to expanded cons. scope	128	0	**128**
- Derecognitions	-489	0	**-489**
- Transfers	341,065	-341,065	0
Closing accumulated depreciation at 31 December 2009	**414,273**	**9,942**	**424,215**
Net opening value at 1 January 2008	**34,570**	**167,358**	**201,928**
Net closing value at 1 December 2008	**45,395**	**158,345**	**203,740**

Net closing value at 1 December 2009	**37,249**	**63,881**	**101,130**

Rights and concessions primarily include purchased software.

3. EMISSION ALLOWANCES

Emission allowances are CO_2 emission allowances received based on Government Decree 66/2006.III., and N_2O emission reduction units as per ACT LX of 2007.

Changes in terms of quantity and carrying amount is presented in the table below:

Description	N_2O emission reduction unit		CO_2 emission quota		Total
	Unit	THUF	Unit	THUF	THUF
Opening balance at 1 January 2008	**0**	**0**	**38,380**	**4,912**	**4,912**
Delivery due to 2007 emission	0	0	28,556	4,863	4,863
Derecognition of unused quotas	0	0	9,824	49	49
Closing balance at 31 December 2008	**0**	**0**	**0**	**0**	**0**
Receipt in relation to 2008 emission	750,780	1,519,420	25,708	100,485	1,619,905
Purchase of 2009 quota	0	0	448	1,786	1,786
Delivery due to 2009 emission	0	0	26,156	102,271	102,271
Sale in 2009	717,412	1,427,871	0	0	1,427,871
Closing balance at 31 December 2009	**33,368**	**91,549**	**0**	**0**	**91,549**

4. INVESTMENTS

Description	2009	2008
Loans granted	6,502	7,073
Security deposit	0	50,961
Long-term receivables from contracts	15,488	27
Other investments	11,879	120,249
Total	**33,869**	**178,310**

Loans granted include housing loans provided to employees under favourable terms.
No impairment was booked on loans disbursed neither in the reporting year, nor in the previous year.
Long-term receivables include trade receivables overdue by more than one year.

Other investments include the amount of capital investments not consolidated.

5. OTHER NON-CURRENT ASSETS

Description	2009	2008
Advances to suppliers of investment projects	655,701	3,036
Other non-current assets	107,841	19,072
Total	**763,542**	**22,108**

6. INVENTORIES

Description	31 December 2009	31 December 2008
Raw materials and consumables	3,546,033	3,536,350
Work in progress, semi-finished goods	354,530	306,286
Finished goods	7,413,825	9,459,412
Goods	1,356,157	1,015,430
Total	**12,670,545**	**14,317,478**

Cost and net realisable value in 2009 of inventories carried at net realisable value

Description	Cost 31 December 2009	Net realisable value 31 December 2009	Cost 31 December 2008	Net realisable value 31 December 2008
Raw materials and consumables	0	0	12	0
Finished goods	2,804,845	2,602,778	199,935	153,965
Goods	0	0	15,838	14,107
Total	**2,804,845**	**2,602,778**	**215,785**	**168,072**

7. TRADE RECEIVABLES

Description	2009	2008
Trade receivables	7,873,914	5,047,290
- of which related:	5,273,746	4,018,787
Impairment for doubtful receivables	7,402	12,413
Total trade receivables	**7,866,512**	**5,034,877**

Trade receivables bear no interest and in general have a term of 30 days.

No impairment was booked on receivables from related parties neither in the reporting year, nor in the previous year.

8. OTHER FINANCIAL ASSETS AND DERIVATIVES

Description	2009	2008
Receivables from government	8,022,080	5,652,080
Loans granted	1,108,649	1,552,765
- of which to related parties:	1,106,729	1,550,459
Debt securities	221,241	0
Subscribed, but unpaid capital	990,000	0
Other financial assets	65,578	1,295
Total	**10,407,548**	**7,206,140**

The receivable derived from the development (investment) tax credit is recognised in the 'receivables from the state' row. The Company can use the investment tax credit for the new acid plant capitalised in 2007 and for the granulation plant investment capitalised in 2009 up to the sum of THUF 6,100,178 and THUF 2,370,000, respectively. The amount of the development tax credit that can be used in the given year is 80% of the corporate tax payable. The credit may be used in the year of capitalisation and in the 9 subsequent fiscal years (2007-2016 and 2009-2018), provided that in the four fiscal years after the tax credit was first used (2008-2011) the annual wage cost accounted at the Company exceeds the annual wage cost of the fiscal year prior to the start of the development by at least three times the minimum wage calculated for the fiscal year as of the first day of the fiscal year. In 2008 (and 2007) the Company met this criterion, and so a tax credit of THUF 243,458 was used in 2008 (and THUF 204,640 in 2007).
In 2009 the Company did not use tax credit based on Sections 28 and 145(4) of Act CXVI of 2009, and declared that the 2009 wage cost did not decrease below the wage cost in the fiscal year preceding the start of the project.
Subsequent events related to investment tax credits are presented in Note 33.

The Group disbursed loan to related parties in HUF. As at 31 December 2009 loans amounting to THUF 274,336 bear no interest and loans amounting to THUF 834,313 are interest-bearing loans. This item also includes loans to senior officers, which are disbursed in HUF and bear interest. The interest equals the prevailing central bank base rate + 5%. See Note 34.
Loans disbursed are unsecured.
No impairment was booked on loans disbursed neither in the reporting year, nor in the previous year.

Debt securities include discounted treasury bills.

On 17 July 2009 the general meeting of Nitrogénművek Zrt. decided to issue registered ordinary shares. The shares were subscribed by existing owners in proportion to their holding. The issuance value of the shares has not been paid by the reporting date. See Note 12.

9. OTHER RECEIVABLES

Description	2009	2008
Budgetary support due	58	0
Advances paid to suppliers of investment projects	4,057	0
Advances on stocks	302,167	4,016
- of which related:	37,351	4,016
Prepayments on services	6,282	10,455
Other prepaid expenses and accrued income	338,693	140,857
Prepaid and reclaimable taxes and duties (except for income taxes)	631,474	1,237,277
Receivables from self-governments	12,200	1,977
Receivables from employees	3,747	4,799
Interest and penalties receivable	268,370	0
Other receivables	256,830	5,667
Total	**1,823,878**	**1,405,048**

Advances on stocks include the amount paid in advance on the grounds of natural gas purchase
Other prepaid expenses and accrued income typically include items which will be accounted as costs only in the next period when actually occurred.

Prepaid and reclaimable taxes and duties comprise reclaimable VAT included in suppliers' invoices and on continuous services, reclaimable energy tax and receivables from the Customs and Finance Guard; these items were settled in the year following the reporting year.
Deferred interest income include penalties and default interest receivable from the granulation plant general contractor, Prochem s.a. The item was settled in 2010 Q1.
Other receivables include THUF 223,128 paid in connection with the contract concluded with RB. Kereskedőház Kft.

10. CASH AND CASH EQUIVALENTS

Description	2009	2008
Cash	10,202	6,117
Bank deposits	994,158	881,332
Short-term fixed deposits	3,292,612	758,344
Total	**4,296,972**	**1,645,793**

The Group had no cash equivalets as at 31 December 2008 and 2009.

11. ASSETS CLASSIFIED AS HELD FOR SALE

The assets held for sale contain the property, plant and equipment of the old, decommissioned acid plant
After the capitalisation of the new acid plant the Group decided to close the old Russian (2C) and Japanese (3C) acid plants and shut down the production there. The plants were reclassified as of 30 October 2007 under assets held for sale. The Company also decided to sell the assets and the related components if a suitable bid was received.
A contract was signed on 14 May 2008 between the Company and MAINEX LLC Louisville, KY, USA to sell the 2C acid plant for USD 2,350,000.
Due to non-performance of the contract by MAINEX LLC the Company cancelled it on 17 December 2008.
The amount specified in the contract was transferred by MAINEX LLC as an advance payment in late 2008 and early 2009.
MAINEX LLC contested the cancellation in August 2009 at the Court of Arbitration; no decision has yet been made.
The Company received an offer from OJSC "Nevinnomyssky Azot", a firm in Russia, as a result of which a purchase contract was signed between the companies on 6 October 2009 for USD 11.6 million. The plans are currently being dismantled and the contract is being executed.

Description	Net value of asset 2009	Net value of asset 2008.
Acid plants	79,908	79,908
Total	**79,908**	**79,908**

Equity

12. SHARE CAPITAL

Composition of share capital:

Description	31 December 2009		31 December 2008	
	Number	Nominal value	Number	Nominal value
Tibor László Bige	4,370	1,442,100	1,520	501,600
Zoltán Bige	230	75,900	80	26,400
Balance of share capital	**4,600**	**1,518,000**	**1,600**	**528,000**

The Company has only ordinary shares with a face value of THUF 330 each.
The holders of the ordinary shares are entitled to receive dividends and have one vote per share at the Company's general meeting.
On 17 July 2009 the general meeting decided to issue 3,000 registered ordinary shares with face value of THUF 330 each at issuance value of THUF 330 per share. The shares were subscribed by existing owners in proportion to their holding. The issuance value of the shares has not been paid by the reporting date.

13. TRANSLATION RESERVE

Translation reserve includes all exchange differences arisen from 1 January 2007 from translating the financial statements of foreign operations.

14. RETAINED EARNINGS

The following amounts cannot be distributed as dividends from the retained earnings in the given financial year:

Financial year	Amount
2008	503,454
2009	1,000,000

In 2009 THUF 168,060 other capital contribution received from a related party in the form of interest assumed was booked as increase in retained earnings.

Dividends

The Group paid no dividends in 2008 and 2009.
As at the reporting date there were no approved but unpaid dividends.

15. LOANS AND BORROWINGS

Interest rates: 1-6-month BUBOR/EURIBOR or central bank base rate/3 reference rate+ 0.5-4% interest margin.

Terms and conditions of existing loans and borrowings:

Loans as at 31 December 2008

Financial institution	Type of loan	Balance 31.12.2008 (Thousand)	Currency	Balance THUF	Long-term portion THUF	Short-term portion THUF
MFB-OTP	investment loan	56,194	EUR	14,878,922	10,104,663	4,774,258
K&H Bank	German carbon aid I	3,745	HUF	3,745	0	3,745
K&H Bank	German carbon aid II	39,436	HUF	39,437	6,105	33,332
K&H Bank	current asset loan	2,755	USD	517,688	0	517,688
Commerzbank	multicurrency overdraft facility	4,702,011	HUF	4,702,011	2,944,444	1,757,567
UniCredit Bank	multicurrency multipurpose credit facility	6,471	USD	1,215,911	0	1,215,911
UniCredit Bank	multicurrency multipurpose credit facility	16	EUR	4,154	0	4,154
Budapest Bank	long-term multicurrency current asset loan	6,500	EUR	1,721,070	1,475,619	245,451
Budapest Bank	multicurrency revolving loan agreement	1,500	EUR	397,170	0	397,170
RB Kereskedőház	trading house	803,186	HUF	803,186	0	803,186
RB Kereskedőház	trading house	216,700	HUF	216,700	0	216,700
CIB Kereskedőház	trading house			4,579,152	0	4,579,152
OTP Bank Nyrt	current asset loan	200,000	HUF	200,000	0	200,000
OTP Bank Nyrt.	investment loan	94,935	HUF	94,935	45,000	49,935
CIB Credit Zrt.	vehicle loan	238	HUF	238	0	238
Merkantil Car	vehicle loan	986	HUF	986	539	447
Merkantil Car	vehicle loan	962	HUF	962	564	399
Total long-term loans					**14,576,934**	
Total short-term loans						**14,799,333**

15. LOANS AND BORROWINGS (continued)

Interest rates: 1-6-month BUBOR/EURIBOR or central bank base rate/3 reference rate+ 1.5-4% interest margin.

Loans as at 31 December 2009

Financial institution	Type of loan	Collaterals	Balance 31.12.2009 (Thousand)	Currency	Balance THUF	Long-term portion THUF	Short-term portion THUF
MFB	current asset loan	(i)	9,624,392	HUF	9,624,392	9,624,392	0
MFB	investment loan	(ii)	42,685	EUR	11,560,927	9,246,521	2,314,406
K&H Bank	German carbon aid II	(iii)	6,104	HUF	6,104	0	6,104
UniCredit Bank	multicurrency multipurpose credit facility	(iv)	810,372	HUF	810,372	0	810,372
Commerzbank	multicurrency overdraft facility	(v)	2,942,691	HUF	2,942,691	1,177,779	1,764,912
Budapest Bank	long-term multicurrency current asset loan	(vi)	5,882	EUR	1,593,081	1,509,391	83,690
Budapest Bank	multicurrency revolving loan agreement	(vii)	1,500	EUR	406,260	0	406,260
OTP Bank Nyrt.	investment loan	(viii)	45,000	HUF	45,000	0	45,000
CIB Bank Zrt.	warehouse warrant coverage loan	(ix)	2,784,046	HUF	2,784,046		2,784,046
RB Kereskedőház Kft.	trading house		135,112	HUF	135,112	0	135,112
RB Kereskedőház Kft.	trading house		32,232	HUF	32,232	0	32,232
CIB Credit Zrt.	vehicle loan		3,330	HUF	3,330	2,728	602
Merkantil Bank	vehicle loan		3,195	HUF	3,195	2,017	1,178
Merkantil Car	vehicle loan		539	HUF	539	44	495
Merkantil Car	vehicle loan		526	HUF	526	85	441
Total long-term loans						**21,562,957**	
Total short-term loans							**8,384,850**

15. LOANS AND BORROWINGS (continued)

Interest rates: 1-6-month BUBOR/EURIBOR or central bank base rate/3 reference rate+ 0.5-4% interest margin.

(a) Loan collateral

Collateral for loans drawn by the Group:

(i) Magyar Fejlesztési Bank Zrt. (MFB)

Collateral for THUF 10,000,000 loan contract for working capital financing.

- Mortgage up to THUF 10,000,000 on the new acid plant, the new granulation and packaging plant, the new cooling tower, ammonia plant, urea plant and the fertiliser plant, all wholly owned by the company, and the movable property contained thereon/in up to THUF 10,000,000.
- Unconditional payment guarantee from the Hungarian state up to 80% of the THUF 10,000,000 loan and related charges.
- Right to make instant collections from the Company's bank accounts over the term of the contract.

(ii) Magyar Fejlesztési Bank Zrt. (MFB)

Collateral for EUR 52,000,000 investment loan contract

- Mortgage up to EUR 52,000,000 on the new acid plant, the new granulation and packaging plant, the new cooling tower, the ammonia plant, urea plant and the fertiliser plant, all wholly owned by the company, and the movable property contained thereon/in up to EUR 52,000,000.
- Unconditional payment guarantee from the Hungarian state up to 80% of the EUR 52,000,000 loan and related charges based on point 1 of Government Resolution 1086/2008 (XII.20) on the unconditional payment guarantees of the state for the credits of Nitrogénművek Zrt.
- Right to make instant collections from the Company's bank accounts over the term of the contract.

(iii) Kereskedelmi és Hitelbank Nyrt.

Collateral for THUF 64,435 investment/development loan contract (K&H Bank "German Carbon Aid" loan agreement)

- Right to make instant collections from the Company's bank accounts over the term of the contract.
- Collateral assignment contract between Kereskedelmi és Hitelbank Nyrt. and the Company in relation to the carbon aid loans.

(iv) UniCredit Bank Zrt.

Collateral for multi-purpose credit facility up to THUF 2,000,000

- General mortgage up to THUF 2,400,000 on the properties wholly owned by the Company in Pétfürdő, land register no. 2361/73 and in Pétfürdő land register no. 2361/74, and the movable property contained thereon/in up to THUF 2,400,000.
- Right to make instant collections from the Company's bank accounts.

(v) Commerzbank Zrt.

Collateral for current account overdraft facility up to THUF 5,300,000

Right to make instant collections from the Company's bank accounts

15. LOANS AND BORROWINGS (continued)

(a) Loan collateral (continued)

(vi) Budapest Bank Nyrt.

Collateral for long-term multi-currency working capital credit facility of EUR 6,500,000
(Long-term multi-currency working capital loan of Budapest Bank)

- General mortgage of THUF 3,000,000 on one of the company's properties.
- Right to make instant collections from the Company's bank accounts over the term of the contract.

(vii) Budapest Bank Nyrt.

Collateral for a EUR 1,500,000 multi-currency revolving credit facility
(Budapest Bank multi-currency revolving credit facility)

- Assignment to the bank from the Company's existing and future receivables vis-à-vis Fertilia Kft. up to an amount of sales revenue in proportion to the credit.
- Right to make instant collections from the Company's bank accounts over the term of the contract.

(viii) OTP Bank Nyrt. investment loan collateral

- mortgage on machinery to be purchased from the loan, up to the amount of the loan and related charges
- mortgage on all the current and future assets of Péti Polietilén Zsák Kft. up to a loan amount of THUF 225,000 and related charges
- right to make instant collections from the bank accounts of Péti Polietilén Zsák Kft.
- third-ranked mortgage on all the current and future assets of Péti Polietilén Zsák Kft. up to the bank guarantee value of THUF 180,000

(ix) CIB Bank Zrt.

loan contract of THUF 3,300,000 to cover warehouse warrants

- Right to make instant collections from the Company's bank accounts over the term of the contract.
- Call option agreement for warehouse warrants serving as collateral for the contract.
- Security interest on docket part of warehouse warrants serving as collateral.
- Security interest account.
-

(x) Raiffeisen Bank Zrt.

bank guarantee of EUR 3,165,672

Based on the lien contract related to the bank guarantee agreement, Nitrogénművek Zrt. registered a lien for the bank on all current and future receivables derived from the 2,000,000 carbon dioxide emission units (quota) purchase agreement concluded on 14 July 2005 between Nitrogénművek Zrt. and Kommunalkredit Public Consulting GmbH.

- Right to make instant collections from the Company's bank accounts over the term of the contract.

15. LOANS AND BORROWINGS (continued)

(b) Breach of loan covenants

The Group complied with loan covenants in all cases.

(c) Finance leases

The following table details finance lease obligations:

	31 December 2009			31 December 2008		
Description	Minimum lease payments	Interest	Present value of finance lease obligations	Minimum lease payments	Interest	Present value of finance lease obligations
Due within 1 year	56,520	14,247	42,273	19,783	1,491	18,292
Due within 1-5 years	125,249	14,711	110,538	16,687	322	16,365
Due over 5 years	0	0	0	0	0	0
Present value of finance lease obligations	**181,769**	**28,958**	**152,811**	**36,470**	**1,813**	**34,657**

16. OTHER NON-CURRENT FINANCIAL LIABILITIES

Description	2009	2008
Long-term liabilities from contracts	542,933	518,379
Other non-current financial liabilities	107,681	15,262
Total	**650,614**	**533,641**

Long-term liabilities from contracts include gas bill payment liability to BOTHLI TRADE AG due in 2014.

17. OTHER NON-CURRENT LIABILITIES

Description	2009	2008
Deferred income	7,743,611	5,669,240
Other non-current liabilities	511,888	958,507
Total	**8,255,499**	**6,627,747**

Deferred income includes the amount due to investment tax credit (see Note 8), which were accounted as government grant relating to assets. The amount is recognised over the average useful life of the assets (24 years) in the profit for the period starting from the capitalisation of the related investment projects. See Note 1.

Other non-current liabilities include the portion to be accounted in years 2011-2013 in an amount of THUF 511,888 from the advance payment transferred based on a contract concluded with Kommunalkredit Public Consulting GmbH (KPC) for the sale of N_2O emission reduction units produced in the period 2009-2012 at NZRt.

18. TRADE PAYABLES

Description	2009	2008
Trade payables	2,854,175	5,101,448
- of which to related parties:	338,511	822,328
Total trade payables	**2,854,175**	**5,101,448**

19. OTHER FINANCIAL LIABILITIES AND DERIVATIVES

Description	2009	2008
Other financial liabilities	216,659	117,764
Total	**216,659**	**117,764**

20. OTHER CURRENT LIABILITIES

Description	2009	2008
Budgetary support received	49,000	0
Deferred income	407,153	518,017
Advances from customers	8,034,457	6,950,227
- of which related	52,811	
Taxes and duties payable (except for income taxes)	1,869,699	885,592
Liabilities to self-governments	4,570	175,700
Liabilities to employees	134,775	1,059,654
Liabilities to Magyar Szénhidrogén Készletező Szövetség (Mszksz)	207,913	0
Rentals and other fees received in advance	3,940	3,814
Accrued costs	98,301	228,279
Other current liabilities	1,593	3,737
Total	**10,811,401**	**9,825,020**

Deferred income includes the portion of deferred income connected to investment tax credit which has not yet been accounted in the profit or loss for the period. Deferred income is released in proportion to depreciation. In 2009 THUF 274,005 was released (2008: THUF 196,868). See Note 8.

Liabilities to employees comprise wages and related contributions.

Advances from customers include normal advances from customers as well as amounts received in relation to storage contracts concluded with third parties. These are amounts which were received from customers but do not qualify for revenue accounting.

Fee payment liabilities to Magyar Szénhidrogén Készletező Szövetség include the amount booked among other expenses but financially not settled.

21. PROVISIONS

Description	Emission quotas	Early retirement pensions and termination benefits	Environmental protection	Litigation	Other	Total
Balance at 31 December 2007	**4,912**	**33,363**	**50,000**	**0**	**2,250**	**90,525**
Allocation	106,377	15,112		0	224,000	345,489
Use	0	-33,363		0	-2,250	-35,613
Balance at 31 December 2008	**111,289**	**15,112**	**50,000**	**0**	**224,000**	**400,401**
Allocation	0	0	0	326,000	0	326,000
Use	0	-15,112	-10,000	0	-60,000	85,112
Balance at 31 December 2009	**111,289**	**0**	**40,000**	**326,000**	**164,000**	**641,289**
Short-term portion 2008	111,289	15,112	0	0	60,000	186,401
Long-term portion 2008	0	0	50,000	0	164,000	214,000
Short-term portion 2009	111,289	0	0	326,000	164,000	601,289
Long-term portion 2009	0	0	40,000	0	0	40,000

21. PROVISIONS (continued)

Emission quotas

The Group allocated provisions for its obligation to deliver carbon dioxide emission allowances.
See Note 3.

Environmental protection

The Group recorded provisions for the costs expected in connection with re-cultivating the waste dump abandoned on the site of the production plants. The amount was updated based on latest data available.

Litigation

In 2009 the Group allocated THUF 24,000 provisions to cover its expected liabilities (interest) from the contract concluded with MAINEX LLC (Kentucky, USA) for the sale of the Russian acid plants, and THUF 302,000 to cover expected liabilities from the lawsuit launched by Shell Hungary Zrt. due to alleged breach by NZrt of the gas purchase agreement.

Other

The provision for the bank guarantee used by the Company and contested by Prochem s.a. and for the compensated penalty contested by CHEMOPROJEKT s.a. are recorded on these grounds in the respective amounts of THUF 60,000 and THUF 164,000. The amount contested by Prochem s.a. (THUF 60,000) was repaid in 2009 and the provision was released. The penalty issue is still not resolved.

22. DEFERRED TAX ASSETS AND TAX LIABILITIES

Recognised deferred tax assets and tax liabilities

Deferred tax recognised in the consolidated statement of financial position and accounted in profit or loss as at 31 December 2008 and 2009 comprises the following:

	31 December 2009			31 December 2008		
	Tax asset	**Tax liability**	**Net**	**Tax asset**	**Tax liability**	**Net**
Property, plant and equipment	18,375	-1,505,247	-1,486,872	24,803	-923,884	-899,081
Emission allowances	0	-17,394	-17,394	0	0	0
Trade receivables	20,410	0	20,410	68,826	0	68,826
Inventories	52,487	-582,864	-530,377	29,186	-1,897,832	-1,868,646
Other assets	4,953	-20,632	-15,679	297,179	-165,982	131,197
Loans and borrowings	19,635	-71,366	-51,731	1,119,807	0	1,119,807
Trade payables	192	-1	191	186	0	186
Other liabilities	904,545	-43,272	861,273	1,523,738	-45,666	1,478,072
Provisions	121,845	0	121,845	36,658	-12,942	23,716
Derivative transactions	0	0	0	0	0	0
Other items	0	0	0	0	0	0
Development tax allowance	0	0	0	0	0	0
Tax loss carried forward	127,733	0	127,733	3,169	0	3,169
Tax assets (tax liabilities)	1,270,175	-2,240,776	-970,601	3,103,552	- 3,046,306	57,246
Sweeping of accounts	-1,198,511	1,198,511	0	-3,034,503	3,034,503	0
Net tax assets (tax liabilities)	71,664	-1,042,265	-970,601	69,049	- 11,803	57,246

22. DEFERRED TAX ASSETS AND TAX LIABILITIES (continued)

Recognised deferred tax assets and tax liabilities (continued)

Analysis of changes in net deferred tax assets and tax liabilities:

	Opening balance at 1 January 2008	Accounted in profit or loss for the period	Accounted in other comprehensive income	Closing balance at 31 December 2008	Accounted in profit or loss for the period	Accounted in other comprehensive income	Closing balance at 31 December 2009
Property, plant and equipment	-561,542	-337,539	0	-899,081	-587,791	0	-1,486,872
Emission allowances	0	0	0	0	-17,394	0	-17,394
Trade receivables	85,021	-16,195	0	68,826	-48,416	0	20,410
Inventories	-348,310	-1,520,339	0	-1,868,649	1,338,269	0	-530,377
Other assets	31,931	99,266	0	131,197	-146,876	0	-15,679
Loans and borrowings	-63,878	1,183,685	0	1,119,807	-1,171,538	0	-51,731
Trade payables	3,954	-3,768	0	186	5	0	191
Other liabilities	690,504	1,078,016	-290,445	1,478,075	-616,799	0	861,273
Provisions	14,680	9,036	0	23,716	98,129	0	121,845
Tax loss carried forward	3,872	-684	-19	3,169	124,843	-279	127,733
Net tax assets (tax liabilities)	**-143,768**	**491,478**	**-290,464**	**57,246**	**-1,027,568**	**-279**	**-970,601**

Within derivative transactions THUF 290,445 was accounted in other comprehensive income for cash flow hedges in 2007; in 2008 this amount was transferred to the profit or loss for the period after the transactions were closed. As at 31 December 2009 there was not deferred tax booked in other comprehensive income.
Other amounts accounted in other comprehensive income derive from translation differences of deferred tax due to changes in exchange rates.

23. REVENUE

Description	2009	2008
Sale of own products	34,298,323	40,508,280
Sale of goods	8,867,910	4,188,987
Sale of materials	840,616	2,517,990
Rendering of services	749,184	763,400
Other	0	2,808
Total	**44,756,033**	**47,981,465**

Composition of revenue by geographical regions:

Description	2009	2008
Hungary	28,988,362	30,820,295
Italy	1,216,315	2,595,821
Austria	1,826,057	2,902,559
Slovakia	1,919,094	2,795,353
Czech Republic	3,802,289	2,558,995
Romania	790,585	293,131
Poland	1,618,764	0
Germany	2,442,559	3,778,715
Bosnia - Hercegovina	18,967	0
Slovenia	1,507,281	1,960,956
Croatia	9,354	4,754
Serbia	514,623	244,021
Other European countries	101,040	26,847
Other CEE	743	18
Outside Europe	0	0
Total	**44,756,033**	**47,981,465**

24. OTHER INCOME

Description	2009	2008
Gain on sale of property, plant, equipment and intangible assets	9,501	13,032
Result from the sale of N_2O emission reduction units. See Notes 3 and 17.	1,454,714	4,913
Reversal of impairment allocated on inventories	299	0
Release of provisions	85,112	2,250
Grants received	324,779	229,127
Default interest received	12,828	40,915
Damages	31,728	21,368
Penalties	488,021	24,101
Performance bank guarantee (Prochem s.a.)	0	52,390
Free receipt of CO_2 emission quota	100,485	0
Release of accrual due to sale from STK inventory surplus	210,581	0
Other	150,974	75,980
Total	**2,869,022**	**464,076**

Grants received include release of deferred income due to investment tax credit.

25. MATERIAL-TYPE EXPENSES

Description	2009	2008
Costs of raw and auxiliary materials	1,697,973	2,832,502
Costs of wire/pipeline energy	21,183,838	30,791,464
Costs of maintenance and other materials	454,007	489,164
Transportation costs	1,492,432	1,239,513
Maintenance costs	217,762	456,355
Keep-up costs	216,992	233,627
Security costs	118,719	117,377
Travel and accommodation costs, inland and abroad	14,865	48,030
Rentals and utilisation fees	149,787	58,125
Accounting and audit fees	25,856	21,573
Advisory and expert fees	75,454	134,625
Advertising costs	43,167	116,374
Bank charges	100,476	101,027
Insurance premiums	171,172	141,494
Other services	691,176	467,225
Costs of goods sold (COGS)	3,152,190	2,923,198
Services sold (mediated)	53,966	139,969
Total	**29,859,832**	**40,311,642**

26. STAFF COSTS

Description	2009	2008
Wage cost	2,452,873	2,835,232
Other staff benefits	337,599	350,624
Wage contributions	812,443	982,761
Total	**3,602,915**	**4,168,617**

27. OTHER EXPENSES

Description	2009	2008
Loss on sale of property, plant, equipment and intangible assets	2,072	423
Use of CO_2 emission quotas	102,271	4,913
Impairment on trade receivables	7,402	12,413
Impairment on inventories	202,067	47,713
Provisions	326,000	345,489
Scrapped and missing assets	76,700	208,428
MSZKSZ membership fee	404,711	75,594
Taxes and contributions	410,303	695,989
Support given	1,476	7,105
Damage	20,478	78,079
Damages	23,932	9,166
Default interest payable	87,572	23,404
Self-revision and default charge	98,195	38,328
Self-revision items	11,432	0
Other	51,109	28,637
Total	**1,825,720**	**1,575,681**

28. FINANCE INCOME AND FINANCE COSTS

Finance income and finance costs recognised in profit or loss

Description	2009	2008
Interest income on loans and receivables	25,264	27,367
Interest income on bank deposits	288,481	266,546
Net exchange gain on FX items without forward exchange transactions	1,666,049	2,453,563
Changes in fair value of and gain on forward exchange transactions held for trading	0	94,321
Changes in fair value of ineffective portion of cash flow hedges	0	0
Reversal of impairment on trade receivables	200	7,626
Other finance income Total finance income	**1,979,994**	**2,849,423**
Interest expense on financial liabilities measured at amortised cost	3,088,477	2,027,466
Net exchange loss on FX items without forward exchange transactions	2,628,223	2,602,479
Changes in fair value of and loss on forward exchange transactions held for trading	0	4,205,510
Other finance costs	338	0
Total finance costs	**5,717,038**	**8,835,455**
Net finance costs	**-3,737,044**	**-5,986,032**

Finance income and finance costs recognised in other comprehensive income

Description	2009	2008
Translation difference	1,580	-774
Effective portion of changes in fair value of cash flow hedges	0	-1,156,525
Net changes in fair value of cash flow hedges transferred to profit or loss for the period	0	2,608,748
Income tax on finance income and finance costs recognised in other comprehensive income	0	-290,464
Finance income/costs recognised in other comprehensive income, net of tax	**1,580**	**1,160,985**

29. INCOME TAX EXPENSE

The Group considers corporation tax and in Hungary special tax as income tax. The base for special tax differs from the corporation tax base.

Income tax rates for the Company:

Description	2009	2008
Corporation tax	16%	16%
Special tax	4 %	4 %
Income tax rate	20%	20%

According to laws effective as at the reporting date, the corporation tax rate of the Company increases to 19% as from 2010, while the 4% special tax will cease.

Income tax recognised in the profit or loss for the period in the consolidated annual report for the years ended 31 December 2008 and 2009 comprises the following:

Description	2009	2008
Current period income tax expense		
Current period income tax expense	132,452	647,044
Previous years adjustments	34,750	0
Total current period income tax expense	167,202	647,044
Deferred tax expense		
Origination and reversal of temporary differences	1,027,568	-491,478
Total deferred tax expense	1,027,568	-491,478
Income tax	**1,194,770**	**155,566**

Reconciliation of income tax calculated based on accounting profit and current period income tax, as well as of applicable tax rate and average effective tax rate is presented in the table below:

Description		2009		2008
Profit for the period		3,799,986		923,233
Income tax expense		1,194,770		155,566
Profit before income tax		4,994,756		1,078,799
Expected income tax calculated at the income tax rate of the Company	20%	998,951	20%	215,760
Impact of tax rate in foreign countries	0%	4,371	0%	306
Impact of different tax rates	0%	766	0%	490
Impact of tax rate changes	3%	139,855	0%	1,394
Non-deductible expenses	2%	106,190	8%	86,165
Income exempt of tax	-2%	-100,708	-14%	-148,529
Other items	0%	0	0%	-20
Current year tax loss for which no deferred tax assets were allocated	0%	8,177	0%	0
Changes in unrecognised temporary differences	0%	2.418	0%	0
Previous years adjustments	1 %	34,750	0%	0

Income tax	24%	1,194,770	14%	155,566

30. MANAGEMENT OF FINANCIAL INSTRUMENTS AND FINANCIAL RISKS

The Group is exposed to the following risks derived from financial instruments:
- credit risk
- liquidity risk
- market risk (including currency and interest rate risk)

This note presents information about the Group's exposure to the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital.

The chief executive officer of the Company is responsible for setting the risk management guidelines and frameworks for the Group. His task is to design and set up a standard risk management policy and strategy, and continuously monitor the risks to which the Company is exposed. The CEO is also responsible for regularly reviewing risk management policies and strategies, as well as updating and modifying them if market circumstances change.

Carrying amount of financial instruments of the Group by categories:

Description	31 December 2009	31 December 2008
Cash and cash equivalents	4,296,972	1,645,793
Loans granted	1,115,150	1,610,799
Trade receivables	7,882,000	5,034,877
Other financial assets	9,078,157	1,322
Total loans and receivables	22,372,279	6,646,998
Holdings	11,879	120,249
Debt securities	220,743	0
Total available for sale financial assets	232,622	120,249
Loans and borrowings	29,947,807	29,376,267
Other non-current financial liabilities	650,614	533,641
Trade payables	2,854,175	5,101,448
Other financial liabilities and derivatives	216,659	117,764
Total other financial liabilities	**33,669,255**	**35,129,120**

There were no open derivatives at the reporting date in 2009.

30. MANAGEMENT OF FINANCIAL INSTRUMENTS AND FINANCIAL RISKS (continued)

(a) Credit risk

Credit risk is the risk of financial loss if a customer or counterparty fails to meet its contractual obligations. From the perspective of the Group this primarily means the non-payment risk of clients.

Trade receivables and other financial assets

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, the Group also considers the geographical position of its customer base, past experience, features of agriculture, the seasonal nature of fertiliser use and the impact of the economic crisis on the Company's primary customers. The Company monitors the payment abilities of its primary customers and any influencing factors. The Group sets the payment conditions offered to individual customers based on provisional and if necessary ad-hoc reviews of creditworthiness as well as the factors outlined above. The Group prescribes payment by letters of credit for some export customers. As a result of the economic crisis which emerged in 2008 the Group introduced sales with advance payments for both domestic and foreign customers.

In Hungary the Group primarily sells to a relatively low number of wholesalers.

Maximum value as at 31 December of assets exposed to credit risk is presented in the following table:

Description	31 December 2009	31 December 2008
Domestic trade receivables – wholesalers	5,603,538	2,843,560
Domestic trade receivables – other	925,837	1,937,184
Foreign trade receivables	1,352,625	254,133
Loans granted	1,115,150	1,610,799
Cash and cash equivalents	4,296,972	1,645,793
Other financial assets	9,078,157	1,322
Maximum value of assets exposed to credit risk as at 31 December	**22,372,279**	**8,292,791**

16 wholesalers accounted for THUF 5,603,538 of domestic trade receivables as of 31 December 2009 (THUF 2,843,560 for 21 wholesalers as of 31 December 2008). In 2009 these customers generated sales revenue of THUF 12,038,873 (THUF 16,683,539 in 2008), which is 45.80 % of domestic sales revenue (57.17% in 2008).

Collection policy

For trade receivables past their payment deadline the Group sends reminder letters to partners every fortnight, who then have eight days to settle their debts. For accounts not settled, payment by transfer is prohibited and goods may only be sold going forward with cash payments. After the third reminder letter the collection is enforced through legal channels.

Default interest

Letters confirming default interest are sent to our debtors every quarter.

30. MANAGEMENT OF FINANCIAL INSTRUMENTS AND FINANCIAL RISKS (continued)

(a) Credit risk (continued)

Rating and impairment of receivables

The receivables in the accounting records are rated per debtor – based on the maturity date of the receivable, the willingness and ability of the debtor to pay, and past experience of the debtor. During the rating process, impairment is recorded on overdue and doubtful receivables with due consideration of their recoverability.

The Group's credit risk exposure is reflected by the carrying value of the financial assets.

The impairment recorded on trade receivables is presented in the following tables broken down by maturity and the reporting year changes to impairment. There are no matured receivables under loans and other financial receivables, and so no impairment is recorded.

The following table shows cost and impairment of trade receivables by maturity:

Description	31 December 2009		31 December 2008	
	Cost	Impairment	Cost	Impairment
Not yet due	6,542,043	0	4,710,171	0
Between 1 - 90 days	1,003,094	5,318	266,262	0
Between 91 - 180 days	30,255	251	39,231	3,219
Between 180 - 360 days	276,224	5,231	8,293	2,919
Over 360 days	67,478	26,294	53,868	36,810
Total	**7,919,094**	**37,094**	**5,077,825**	**42,948**

Changes in impairment allocated on trade receivables:

Description	2009	2008
Opening balance at 1 January	42,948	77,132
Current year impairment	7,402	12,413
Current year reversal	200	0
Derecognition of impairment	13,056	46,597
Balance of impairment at 31 December	**37,094**	**42,948**

30. MANAGEMENT OF FINANCIAL INSTRUMENTS AND FINANCIAL RISKS (continued)

(b) Liquidity risk

Liquidity risk is the risk that the Group will be unable to settle its financial liabilities when they fall due. The purpose of liquidity management is to ensure sufficient resources for the settlement of liabilities when they fall due.

Management of liquidity risk

The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group prescribes for its entities that they must maintain a strong liquidity position and shape the liquidity profiles of their assets, liabilities and contingent liabilities to ensure balanced cash flows and the settlement of all liabilities when due.

In light of the demand for the Group's products and the seasonality of the agricultural sector the Group really has to focus on ensuring continuous liquidity. Adequate liquidity is ensured by aligning sales prices to demand, using prepaid sales as well as short-term working capital loans and overdraft facilities secured by goods.

As of 31 December 2008 the Group had an unused credit facility of THUF 789,034. As of 31 December 2009 the Group had no current account credit facility due to changes in its loan structure.

30. MANAGEMENT OF FINANCIAL INSTRUMENTS AND FINANCIAL RISKS (continued)

(b) Liquidity risk (continued)

Financial liabilities by maturity (principal and interest cash flows):

Description	Carrying amount	Contractual cash flows	Between 0-6 months	Between 6-12 months	Between 1-2 years	Between 2-5 years	Over 5 years
31 December 2008							
Non-derivative financial liabilities	**35,129,120**	**41,396,117**	**16,286,696**	**2,780,001**	**6,500,895**	**9,046,496**	**6,782,029**
Loans and borrowings	29,376,267	35,506,347	11,075,526	2,770,630	6,485,296	9,046,496	6,128,399
Other non-current financial liabilities	533,641	669,229	0	0	15,599	0	653,630
Trade payables	5,101,448	5,101,448	5,101,448	0	0	0	0
Other financial liabilities	117,764	119,093	109,722	9,371	0	0	0

30. MANAGEMENT OF FINANCIAL INSTRUMENTS AND FINANCIAL RISKS (continued)

(b) Liquidity risk (continued)

Description	Carrying amount	Contractual cash flows total	Between 0-6 months	Between 6-12 months	Between 1-2 years	Between 2-5 years	Over 5 years
31 December 2009							
Non-derivative financial liabilities	**33,791,694**	**37,328,379**	**9,786,635**	**2,945,008**	**5,092,122**	**19,699,479**	**173,936**
Loans and borrowings	29,947,807	33,825,067	6,614,480	2,909,962	5,018,946	19,107,743	173,936
Other non-current financial liabilities	650,614	664,912	0	0	73,176	591,736	0
Trade payables	2,838,400	2,838,400	2,829,073	9,327	0	0	0
Other financial liabilities	354,873	0	343,082	25,719	0	0	0

There were no derivative financial liabilities as at 31 December 2009.

The above tables present the undiscounted cash flows of the Groups financial liabilities according to their earliest possible maturity. The gross nominal outflow reflects the undiscounted contractual cash flows of financial liabilities.

30. MANAGEMENT OF FINANCIAL INSTRUMENTS AND FINANCIAL RISKS (continued)

(c) Market risk

Market risk is the risk that changes in market prices, such as exchange rates, interest rates and equity prices will affect the Group's results and the fair values of financial instruments reported in the financial statements. The objective of market risk management is to manage and control market risk exposures while optimising the return. The Company's finance department focuses on market risk management.

In terms of market risk the Group is primarily exposed to currency risks as well as cash-flow risks derived from changes to interest rates.

Currency risk

The foreign currency risk is derived partly from the Company's foreign currency positions (foreign currency income, foreign currency loans, foreign currency liabilities, including foreign currency contractual liabilities that are payable in forints) and FCY transactions covering these positions, and partly from other FCY transactions concluded by the finance department.

The Group's exposure by currencies:

At 31 December 2008:

Description	EUR	USD	Other
Loans granted	436,691	0	0
Trade receivables	1,489,473	0	50
Cash and cash equivalents	750,841	7,427	0
Total loans and receivables	**2,677,005**	**7,427**	**50**
Holdings	10,049	0	0
Total available for sale financial assets	**10,049**	**0**	**0**
Loans and borrowings	17,001,316	1,733,599	0
Other non-current financial liabilities	0	518,292	0
Trade payables	808,613	2,813,221	217
Total other financial liabilities	**17,809,929**	**5,065,113**	**217**

30. MANAGEMENT OF FINANCIAL INSTRUMENTS AND FINANCIAL RISKS (continued)

(c) Market risk (continued)

At 31 December 2009:

Description	EUR	USD	Other
Loans granted	2,897	0	0
Trade receivables	2,125,128	0	0
Cash and cash equivalents	825,415	798,370	54
Total loans and receivables	**2,953,440**	**798,370**	**54**
Holdings	10,279	0	
Total available for sale financial assets	**10,279**	**0**	**0**
Loans and borrowings	13,560,268	0	0
Other non-current financial liabilities	0	542,933	0
Trade payables	681,999	0	92
Total other financial liabilities	**14,242,266.6**	**542,932.5**	**92**

The risk derived from the exposure to currency risks is countered by the Company by means of forward transactions in accordance with the risk management guidelines set forth in internal procedures. The Company uses hedge accounting to deal with the effect on profit or loss of fluctuations in the exchange rate.

The Group applied the following significant exchange rates expressed in HUF

	Average rate		Spot exchange rate at the reporting date	
Currency	2009	2008	2009	2008
1 EUR =	280.58	251.25	270.84	264.78
1 CHF =	185.82	158.5	182.34	177.78
1 RON =	66.19	68.23	63.94	66.11
1 RSD =	2.99	3.09	2.83	2.95
1 USD =	202.26	171.80	188.07	187.91

30. MANAGEMENT OF FINANCIAL INSTRUMENTS AND FINANCIAL RISKS (continued)

(c) Market risk (continued)

Analysis of exchange-rate sensitivity

The appreciation in the HUF around the reporting date would have increased or decreased equity and profit vis-à-vis the following currencies as shown in the following table. The analysis was based on exchange rate changes deemed reasonably possible by the Group on the reporting date. The analysis assumes that all other variables remain constant, including interest rates. The analysis is based on the same principles as for comparative data, with the exception of the exchange rate fluctuation deemed reasonably possible, which is different, as demonstrated in the table below.

	2009			2008		
Currency	Rate of strengthening (%)	Equity	Result	Rate of strengthening (%)	Equity	Result
HUF/EUR	16	2,782,991	2,782,991	15	2,268,431	2,268,431
HUF/USD	24	321,913	321,913	23	1,163,268	1,163,268

The table shows the impact on equity and profit or loss of an appreciation in the HUF against the given foreign currencies.

If the HUF were to weaken as of the reporting date against the currencies above, this would have the same but opposing effect on equity and profit or loss, provided that all other variables remain constant.

In the table above, the change in profit or loss is also included in the amount of the change in equity.

Interest risk

Interest rate risk is derived from the changes in the interest rates on the Group's interest-bearing assets and drawn loans.

30. MANAGEMENT OF FINANCIAL INSTRUMENTS AND FINANCIAL RISKS (continued)

(c) Market risk (continued)

Interest rate structure of the interest-bearing financial instruments of the Group as at the reporting date:

Description	2009	2008
Fixed-interest instruments		
Financial assets	4,529,033	1,655,062
Financial liabilities	559,525	551,933
Total carrying amount	**5,088,558**	**2,206,995**
Floating-rate instruments		
Financial assets	843,313	885,273
Financial liabilities	30,079,631	29,376,267
Total carrying amount	**30,922,944**	**30,261,540**

Fair value sensitivity analysis for fixed rate financial instruments

The Group generally does not have fixed rate financial assets and liabilities which are measured at fair value through profit or loss, nor did it conclude interest rate swaps for hedging purposes. Therefore a change in the interest rate as at the reporting date would not affect the Company's equity and profit or loss.

Cash flow sensitivity analysis for variable rate financial instruments

The following increases in interest rates as of the reporting date would have increased equity and profit or loss as shown in the table below. This analysis assumed that all other variables, in particular foreign currency rates, remain constant.

Description	2009			2008		
	Increase (basis point)	Equity	Result	Increase (basis point)	Equity	Result
Floating-rate instruments (HUF)	104	150,586	150,586	341	100,066	100,066
Floating-rate instruments (USD)	14	3,576	3,576	69	17,702	17,702
Floating-rate instruments (EUR)	11	20,511	20,511	36	76,284	76,284
Cash flow sensitivity, net		**174,673**	**174,673**		**194,052**	**194,052**

A fall in the interest rate as of the reporting date would have the same but opposing effect on equity and profit or loss, provided that all other variables remain constant.
In the table above, the change in profit or loss is also included in the amount of the change in equity.

30. MANAGEMENT OF FINANCIAL INSTRUMENTS AND FINANCIAL RISKS (continued)

(d) Fair value of financial instruments

The following table presents fair values and carrying amounts of financial instruments:

Description	Note	31 December 2009		31 December 2008	
		Carrying amount	Fair value	Carrying amount	Fair value
Loans granted		1,115,150	1,115,150	1,610,799	1,610,799
Trade receivables		7,882,000	7,882,000	5,034,877	5,034,877
Other financial assets		9,078,157	9,078,157	1,322	1,322
Cash and cash equivalents		4,296,972	4,296,972	1,645,793	1,645,793
Total loans and receivables		**22,372,279**	**22,372,279**	**8,292,791**	**8,292,791**
Holdings		11,879	11,879	120,249	120,249
Debt securities		220,743	220,743	0	0
Total available for sale financial assets		**232,622**	**232,622**	**120,249**	**120,249**
Loans and borrowings		29,947,807	29,947,807	29,376,267	29,376,267
Other non-current financial liabilities		650,614	650,614	533,641	533,641
Trade payables		2,854,175	2,854,175	5,101,448	5,101,448
Other financial liabilities and derivatives		216,659	216,659	117,764	117,764
Total other financial liabilities		**33,669,255**	**33,669,255**	**35,129,120**	**35,129,120**

30. MANAGEMENT OF FINANCIAL INSTRUMENTS AND FINANCIAL RISKS (continued)

(d) Fair value of financial instruments)(continued)

Fair value hierarchy

The table below analyses financial instruments carried at fair value, by valuation method. The different levels of the fair value hierarchy have been defined as follows:

- Level 1: quoted prices in active markets for identical assets or liabilities
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly (i.e. as prices) or indirectly (i.e. derived from prices)
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs)

Description	31 December 2009			31 December 2008		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Total available for sale financial assets	0	232,622	0	0	120,249	0
Financial assets from derivatives	0	0	0	0	0	0
Total carrying amount	**0**	**232,622**	**0**	**0**	**120,249**	**0**

There were no reclassification among levels in the above periods.

(e) Capital management

The Group aims to establish a strong equity position to retain the confidence of investors, creditors and the market and support the future development of its business activities. The management constantly monitors the yields achieved, which are the operating profit, profit before tax and the debt service indicator. The management also monitors the registered capital/equity ratios of the Company and the subsidiaries to ensure they comply with statutory levels.

Debt service indicator:
(Profit after tax in reporting year – dividend + reporting year depreciation + reporting year interest on long-term liability + reporting year interest on member loan) / (next year's repayment instalment of long-term liability and member loan + reporting year interest of long-term liability)

The debt service indicator is calculated based on the figures in the Company's separate Hungarian financial statements and the Company's bank loan agreements.

30. MANAGEMENT OF FINANCIAL INSTRUMENTS AND FINANCIAL RISKS (continued)

(e) Capital management (continued)

Operating profit of the Company for 2009 in the annual report prepared in accordance with Hungarian accounting rules amounted to THUF 3,407,052, (in 2008 THUF 16,334,957), profit before taxation in 2009 amounted to THUF 1,730,068 (in 2008 THUF 7,679,167).

Debt service indicator in 2009 0.75 (in 2008 1.2)

When managing its capital the Group strives towards achieving a balance between the highest possible profit, dividend and liabilities as well as a strong equity position.
The Group aims to keep the debt service ratio at the level permitted by the loan agreements.
Withdrawing dividends is subject to a debt service ratio of at least 1.3.

Legal regulations applicable for the Company and its Hungarian subsidiaries prescribe the following provisions for equity:

To protect creditors, the Business Associations Act prescribes the following in terms of equity compliance: "If, according to the annual report prepared pursuant to the Accounting Act, a business association does not have sufficient equity to cover the share capital prescribed for its form of business association over two consecutive financial years, and the members (shareholders) of the business association fail to provide for the necessary equity within a period of three months after approval of the annual report prepared pursuant to the Accounting Act for the second year, the business association shall be required to adopt a decision within sixty days of this deadline on restructuring the enterprise into a different form of business association, or for its termination without legal succession"

Serbian laws do not contain any restrictive sanctions with regard to the Serbian subsidiaries.

All of the Group members complied with the capital requirements above as of 31 December 2008 and 31 December 2009.

31. OPERATING LEASES

Operating leases with the Group as lessee

The amount of minimum lease payments in connection with non-cancellable operative lease obligations was zero both in 2008 and 2009.

Operating leases with the Group as lessor

Minimum lease payments under non-cancellable operating leases are as follows:

Description	2009	2008
Due within 1 year	24,264	35,593
Total	**24,264**	**35,593**

31. OPERATING LEASES (continued)

Operating leases relate to temporary lease of parts of property and other equipment not used for own purposes.

32. CONTINGENT RECEIVABLES AND CONTINGENT LIABILITIES

Guarantee

The Company provided guarantees as follows:

- to Koronás Szarvas Kft. for the THUF 60,000 working capital loan and related charges as provided by Pilisvörösvár és Vidéke Savings Cooperative, an agent of the Hungarian Development Bank, with Pilisvörösvár és Vidéke Savings Cooperative as the beneficiary.
- to László Tibor Bige for the repayment of the THUF 350,000 loan disbursed by Raiffeisen Bank Zrt. and related charges, with Raiffeisen Bank Zrt. as the beneficiary.
- Bige Holding Kft. as security for the THUF 900,000 warehouse warrant coverage loan provided by CIB Bank Zrt.

Other contingent liabilities

- As of 31 December 2009 the Company's deferred tax payment liability totalled THUF 195,682. The collateral for this is the properties in Pétfürdő under land register nos. 2361/15, 2361/17, 2361/81, 2361/83, 2361/84, 2361/85, 2361/87 and 2361/88. The Company settled this liability on 30 June 2010.

Litigation

The Company recorded provisions for litigation up to the level of any expected payments. (See Note 21.)

As of the reporting date the Group had the following pending litigation:

- Nitrogénművek Zrt. as the claimant launched an action on 14 July 2008 at the Court of Arbitration of the Hungarian Chamber of Commerce and Industry against EMFESZ Első Magyar Földgáz- és Energiakereskedelmi és Szolgáltató Kft., the respondent.

- EMFESZ Kft. launched an action against Nitrogénművek Zrt. to have the gas supply agreement concluded on 19 January 2005 terminated as of 1 July 2008.

- Nitrogénművek Zrt. as the claimant launched an action at the Court of Arbitration of the Hungarian Chamber of Commerce and Industry against Bothli-Trade AG, the respondent.
  In its decision adopted on 12 April 2010 the Court of Arbitration of the Hungarian Chamber of Commerce and Industry found in favour of Nitrogénművek Zrt., the claimant.
  In this decision the Court of Arbitration ordered the respondent Bothli-Trade AG to pay compensation of THUF 125,000 + interest.

- On 14 October 2009 Shell Hungary Zrt. launched an action at the Court of Arbitration of the Hungarian Chamber of Commerce and Industry against Nitrogénművek Zrt.

- Nitrogénművek Zrt., the claimant, launched an action against OTP Bank Nyrt., the respondent, for the payment of compensation.

- MAINEX LLC (Kentucky, USA) launched an action against Nitrogénművek Zrt. at the Court of Arbitration of the Hungarian Chamber of Commerce and Industry.

- Chemoprojekt a.s. launched an action against Nitrogénművek Zrt. at the Vienna Court of Arbitration.

33. SUBSEQUENT EVENTS

Events related to investment tax credits

In 2009 the Company availed itself of the option provided in Sections 28 and 145 (4) of Act CXVI of 2009 in view of the economic crisis. Together with its 2009 tax return it submitted a report on the use of development tax credits, according to which the Company did not use development tax credits in 2009, while the 2009 wage cost did not fall below the wage cost in the tax year prior to the commencement of the development.
This report means the deadlines for using development tax credits are extended by one year (until 2017 and 2019). See Note 8.
Deferring is also possible in 2010.

Other events

Despite the agricultural problems caused by the inclement weather the seasonal demand for the Company's products was normal, peaking in February and March.

The 2009 N_2O emission units were approved and the relevant part of the contract with Kommunalkredit Public Consulting GmbH (KPC) – 717,412 units – was fulfilled.

The acid plant units for sale are being dismantled and prepared for delivery.

The Court of Arbitration at the Hungarian Chamber of Commerce and Industry found in favour of Nitrogénművek Zrt in the Bothli-Trade AG legal action. In this decision the Court of Arbitration ordered the respondent Bothli-Trade AG to pay compensation of THUF 125,000 + interest. There were no significant changes in the other cases.

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This is an English translation of the Independent Auditor's Report on the 2008 Consolidated Financial Statements of Nitrogénművek Zrt. issued in Hungarian. If there are any differences, the Hungarian language original prevails. This report should be read in conjunction with the complete Consolidated Financial Statements it refers to.

Independent Auditors' Report

To the shareholders of Nitrogénművek Zrt.

We have audited the consolidated financial statements of Nitrogénművek Zrt. ("the Company"), which comprise the consolidated statement of financial position as at 31 December 2008, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our 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, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

This is an English translation of the Independent Auditor's Report on the 2008 Consolidated Financial Statements of Nitrogénművek Zrt. issued in Hungarian. If there are any differences, the Hungarian language original prevails. This report should be read in conjunction with the complete Consolidated Financial Statements it refers to.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of Nitrogénművek Zrt. as at 31 December 2008, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by EU.

Budapest, 29 June 2010

KPMG Hungária Kft.

László Kajtár
László Kajtár
Partner, Registered Auditor
Identification number: 000269

Nitrogénművek Vegyipari Zártkörűen Működő Részvénytársaság

Consolidated Financial Statements
2008
prepared in accordance with International Financial Reporting Standards as adopted by the EU

Pétfürdő, 29 June 2010

Dr. István Blazsek
Chief Executive Officer

Consolidated statement of financial position

Description	Note	31 December 2008	31 December 2007	1 January 2007
ASSETS				
Non-current assets				
Property, plant and equipment	(1)	30,082,260	30,375,504	23,902,397
Intangible assets	(2)	203,740	201,928	203,729
Emission allowances	(3)	0	0	103,824
Investments	(4)	178,310	1,216,702	213,577
Other non-current assets	(5)	22,108	3,129	49,079
Deferred tax assets	(25)	69,049	42,380	48,637
Total non-current assets		30,555,467	31,839,643	24,521,243
Current assets				
Inventories	(6)	14,317,478	7,785,261	8,069,912
Emission allowances	(3)	0	4,912	83,783
Current tax assets	(31)	590,164	623,619	13,052
Trade receivables	(7)	5,034,877	5,630,322	4,563,627
Other financial assets and derivatives	(8)	7,206,140	6,844,805	2,028,659
Other receivables	(9)	1,405,048	1,077,856	2,422,401
Cash and cash equivalents	(10)	1,645,793	4,015,461	1,587,612
Assets classified as held for sale	(11)	79,908	79,908	0
Total current assets		30,279,408	26,062,144	18,769,046
TOTAL ASSETS		**60,834,875**	**57,901,787**	**43,290,289**

Pétfürdő, 29 June 2010

Dr. István Blazsek
Chief Executive Officer

Consolidated statement of financial position (continued)

Description	Note	31 December 2008	31 December 2007	1 January 2007
EQUITY AND LIABILITIES				
Equity				
Share capital	(12)	528,000	528,000	528,000
Translation reserve	(14)	-844	-51	0
Hedging reserve	(15)	0	-1,161,778	0
Retained earnings	(16)	8,124,102	7,200,870	8,325,511
Total equity attributable to equity holders of the Company		8,651,258	6,567,041	8,853,511
Total equity		8,651,258	6,567,041	8,853,511
Liabilities				
Non-current liabilities				
Loans and borrowings	(17)	14,576,934	18,406,605	15,514,265
Other non-current payables	(18)	533,641	494,876	484,087
Other non-current liabilities	(19)	6,627,747	6,772,342	937,570
Provisions	(23)	214,000	50,000	85,613
Deferred tax liability	(24)	11,803	186,148	335,999
Total non-current liabilities		21,964,125	25,909,971	17,357,534
Current liabilities				
Loans and borrowings	(17)	14,799,333	9,173,250	9,414,058
Current tax liabilities	(31)	189,526	8,720	55,713
Trade payables	(20)	5,101,448	4,556,876	4,152,135
Other financial liabilities and derivatives	(21)	117,764	5,809,353	623,663
Other current liabilities	(22)	9,825,020	5,836,051	2,757,132
Provisions	(23)	186,401	40,525	76,543
Total current liabilities		30,219,492	25,424,775	17,079,244
TOTAL EQUITY AND LIABILITIES		**60,834,875**	**57,901,787**	**43,290,289**

Pétfürdő, 29 June 2010

Dr. István Blazsek
Chief Executive Officer

Consolidated statement of comprehensive income

Description	Note	2008	2007
Revenue	(25)	47,981,465	46,259,660
Other income	(26)	464,076	1,097,890
Total operating income		48,445,950	47,357,550
Material-type expenses	(27)	40,311,642	33,338,909
Staff costs	(28)	4,168,617	4,161,086
Depreciation and impairment		1,372,337	811,650
Other expenses	(29)	1,575,681	1,368,781
Changes in self-manufactured stocks		-5,980,068	1,393,293
Capitalised value of self-manufactured assets		-67,498	-521,830
Total operating expenses		41,380,711	40,551,889
Results from operating activities		7,064,830	6,805,661
Finance income	(30)	2,849,423	1,196,490
Finance costs	(30)	8,835,455	6,824,092
Finance losses/gains		- 5,986,032	-5,627,602
Profit before income tax		1,078,798	1,178,059
Income tax expense	(31)	155,566	446,300
Profit for the period		923,232	731,759
Other comprehensive income			
Translation difference	(30)	-774	-51
Effective portion of changes in fair value of cash flow hedges	(30)	-1,156,525	-2,147,065
Net change in fair value of cash flow hedges transferred to profit or loss	(30)	2,608,748	694,842
Income tax on other comprehensive income	(24)	-290,464	290,445
Total other comprehensive income		**1,160,985**	**-1,161,829**
Total comprehensive income for the period		**2,084,217**	**-430,070**
Profit for the period attributable to:			
Owners of the Company		923,232	731,759
Comprehensive income for the period attributable to:			
Owners of the Company		2,084,217	-430,070

Pétfürdő, 29 June 2010

Dr. István Blazsek
Chief Executive Officer

Consolidated statement of changes in equity

	Note	Attributable to equity holders of the Company									
		Equity	Share capital	Translation reserve	Hedging reserve	Revaluation reserve	Fair value reserve	Retained earnings	Total	Non-controlling interest	Total equity
Balance at 1 January 2007			**528,000**	**0**	**0**	**0**	**0**	**8,325,511**	**8,853,511**	**0**	**8,853,511**
Profit for the period			0	0	0	0	0	731,759	731,759	0	731,759
Other comprehensive income										**0**	
Translation difference			0	-51	0	0	0	0	-51	0	-51
Effective portion of changes in fair value of cash flow hedges, net of tax	(24), (30)		0	0	-1,856,620	0	0	0	-1,856,620	0	-1,856,620
Net change in fair value of cash flow hedges transferred to profit or loss, net of tax	(24), (30)		0	0	694,842	0	0	0	694,842	0	694,842
Net change in fair value of available-for-sale financial assets, net of tax			0	0	0	0	0	0	0	0	0
Net change in fair value of available-for-sale financial assets transferred to profit or loss, net of tax			0	0	0	0	0	0	0	0	0
Total other comprehensive income			***0***	***-51***	***-1,161,778***	***0***	***0***	***0***	***-1,161,829***	***0***	***-1,161,829***
Total comprehensive income			***0***	***-51***	***-1,161,778***	***0***	***0***	***731,759***	***-430,070***	***0***	***-430,070***
Transactions with owners, recorded directly in equity											
Contributions by and distributions to owners			0	0	0	0	0	-641 4000	-641,400	0	-641,400
Issue of shares			0	0	0	0	0	0	0	0	0
Dividends			0	0	0	0	0	-1,215,000	-1,215,000	0	-1,215,000
Total transactions with owners			***0***	***0***	***0***	***0***	***0***	***-1,856,400***	***-1,856,400***	***0***	***-1,856,400***
Balance at 31 December 2007			**528,000**	**-51**	**-1,161,778**	**0**	**0**	**7,200,870**	**6,567,041**	**0**	**6,567,041**

Pétfürdő, 29 June 2010

Dr. István Blazsek
Chief Executive Officer

Consolidated statement of changes in equity (continued)

	Note	Equity	Attributable to equity holders of the Company Share capital	Translation reserve	Hedging reserve	Revaluation reserve	Fair value reserve	Retained earnings	Total	Non-controlling interest	Total equity
Balance at 1 January 2008			**528.000**	**-51**	**-1,161,778**	**0**	**0**	**7,200,870**	**6,567,041**	**0**	**6,567,041**
Profit for the period			0	0	0	0	0	923,232	923,232	0	923,232
Other comprehensive income											
Translation difference			0	-793	0	0	0	0	-793	0	-793
Effective portion of changes in fair value of cash flow hedges, net of tax	(24), (30)		0	0	-1,156,525	0	0	0	-1,156,525	0	-1,156,525
Net change in fair value of cash flow hedges transferred to profit or loss, net of tax	(24), (30)		0	0	2,318,303	0	0	0	2,318,303	0	2,318,303
Net change in fair value of available-for-sale financial assets, net of tax			0	0	0	0	0	0	0	0	0
Net change in fair value of available-for-sale financial assets transferred to profit or loss, net of tax			0	0	0	0	0	0	0	0	0
Total other comprehensive income			***0***	***-793***	***1,161,778***	***0***	***0***	***0***	***1,160,985***	***0***	***1,160,985***
Total comprehensive income			***0***	***-793***	***1,161,778***	***0***	***0***	***923,232***	***2,084,217***	***0***	***2,084,217***
Transactions with owners, recorded directly in equity											
Contributions by and distributions to owners			0	0	0	0	0	0	0	0	0
Issue of shares			0	0	0	0	0	0	0	0	0
Dividends			0	0	0	0	0	0	0	0	0
Total transactions with owners			***0***	***0***	***0***	***0***	***0***	***0***	***0***	***0***	***0***
Balance at 31 December 2008			**528,000**	**-844**	**0**	**0**	**0**	**8,124,102**	**8,651,258**	**0**	**8,651,258**

Pétfürdő, 29 June 2010

Dr. István Blazsek
Chief Executive Officer

Consolidated statement of cash flows

Description	Note	2008	2007
Profit after tax		923,232	731,759
Depreciation, amortisation and impairment	(1,2)	1,375,889	819,801
Impairment on quota	(3)	0	124,956
Impairment on inventories and reversal thereof	(6)	47,548	167
Impairment on receivables and reversal thereof		4,787	26,299
Increase/Decrease in provisions	(23)	309,876	-71,631
Gains/Losses on sale of property, plant and equipment		-12,608	-20,492
Unrealised exchange gains/losses		474,137	77,008
Decrease/Increase in inventories	(6)	-6,579,765	284,484
Decrease/Increase in emission allowances	(3)	4,912	57,739
Increase/Decrease in trade receivables		1,193,870	-1,091,389
Decrease/Increase in other financial assets		-370,913	-5,059,046
Decrease/Increase in other receivables		-744,885	2,100,785
Decrease/Increase in other assets		-18,979	45,950
Decrease/Increase in other non-current liabilities	(19)	-144,595	5,834,772
Decrease/Increase in trade payables		1,143,816	500,937
Decrease/Increase in other financial liabilities		-2,362	12,085
Decrease/Increase in other current liabilities	(22)	3,988,969	3,078,919
Net change in income tax assets, liabilities		13,247	-801,154
Change in receivables and liabilities from derivative transactions		-4,542,192	4,209,018
Cash flows from operating activities		-2,936,016	10,860,967
Interest income		-279,190	-222,687
Interest expense		2,027,222	1,019,497
Income tax paid		-189,803	-756,240
Net cash flows from operating activities		**-1,377,787**	**10,901,537**

Pétfürdő, 29 June 2010

Dr. István Blazsek
Chief Executive Officer

Consolidated statement of cash flows (continued)

Description	Note	2008	2007
Dividends received		0	0
Interest received		286,598	215,601
Acquisition of property, plant and equipment	(1,2)	-1,401,784	-7,501,565
Sale of property, plant and equipment	(1,2)	17,627	53,810
Granting and repayment of loans		1,049,043	-894,745
Proceeds from sale of subsidiaries and business units		140,000	0
Acquisition of subsidiaries and business units	(34)	-9,142	-750,000
Net cash flows from investing activities		**82,342**	**-8,876,899**
Loans and borrowings	(17)	11,549,221	9,719,869
Repayment of loans and borrowings	(17)	-10,627,738	-7,134,065
Dividends paid		0	-1,215,000
Interest paid	(30)	-1,994,913	-967,542
Net cash flows from financing activities		**-1,073,430**	**403,262**
Net changes in cash and cash equivalents		**-2,368,875**	**2,427,900**
Cash and cash equivalents at 1 January	(10)	4,015,461	1,587,612
Effect of exchange rate fluctuations on cash held		-793	-51
Cash and cash equivalents at 31 December	(10)	**1,645,793**	**4,015,461**

Pétfürdő, 29 June 2010

Dr. István Blazsek
Chief Executive Officer

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 31 DECEMBER 2008

I. GENERAL

A Nitrogénművek Zrt (hereinafter referred to as "the Company") was established on 1 February 1990. Registered office: 8105 Hungary, Pétfürdő, Hősök tere 14.

The consolidated financial statements of the Company as at and for the year ended 31 December 2008 comprise the Company and its subsidiaries (together referred to as the "Group" and individually as "Group entities"). In the period covered by the consolidated financial statements the Company held no interest in associates or jointly controlled entities.

The Group primarily is involved in the manufacture of artificial fertilisers containing solid nitrogen and nitrogen solution. The group also manufactures industrial gases (argon, hydrogen, nitrogen).

Group subsidiaries:

Company	Country	Scope of activities	Ownership share in 2008	Ownership share in 2007
"Koronás-Szarvas" Kft	Hungary	Services related to plant production	0%	100%
Nádudvari Agrokémiai Kft.	Hungary	Manufacture and distribution of artificial fertilisers and nitrogen compounds	100%	100%
Nitrogén – Pinkerton Kft.	Hungary	Investigation and security services	53.33%	53.33%
Nitropet Deutschland H. GmbH.	Germany	Retail and wholesale	100%	0%
Nitropet Italia S.R.L.	Italy	Retail and wholesale	100%	0%
NITROPÉT Slovakia	Slovakia	Retail and wholesale of agricultural products and chemicals	51%	51%
Nitro-Pét d.o.o.	Serbia	Transportation and agency activities; retail distribution of chemical products and artificial fertilisers	100%	100%
Péti Gépészeti Kft.	Hungary	Metallurgy	100%	100%
Péti Nitrokomplex Kft.	Hungary	Manufacture, packaging and distribution of artificial fertilisers	100%	100%
Péti Polietilén Zsák Kft.	Hungary	Manufacture and distribution of polythene packaging materials	100%	100%
Péti VMA Kft.	Hungary	Technical review and analysis	100%	100%
SC BH CHEMICAL IMPEX SRL	Romania	Wholesale of chemical products	100 %	100 %

1. ADOPTION, STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION

(a) Adoption and statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU. The Company is a first adopter of IFRSs. The Company prepares its first IFRS consolidated financial statements as at 31 December 2008.

The consolidated financial statements were authorised for issue by the Board of Directors on 29 June 2010.

(b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for the following material items in the statement of financial position:

- derivative financial instruments are measured at fair value
- available-for-sale financial assets are measured at fair value.

The financial year corresponds to the calendar year.

(c) Functional and presentation currency

These consolidated financial statements are presented in Hungarian forint ("Ft" or HUF), which is the Company's functional currency. The functional currency of each subsidiary is the currency of the country where the relevant subsidiary is registered, since selling prices are typically determined by the economy of the country where the subsidiary is active.
Financial information presented in forint has been rounded to the nearest thousand (THUF), while information presented in other currencies has been rounded to one currency unit.

(d) Use of estimates and judgments

The preparation of the consolidated financial statements in conformity with the following accounting policies requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements relating to the following areas is included in Note 4.

- determination of useful lives of items of property, plant and equipment
- measurement of hedging transactions
- recovery of deferred tax assets
- recovery of investment tax credit

2. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements and to the opening statement of financial position as at 1 January 2007, and have been applied consistently by Group entities.

(a) Basis of consolidation

Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group.

Acquisition of entities under common control

Acquisitions whereby an entity that is under the control of the shareholder that controls the Group, are accounted at the date of acquisition by recognising the acquired assets and liabilities at the carrying amounts recorded previously in the books of the acquired entity. The components of equity of the acquired entity are added to the same components within Group equity. Any cash paid for the acquisition is recognised directly in equity. The part of cash paid for the acquisition in excess to the net asset value acquired is recognised as a deduction from retained earnings.

Transactions eliminated on consolidation

Intra-group balances, and any unrealised income and expenses arising from intra-group transactions are eliminated in preparing the consolidated financial statements.

(b) Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in the consolidated profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments and differences from cash flow hedges, which are recognised in other comprehensive income. Non-monetary items measured at cost are translated using the exchange rate at the date of the transaction.

(ii) Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments, if any, arising on acquisition, are translated to the presentation currency at exchange rates at the reporting date. The income and expenses of foreign operations are translated to the presentation currency at exchange rates at the dates of the transactions.

Foreign currency differences are recognised in other comprehensive income in the foreign currency translation reserve. When a foreign operation is disposed of, in part or in full, the relevant amount in the translation reserve is transferred to profit or loss.

When the settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely in the foreseeable future, foreign exchange gains and losses arising from such a monetary item are considered to form part of a net investment in a foreign operation and are recognised within other comprehensive income in the translation reserve.

(iii) Translation reserve

Taking advantage of the exemption provided in IFRS 1.22, the Group states the translation reserve in the opening balance sheet as at 1 January 2007 at zero.

(c) Financial instruments

Non-derivative financial instruments

The Group initially recognises loans and receivables, deposits and borrowings on the date that they are originated. All other financial instruments are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred.
The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market.
Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale and that are not classified in any of the other categories of financial assets. The Group's investments in equity securities are classified as available-for-sale financial assets.
Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses and foreign currency differences on equity instruments, are recognised in other comprehensive income and presented within equity in the fair value reserve. When an investment is derecognised, the cumulative gain or loss in other comprehensive income is transferred to profit or loss. However, if an equity investment has no quoted price in an active market and its fair value cannot be measured reliably, it is measured subsequent to initial recognition at cost less impairment.

Other financial liabilities

Financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortised cost using the effective interest method.

Derivative financial instruments

The Group holds derivative financial instruments to hedge its foreign currency risk exposures.

Derivatives are recognised initially at fair value. Attributable transaction costs are recognised in profit or loss when incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are accounted for as described below.

Cash flow hedges

A cash flow hedge is hedging the exposure arising from the variability in cash flows attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction that could affect profit or loss.

When a hedge is concluded, the Group formally designates and documents the hedging relationship to which hedge accounting is to be applied, as well as the risk management goals and strategies of the hedge. Documentation includes identification of the hedge, the related hedged item or transaction, the nature of the risk being hedged and how the entity will assess hedge effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. These hedges are expected to be highly effective in offsetting changes in cash flows. Effectiveness is assessed on the reporting date.

When a derivative is included in a hedging relationship, the effective portion of changes in the fair value of the derivative is recognised in other comprehensive income and presented in the hedging reserve in equity, while any ineffective portion is recognised in profit or loss. The amount recognised in other comprehensive income is removed and included in profit or loss in the same period as the hedged cash flows affect profit or loss, e.g. when the forecast transaction takes place. In the case of an effective hedge, the amount transferred to profit or loss is included under the same line item in the statement of comprehensive income as the result of the hedged transaction.

If the forecast transaction is no longer expected to occur, then the balance in other comprehensive income is recognised in profit or loss. If the hedge expires or is sold, terminated, exercised, or the designation is revoked, amounts previously recognised within equity in other comprehensive income remain in equity until the forecast transaction occurs, then are transferred to profit or loss. If the forecast transaction is no longer expected to occur, then these amounts are recognised immediately in profit or loss.

Other non-trading derivatives
Other non-trading derivatives are financial instruments measured at fair value through profit or loss. When a derivative financial instrument is not held for trading, and is not designated in a qualifying hedge relationship, all changes in its fair value are recognised immediately in profit or loss under results of financial transactions.

(d) Equity

Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity, net of any tax effects.

(e) Property, plant and equipment

Recognition and Measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. The cost values of individual assets in the categories of property, plant and equipment were determined based on the remeasured value in accordance with previously applied accounting principles used as deemed cost. The Group chose the option to consider the remeasured value in accordance with previously applied accounting principles to be the cost on 1 January 2007 when the Group switched to IFRS reporting. See Note 37.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the assets and restoring the site on which they are located, as well as borrowing costs attributable to the acquisition, construction or production of a qualifying asset.

Purchased software that is integral to the functionality of the related equipment increases the cost of that equipment.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and are recognised net within other income or other expenses in profit or loss.

Subsequent costs

The cost of replacing a part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group, and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

Depreciation

Depreciation is calculated over the cost of an asset, less its residual value.
Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Leased assets under finance lease are depreciated over their useful lives, since the Group will obtain ownership by the end of the lease term. Land is not depreciated.
The residual value of production plants and related production machinery and equipment is zero, since their expected useful lives correspond to their expected economic lives, considering that the Group intends to use such assets until exhaustion.

The estimated useful lives for the current and comparative period are as follows:

- buildings 35-50 years
- plant and equipment 5-35 years
- fixtures and fittings 2 years

Depreciation methods, useful lives and residual values are reassessed annually at each reporting date.

(f) Intangible assets

Measurement

Other intangible assets that are acquired by the Group and have finite useful lives are measured at cost less accumulated amortisation and accumulated impairment losses.

Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in profit or loss as incurred.

Amortisation

Amortisation is calculated over the cost of the asset, less its residual value.
Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, from the date that they are available for use.

The estimated useful lives for the current and comparative period are as follows:

- rights and concessions 2-5 years

(g) Leased assets

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and the leased assets are not recognised in the Group's statement of financial position.

(h) Inventories

Inventories are measured at the lower of cost and net realisable value.
Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

Purchased inventories

The cost of purchased inventories is determined based on average weighted purchase price and includes direct acquisition expenditure incurred, as well as costs incurred in bringing the inventories to their existing location and condition.

Manufactured inventories

Cost of manufactured inventories is determined based on their direct production cost on the reporting date and includes production or conversion costs and other costs incurred in bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity. Cost also may include any gain or loss on cash flow hedges concluded to hedge foreign exchange risk of forecasted purchases of raw materials, transferred from comprehensive income through row item changes in manufactured inventories.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

(i) Emission allowances

Carbon dioxide (CO2) quota

The Group receives emission allowances free of charge in Hungary as part of the European Emission Trading System since it emits greenhouse gases. These allowances are valid until the end of a pre-determined emissions period. The allowances are credited each year based on the National Allocation Plan. The group must settle its liability based on actual emissions by surrendering the emission allowances. In the event the actual emissions exceed the quantity of emission allowances received, the difference may be purchased from a third party to settle the liability.
The initial measurement of emission allowances received free of charge is at fair value as of the acquisition date, which is the market price traded on the active market (bluenext.com) (see Note I.2.q.). These allowances received free of charge are recognised as emission allowances under fixed assets or current assets as part of intangible assets. Emission allowances purchased from third parties are initially measured at the same amount paid for the allowances. Thereafter the emission allowances are measured at cost net of impairment. Emission allowances are not amortised.
Emission allowances can be sold on the market while valid. Emission allowances are derecognised when sold, or when surrendered to settle liability based on actual emissions.
Emission allowances to be surrendered within one year are recognised under current assets.
The Group records provisions for liabilities which arise on account of actual emissions. Provisions are measured based on a best estimate of the expense required to settle the liability prevailing as of the reporting date (see Note I.2.m.).

(j) Impairment

Financial assets

A financial asset is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that one or more events had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost can also be objective evidence of impairment.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are accounted as other expenses in profit or loss. Interest on the impaired asset continues to be recognised through the unwinding of the discount.

Individually significant financial assets are tested for impairment on an individual basis. Other financial assets are grouped together based on similar credit risk characteristics and are assessed for impairment collectively.

Impairment losses on available-for-sale financial assets are recognised by transferring the cumulative loss that has been recognised in other comprehensive income, and presented in the fair value reserve, to profit or loss. The cumulative loss that is transferred to profit or loss is the difference between the cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost and available-for-sale financial assets that are debt securities, the reversal is recognised in profit or loss. In the case of available-for-sale equity securities, the reversal is recognised in other comprehensive income.

Non-financial assets

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.
In the case of emission allowances, fair value less costs to sell is a good approximate for the recoverable amount, and since costs to sell are negligible, the Group considers the price as at the reporting date quoted in an active market to be the recoverable amount (see Note I.2).
For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets ("cash-generating unit or CGU").

Assets not involved directly in production do not generate separate cash inflows. If there is an indication that such an asset may be impaired, then the recoverable amount is determined for the CGU to which the asset belongs.

An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses recognised in respect of CGUs are allocated to the assets in the unit in proportion to their carrying amounts. All impairment losses are recognised in profit or loss.

In respect of assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(k) Non-current assets held for sale

Non-current assets, or disposal groups comprising assets and liabilities, that are expected to be recovered primarily through sale rather than through continuing use, are classified as held for sale. Immediately prior to the classification as held for sale the assets (or components of the disposal group) are remeasured in accordance with the Group's accounting policies. Thereafter, the assets (or disposal group) are measured at the lower of the carrying amount and the fair value less cost to sell.
Impairment losses on initial classification as held for sale and subsequent gains or losses on remeasurement are recognised in profit or loss. Gains are not recognised in excess of any cumulative impairment loss.

(l) Employee benefits

Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an employee benefit expense in profit or loss in the periods during which services are rendered by employees. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

Termination benefits

Termination benefits are recognised as expense when the Group is demonstrably committed to a detailed formal plan to terminate employment before the normal retirement date or to provide termination benefits as a result of an offer made in order to encourage voluntary redundancy, without a realistic possibility of withdrawal. Termination benefits for voluntary redundancies are recognised as expense if the Group has made an offer encouraging voluntary redundancy, it is probable that the offer will be accepted and the number of acceptances can be estimated reliably.

Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.
A liability is recognised for the amount expected to be paid under short-term cash bonus if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(m) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. When unwinding the discount representing elapse of time the balance sheet value of the provision increases year-by-year by the effect of discount. The increment is accounted as interest expense.

Provisions are typically allocated for emission quotas, termination benefits and early retirement pensions, disputes and environmental protection liabilities.

Emission quotas

The Group allocates provisions for the liability to deliver emission allowances based on actual carbon dioxid emission (see Note I.2), the amount of which is set to the extent of emission allowances existing at the reporting date based on their carrying amount and for liabilities not covered by existing emission allowances based on market value of emission allowances as at the reporting date, since such liabilities can be settled by purchasing emission allowances.

Provisions for termination benefits and early retirement pensions

Provisions for termination benefits and early retirement pensions connected to redundancies are recognised, if by the reporting date the Group created justified expectations on the part of employees relating to the redundancy. As a prerequisite, the redundancy plan has to be approved by the Board and communicated to those concerned by the reporting date.
The provision is allocated based on best estimate relating to the costs incurred. Where the liability will be settled several years later, the amount booked is the present value of expected future costs.

Provisions for environmental protection liabilities

Provisions for environmental protection costs are recognised if environmental damage assessment or remediation is probable and related costs are reliably quantifiable. The provision is accounted generally parallel to the acceptance of a relevant formal plan or task, if it is earlier, to the sale or closing down of inactive places. The provision is allocated based on best estimate relating to the costs incurred. Where the liability will be settled several years later, the amount booked is the present value of expected future costs.

(n) Revenues

Goods sold

Revenue is recognised when economic benefit in connection with the transaction is likely to inflow to the Group and its amount can be measured reliably. Revenue is booked net of taxes related to sales and discounts when goods are delivered or services provided and risks and rewards are transferred.

Revenue from the sale of goods is measured at the fair value of the consideration net of returns, trade discounts and volume rebates. Revenue does not include value added tax.
Revenue from the sale of goods is recognised when all the following conditions are met:

- persuasive evidence exists, usually in the form of an executed sales supply agreement, that the

significant risks and rewards of ownership have been transferred to the buyer;
- the Group has no actual control over the goods and there is no continuing management involvement with the goods;
- the consideration can be measured reliably;
- financial settlement of the consideration is probable; and
- the associated costs and possible return of goods can be estimated reliably.

The Group sells its products on domestic markets in a "bill and hold" system. In the case of bill and hold transactions revenue is booked when all the following conditions are met in addition to the above:
- the buyer obtains ownership;
- it is probable that delivery will take place;
- the goods are ready for delivery, physically separated under the name of the buyer;
- the buyer expressly acknowledges the demand for subsequent delivery;
- normal payment terms apply;

or if one or more of these conditions are not met, revenue is booked at the latest when the buyer obtains ownership and delivery takes place.

The timing of the transfers of risks and rewards varies depending on the individual terms of the contract of sale. If transportation is carried out by the Group, usually transfer occurs when the product is received at the destination indicated by the customer; however, for shipments arranged by the costumer, transfer occurs upon loading the goods onto the carrier of the transporter. For inventories stored at the customer's site (as an external venue), transfer occurs when the goods are released from warehouse for the given customer.

If it is probable that discounts will be granted and the amount can be measured reliably, then the discount is recognised as a reduction of revenue as the sales are recognised.

Services

Revenue from services rendered is recognised in profit or loss in proportion to the stage of completion of the transaction at the reporting date. The stage of completion is assessed by reference to surveys of work performed.

Revenue from services is recognised when all the following conditions are met:
- the consideration can be measured reliably;
- financial settlement of the consideration is probable; and
- the associated costs can be estimated reliably.

Commissions

When the Group acts in the capacity of an agent rather than as the principal in a transaction, the revenue recognised is the net amount of commission made by the Group and it is booked when conditions listed in point (ii) are met.

Usually the Group sells the products of its related companies in the capacity of an agent. Revenue is booked when sale takes place based on the contract concluded by the principal and the customer and the Group is entitled to receive the commission.

Rental income

Rental income from operative leases is recognised evenly over the term of the lease in the profit or loss. Lease incentives granted are recognised as an integral part of the total rental income, over the term of the lease.

(o) Lease payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

(p) Finance income and expense

Finance income comprises the following: interest income on funds invested (including available-for-sale financial assets), dividend income, exchange gains on FX items, gains on the disposal of available-for-sale financial assets, derivatives held for trading, and changes in the fair value of hedges to be recognised in profit or loss. Interest income is recognised as it accrues in profit or loss, using the effective interest method. Dividend income is recognised in profit or loss on the date that the Group's right to receive payment is established, which in the case of quoted securities is the ex-dividend date, while for unlisted securities it is the date when the relevant authorised body makes decision relating to distribution.

Finance expenses comprise the following: interest expense on borrowings, unwinding of the discount on provisions, exchange losses on FX items, changes in the fair value of derivatives held for trading, changes in the fair value of hedges to be recognised in profit or loss and impairment losses recognised on available-for-sale financial assets.

(q) Government grants

An unconditional government grant is recognised in profit or loss, if it will be received.
Other government grants are recognised in profit or loss when there is reasonable assurance that they will be received and the Group will comply with the conditions associated with the grant.
Grants related to asset purchases are booked at fair value as deferred income and are recognised in profit or loss as other income in proportion to expensing the asset.
Grants that compensate the Group for expenses incurred (including government grants received in the form of emission allowances received free of charge, see Note I.2.i) are recognised in profit or loss as other income at fair value in the same periods in which the expenses are incurred. Investment tax credits are recognised similarly to government grants related to asset purchases.

(r) Income tax

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.
Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries to the extent that they probably will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they

reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(s) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2008, and have not been applied in preparing these consolidated financial statements, except for IAS 1 *Presentation of Financial Statements.* None of these expected to have an effect on the consolidated financial statements of the Group, except for IFRS 9 *Financial Instruments*, which becomes mandatory for the Group's 2013 consolidated financial statements and might have an effect on classification and measurement of financial assets; however, the expected effects have not been assessed yet.

(t) Earlier application of standards and interpretations

Revised IAS 1 *Presentation of Financial Statements* (issued on 6 September 2007) introduces new concepts for the titles of financial statements and for some items therein, and implements the concept of "comprehensive income" which presents changes in equity during a period from transactions with owners other than those carried out in their capacity as owners. The amendment would be mandatory for the 2009 financial statements of the Group, however, it is already applied in these 2008 consolidated financial statements.

3. DETERMINATION OF FAIR VALUES

The Group's accounting policies and disclosures require the determination of fair value for financial instruments. Fair values have been determined for measurement and disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the individual notes.

(a) Available-for-sale financial assets

Fair value of available-for-sale financial assets is based on the closing bid price quoted on an active market valid on the reporting date.

(b) Trade receivables, other financial assets not arising from derivative transactions

Fair value of trade receivables and other financial assets for disclosure purposes is determined based on present value of future cash flows discounted at market rate as of the reporting date.

(c) Trade payables, other financial liabilities not arising from derivative transactions

Fair value of trade payables and other financial liabilities for disclosure purposes is determined based on present value of future principal and interest cash flows discounted at market rate as of the reporting date.

(d) Derivative transactions

The fair value of forward exchange contracts is based on their listed market price, if available. If a listed market price is not available, then fair value is estimated based on the present value of the difference between the contractual forward price and the forward price as at the reporting date discounted using a risk-free interest rate (based on government bonds) for the residual maturity of the contract.

4. IMPORTANT ACCOUNTING ASSUMPTIONS AND ESTIMATES

Estimation uncertainties

The preparation of financial statements in conformity with IFRSs requires the use of estimates that affect the amounts presented in the consolidated financial statements and the related notes. These estimates are based on management's best knowledge of current events, however, actual results may differ from these estimates. These most important estimates are described below:

- Useful lives of property, plant and equipment: The estimate of the useful lives of property, plant and equipment was made based on the technical content of the assets and past experience of the individual asset types, such as the frequency of replacements and faults. The fact that the actual useful life of the assets can differ depending on the capacity in use, technology changes or technical factors does cause some uncertainty, and therefore the Group analyses on an annual basis whether the previous estimate is still pertinent, and revises the useful life estimate where necessary.

- Hedges: Gains or losses on hedges are calculated based on estimates relating to future exchange rates and interests as well as the timing and amount of hedged future gas purchases. Uncertainty lies in the fact that these factors are subject to market expectations and changes in the economic environment.

- Recovery of deferred tax liabilities: Recovery of deferred tax liability is subject to future taxable profits. The availability of future taxable profits is supported by a business plan that is prepared for a period in relation to which the Group is able to prepare a reliable plan.

- Use of investment tax credits: The use of investment tax credits depends on future taxable profits. The Group confirms the availability of future taxable profits with a business plan, prepared for the period that the investment tax credits may be used. The recovery of investment tax credits is contingent upon the uncertainties inherent in the estimates used for the business plan. Such factors of uncertainty include, among others, expected sales volumes, market sales prices, the market price of material costs (principally gas), capacity in use, tax rates and items reconciling the tax base.

II. NOTES TO THE FINANCIAL STATEMENT ITEMS

1. PROPERTY, PLANT AND EQUIPMENT

Description	Land and buildings	Plant and equipment	Other equipment and fittings	Assets under construction	Total
Gross opening value at 1 January 2007	2,114,299	8,094,159	227,811	18,672,078	29,108,347
- Additions from business unit acquisitions	0	0	0	7,386,815	**7,386,815**
- Other additions	0	28,976	9,004	2,188	**40,168**
- Derecognitions	-6,922	-140,568	-8,513	-2,466	**-158,469**
- Decrease due to in-kind contribution	0	-88,343	-15,841	0	**-104,184**
- Transfer to assets held for sale	-53,636	-923,455	-1,735	0	**-978,826**
- Transfers and reclassification ±	-4,884	4,387	-293	-49,361	**-50,151**
- Capitalisation	5,247,249	12,282,732	51,877	-17,581,858	**0**
- Translation differences	0	0	-22	0	**-22**
Closing gross value at 31 December 2007	**7,296,106**	**19,257,888**	**262,288**	**8,427,396**	**35,243,678**
- Additions from business unit acquisitions	0	0	0	1,167,508	**1,167,508**
- Other additions	0	0	0	0	**0**
- Derecognitions	-97,023	-61,237	-23,247	-4,710	**-186,217**
- Transfer to assets held for sale	0	0	0	0	**0**
- Transfers and reclassification ±	2,426	-57,583	-733	0	**-55,890**
- Capitalisation	2,644,799	2,240,326	18,963	-4,904,088	**0**
- Translation differences	0	0	-232	0	**-232**
Closing gross value at 31 December 2008	**9,846,308**	**21,379,394**	**257,039**	**4,686,106**	**36,168,847**
Opening accumulated depreciation 1 January 2007	**816,139**	**4,191,491**	**198,320**	**0**	**5,205,950**
- Depreciation	118,425	615,233	41,708	0	**775,366**
- Depr. due to expanded cons. scope	0	3,128	4,411	0	**7,539**
- Derecognitions	-2,240	-106,270	-8,274	0	**-116,784**
- Decrease due to in-kind contribution	0	-88,343	-15,841	0	**-104,184**
- Transfer to assets held for sale	-21,942	-875,241	-1,735		**-898,918**
- Transfers ±	-845	348	-292	0	**-789**
- Translation differences	0	0	-6	0	**-6**
Closing accumulated depreciation at 31 December 2007	**909,537**	**3,740,346**	**218,291**	**0**	**4,868,174**

1. PROPERTY, PLANT AND EQUIPMENT (continued)

Description	Land and buildings	Plant and equipment	Other equipment and fittings	Assets under construction	Total
- Depreciation	311,857	1,016,836	24,770	0	**1,353,463**
- Derecognitions	-3,329	-55,238	-21,523	0	**-80,090**
- Transfers ±	-538	-53,516	-733	0	**-54,787**
- Translation differences	0	0	-173	0	**-173**
Closing accumulated depreciation at 31 December 2008	1,217,527	4,648,428	220,632	0	**6,086,587**
Net opening value at 1 January 2007	**1,298,160**	**3,902,668**	**29,491**	**18,672,078**	**23,902,397**
Net closing value at 31 December 2007	**6,386,569**	**15,517,542**	**43,997**	**8,427,396**	**30,375,504**
Net closing value at 31 December 2008	**8,628,781**	**16,730,966**	**36,407**	**4,686,106**	**30,082,260**

Assets under construction

The Company began constructing a new acid plant and granulation plant in 2004. The expense incurred by 31 December 2007 in connection with the acid plant – including borrowing costs – totalled THUF 15,145,571; in 2008 there were no further investment expenses in connection with the acid plant. For the granulation plant the expense incurred by 31 December 2008 totalled THUF 10,438,398 (31 December 2007: THUF 9,842,405). The acid plant was capitalised on 1 October 2007. Of the units that are part of the granulation plant the packaging unit was capitalised on 1 November 2007, while the neutralisation plant unit was capitalised on 3 April 2008. The granulation plant unit was capitalised in 2009.

Reclassification to assets held for sale

The Group reclassified the company's old decommissioned acid plant to assets held for sale. See Note 11.

Capitalised borrowing costs

The costs of investment loans capitalised on investments amounted to THUF 552,774 as of 31 December 2008 for the granulation plant (THUF 408,651 as of 31 December 2007), and THUF 306,725 for the acid plant by 31 December 2007, the capitalisation date.

Contractual investment liabilities

As of 31 December 2008 the Group's contractual commitments for property, plant and equipment purchases amounted to THUF 170,425 (as of 31 December 2007: THUF 833,327). The majority of the contractual commitments are related to the granulation plant and the acid plant investments.

1. PROPERTY, PLANT AND EQUIPMENT (continued)

Value of leased assets

Assets acquired under finance lease are included in property, plant and equipment.

Description	2008	2007
Gross value	63,764	63,764
Accumulated depreciation and impairment	19,837	3,895
Net value	**43,927**	**59,869**

The Group leases passenger cars under finance lease; the cars will be owned by the Group at the end of the lease term.

Value of assets pledged as collaterals

As at 31 December 2008 land and buildings with a carrying amount of THUF 8,883,724 (31 December 2007: THUF 6,575,506) and plant and equipment with a carrying amount of THUF 14,408,609 (31 December 2007: THUF 13,249,498) were pledged as collateral for bank loans. See Note 36.

2. INTANGIBLE ASSETS

Description	Rights and concessions	Other	Total
Gross opening value at 1 January 2007	**58,837**	**496,973**	**555,810**
- Other additions	23,235	11,508	**34,743**
- Derecognitions	-3,687	-4,546	**-8,233**
Closing gross value at 31 December 2007	**78,385**	**503,935**	**582,320**
- Other additions	25,446	470	**25,916**
- Derecognitions	-77	0	**-77**
- Transfers	0	-5,230	**-5,230**
Closing gross value at 31 December 2008	**103,754**	**499,175**	**602,929**
Opening accumulated depreciation 1 January 2007	**32,897**	**319,184**	**352,081**
- Depreciation	14,345	21,939	**36,284**
- Depr. due to expanded consolidation scope	260	0	**260**
- Derecognitions	-3,687	-4,546	**-8,233**
Closing accumulated depreciation at 31 December 2007	**43,815**	**336,577**	**380,392**
- Depreciation	14,621	4,253	**18,874**
- Derecognitions	-77	0	**-77**
- Transfer to assets held for sale	0	0	**0**
Closing accumulated depreciation at 31 December 2008	**58,359**	**340,830**	**399,189**

2. INTANGIBLE ASSETS (continued)

Description	Rights and concessions	Other	Total
Net opening value at 1 January 2007	**25,940**	**177,789**	**203,729**
Net closing value at 1 December 2007	**34,570**	**167,358**	**201,928**
Net closing value at 1 December 2008	**45,395**	**158,345**	**203,740**

Rights and concessions primarily include purchased software.

3. EMISSION ALLOWANCES

Emission allowances are CO_2 emission allowances received based on Government Decree 66/2006.III.27.

Changes in terms of quantity and carrying amount is presented in the table below:

Description	Intangible assets		Current assets		Total	
	Unit	THUF	Unit	THUF	Unit	THUF
Opening balance at 1 January 2007	**14,740**	**103,824**	**13,000**	**83,783**	**27,740**	**187,607**
Receipt of 2007 emission units	0	0	20,347	4,821	20,347	4,821
Delivery due to 2006 emission	0	0	9,707	62,560	9,707	62,560
Reclassification	-14,740	-103,824	14,740	103,824	0	0
Impairment (on 18,033 units)	0	0	0	-124,956	0	-124,956
Closing balance at 31 December 2007	**0**	**0**	**38,380**	**4,912**	**38,380**	**4,912**
Delivery due to 2007 emission	0	0	28,556	4,863	28,556	4,863
Derecognition of unused quotas	0	0	9,824	49	9,824	49
Closing balance at 31 December 2008	**0**	**0**	**0**	**0**	**0**	**0**

4. INVESTMENTS

Description	2008	2007
Loans granted	7,073	5,225
Security deposit	50,961	956,539
Long-term receivables from contracts	27	3,990
Other investments	120,249	250,948
Total	**178,310**	**1,216,702**

4. INVESTMENTS (continued)

Loans granted include housing loans provided to employees under favourable terms.
The fixed security deposit account includes the amounts of fixed deposits serving as collateral for loans related to the granulating plant investment project. On 17 December 2008 a part of investment loan was repaid and the related security deposit was used, that is why the 2008 balance is significantly lower.
No impairment was booked on loans disbursed neither in the reporting year, nor in the previous year.
Other investments include the amount of capital investments not consolidated.

5. OTHER NON-CURRENT ASSETS

Description	2008	2007
Advances to suppliers of investment projects	3,036	0
Accrued payables due to replacement of catalysers in the ammonia plant	18,154	1,639
Deferred option premium	431	0
Other non-current assets	487	1,490
Total	**22,108**	**3,129**

6. INVENTORIES

Description	31 December 2008	31 December 2007
Raw materials and consumables	3,536,350	3,579,653
Work in progress, semi-finished goods	306,286	393,265
Finished goods	9,459,412	3,635,042
Goods	1,015,430	177,301
Total	**14,317,478**	**7,785,261**

Cost and net realisable values in 2008 of inventories carried at net realisable value are as follows:

Description	Cost 31 December 2008	Net realisable value 31 December 2008	Cost 31 December 2007	Net realisable value 31 December 2007
Raw materials and consumables	12	0	0	0
Finished goods	199,935	153,965	371	204
Goods	15,838	14,107	0	0
Total	**215,785**	**168,072**	**371**	**204**

7. TRADE RECEIVABLES

Description	2008	2007
Trade receivables	5,047,290	5,656,621
- of which related:	4,018,787	611,546
Impairment for doubtful receivables	12,413	26,299
Total trade receivables	**5,034,877**	**5,630,322**

Trade receivables bear no interest and in general have a term of 30 days.

7. TRADE RECEIVABLES (continued)

No impairment was booked on receivables from related parties neither in the reporting year, nor in the previous year.

8. OTHER FINANCIAL ASSETS AND DERIVATIVES

Description	2008	2007
Receivables from government	5,652,080	5,895,538
Loans granted	1,552,765	923,282
- of which to related parties:	1,550,459	920,333
Receivables from forward exchange contracts held for trading	0	17,566
Other financial assets	1,295	8,419
Total	**7,206,140**	**6,844,805**

The receivable derived from the development (investment) tax credit is recognised in the 'receivables from the state' row. The Company can use the investment tax credit for the new acid plant capitalised in 2007 up to the sum of THUF 6,100,178. The amount of the development tax credit that can be used in the given year is 80% of the corporate tax payable. The credit may be used in the year of capitalisation and in the 9 subsequent fiscal years (2007-2016), provided that in the four fiscal years after the tax credit was first used (2008-2011) the annual wage cost accounted at the Company exceeds the annual wage cost of the fiscal year prior to the start of the development by at least three times the minimum wage calculated for the fiscal year as of the first day of the fiscal year. In 2008 (and 2007) the Company met this criterion, and so a tax credit of THUF 243,458 was used in 2008 (and THUF 204,640 in 2007). Subsequent events related to investment tax credits are presented in Note 35.

The Group disbursed loans in HUF and EUR to related parties. As at 31 December 2008 loans amounting to THUF 566,857 bear no interest and loans amounting to THUF 983,602 are interest-bearing loans. This item also includes loans to senior officers, which are disbursed in HUF and bear interest. The interest equals the prevailing central bank base rate + 5%. See Note (39).
Loans disbursed are unsecured.
No impairment was booked on loans disbursed neither in the reporting year, nor in the previous year.

9. OTHER RECEIVABLES

Description	2008	2007
Advances paid to suppliers of investment projects	0	15,201
Advances on stocks	4,016	43,969
- of which related:	4,016	42,520
Prepayments on services	10,455	19,240
Other prepaid expenses and accrued income	140,857	85,650
Prepaid and reclaimable taxes and duties (except for income taxes)	1,237,277	861,911
Receivables from self-governments	1,977	15,855
Receivables from employees	4,799	4,622
Other receivables	5,667	31,408
Total	**1,405,048**	**1,077,856**

The Other prepaid expenses and accrued assets row generally contains items (loss on acid plant catalyser nets containing precious metals, subscription fees, etc.), which will only be recognised as expense in the subsequent period, when they actually occur.

Prepaid and reclaimable taxes and duties comprise reclaimable VAT included in suppliers' invoices and on continuous services, reclaimable energy tax and receivables from the Customs and Finance Guard; these items were settled in the year following the reporting year.

10. CASH AND CASH EQUIVALENTS

Description	2008	2007
Cash	6,117	2,164
Bank deposits	881,332	767,159
Short-term fixed deposits	758,344	3,246,138
Total	**1,645,793**	**4,015,461**

The Group had no cash equivalents as at 31 December 2007 and 2008.

11. ASSETS HELD FOR SALE

The assets held for sale contain the property, plant and equipment of the old, decommissioned acid plant
After the capitalisation of the new acid plant the Group decided to close the old Russian (2C) and Japanese (3C) acid plants and shut down the production there. The plants were reclassified as of 30 October 2007 under assets held for sale. The Company also decided to sell the assets and the related components if a suitable bid was received.
A contract was signed on 14 May 2008 between the Company and MAINEX LLC Louisville, KY, USA to sell the 2C acid plant for USD 2,350,000.
Due to non-performance of the contract by MAINEX LLC the Company cancelled it on 17 December 2008.
The amount specified in the contract was transferred by MAINEX LLC as an advance payment in late 2008 and early 2009.
MAINEX LLC contested the cancellation in August 2009 at the Court of Arbitration; no decision has yet been made.
On 6 October 2009 the Company received an offer from OJSC "Nevinnomyssky Azot", a firm in Russia, as a result of which a purchase contract was signed between the companies for USD 11.6 million. The plans are currently being dismantled and the contract is being executed.

Description	Net value of asset 2008	Net value of asset 2007.
Acid plants	79,908	79,908
Total	**79,908**	**79,908**

Equity

12. SHARE CAPITAL

Composition of share capital:

Description	31 December 2008		31 December 2007		31 December 2006	
	Number	Nominal value	Number	Nominal value	Number	Nominal value
Tibor László Bige	1,520	501,600	1,520	501,600	1,520	501,600
Zoltán Bige	80	26,400	80	26,400	80	26,400
Balance of share capital	**1,600**	**528,000**	**1,600**	**528,000**	**1,600**	**528,000**

The company has only ordinary shares with a nominal value of THUF 330 each.
The holders of the ordinary shares are entitled to receive dividends and have one vote per share at the Company's general meeting.

13. TRANSLATION RESERVE

Translation reserve includes all exchange differences arisen from 1 January 2007 from translating the financial statements of foreign operations.

14. HEDGING RESERVE

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedges. See Note 20.

15. RETAINED EARNINGS

The following amounts cannot be distributed as dividends from the retained earnings in the given financial year:

Financial year	Amount
2006	1,384,224
2007	3,454
2008	503,454

Acquisition of entities under common control

In 2007 retained earnings were reduced by the difference between the consideration paid and the carrying amount of the net asset value upon the acquisition of the jointly controlled SC BH CHEMICAL IMPEX SRL in that year.

15. RETAINED EARNINGS (continued)

Dividends

In 2007 the Group paid THUF 1,215,000, i.e. THUF 759.4 per share, dividends to the owners (in 2008 no dividends were paid).
As at the reporting date there were no approved but unpaid dividends.

16. LOANS AND BORROWINGS

Terms and conditions of existing loans and borrowings:

Loans as at 31 December 2008

Financial institution	Type of loan	Collaterals	Balance at 31.12.2008 (Thousand)	Currency	Balance THUF	Long-term portion THUF	Short-term portion THUF
MFB-OTP	investment loan	(i)	56,194	EUR	14,878,922	10,104,663	4,774,258
K&H Bank	German carbon aid I	(iii)	3,745	HUF	3,745	0	3,745
K&H Bank	German carbon aid II	(iii)	39,436	HUF	39,437	6,105	33,332
K&H Bank	current asset loan	(iii)	2,755	USD	517,688	0	517,688
Commerzbank	multicurrency overdraft facility	(iv)	4,702,011	HUF	4,702,011	2,944,444	1,757,567
UniCredit Bank	multicurrency multipurpose credit facility	(v)	6,471	USD	1,215,911	0	1,215,911
UniCredit Bank	multicurrency multipurpose credit facility	(v)	16	EUR	4,154	0	4,154
Budapest Bank	long-term multicurrency current asset loan	(vi)	6,500	EUR	1,721,070	1,475,619	245,451
Budapest Bank	multicurrency revolving loan agreement	(vi)	1,500	EUR	397,170	0	397,170
RB Kereskedőház	trading house	(vii)	803,186	HUF	803,186	0	803,186
RB Kereskedőház	trading house	(vii)	216,700	HUF	216,700	0	216,700
CIB Kereskedőház	trading house				4,579,152	0	4,579,152
OTP Bank Nyrt	current asset loan	(ix)	200,000	HUF	200,000	0	200,000
OTP Bank Nyrt.	investment loan	(x)	94,935	HUF	94,935	45,000	49,935
CIB Credit Zrt.	vehicle loan		238	HUF	238	0	238
Merkantil Car	vehicle loan		986	HUF	986	539	447
Merkantil Car	vehicle loan		962	HUF	962	564	399

Total long-term loans					14,576,934	
Total short-term loans						14,799,333

16. LOANS AND BORROWINGS (continued)

Interest rates: 1-6-month BUBOR/EURIBOR or central bank base rate/3 reference rate+ 0.5-4% interest margin.

Loans as at 31 December 2007

Financial institution	Type of loan	Balance at 31.12.2007 (Thousand)	Currency	Balance THUF	Long-term portion THUF	Short-term portion THUF
MFB-OTP	investment loan	71,170	EUR	18,030,862	15,626,747	2,404,115
OTP Bank Nyrt.	overdraft facility	4,104	EUR	1,039,816	0	1,039,816
OTP Bank Nyrt.	current asset loan	8,347	EUR	2,114,788	0	2,114,788
OTP Bank Nyrt.	current asset loan	7,977	EUR	2,020,922	0	2,020,922
K&H Bank	German carbon aid I	18,746	HUF	18,746	3,746	15,000
K&H Bank	German carbon aid II	64,435	HUF	64,435	39,436	24,999
MKB Bank Nyrt.	current asset loan	200,000	HUF	200,000	0	200,000
Summit Zrt.	vehicle loan	573	HUF	573	0	573
OTP Bank Nyrt.	acquisition loan	7,348	EUR	1,861,601	1,225,540	636,061
OTP Bank Nyrt.	KPC purchase of receivables	5,607	EUR	1,420,644	1,420,644	0
OTP Trade	overdraft			12		12
OTP Bank Nyrt.	investment loan	146,250	HUF	146,250	90,000	56,250
OTP Bank Nyrt.	overdraft facility	12,036	HUF	12,036	0	12,036
OTP Bank Nyrt.	revolving current asset loan	70,000	HUF	70,000	0	70,000
OTP Bank Nyrt.	revolving current asset loan I	200,000	HUF	200,000	0	200,000
OTP Bank Nyrt.	revolving current asset loan II	200,000	HUF	200,000	0	200,000
OTP Bank Nyrt.	overdraft facility	175,645	HUF	175,645	0	175,645
Raiffeisen Lízing Zrt.	vehicle loan			814	492	324
CIB Credit Zrt.	vehicle loan			2,709	0	2,709
Total long-term loans					**18,406,605**	
Total short-term loans						**9,173,250**

Interest rates: 1-6-month BUBOR/EURIBOR or central bank base rate/3 reference rate+ 0.5-4% interest margin.

16. LOANS AND BORROWINGS (continued)

(a) Loan collateral

Collateral for loans drawn by the Group:

(i) Hungarian Development Bank (MFB) – OTP és Kereskedelmi Bank Nyrt.
THUF 21,893,268 (MFB Zrt.) + THUF 1,865,198 (OTP Bank Nyrt.) credit facility collaterals
(MFB-OTP investment loan)

- Mortgage of THUF 28,748,000 on the properties, movable property and all assets owned by the Company up to THUF 28,748,000.
- Lien on all EUA emission units created by the end of the loan terms as a result of developments financed from "MFB Loan" and "OTP Loan".
- Assignment:
  - Advance repayment guarantees for the general contractor agreements for the granulation and acid plant investmentsand any guarantee amounts used.
  - Performance guarantees provided to the Company by contractors and/or general contractors.
  - After the investment is realised, assignment of sales revenue whereby the minimum accumulated amount over the term is THUF 17,750,208, and the total amount of assigned receivables must never be no less than THUF 2,800,000.
  - Insurance policies for Company's movable property and properties.
- Right to make instant collections from all of the company's bank accounts, and to offset claims from all bank accounts, in addition to the project accounts.
- Security deposit:
  - Deposit in EUR amounting to 6 months interest on the entire amount of the credit facility.
  - EUR 12,434,650 deposit amounting to 6 months interest on the entire amount of the credit facility.
  - Security deposit amounting to the principal debt repayment for the subsequent six months.

  The banks pay interest on the security deposit amounting to the 6-month EURIBOR – 0.125% / year.

(ii) OTP és Kereskedelmi Bank Nyrt.
credit facility collaterals

- Mortgage on the Company's entire assets amounting to THUF 17,182,000.
- Minimum annual account turnover amounting to THUF 30,000,000.
- Right to make instant collections from the Company's bank accounts.
- Assignment to the insurance policies for all the company's movable property and properties.

The loans belonging to the credit facility contracts were repaid in 2008; the collaterals were released in full as of 27 January 2009.

16. LOANS AND BORROWINGS (continued)

(a) Loan collateral (continued)

(iii) Kereskedelmi és Hitelbank Nyrt.
Collateral for THUF 41,246 investment/development loan contract (K&H Bank "German Carbon Aid" loan agreement)
Collateral for THUF 64,435 investment/development loan contract (K&H Bank "German Carbon Aid" loan agreement)
Collateral for USD 8,264,933 loan contract (K&H Bank working capital loan)

- Right to make instant collections from the Company's bank accounts.
- Collateral assignment contract between Kereskedelmi és Hitelbank Nyrt. and the Company in relation to the carbon aid loans.

(iv) Commerzbank Zrt.
Collateral for THUF 5,300 current account overdraft

- Right to make instant collections from the Company's bank accounts.

(v) UniCredit Bank Zrt.
Collateral for multi-purpose credit facility up to THUF 2,000

- Right to make instant collections from the Company's bank accounts.

(vi) Budapest Bank Nyrt.
Collateral for long-term multi-currency working capital credit facility of EUR 6,500,000
(Long-term multi-currency working capital loan of Budapest Bank)

- General mortgage of THUF 3,000,000 on one of the Company's properties.
- Right to make instant collections from the Company's bank accounts.

Budapest Bank Nyrt.
Collateral for a EUR 1,500,000 multi-currency revolving credit facility
(Budapest Bank multi-currency revolving loan contract)

- Assignment to the bank from the Company's existing and future receivables vis-à-vis Fertilia Kft. up to an amount of sales in proportion to the credit.
- Right to make instant collections from the Company's bank accounts.

Budapest Bank Nyrt.
(Long-term multi-currency working capital loan and multi-currency revolving loan of Budapest Bank)

Further collateral related to two loans outlined above:
- Security deposits of THUF 300,000 and EUR 300,000.

16. LOANS AND BORROWINGS (continued)

(a) Loan collateral (continued)

(vii) RB Kereskedőház Kft. loans
(Raiffeisen Bank trading house)

- Right to make instant collections from the Company's bank accounts.

(viii) Raiffeisen Bank Zrt. Collateral for EUR 3,200,000 bank guarantee contract

- Right to make instant collections from the Company's bank accounts.
- Lien on all current and future receivables based on the purchase contract concluded between the Company and Kommunalkredit Public Consulting Gmbh (KPC) on 14 July 2005 for 2,000,000 carbon dioxide emission units (quota).

(ix) Collateral for OTP Bank Nyrt. working capital loan:
- lien up to THUF 200,000 plus related charges on the entire current and future assets of Nádudvari Agrokémiai Kft.
- right to make instant collections from the bank accounts of Nádudvari Agrokémiai Kft.

The debt related to the lien was repaid as of 31 December 2008, but the mortgage was only cancelled in 2009.

(x) Collateral for OTP Bank Nyrt. investment loan:
- mortgage on machinery to be purchased from the loan, up to the amount of the loan and related charges
- mortgage on all the current and future assets of Péti Polietilén Zsák Kft.up to a loan amount of THUF 225,000 and related charges
- right to make instant collections from the bank accounts of Péti Polietilén Zsák Kft.
- third-ranked mortgage on all the current and future assets of Péti Polietilén Zsák Kft. up to the bank guarantee value of THUF 180,000

(b) Breach of loan *covenants*

The Group complied with loan covenants in all cases.

16. LOANS AND BORROWINGS (continued)

(c) Finance lease

The following table details finance lease obligations:

	31 December 2008			31 December 2007		
Description	**Minimum lease payments**	**Interest**	**Present value of finance lease obligations**	**Minimum lease payments**	**Interest**	**Present value of finance lease obligations**
Due within 1 year	19,783	1,491	18,292	22,038	3,135	18,903
Due within 1-5 years	16,687	322	16,365	34,269	1,582	32,687
Due over 5 years	0	0	0	0	0	0
Present value of finance lease obligations	**36,470**	**1,813**	**34,657**	**56,307**	**4,717**	**51,590**

17. OTHER NON-CURRENT FINANCIAL LIABILITIES

Description	2008	2007
Long-term liabilities from contracts	518,379	462,209
Other non-current financial liabilities	15,262	32,667
Total	**533,641**	**494,876**

Long-term liabilities from contracts include gas bill payment liability to BOTHLI TRADE AG due in 2014.

18. OTHER NON-CURRENT LIABILITIES

Description	2008	2007
Deferred income	5,669,240	5,974,289
Other non-current liabilities	958,507	798,053
Total	**6,627,747**	**6,772,342**

Deferred income includes the amount due to investment tax credit (see Note 8), which were accounted as government grant relating to assets. The amount is recognised over the average useful life of the assets (24 years) in the profit for the period starting from the capitalisation of the related investment projects (see Note 1).

18. OTHER NON-CURRENT LIABILITIES (continued)

Other non-current liabilities include the portion to be accounted in years 2010-2013 in an amount of THUF 667,246 from the advance payment transferred based on a contract concluded with Kommunalkredit Public Consulting GmbH (KPC) for the sale of N_2O emission reduction units produced in the period 2008-2012 at NZRt. This row also includes THUF 291,261 advance payment received under the contract concluded with MAINEX LLC then terminated due to default for the sale of the assets of the Russian plant of the assets held for sale of old acid plants where operation was discontinued. See Note 11.

19. TRADE PAYABLES

Description	2008	2007
Trade payables	5,101,448	4,556,876
- of which to related parties:	822,328	1,142,104
Total trade payables	**5,101,448**	**4,556,876**

20. OTHER FINANCIAL LIABILITIES AND DERIVATIVES

Description	2008	2007
Liabilities from forward exchange transactions designated as cash flow hedgesSee Note 32.	0	1,452,223
Liabilities from forward transactions held for tradingSee Note 33.	0	4,269,313
Other financial liabilities	117,764	87,817
Total	**117,764**	**5,809,353**

In 2007 the Group opened cash flow hedges for future transactions to hedge the exchange risk of its monthly USD gas purchases (USD purchase HUF sale). On 31 December 2007 the effective portion of the profit or loss on hedges was accounted in equity. Hedges open as at 31 December 2007 were closed in 2008 and the amount booked in equity was transferred to the profit or loss for the period as an adjustment for gas costs. See Note 14.
In 2007 entered into forward ecxhange transactions not qualifying for hedge accounting (USD purchase HUF sale and USD purchase EUR sale). Hedges open as at 31 December 2007 were closed in 2008.

21. OTHER CURRENT LIABILITIES

Description	2008	2007
Deferred income	518,017	235,332
Advances from customers	6,950,227	4,761,528
Taxes and duties payable (except for income taxes)	885,592	417,638
Liabilities to self-governments	175,700	1,380
Liabilities to employees	1,059,654	336,199
Liabilities to Magyar Szénhidrogén Készletező Szövetség (Mszksz)	0	49,625
Rentals and other fees received in advance	3,814	4,090
Accrued costs	228,279	1,302
Other current liabilities	3,737	28,957
Total	**9,825,020**	**5,836,051**

Deferred income includes the portion of deferred income connected to investment tax credit which has not yet been accounted in the profit or loss for the period. Deferred income is released in proportion to depreciation. In 2008 THUF 196,868 was released (2007: THUF 53,810). See Note 8.

Liabilities to employees include wages and related contributions and in 2008 THUF 957,688 (2007: THUF 0) bonuses for the year.

Advances from customers include normal advances from customers as well as amounts received in relation to storage contracts concluded with third parties. These are amounts which were received from customers but do not qualify for revenue accounting.

22. PROVISIONS

Description	Emission quotas	Early retirement pensions and termination benefits	Environmental protection	Other	Total
Balance at 31 December 2006	0	109,906	50,000	2,250	162,156
Allocation	62,560	0		0	62,560
Use	-57,648	-76,543		0	134,191
Balance at 31 December 2007	**4,912**	**33,363**	**50,000**	**2,250**	**90,525**
Allocation	106,377	15,112		224,000	345,489
Use	0	-33,363		-2,250	-35,613
Balance at 31 December 2008	**111,289**	**15,112**	**50,000**	**224,000**	**400,401**
Short-term portion 2007	4,912	33,363		2,250	40,525
Long-term portion 2007	0	0	50,000	0	50,000
Short-term portion 2008	111,289	15,112		60,000	186,401

Long-term portion 2008	0	0	50,000	164,000	214,000

22. PROVISIONS (continued)

Emission quotas

The Group allocated provisions for its obligation to deliver carbon dioxide emission allowances. See Note 3.

Early retirement pensions and termination benefits

Provisions for early retirement pensions and termination benefits were booked in relation to redundancies.

Environmental protection

The Group recorded provisions for the costs expected in connection with re-cultivating the waste dump abandoned on the site of the production plants.

Other

The provision for the used bank guarantee contested by Prochem s.a. and for the compensated penalty contested by CHEMOPROJEKT s.a. are recorded on these grounds. The amount contested by Prochem s.a. was repaid in 2009. The penalty issue is still not resolved.

23. DEFERRED TAX ASSETS AND TAX LIABILITIES

Recognised deferred tax assets and tax liabilities

Deferred tax recognised in the consolidated statement of financial position and accounted in profit or loss as at 31 December 2007 and 2008 comprises the following:

	31 December 2008			31 December 2007		
	Tax asset	**Tax liability**	**Net**	**Tax asset**	**Tax liability**	**Net**
Property, plant and equipment	24,803	-923,884	-899,081	26,932	-588,474	-561,542
Emission allowances	0	0	0	0	0	0
Trade receivables	68,826	0	68,826	85,021	0	85,021
Inventories	29,186	-1,897,832	-1,868,646	8,385	-356,695	-348,310
Other assets	297,179	-165,982	131,197	197,913	-165,982	31,931
Loans and borrowings	1,119,807	0	1,119,807	0	-63,878	-63,878
Trade payables	186	0	186	3,954	0	3,954
Other liabilities	1,523,738	-45,666	1,478,072	1,462,870	-772,366	690,504
Provisions	36,658	-12,942	23,716	14,680	0	14,680
Derivative transactions	0	0	0	0	0	0
Other items	0	0	0	0	0	0
Development tax allowance	0	0	0	0	0	0
Tax loss carried forward	3,169	0	3,169	3,872	0	3,872
Tax assets (tax liabilities)	3,103,552	- 3,046,306	57,246	1,803,627	- 1,947,395	-143,768
Sweeping of accounts	-3,034,503	3,034,503	0	-1,761,247	1,761,247	0
Net tax assets (tax liabilities)	69,049	- 11,803	57,246	42,380	-186,148	-143,768

23. DEFERRED TAX ASSETS AND TAX LIABILITIES (continued)

Recognised deferred tax assets and tax liabilities (continued)

Analysis of changes in net deferred tax assets and tax liabilities:

	Opening balance at 1 January 2007	Accounted in profit or loss for the period	Accounted in other comprehensive income	Closing balance at 31 December 2008	Accounted in profit or loss for the period	Accounted in other comprehensive income	Closing balance at 31 December 2008
Property, plant and equipment	-470,228	-91,314	0	-561,542	-337,539	0	-899,081
Trade receivables	212,224	-127,203	0	85,021	-16,195	0	68,826
Inventories	-934,649	586,339	0	-348,310	-1,520,339	0	-1,868,649
Other assets	26,286	5,645	0	31,931	99,266	0	131,197
Loans and borrowings	319,774	-383,652	0	-63,878	1,183,685	0	1,119,807
Trade payables	-78,724	82,678	0	3,954	-3,768	0	186
Other liabilities	611,714	-211,655	290,445	690,504	1,078,016	-290,445	1,478,075
Provisions	18,721	-4,041	0	14,680	9,036	0	23,716
Tax loss carried forward	7,520	-3,648	0	3,872	-684	-19	3,169
Net tax assets (tax liabilities)	**-287,362**	**-146,851**	**290,445**	**-143,768**	**491,478**	**-290,464**	**57,246**

Within derivative transactions THUF 290,445 was accounted in other comprehensive income for cash flow hedges in 2007; in 2008 this amount was transferred to the profit or loss for the period after the transactions were closed. As at 31 December 2008 there was not deferred tax booked in other comprehensive income.
Other amounts accounted in other comprehensive income derive from translation differences of deferred tax due to changes in exchange rates.

24. REVENUE

Description	2008	2007
Sale of own products	40,508,280	42,419,305
Sale of goods	4,188,987	2,834,186
Sale of materials	2,517,990	229,112
Rendering of services	763,400	776,032
Other	2,808	1,025
Total	**47,981,465**	**46,259,660**

Composition of revenue by geographical regions:

Description	2008	2007
Hungary	30,820,295	28,695,821
Italy	2,595,821	4,063,324
Austria	2,902,559	3,316,220
Slovakia	2,795,353	2,128,396
Czech Republic	2,558,995	3,239,675
Romania	293,131	1,650,158
Poland	0	22,702
Germany	3,778,715	77,161
Slovenia	1,960,956	1,580,804
Croatia	4,754	435,116
Serbia	244,021	995,483
Other European countries	26,847	25,858
Other CEE	18	28,942
Outside Europe	0	0
Total	**47,981,465**	**46,259,660**

25. OTHER INCOME

Description	2008	2007
Gain on sale of property, plant, equipment and intangible assets	13,032	28,860
Gain on sale of emission allowances	4,913	62,560
Reversal of impairment on emission allowances	0	124,956
Release of provisions	2,250	47,346
Grants received	229,127	99,471
Default interest received	40,915	92,230
Damages	21,368	16,823
Penalties	24,101	547,321
Performance bank guarantee (Prochem s.a.)	52,390	0
Other	75,980	78,323
Total	**464,076**	**1,097,890**

Grants received include release of deferred income due to investment tax credit.

The 2007 figure in the penalties row contains the amount of the penalty enforced from the general contractor of the acid plant based on the contract. The general contractor contested this in 2008; the procedure at the Court of Arbitration is underway, no decision has yet been made.

26. MATERIAL-TYPE EXPENSES

Description	2008	2007
Costs of raw and auxiliary materials	2,832,502	2,295,001
Costs of wire/pipeline energy	30,791,464	26,428,211
Costs of maintenance and other materials	489,164	513,672
Transportation costs	1,239,513	1,790,635
Maintenance costs	456,355	230,694
Keep-up costs	233,627	263,042
Security costs	117,377	90,003
Travel and accommodation costs, inland and abroad	48,030	43,652
Rentals and utilisation fees	58,125	29,635
Accounting and audit fees	21,573	19,512
Advisory and expert fees	134,625	83,524
Advertising costs	116,374	39,210
Bank charges	101,027	64,859
Insurance premiums	141,494	106,574
Other services	467,225	361,879
Costs of goods sold (COGS)	2,923,198	896,903
Services sold (mediated)	139,969	81,903
Total	**40,311,642**	**33,338,909**

Cleaning was carried out in the decommissioned acid plant. The technological equipment was cleaned with a special procedure, during which the precious metals of platinum, rhodium and palladium were recovered and sold with a carrying value of THUF 310,409. This income reduced the costs of basic and auxiliary materials in 2008.

27. STAFF COSTS

Description	2008	2007
Wage cost	2,835,232	2,555,719
Other staff benefits	350,624	691,964
Wage contributions	982,761	913,403
Total	**4,168,617**	**4,161,086**

28. OTHER EXPENSES

Description	2008	2007
Loss on sale of property, plant, equipment and intangible assets	423	8,371
Loss on sale of emission allowances	4,913	0
Impairment on emission allowances	0	124,956
Impairment on trade receivables	12,413	26,299
Impairment on inventories	47,713	167
Provisions	345,489	4,912
Scrapped and missing assets	208,428	54,030
MSZKSZ membership fee	75,594	83,208
Taxes and contributions	695,989	524,034
Support given	7,105	6,534
Damage	78,079	24,631
Damages	9,166	24,012
Default interest payable	23,404	11,831
Carrying amount of forgiven receivables	0	360,782
Self-revision and default charge	38,328	108
Other	28,637	114,906
Total	**1,575,681**	**1,368,781**

In 2007 carrying amount of forgiven receivables included receivables forgiven to Alma Trade Kft (THUF 110,977) and Koronás Szarvas Kft (THUF 247,833) due to adverse effects in their sphere of operations.

29. FINANCE INCOME AND FINANCE COSTS

Finance income and finance costs recognised in profit or loss

Description	2008	2007
Interest income on loans and receivables	27,367	81,001
Interest income on bank deposits	266,546	118,210
Net exchange gain on FX items without forward exchange transactions	2,453,563	609,100
Changes in fair value of and gain on forward exchange transactions held for trading	94,321	387,324
Changes in fair value of ineffective portion of cash flow hedges	0	855
Reversal of impairment on trade receivables	7,626	0
Other finance income Total finance income	**2,849,423**	**1,196,490**
Interest expense on financial liabilities measured at amortised cost	2,027,466	1,022,719
Net exchange loss on FX items without forward exchange transactions	2,602,479	768,300
Changes in fair value of and loss on forward exchange transactions held for trading	4,205,510	5,028,031
Changes in fair value of ineffective portion of cash flow hedges	0	5,042
Total finance costs	**8,835,455**	**6,824,092**
Net finance costs	**-5,986,032**	**-5,627,602**

Finance income and finance costs recognised in other comprehensive income

Description	2008	2007
Translation difference	-774	-51
Effective portion of changes in fair value of cash flow hedges	-1,156,525	-2,147,065
Net changes in fair value of cash flow hedges transferred to profit or loss for the period	2,608,748	694,842
Income tax on finance income and finance costs recognised in other comprehensive income	-290,464	290,445
Finance income/costs recognised in other comprehensive income, net of tax	**1,160,985**	**-1,161,829**

30. INCOME TAX EXPENSE

The Group considers corporation tax and in Hungary special tax as income tax. The base for special tax differs from the corporation tax base.

Income tax rates for the Company:

Description	2008	2007
Corporation tax	16%	4%
Special tax	16%	4%

Income tax recognised in the profit or loss for the period in the consolidated annual report for the years ended 31 December 2007 and 2008 comprises the following:

Description	2008	2007
Current period income tax expense		
Current period income tax expense	647,044	299,449
Total current period income tax expense	647,044	299,449
Deferred tax expense		
Origination and reversal of temporary differences	-491,478	146,851
Total deferred tax expense	-491,478	146,851
Income tax	**155,566**	**446,300**

30. INCOME TAX EXPENSE (continued)

Reconciliation of income tax calculated based on accounting profit and current period income tax, as well as of applicable tax rate and average effective tax rate is presented in the table below:

Description		2008		2007
Profit for the period		923,233		731,760
Income tax expense		155,566		446,300
Profit before income tax		1,078,799		1,178,060
Expected income tax calculated at the income tax rate of the Company	20%	215,760	20%	235,612
Impact of tax rate in foreign countries	0%	306	0%	-281
Impact of different tax rates	0%	490	11%	127,106
Impact of tax rate changes	0%	1,394	0%	0
Non-deductible expenses	8%	86,165	10%	123,149
Income exempt of tax	-14%	-148,529	-3%	-36,552
Other items	0%	-20	0%	2
Corporation tax loss carried forward not recognised previously	0%	0	0%	-2,736
Income tax	**14%**	**155,566**	**38%**	**446,300**

31. MANAGEMENT OF FINANCIAL INSTRUMENTS AND FINANCIAL RISKS

The Group is exposed to the following risks derived from financial instruments:
- credit risk
- liquidity risk
- market risk (including currency and interest rate risk)

This note presents information about the Group's exposure to the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital.

The chief executive officer of the Company is responsible for setting the risk management guidelines and frameworks for the Group. His task is to design and set up a standard risk management policy and strategy, and continuously monitor the risks to which the Company is exposed. The CEO is also responsible for regularly reviewing risk management policies and strategies, as well as updating and modifying them if market circumstances change.

Carrying amount of financial instruments of the Group by categories:

Description	31 December 2008	31 December 2007
Cash and cash equivalents	1,645,793	4,015,461
Loans granted	1,610,799	1,885,046
Trade receivables	5,034,877	5,630,322
Other financial assets	1,322	12,409
Total loans and receivables	6,646,998	75,277,777
Holdings	120,249	250,948
Total available for sale financial assets	120,249	250,948
Derivative transactions	0	17,566
Financial assets at fair value through profit or loss	0	17,566
Derivative transactions	0	5,721,536
Financial liabilities at fair value through profit or loss	0	5,721,536
Loans and borrowings	29,376,267	27,579,855
Other non-current financial liabilities	533,641	494,876
Trade payables	5,101,448	4,556,876
Other financial liabilities and derivatives	117,764	87,817
Total other financial liabilities	**35,129,120**	**32,719,424**

31. MANAGEMENT OF FINANCIAL INSTRUMENTS AND FINANCIAL RISKS (continued)

(a) Credit risk

Credit risk is the risk of financial loss if a customer or counterparty fails to meet its contractual obligations. From the perspective of the Group this primarily means the non-payment risk of clients.

Trade receivables and other financial assets

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, the Group also considers the geographical position of its customer base, past experience, features of agriculture, the seasonal nature of fertiliser use and the impact of the economic crisis on the Company's primary customers. The Company monitors the payment abilities of its primary customers and any influencing factors. The Group sets the payment conditions offered to individual customers based on provisional and if necessary ad-hoc reviews of creditworthiness as well as the factors outlined above. The Group prescribes payment by letters of credit for some export customers. As a result of the economic crisis which emerged in 2008 the Group introduced sales with advance payments for both domestic and foreign customers.

In Hungary the Group primarily sells to a relatively low number of wholesalers.

Maximum value as at 31 December of assets exposed to credit risk is presented in the following table:

Description	31 December 2008	31 December 2007
Domestic trade receivables – wholesalers	2,843,560	2,231,346
Domestic trade receivables – other	1,937,184	915,067
Foreign trade receivables	254,133	2,483,909
Loans granted	1,610,799	1,885,046
Positive fair value of derivatives	0	17,566
Cash and cash equivalents	1,645,793	4,015,461
Other financial assets	1,322	12,409
Maximum value of assets exposed to credit risk as at 31 December	**8,292,791**	**11,560,804**

21 wholesalers accounted for THUF 2,843,560 of domestic trade receivables as of 31 December 2008 (THUF 2,231,346 for 31 wholesalers as of 31 December 2007). In 2008 these customers generated sales revenue of THUF 16,683,539 (THUF 27,354,038 in 2007), which is 57.17% of domestic sales revenue (63.65% in 2007).

Collection policy

For trade receivables past their payment deadline the Group sends reminder letters to partners every fortnight, who then have eight days to settle their debts. For accounts not settled, payment by transfer is prohibited and goods may only be sold going forward with cash payments. After the third reminder letter the collection is enforced through legal channels.

Default interest

Letters confirming default interest are sent to our debtors every quarter.

31. MANAGEMENT OF FINANCIAL INSTRUMENTS AND FINANCIAL RISKS (continued)

*(a) Credit risk **(continued)***

Rating and impairment of receivables

The receivables in the accounting records are rated per debtor – based on the maturity date of the receivable, the willingness and ability of the debtor to pay, and past experience of the debtor. During the rating process, impairment is recorded on overdue and doubtful receivables with due consideration of their recoverability.

The Group's credit risk exposure is reflected by the carrying value of the financial assets.

The impairment recorded on trade receivables is presented in the following tables broken down by maturity and the reporting year changes to impairment. There are no matured receivables under loans and other financial receivables, and so no impairment is recorded.

The following table shows cost and impairment of trade receivables by maturity:

Description	31 December 2008		31 December 2007	
	Cost	Impairment	Cost	Impairment
Not yet due	4,710,171	0	4,292,700	0
Between 1 - 90 days	266,262	0	1,286,363	630
Between 91 - 180 days	39,231	3,219	23,280	4,630
Between 180 - 360 days	8,293	2,919	33,648	9,977
Over 360 days	53,868	36,810	71,463	61,895
Total	**5,077,825**	**42,948**	**5,707,454**	**77,132**

Changes in impairment allocated on trade receivables:

Description	2008	2007
Opening balance at 1 January	77,132	67,467
Current year impairment	12,413	26,299
Derecognition of impairment	46,597	16,634
Balance of impairment at 31 December	**42,948**	**77,132**

31. MANAGEMENT OF FINANCIAL INSTRUMENTS AND FINANCIAL RISKS (continued)

(b) Liquidity risk

Liquidity risk is the risk that the Group will be unable to settle its financial liabilities when they fall due. The purpose of liquidity management is to ensure sufficient resources for the settlement of liabilities when they fall due.

Management of liquidity risk

The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group prescribes for its entities that they must maintain a strong liquidity position and shape the liquidity profiles of their assets, liabilities and contingent liabilities to ensure balanced cash flows and the settlement of all liabilities when due.

In light of the demand for the Group's products and the seasonality of the agricultural sector the Group really has to focus on ensuring continuous liquidity. Adequate liquidity is ensured by aligning sales prices to demand, using prepaid sales as well as short-term working capital loans and overdraft facilities secured by goods.

As of 31 December 2007 the Group had unused credit facilities of THUF 862,318 and EUR 13,406,000.
As of 31 December 2008 the Group had an unused credit facility of THUF 789,034, which covers the liquidity shortfall in the summer months owing to seasonal factors.

31. MANAGEMENT OF FINANCIAL INSTRUMENTS AND FINANCIAL RISKS (continued)

(b) Liquidity risk (continued)

Financial liabilities by maturity (principal and interest cash flows):

Description	Carrying amount	Total contractual cash flows	Between 0-6 months	Between 6-12 months	Between 1-2 years	Between 2-5 years	Over 5 years
31 December 2007							
Non-derivative financial liabilities	**32,719,424**	**38,549,715**	**12,723,394**	**2,027,923**	**4,953,639**	**10,248,088**	**8,604,147**
Loans and borrowings	27,579,855	33,271,380	8,087,794	2,018,709	4,927,895	10,232,327	8,004,655
Other non-current financial liabilities	494,876	633,521	0	0	25,744	15,761	599,492
Trade payables	4,556,876	4,556,876	4,556,876	0	0	0	0
Other financial liabilities	87,817	87,938	78,724	9,214	0	0	0
Derivative financial liabilities	**5,721,536**	**184,660,245**	**97,662,850**	**86,997,395**	**0**	**0**	**0**
Hedging forward exchange transactions							
- Cash outflow	1,452,223	23,716,422	12,706,350	11,010,072	0	0	0
- Cash inflow	0	22,213,861	11,671,025	10,542,836	0	0	0
Other forward exchange transactions							
- Cash outflow	4,269,313	71,572,240	38,169,571	33,402,669	0	0	0
- Cash inflow	0	67,157,722	35,115,904	32,041,818	0	0	0

31. MANAGEMENT OF FINANCIAL INSTRUMENTS AND FINANCIAL RISKS (continued)

(b) Liquidity risk (continued)

Description	Carrying amount	Contractual cash flows	Between 0-6 months	Between 6-12 months	Between 1-2 years	Between 2-5 years	Over 5 years
31 December 2008							
Non-derivative financial liabilities	**35,129,120**	**41,396,117**	**16,286,696**	**2,780,001**	**6,500,895**	**9,046,496**	**6,782,029**
Loans and borrowings	29,376,267	35,506,347	11,075,526	2,770,630	6,485,296	9,046,496	6,128,399
Other non-current financial liabilities	533,641	669,229	0	0	15,599	0	653,630
Trade payables	5,101,448	5,101,448	5,101,448	0	0	0	0
Other financial liabilities	117,764	119,093	109,722	9,371	0	0	0

There were no derivative financial liabilities as at 31 December 2008.

The above tables present the undiscounted cash flows of the Groups financial liabilities according to their earliest possible maturity. The gross nominal outflow reflects the undiscounted contractual cash flows of financial liabilities.

31. MANAGEMENT OF FINANCIAL INSTRUMENTS AND FINANCIAL RISKS (continued)

(c) Market risk

Market risk is the risk that changes in market prices, such as exchange rates, interest rates and equity prices will affect the Group's results and the fair values of financial instruments reported in the financial statements. The objective of market risk management is to manage and control market risk exposures while optimising the return. The Company's finance department focuses on market risk management.

In terms of market risk the Group is primarily exposed to currency risks as well as cash-flow risks derived from changes to interest rates.

Currency risk

The foreign currency risk is derived partly from the Company's foreign currency positions (foreign currency income, foreign currency loans, foreign currency liabilities, including foreign currency contractual liabilities that are payable in forints) and FCY transactions covering these positions, and partly from other FCY transactions concluded by the finance department.

The Group's exposure by currencies:

At 31 December 2007:

Description	EUR	USD	Other
Loans granted	1,298,562	7,422	0
Trade receivables	2,863,458	32,761	0
Cash and cash equivalents	639,116	40,096	0
Total loans and receivables	**4,801,135**	**80,279**	**0**
Holdings	748	0	0
Total available for sale financial assets	**748**	**0**	**0**
Derivative transactions	0	1,806,657	0
Financial liabilities at fair value through profit or loss	**0**	**1,806,657**	**0**
Loans and borrowings	26,488,634	0	0
Other non-current financial liabilities	0	454,815	0
Trade payables	465,580	0	1,179
Total other financial liabilities	**26,954,214**	**454,815**	**1,179**

31. MANAGEMENT OF FINANCIAL INSTRUMENTS AND FINANCIAL RISKS (continued)

(c) Market risk (continued)

At 31 December 2008:

Description	EUR	USD	Other
Loans granted	436,691	0	0
Trade receivables	1,489,473	0	50
Cash and cash equivalents	750,841	7,427	0
Total loans and receivables	**2,677,005**	**7,427**	**50**
Holdings	10,049		
Total available for sale financial assets	**10,049**		
Loans and borrowings	17,001,316	1,733,599	0
Other non-current financial liabilities	0	518,292	0
Trade payables	808,613	2,813,221	217
Total other financial liabilities	**17,809,929**	**5,065,113**	**217**

The risk derived from the exposure to currency risks is countered by the Company by means of forward transactions in accordance with the risk management guidelines set forth in internal procedures. The Company uses hedge accounting to deal with the effect on profit or loss of fluctuations in the exchange rate.

The Group applied the following significant exchange rates expressed in HUF:

	Average rate of exchange			Spot exchange rate at the reporting date		
Currency	2008	2007	2006	2008	2007	2006
1 EUR =	251.25	251.31	264.27	264.78	253.35	252.30
1 CHF =	158.5	153.03	168.02	177.78	152.42	156.99
1 RON =	68.23	75.46	74.96	66.11	70.32	74.64
1 RSD =	3.09	3.14	3.23	2.95	3.16	3.18
1 USD =	171.80	183.83	210.51	187.91	172.61	191.62
1 SKK =	8.04	7.44	7.1	8.79	7.54	7.31

31. MANAGEMENT OF FINANCIAL INSTRUMENTS AND FINANCIAL RISKS (continued)

(c) Market risk (continued)

Analysis of exchange-rate sensitivity

The appreciation in the HUF around the reporting date would have increased or decreased equity and profit vis-à-vis the following currencies as shown in the following table. The analysis was based on exchange rate changes deemed reasonably possible by the Group on the reporting date. The analysis assumes that all other variables remain constant, including interest rates. The analysis is based on the same principles as for comparative data, with the exception of the exchange rate fluctuation deemed reasonably possible, which is different, as demonstrated in the table below.

	2008			2007		
Currency	Rate of strengthening (%)	Equity	Result	Rate of strengthening (%)	Equity	Result
HUF/EUR	15	0	2,268,431	8	0	1,772,186
HUF/USD	23	0	1,163,268	11	-2,350,302	-1,212,657

The table shows the impact on equity and profit or loss of an appreciation in the HUF against the given foreign currencies.

As of 31 December 2007 the Group had a USD call/EUR put forward transaction with a nominal value of USD 314,256,000, which had a fair value on the reporting date of a THUF 17,566 profit and a THUF 3,914,879 loss. The 13% swing in the EUR/USD exchange rate (stronger USD against the EUR) would have raised the profit by THUF 6,890,053. As of 31 December 2008 the Group had no pending forward transactions.

If the HUF, or for hedge transactions the USD, were to weaken as of the reporting date against the currencies above, this would have the same but opposing effect on equity and profit or loss, provided that all other variables remain constant.

Interest risk

Interest rate risk is derived from the changes in the interest rates on the Group's interest-bearing assets and drawn loans.

31. MANAGEMENT OF FINANCIAL INSTRUMENTS AND FINANCIAL RISKS (continued)

(c) Market risk (continued)

Interest rate structure of the interest-bearing financial instruments of the Group as at the reporting date:

Description	2008	2007
Fixed-interest instruments		
Financial assets	1,655,062	4,020,686
Financial liabilities	551,933	1,923,665
Total carrying amount	**2,206,995**	**5,944,351**
Floating-rate instruments		
Financial assets	885,273	956,539
Financial liabilities	29,376,267	26,159,211
Total carrying amount	**30,261,540**	**27,115,750**

Fair value sensitivity analysis for fixed rate financial instruments

The Group generally does not have fixed rate financial assets and liabilities which are measured at fair value through profit or loss, nor did it conclude interest rate swaps for hedging purposes. Therefore a change in the interest rate as at the reporting date would not affect the Company's equity and profit or loss.

Cash flow sensitivity analysis for variable rate financial instruments

The following increases in interest rates as of the reporting date would have increased equity and profit or loss as shown in the table below. This analysis assumed that all other variables, in particular foreign currency rates, remain constant.

31. MANAGEMENT OF FINANCIAL INSTRUMENTS AND FINANCIAL RISKS (continued)

(c) Market risk (continued)

Description	2008			2007		
	Increase (basis point)	Equity	Result	Increase (basis point)	Equity	Result
Floating-rate instruments (HUF)	341	100,066	100,066	53	8,009	8,009
Floating-rate instruments (USD)	69	17,702	17,702	57	0	0
Floating-rate instruments (EUR)	36	76,284	76,284	43	51,398	51,398
Cash flow sensitivity, net		**194,052**	**194,052**		**59,407**	**59,407**

A fall in the interest rate as of the reporting date would have the same but opposing effect on equity and profit or loss, provided that all other variables remain constant.
In the table above, the change in profit or loss is also included in the amount of the change in equity.

31. MANAGEMENT OF FINANCIAL INSTRUMENTS AND FINANCIAL RISKS (continued)

(d) Fair value of financial instruments

The following table presents fair values and carrying amounts of financial instruments:

Description	Note	31 December 2008		31 December 2007	
		Carrying amount	Fair value	Carrying amount	Fair value
Loans granted		1,610,799	1,610,799	1,885,046	1,885,046
Trade receivables		5,034,877	5,034,877	5,630,322	5,630,322
Other financial assets		1,322	1,322	12,409	12,409
Cash and cash equivalents		1,645,793	1,645,793	4,015,461	4,015,461
Total loans and receivables		**8,292,791**	**8,292,791**	**11,543,238**	**11,543,238**
Holdings		120,249	120,249	250,948	250,948
Total available for sale financial assets		**120,249**	**120,249**	**250,948**	**250,948**
Derivative transactions		0	0	17,566	17,566
Financial assets at fair value through profit or loss		0	0	17,566	17,566
Derivative transactions		0	0	5,721,536	5,721,536
Financial liabilities at fair value through profit or loss		0	0	5,721,536	5,721,536
Loans and borrowings		29,376,267	29,376,267	27,579,855	27,579,855
Other non-current financial liabilities		533,641	533,641	494,876	494,876
Trade payables		5,101,448	5,101,448	4,556,876	4,556,876
Other financial liabilities and derivatives		117,764	117,764	87,817	87,817
Total other financial liabilities		**35,129,120**	**35,129,120**	**32,719,424**	**32,719,424**

31. MANAGEMENT OF FINANCIAL INSTRUMENTS AND FINANCIAL RISKS (continued)

(d) Fair value of financial instruments)(continued)

Fair value hierarchy

The table below analyses financial instruments carried at fair value, by valuation method. The different levels of the fair value hierarchy have been defined as follows:

- Level 1: quoted prices in active markets for identical assets or liabilities
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly (i.e. as prices) or indirectly (i.e. derived from prices)
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs)

Description	31 December 2008			31 December 2007		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Total available for sale financial assets	0	120,249	0	0	250,948	0
Financial assets from derivatives	0	0	0	0	17,566	0
Total carrying amount	**0**	**120,249**	**0**	**0**	**268,514**	**0**
Financial liabilities from derivatives	0	0	0	0	5,721,536	0
Total carrying amount	**0**	**0**	**0**	**0**	**5,721,536**	**0**

There were no reclassification among levels in the above periods.

(e) Capital management

The Group aims to establish a strong equity position to retain the confidence of investors, creditors and the market and support the future development of its business activities. The management constantly monitors the yields achieved, which are the operating profit, profit before tax and the debt service indicator. The management also monitors the registered capital/equity ratios of the Company and the subsidiaries to ensure they comply with statutory levels.

Debt service indicator:
(Profit after tax in reporting year – dividend + reporting year depreciation + reporting year interest on long-term liability + reporting year interest on member loan) / (next year's repayment instalment of long-term liability and member loan + reporting year interest of long-term liability)

The debt service indicator is calculated based on the figures in the Company's separate Hungarian financial statements and the Company's bank loan agreements.

31. MANAGEMENT OF FINANCIAL INSTRUMENTS AND FINANCIAL RISKS (continued)

(e) Capital management (continued)

Operating profit in 2008: THUF 7,064,830 (in 2007: THUF 6,805,661).
Pre-tax profit in 2008: THUF 1,078,798, (in 2007: THUF 1,178,059).
Debt service indicator in 2008: 1.2 (in 2007: -0.33)

When managing its capital the Group strives towards achieving a balance between the highest possible profit, dividend and liabilities as well as a strong equity position.
The Group aims to keep the debt service ratio at the level permitted by the loan agreements.
Withdrawing dividends is subject to a debt service ratio of at least 1.3.

Legal regulations applicable for the Company and its Hungarian subsidiaries prescribe the following provisions for equity:

To protect creditors, the Business Associations Act prescribes the following in terms of equity compliance: "If, according to the annual report prepared pursuant to the Accounting Act, a business association does not have sufficient equity to cover the share capital prescribed for its form of business association over two consecutive financial years, and the members (shareholders) of the business association fail to provide for the necessary equity within a period of three months after approval of the annual report prepared pursuant to the Accounting Act for the second year, the business association shall be required to adopt a decision within sixty days of this deadline on restructuring the enterprise into a different form of business association, or for its termination without legal succession"

Serbian laws do not contain any restrictive sanctions with regard to the Serbian subsidiaries.

All of the Group members complied with the capital requirements above as of 31 December 2007 and 31 December 2008.

32. OPERATING LEASES

Operating leases with the Group as lessee

The amount of minimum lease payments in connection with non-cancellable operative lease obligations was zero both in 2007 and 2008.

Operating leases with the Group as lessor

Minimum lease payments under non-cancellable operating leases are as follows:

Description	2008	2007
Due within 1 year	35,593	32,085
Due within 1-5 years	0	0
Due over 5 years	0	0
Total	**35,593**	**32,085**

32. OPERATING LEASES (continued)

Operating leases relate to temporary lease of parts of property and other equipment not used for own purposes.

33. AQUISITION OF ENTITIES UNDER COMMON CONTROL

As of 29 December 2007 the Group acquired SC BH CHEMICAL IMPEX SRL from Bige Holding Zrt. Bige Holding Zrt. is a related party of the Company and belongs to the same proprietary structure as the Group. The difference between the price paid and the carrying value of the net assets acquired reduced the accumulated profit (see Note 15).

Reconciliation of acquired assets and liabilities and consideration paid:

Description	2007
Property, plant and equipment	4,480
Intangible assets	15
Trade receivables	89,249
Other receivables	3,616
Cash	61,219
Trade payables	47,864
Other liabilities	2,115
Carrying amount of acquired net assets at the acquiree	108,600
Difference of consideration and carrying amount of acquired net assets	641,400
Consideration	750,000

34. CONTINGENT LIABILITIES

Guarantee

The Company provided guarantees as follows:

- to Koronás Szarvas Kft. for the THUF 60,000 working capital loan and related charges as provided by Pilisvörösvár és Vidéke Savings Cooperative, an agent of the Hungarian Development Bank, with Pilisvörösvár és Vidéke Savings Cooperative as the beneficiary.
- to László Tibor Bige for the repayment of the THUF 350,000 loan disbursed by Raiffeisen Bank Zrt. and related charges, with Raiffeisen Bank Zrt. as the beneficiary.
- Based on a purchase obligation agreement between RB Kereskedőház Kft. and the Company, Nitrogénművek Zrt. has a purchase obligation to be met by 31 July 2009 for fertiliser sold by BH Genezis Kft. and BH Kft. Szolnok to RB Kereskedőház Kft. RB Kereskedőház Kft. enforced this obligation in 2009.

Litigation

The Company has no foreseeable payment obligations from litigation and therefore no provisions were recorded on this basis.

As of the reporting date the Group had the following pending litigation:

- Jan Brondos, claimant, launched an action against Nitrogénművek Zrt., respondent, to have execution proceedings terminated.
- In the legal supervision proceedings launched by Sándor Falussy against Nitrogénművek Zrt. the applicant submitted a supervision application on 20 September 2008 to the Supreme Court against the decision made by the Győr Court of Appeal, requesting that the second-instance decision made by the Court of Appeal be changed.

35. SUBSEQUENT EVENTS

Events related to investment tax credits

In 2009 the Company does not meet the wage cost condition, but based on Sections 28 and 145 (4) of Act CXVI of 2009 and with reference to the economic crisis, before the deadline for submitting the 2009 tax return the Company may request a postponement of 1 year to meet the conditions and use the tax credit; the Company availed itself of this option. Deferring is also possible in 2010.

Other events

In the second half of 2008 the financial and economic crisis that spread throughout the world affected Nitrogénművek Zrt and its subsidiaries as well as agricultural entities using fertilisers, and financial difficulties surfaced.

On 28 February 2009 and to ensure a smooth supply of nitrogen fertiliser in Hungary the Company re-launched the production capacities which were shut down from 18 October 2008 on account of the uncertain market outlook.

The resources required for this were provided by the government in the form of a working capital loan of HUF 10 billion based on Government Resolution 1086/2008 (XII. 20.) as modified by Government Resolution 1007/2009 (I. 23.).

The Company completed its investments resulting in the introduction of new, world-class technologies.

After a successful trial operation period the Company capitalised its Granulation Plant on 1 April 2009.

At the start of the year the Company decided to insource some activities it had previously outsourced.

A stake was purchased in RSR Nitro Kft. and a decision was made to wind up Péti Gépészeti Kft. and Péti VMA Kft. with solvent liquidation proceedings.

36. RELATED PARTIES

Transactions with key management personnel

Key management personnel received the following benefits:

Description	2008	2007
Short-term benefits (honoraria, bonus)	539,525	139,076
Early retirement pension		5,842
Total	**539,525**	**144,918**

There were no other transactions with key management personnel.

Transactions with other related parties

Balances with related parties are detailed in the individual notes. Balances are unsecured.

Transactions with related parties are as follows:

Description	2008	2007
Sale of goods to related parties	17,623,690	5,173,979
Purchase of goods from related parties	1,288,554	6,022,795
Services provided to related parties	830	1,082
Services used from related parties	178,521	28,500
Loans to key management personnel	300,000	534,312
Interest on loans to key management parsonnel	112,714	36,576

The Group used maintenance and security services provided by related companies.

Balance of loans to key management personnel:

Description	2008	2007
Loans to key management personnel	834,312	534,312
Interest on loans to key management parsonnel	149,290	36,576

The loans were granted to owners who are at the same time key managmenet personnel. Terms of the loans are detailed in Note 8.

Other transactions were concluded at arm's length prices.

37. EXPLANATION FOR ADOPTING IFRSS

As determined in Note I.1.(a), these consolidated financial statements were compiled in accordance with the International Financial Reporting Standards.

The Group applied the main accounting policies set forth in Note I.2 for the financial statements compiled for the year ended 31 December 2008 and the year ended 31 December 2007, and when compiling the opening IFRS statements as of 1 January 2007 – the date the Group switched to IFRS.

When putting together the opening IFRS statements the Group altered the amounts in the previous consolidated financial statements, which were compiled in accordance with accounting standards applicable in Hungary. The following tables and notes present the impact on the financial situation, financial performance and cash flow of switching from the previous accounting standards to IFRS.

Impact of adoption on equity

	Explanation	31 December 2007	1 January 2007
Equity under previous GAAP		3,910,529	7,030,536
Property, plant and equipment	(1)	1,464,568	1,357,707
Goodwill	(3)	297,295	312,688
Other investments	(2)	108,600	0
Inventories	(1),(6),(9),(10)	1,811,251	3,601,156
Trade receivables	(8),(9)	-417,268	-1,042,523
Other financial assets and derivatives	(2),(6),(13)	5,163,104	202,915
Loans and borrowings	(10)	0	-2,030,622
Other non-current financial liabilities	(7)	144,674	183,113
Other non-current liabilities	(13)	-5,849,500	0
Trade payables	(10)	0	390,848
Other financial liabilities and derivatives	(6),(8),(12)	2,559,997	615,114
Other current liabilities	(9),(10),(13)	-2,423,135	-1,613,741
Provisions	(4),(5)	-4,912	179,218
Deferred tax assets / liabilities	(14)	-198,111	-332,898
Translation reserve	(15)	-51	0
Equity under IFRSs		6,567,041	8,853,511

37. EXPLANATION FOR ADOPTION OF IFRSS (continued)

Impact of adoption on total comprehensive income

		2007	
	Explanation	Profit or loss for the period	Other comprehensive income
Total comprehensive income under previous GAAP		-3,072,014	0
Revenue	(8),(9),(10),(11)	-4,929,693	0
Other income	(5),(13)	-154,605	0
Material-type expenses	(6),(9),(10),(11)	5,931,665	0
Staff costs	(5)	-33.363	0
Depreciation and amortisation	(1)	106,861	0
Other expenses	(3),(4),(6),(8)	5,112,543	0
Value of self-manufactured inventories	(1),(6),(9),(10)	-1,837,145	0
Finance income	(6),(10)	-134,591	0
Finance costs	(6),(7),(10)	147,971	0
Hedging reserve		0	-1,452,223
Income tax	(14)	-405,870	290,445
Translation reserve	(15)	0	-51
Total comprehensive income under IFRSs		731,759	-1,161,829

Differences are presented as follows:

(1) Depreciation of tangible assets

Consolidated statement of comprehensive income	2007 31 December
Depreciation	106,861
Changes in self-manufactured stocks	- 1,525
Adjustment of profit or loss before tax	105,336

Consolidated statement of financial position	31 December 2007	1 January 2007
Property, plant and equipment	1,464,568	1,357,707
Inventories	6,020	7,545
Related income tax impact	- 294,118	- 273,050
Adjustment of retained earnings	1,176,470	1,092,202

37. EXPLANATION FOR ADOPTION OF IFRSS (continued)

During the switch the useful lives of assets in the production plants were recalculated, which meant the depreciation charge under IFRS is different from that applied under the Hungarian standards. Under Hungarian regulations there is no rule that estimates of useful lives must be updated every year, and so the useful lives previously determined are applied.
Longer useful lives are set in the IFRS financial statements than under Hungarian accounting standards, and therefore re-setting the useful lives increases the net value of property, plant and equipment, while via the prime cost it also impacts on the value of self-manufactured inventories.

(2) Accounting for acquisition of a business unit

Consolidated statement of financial position	31 December 2007	1 January 2007
Investments	108,600	0
Other financial assets and derivatives	- 750,000	0
Adjustment of retained earnings	- 641,400	0

The Company acquired SC BH CHEMICAL IMPEX S.R.L. in 2007. Control over this entity was transferred to the Company in 2007 when the purchase price was paid. Under IFRS this does not count as a business combination, since according to IFRS 3, acquiring an entity under common control is not considered a business combination, and so no goodwill is created. The difference between the purchase price and the carrying value of the acquired net assets as reported at the acquired entity is recorded directly in equity. Under Hungarian accounting standards it is not recognised as an interest but as a receivable, since the court did not register the transfer of the ownership right by the reporting date.

(3) Derecognition of goodwill

Consolidated statement of comprehensive income	31 December
Other expenses	- 15,368
Adjustment of profit or loss before tax	- 15,368

Consolidated statement of financial position	31 December 2007	1 January 2007
Goodwill	297,320	312,688
Adjustment of retained earnings	297,320	312,688

If a company establishes a separate entity this is not considered a business combination under IFRS, and therefore no goodwill is recognised upon the establishment. Under Hungarian accounting standards, goodwill is reported as the difference between the paid amount and the amount pertaining to the Company of the acquired entity's equity as of the initial consolidation, calculated under Hungarian accounting standards.

37. EXPLANATION FOR ADOPTION OF IFRSS (continued)

(4) Accounting for provisions allocated for delivery obligation of emission allowances

Consolidated statement of comprehensive income	31 December
Other expenses	57,648
Adjustment of profit or loss before tax	57,648

Consolidated statement of financial position	31 December 2007	1 January 2007
Provisions	- 4,912	- 62,560
Related income tax impact	982	12,512
Adjustment of retained earnings	- 3,930	- 50,048

Under IFRS, provisions were allocated for the surrendering obligation related to emission allowances calculated based on actual emissions, while no provision was recorded under Hungarian accounting standards. The provision was reversed in 2007 when the surrendering obligation was met.

(5) Accounting for provisions allocated for termination benefits and early retirement pensions

Consolidated statement of comprehensive income	31 December 2007
Other income	- 208,415
Staff costs	- 33,363
Adjustment of profit or loss before tax	- 241,778

Consolidated statement of financial position	31 December 2007	1 January 2007
Provisions	0	241,778
Related income tax impact	0	- 48,356
Adjustment of retained earnings	0	193,422

Under IFRS the conditions for recording provisions differ from those applied under Hungarian accounting standards, and therefore provisions were reported under Hungarian rules that do not comply with the recognition requirements under IFRS. Based on Hungarian accounting standards, provisions were recorded as of 31 December 2006 for early retirement and termination benefits, but these were only communicated to those affected after the reporting date, in 2007, and therefore as of 31 December 2006 there was no legal or constructive obligation for the Company to make such payments. As of 31 December 2007, however, the provision was recorded under IFRS too.

37. EXPLANATION FOR ADOPTION OF IFRSS (continued)

(6) Measurement of forward transactions

Consolidated statement of comprehensive income	2007 31 December
Material-type expenses	- 694,842
Other expenses	5,031,054
Changes in self-manufactured stocks	42,939
Finance income	- 149,397
Finance costs	243,760
Adjustment of profit or loss before tax	4,473,514

Consolidated statement of financial position	31 December 2007	1 January 2007
Inventories	42,939	0
Other financial assets and derivatives	17,566	202,915
Other financial liabilities and derivatives	4,016,038	- 599,886
Related income tax impact	- 815,309	79,394
Adjustment of retained earnings	3,261,234	- 317,577

Consolidated statement of financial position	31 December 2007	1 January 2007
Other financial liabilities and derivatives	-1,452,223	0
Related income tax impact	290,445	0
Adjustment of hedging reserve	-1,161,778	0

The method for calculating and accounting the fair value of forward transactions also differs in IFRS from the Hungarian standards. In the IFRS financial statements the fair value is determined as the present value of future profit discounted with a risk-free return, calculated based on an estimate of forward prices computed in turn based on a curve of market interest rates. Under Hungarian accounting standards the reporting date value of forward transactions for deals closed between the reporting date and the balance sheet preparation date is the actual result, while for deals closed thereafter it is the value calculated using the price valid as of the date the financial statements were prepared.

Under IFRS, the fair values of all forward transactions measured as of the reporting date are recognised under other financial receivables and derivatives or other financial liabilities and derivatives in the balance sheet, depending on whether the fair value is positive (gain) or negative (loss).

37. EXPLANATION FOR ADOPTION OF IFRSS (continued)

In IFRS, the effective part of hedges is recognised directly in equity in the hedging reserve, while under Hungarian standards hedge accounting was not applied; for this reason the result of all forward transactions as of the reporting date is recorded directly in the profit or loss for the period. Under Hungarian accounting rules the results of forward transactions between the reporting date and the preparation date of the Hungarian financial statements are recognised under profit or loss on financial transactions, while for those transactions completed after the Hungarian financial statements are prepared the value measured as of the reporting date is recorded under other expenses.

The effective portion of forward transactions used for hedging purposes is accounted for under IFRS in accordance with the host contract (material cost) when the transaction is closed, while hedge accounting is not applied under the Hungarian standards and the profit or loss on forward transactions appears under financial profit or loss in the reporting year at the expected amount of the loss, and at the actual amount when the transaction is completed. Since the host contract concerned the purchase of gas and this commodity was accounted for under costs, according to IFRS the effective portion of the hedge also modifies the material cost, and through this the cost of self-manufactured inventories.

(7) Measurement of financial liabilities

Consolidated statement of comprehensive income	31 December 2007
Finance costs	- 38,439
Adjustment of profit or loss before tax	- 38,439

Consolidated statement of financial position	31 December 2007	1 January 2007
Other non-current financial liabilities	144,674	183,113
Related income tax impact	- 28,935	- 36,623
Adjustment of retained earnings	115,739	146,490

The Group has one non-interest bearing long-term liability to one of its material suppliers. Financial liabilities are initially measured at fair value under IFRS, before being reported at amortised cost using the effective interest rate method; under the Hungarian accounting standards both the initial and subsequent recognitions are at the contractual nominal value.

37. EXPLANATION FOR ADOPTION OF IFRSS (continued)

(8) Accounting for subsequent discounts

Consolidated statement of comprehensive income	31 December 2007
Revenue	- 222,240
Other expenses	44,491
Adjustment of profit or loss before tax	- 177,749

Consolidated statement of financial position	31 December 2007	1 January 2007
Trade receivables	- 203,823	- 29,892
Other financial liabilities and derivatives	- 3,818	0
Related income tax impact	41,528	5,978
Adjustment of retained earnings	- 166,113	- 23,914

Ex ante uninvoiced discounts (relative to sales) are considered by IFRS as items lowering sales revenue, while under the Hungarian accounting standards they are recorded as other expense in the profit or loss for the period, if the period of the discount is closed by the reporting date; otherwise they are recognised at the expected amount, but no later than when the discount is financially settled. Under IFRS the discount lowers the trade receivable and any excess is recorded as an 'other financial liability', while under Hungarian accounting standards the whole amount payable on account of the discount is recorded as a liability.

(9) Accounting for sales

Consolidated statement of comprehensive income	31 December 2007
Revenue	1,308,637
Material-type expenses	14
Changes in self-manufactured stocks	-1,195,923
Adjustment of profit or loss before tax	112,728

Consolidated statement of financial position	31 December 2007	1 January 2007
Inventories	1,762,292	2,958,200
Trade receivables	- 213,445	-1,012,631
Other current liabilities	-2,226,342	-2,735,793
Related income tax impact	135,499	158,045
Adjustment of retained earnings	- 541,996	- 632,179

37. EXPLANATION FOR ADOPTION OF IFRSS (continued)

The Group sells some of its goods as part of contractual storage frameworks, in which the requirements for recognising sales revenue under IFRS are not fulfilled; this is because the goods are not separated by customer name, and so they are not ready for delivery. Sales revenue is recognised when the product is delivered to the customer. Prior to the recognition of sales revenue the amount paid by the customer is recognised under other liabilities as an advance payment. Under Hungarian accounting standards, sales are accounted independently of all this and the sales revenue is recognised as of the performance date specified in the contract.

(10) Accounting for credits from trading houses

Consolidated statement of comprehensive income	31 December 2007
Revenue	-1,122,053
Material-type expenses	1,732,440
Changes in self-manufactured stocks	- 682,636
Finance income	14,781
Finance costs	- 60,221
Adjustment of profit or loss before tax	- 117,689

Consolidated statement of financial position	31 December 2007	1 January 2007
Inventories	0	635,410
Loans and borrowings	0	-2,030,622
Trade payables	0	390,848
Other current liabilities	0	1,122,053
Related income tax impact	0	- 23,538
Adjustment of retained earnings	0	94,151

For financing purposes the Group transfers goods to financial institutions (trading houses) specifying repurchase rights and obligations. Under Hungarian accounting standards this is accounted as a sale, while under IFRS there is no sale in view of the content of the contract, and instead it is construed as a loan secured by goods. There is no supply of goods under IFRS and the sales revenue is not accounted until the goods are actually delivered to the customer. Under IFRS the amount received from the trading house is recorded as a liability to the trading house under borrowings until the financial settlement after the return. According to Hungarian accounting standards, at the time of the return the amount not yet paid to the trading house is recognised under trade payables.

37. EXPLANATION FOR ADOPTION OF IFRSS (continued)

(11) Netting of revenues

Consolidated statement of comprehensive income	31 December 2007
Revenue	-4,894,037
Material-type expenses	4,894,037
Adjustment of profit or loss before tax	0

The Group sells the goods of a related company as an agent, which under IFRS are accounted net, and only the agent fee can be recognised as sales revenue since essentially all of the risks and benefits are borne by the principal. By contrast, under Hungarian accounting standards, third-party sales revenue is recorded based on a consignment framework, along with goods purchased from related parties, at the cost of goods sold.

(12) Recognition of dividends

Consolidated statement of financial position	31 December 2007	1 January 2007
Other financial liabilities and derivatives	0	1,215,000
Adjustment of retained earnings	0	1,215,000

Under IFRS, dividend liabilities are only recognised if such are duly approved by the reporting date. Under Hungarian regulations any dividends approved by the publication of the reporting year financial statements are accounted in the reporting year financial statements. Since the divided on the 2006 profits was only approved in 2007, and was paid in 2007, under IFRS the dividend is accounted in 2007 and reduces the accumulated profit.

(13) Accounting for investment tax credit

Consolidated statement of comprehensive income	31 December 2007
Other income	53,810
Adjustment of profit or loss before tax	53,810
Income tax	- 204,640
Adjustment of profit or loss for the period	- 150,830

37. EXPLANATION FOR ADOPTION OF IFRSS (continued)

Consolidated statement of financial position	31 December 2007	1 January 2007
Other financial assets and derivatives	5,895,538	0
Other non-current liabilities	-5,849,500	0
Other current liabilities	- 196,868	0
Adjustment of retained earnings	- 150,830	0

Investment tax discounts are accounted under Hungarian standards when used, lowering the actual tax expense. Under IFRS and by analogy with IAS 20 Government grants, the whole amount of the credit expected to be recovered is accounted as a receivable from the government and as an accrued asset. The accrued income is reversed as other income in proportion to the accounting as expense of the property, plant or equipment realised in the investment related to the investment tax credit.

(14) Income tax, deferred tax

The IFRSs demand the settlement of deferred tax for the temporary differences between the IFRS balance sheet figures and the balance sheet figures determined on the basis of tax laws. Hungarian standards only permit the accounting of deferred tax in consolidated financial statements and only for temporary consolidation eliminations (generally due to the elimination of interim results).
Due to the accounting of deferred tax the accounting of investment tax credits differs in the IFRS from Hungarian regulations, since under HAS the investment tax credit reduces the amount payable in the year when it is included in the tax return, while according to the IFRS the investment tax credit is recorded by analogy with IAS 20 on Government grants.
According to IFRS the tax impact of the items recorded under other comprehensive income must also be stated under other comprehensive income, while under the HAS both actual and deferred tax must be recognised in the profit or loss for the period.

(15) Differences on translation of foreign operations

The difference arising upon the switch of foreign interests from the functional currency to the presentation currency is recorded under IFRS directly in equity in the translation reserve. By contrast, under Hungarian regulations it is recognised in the reporting year profit or loss.

37. EXPLANATION FOR ADOPTION OF IFRSS (continued)

(16) Summary of factors adjusting comprehensive income

Adjustment of profit or loss before tax resulting from the above impacts:

Consolidated statement of financial position	Note	31 December 2007
Depreciation of tangible assets	(1)	105,336
Derecognition of goodwill	(3)	- 15,368
Accounting for provisions allocated for delivery obligation of emission allowances	(4)	57,648
Accounting for provisions allocated for termination benefits and early retirement pensions	(5)	- 241,778
Measurement of forward transactions	(6)	4,473,514
Measurement of financial liabilities	(7)	- 38,439
Accounting for subsequent discounts	(8)	- 177,749
Accounting for sales	(9)	112,728
Accounting for credits frm trading houses	(10)	- 117,689
Accounting for investment tax credit	(13)	53,810
Other items	(14)	- 2,370
Adjustment of profit or loss before tax		4,209,643

Adjustment of hedging reserve resulting from the above impacts:

Consolidated statement of financial position	Note	31 December 2007	1 January 2007
Measurement of forward transactions	(6)	-1,161,778	0
Adjustment of hedging reserve		-1,161,778	0

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