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Dear Reader,

It is the goal of Magyar Villamos Művek Zrt. (Hungarian Power Companies Ltd.) to become a successful national, regionally important and integrated Group in the energy industry.

The MVM Group spent great efforts last year to create firm foundations for long-term, secure energy supply and future growth. We began to work out the Medium-term Strategy of the Group; its emphatic element is the lifetime extension and, in the longer term, expansion of Paksi Atomerőmű Zrt. (Paks Nuclear Power Plant Ltd.), which provides more than 40 per cent of the electricity output of the country. In February 2010, the Board of Directors of Magyar Villamos Művek Zrt. (Hungarian Power Companies Ltd.) approved the concept of the preparatory works for the expansion, and with this, we took an important step towards the energy security of Hungary. The preparation of the decision on the future project and the assessment of the scope of potential contractors and the size of the necessary labour force were started.

The regional presence of the MVM Group is also important for developing a strong and successful national company. The Company keeps expanding its portfolio and has already made preparations in 10 European countries for pursuing trading activities. These countries are: Austria, Germany, the Czech Republic, Slovakia, Romania, Croatia, Serbia, Slovenia, France and Poland.

Magyar Villamos Művek Zrt. (Hungarian Power Companies Ltd.) and the companies under its control together constitute the National Electricity Group of Hungary, the MVM Group. As a strategic holding, the Group is a key, integrally operating player in the domestic electricity market, and wishes to increasingly become a regional player in the energy sector.

The responsibility of the MVM Group goes beyond the growth of the Company, since—as a state-owned group—it is our natural obligation to also help the implementation of the efforts of the Government. The coming period will be key to the development of energy security and energy supply in Hungary and Europe. We think that the accomplishment of the task mostly requires specialists and continuous professional dialogue. Accordingly, we aim at expanding our relations with the neighbouring countries and strengthening our regional presence. In this, an enormous role is given to MAVIR Magyar Villamosenergia-ipari Átviteli Rendszerrányító Zrt. (MAVIR Hungarian Transmission System Operator Company Ltd.), which operates as a subsidiary of the MVM Group according to the ITO model, ensuring the implementation of the rules of functional unbundling corresponding to the relevant EU Directive, and which operates and develops the transmission system.

Our Group is also able to perform increasingly important tasks in the area of energy security. This is due to the subsidiaries of the national energy holding company: Országos Villamostávvezeték ZRt. (National Power Line Ltd.), MVM ERBE ENERGETIKA Mérnökiroda Zrt. (MVM ERBE Power Engineering & Consulting Ltd.), the trading companies MVM Partner Zrt. (MVM Partner Ltd.) and MVM Trade Zrt. (MVM Trade Ltd.) and certainly MAVIR Magyar Villamosenergia-ipari Átviteli Rendszerirányító Zrt. (MAVIR Hungarian Transmission System Operator Company Ltd.). The MVM Group also plays a key role in power generation—through Paksi Atomerőmű Zrt. (Paks Nuclear Power Plant Ltd.)—in the Hungarian market, but also holds a majority interest in several important power plants, such as Vértesi Erőmű Zrt. (Vértes Power Plant Ltd.), MIFŰ Miskolc Fűtőerőmű Kft. (MIFŰ Miskolc Central Heating Plant Ltd.), BVMT
In 2010, sweeping changes took place in the organisation and operation of the MVM Group just like in the life of whole Hungary. Last year was destined for definitive closing the previous period and correcting the previous decisions to create a firm basis for the long-term successful operation of the Group. We have taken a number of important steps to remove every hindrance to the achievement of our strategic objectives.

For this, it was inevitable to eliminate the previous sources of loss, to close occasionally legally questionable issues associated with previous Managements and to review the existing contracts. The process sometimes required difficult decisions to be made.

With our partner, the RWE Group, we reviewed the changed market conditions, reassessed the joint project plan of the new unit of Mátrai Erőmű Zrt. (Mátra Power Plant Ltd.) also on the basis of financial and environmental considerations and—on the basis of a detailed analysis—agreed to stop the project. The Shareholders’ Meeting of Magyar Villamos Művek Zrt. (Hungarian Power Companies Ltd.) also made a decision that the Group would no longer participate in the further financing of the Vásárosnamény power plant development project known under the name of Kárpát Energo Project under the existing conditions.

The outstanding debt of Vértesi Erőmű Zrt. (Vértes Power Plant Ltd.), the principal reason for which was a previous power supply agreement, represented a serious challenge. Such a grave situation arose that the power plant company had to be placed under bankruptcy protection in order to restore its solvency. The painful decision made in August could guarantee the employees’ remuneration, district heat supply to the region and the liquidation of debts. It was apparent by the end of the year that the efforts made by the Management would be successful and the negotiations could be closed due to the flexibility of the creditors and the support provided by the Government.

The net sales of the MVM Group was over HUF 557 billion in 2010, its profit before tax was approximately HUF 37 billion, and its profit after tax was significant, despite the write-off of the previous sources of loss, nearly HUF 22 billion. At the same time, its assets and its shareholders’ equity increased by more than HUF 60 billion and HUF 32 billion, respectively, and the trends are clearly positive.

Despite the economic crisis, the electricity trading positions of the Group improved and operated at a profit. HUPX, the Hungarian Power Exchange, was launched last year: the exchange works highly efficiently and has already gained substantial influence in the electricity market.

Our Group also assumes a serious role corresponding to its market weight and importance in the national economy in supporting causes of concern for the whole society. The larger member companies and employees of the Group offered more than HUF 100 million to the victims of the red sludge disaster which occurred in autumn. Within the framework of our innovative sustainability project, we donated a solar collector working on the principle of solar parabola to the Care Home for the Elderly managed by the local government in Havany Lajos utca, Óbuda-Békásmegyer at the beginning of July. A special feature of the initiative is that the specialists of MVM were the first in the world to integrate such a device into the system of an institution using district heat supply. We inform the public about the operation of the nuclear power plant and its expansion plan by means of a travelling exhibition, an interactive lorry: since the lorry set out on its tour in October 2009, it has visited nearly 150 localities and 60,000 visitors have viewed it.

We also consider especially important the support provided by specialists who enrich the country with their knowledge and talent, not only in areas closely associated with their activities. As co-founder, Magyar Villamos Művek Zrt. (Hungarian Power Companies Ltd.) assumed the lion’s share in the establishment of Junior Prima Awards in musical arts, which recognise outstanding performance by young Hungarian artists. In 2010, it was the third time already that we presented the awards, thereby paving the way for ten young musical talents.

Thus, a difficult year is behind us, but we created firm foundations for balanced growth and the creation of national values. We cannot lean back with satisfaction yet, but can be proud of the achievements of last year and our initiatives providing grounds for growth in the coming years. Therefore, allow me to recommend our Annual Report on our work completed so far to your attention.

Csaba Sándor BAJJI
Chairman and CEO
2. MAGYAR VILLAMOS MŰVEK ZRT. (HUNGARIAN POWER COMPANIES LTD.) AND THE GROUP

2.1 Structure of the Group, Activities of the Companies

The member companies of the MVM Group qualify as subsidiaries included in full consolidation. Only the companies included in the “Investments” category are exceptions to this. The companies included in the investment category are rated from a consolidation point of view as follows:

- Joint management companies: Powerforum Zrt. (Powerforum Ltd.) and EKS Service Kft. (EKS-Service Ltd.)
- Associated companies: Dunamenti Erőmű Zrt. (Dunamenti Power Plant Ltd.), Mátrai Erőmű Zrt. (Mátra Power Plant Ltd.), Zsigmondy Vilmos Harkányi Gyógyfürdőkőrház Kht. (Zsigmondy Vilmos Harkány Spa and Balneological Hospital Not-for-profit Company) and MM Energy GmbH.
- Companies of other forms of participation: ELMŰ Nyrt. (ELMŰ plc) and ÉMÁSZ Nyrt. (ÉMÁSZ plc).

In addition to those listed in the figure, an additional three associated companies and six companies of other forms of participation also belong to the group of companies regarded as consolidated from an accounting point of view.

Figure 1: Organigram of the Group as at 31 December 2010 (members of the Recognised Corporate Group are underlined)
2.2 Members of the Recognised Corporate Group

The holding controlled by Magyar Villamos Művek Zrt. (Hungarian Power Companies Ltd.) has been operating as a what is called Recognised Corporate Group since 1 June 2007. The legal framework for the transformation of the management system is provided for in Act IV of 2006 on Business Associations. This Act makes it possible, through the introduction of the institution of “Recognised Corporate Group”, for companies which are independent (have a parent company-subsidiary relationship) but, in a business sense, are nevertheless under joint control, to operate under a single business policy concept. This means that the dominant member of the Recognised Corporate Group performs the management of the members of the Group by using a single set of means and instruments in order to achieve the strategic goals of the Group.

In the course of transformation into a Recognised Corporate Group, agreements were made to regulate the cooperation between the parent company and the controlled companies, and the executive bodies of the companies amended the Articles of Association of the companies concerned. The new management system, which is aimed primarily at ensuring efficient business operation at the group level, also represents a modern instrument for improving the competitiveness and increasing the value of the Group. At the same time, it does not affect the licensed activities of the individual subsidiaries in any manner. Due to the legal institution introduced in Act IV of 2006 on Business Associations, the parent company, Magyar Villamos Művek Zrt. (Hungarian Power Companies Ltd.) now coordinates the business activities of the subsidiaries of the Group in possession of a uniform, effective management tool system.

Subsidiaries which belong to the MVM Group as Recognised Corporate Group:

**Dominant member:**
- Magyar Villamos Művek Zrt. (Hungarian Power Companies Ltd.)

**Controlled companies:**
- Paksi Atomerőmű Zrt. (Paks Nuclear Power Plant Ltd., Paks NPP Ltd.)
- Országos Villamostávvezeték Zrt. – OVIT Zrt. (National Power Line Ltd., OVIT Ltd.)
- MVM Trade Villamosenergia Kereskedelmi Zrt. (MVM Trade Power Trading Ltd.)
- MVM Partner Energiakereskedelmi Zrt. (MVM Partner Energy Trading Ltd.)
- MVM GTER Gáztermelési és Erőmű Zrt. (MVM GTER Gas Turbine Power Plant Ltd.)
- MIFÜ Miskolci Fűtőerőmű Kft. (MIFÜ Miskolc Central Heating Plant Ltd.)
- MVM Észak-Budai Kogenerációs Fűtőerőmű Kft. (MVM North Buda Cogeneration Power Plant Ltd.)
- MVM ERBE ENERGETIKA Mérnökiroda Zrt. (MVM ERBE Power Engineering & Consulting Ltd.)
- VILLKESZ Villamosipari Kereskedelmi és Szolgáltató Kft. (VILLKESZ Electricity Industry Commercial and Service Providing Ltd.)
- MVM Informatika Zrt. (MVM Information Technologies Service Centre Ltd.)
- MVM KONTÓ Pénzügyi és Számviteli Központ Zrt. (MVM KONTÓ Finance and Accounting Service Centre Ltd.)
- Vértesi Erőmű Zrt. (Vértes Power Plant Ltd.)

2.3 “Corporate Governance System”

The operational procedures of Magyar Villamos Művek Zrt. (Hungarian Power Companies Ltd.) are defined in the Articles of Association of the Company, which have been adopted pursuant to, and in accordance with, the provisions of Act IV of 2006 (Companies Act).

2.3.1 Shareholders’ Meeting

The Shareholders’ Meeting is the supreme body of the Company, which comprises all shareholders. The shareholders exercise their rights at the Shareholders’ Meeting. Magyar Villamos Művek Zrt. (Hungarian Power Companies Ltd.) has issued series “A” shares only, which carry equal rights for the shareholders.

The Company holds its Ordinary Shareholders’ Meeting once a year at a date not later than 31 May, and also holds Extraordinary Shareholders’ Meeting(s), as required. The Board of Directors may convene an Extraordinary Shareholders’ Meeting if it deems it necessary from the...
point of view of the operation of the Company or at the Auditor’s request in the cases defined in the Companies Act, as well as the Supervisory Board and the Court of Registration may also order the convocation of the supreme body in the cases defined in the Companies Act and the laws. The Board of Directors is obliged to convene the Shareholders’ Meeting if it is requested by at least 5% of the shareholders.

The issues falling within the exclusive competence of the Shareholders’ Meeting are laid down in the Companies Act and the Articles of Association of Magyar Villamos Művek Zrt. (Hungarian Power Companies Ltd.) In addition to the exclusive competences established in the Act, a number of other exclusive competences are established in the Articles of Association for the Shareholders’ Meeting of Magyar Villamos Művek Zrt. (Hungarian Power Companies Ltd.) These powers are aimed mainly at tightening control by the shareholders over the business operations of the Company (investment above a predetermined value limit, sale of assets, borrowing, assumption of surety or guarantee), with special regard to the protection of the currently dominant state ownership, but a role is also given to the exclusive competences of the Shareholders’ Meeting relating to the operation of the MVM Group as a Recognised Corporate Group.

2.3.2 Board of Directors

The Board of Directors is the management body of the Company, which consists of no more than seven members. Its members are elected and removed by the Shareholders’ Meeting, and its Chairman is elected by the members from among themselves. The Board of Directors holds at least six meetings every year, and a period no longer than two months may elapse between the individual meetings.

The Board of Directors is entitled to establish the work organisation of the Company. This Board exercises the fundamental employer’s rights over the Deputy CEOs as well as over the CEO except for the fundamental employer’s rights and obligations which the Shareholders’ Meeting is entitled to. The Board of Directors decides on any issues that are referred to its exclusive competence pursuant to the Companies Act, the Articles of Association of Magyar Villamos Művek Zrt. (Hungarian Power Companies Ltd.) and the Rules of Procedure of the Board of Directors. The latter powers—similarly to the exclusive decision-making powers of the Shareholders’ Meeting—are essentially aimed at ensuring control over the business operations of the Company as well as the performance of the tasks of the Board of Directors relating to group-level management. In addition, the Board of Directors represents the Company vis-à-vis third parties.

2.3.3 Chief Executive Officer

The CEO is the chief executive of the Company. The CEO is always a member of the Board of Directors, is in charge of the management of the Company in the intervals between the meetings of the Board of Directors, provides for the operative management of the Company, and exercises the employer’s rights over the employees of the Company. If the CEO ceases to be a member of the Board of Directors, his or her appointment as CEO also ceases to exist simultaneously.

2.3.4 Supervisory Board

The Supervisory Board oversees the management of the Company. The Supervisory Board comprises minimum three and maximum six members. Its members are elected by the Shareholders’ Meeting, and its Chairman is elected, unless otherwise provided by law, by the members of the Supervisory Board from among themselves.

The Supervisory Board is obliged to review all business policy reports included in the agenda of the Shareholders’ Meeting, the statutory annual report and accounts, the proposal for the appropriation of the profit after tax, and any other submission that falls within the exclusive competence of the Shareholders’ Meeting. The Shareholders’ Meeting may only adopt a valid resolution on such issues in the knowledge of the report of the Supervisory Board.

2.3.5 Auditor

The Auditor elected by the Shareholders’ Meeting is responsible for ensuring the performance of statutory audits under the Hungarian Accounting Act. During this, the Auditor shall first of all establish whether the statutory report and accounts of the business association conform to the laws, and whether they give a true and fair picture of the pecuniary and financial situation of the Company and of the results of its operations.

2.3.6 Management

The management of the Company is performed by its management body, the Board of Directors, and its chief executive, the CEO. The organisational structure of Magyar Villamos Művek Zrt. (Hungarian Power Companies Ltd.) and the basic rules of operation are
List of members of the Management

Csaba Sándor BAJI – CEO
György KÓBOR – Deputy CEO for Business
Zalán BÁCS – Deputy CEO for Strategy
Dr. László BÁNF – Chief Legal Advisor and Chief Legal Officer
Dr. Károly GERSE – Deputy CEO for Corporate Affairs
Balázs Gábor LEHÓCZ – Deputy CEO for Commerce, Deputy CEO for Business until 01.11.2010
Sándor NAGY – Deputy CEO for Power Generation
György FELKAJ – Chief Communications Officer
Dr. Gábor TAMÁSI – Chief Security Officer

Imre Mártha – CEO until 30.07.2010
Dr. Imre KARL – Deputy CEO for Strategy until 30.07.2010
Géza NAGY – Chief Security Officer until 30.07.2010
Dr. Mihály IZSÁKI – Chief Legal Advisor, Head of the Legal and Administration Department until 30.07.2010
Ágoston TRINGER – Head of Communications Department until 30.07.2010

List of members of the Board of Directors

Chairmen of the Board of Directors:
Csaba FARAGÓ until 29.04.2011
Dr. Márton VÁGI until 30.07.2010

Members of the Board of Directors:
Csaba Sándor BAJI (CEO)
István HAMVAS
(Mrs) NÉMETH, Lászlóné
Dr. Zoltán MOLNÁR
Dr. Ernő MURÁNYI
Árpád ROZGONYI

Imre MÁRTHA (CEO) until 30.07.2010
Zoltán KAMARÁS until 30.07.2010
Dr. Tibor KEVES until 30.07.2010
Gyula LENGYEL until 30.07.2010
János NOVÁK until 30.07.2010
László PÁL until 30.07.2010

List of members of the Supervisory Board

Chairmen of the Supervisory Board:
Dr. Árpád KOVÁCS
László MIKLÓS until 30.07.2010

Members of the Supervisory Board:
Dr. Mikiós VIRÁG
Márta Judit KOVÁCS
Dr. Krisztina SZALAI

György BAKONYI until 30.07.2010
Dr. Dezső BÖRCSÖK until 30.07.2010
Tamás GUDRA until 30.07.2010
Endre TÖRÖK until 30.07.2010
József NAGY until 30.07.2010
estd in the Organisational and Operational Rules of the Company. The members of the Board of Directors and the employees authorised by the Board of Directors to sign for the Company are entitled to sign for the Company. Officers may only sign for the Company by exercising their right to jointly sign for the Company as per their authentic specimen signature, subject to the provisions of the Articles of Association.

2.4 Members of Management, Board of Directors and Supervisory Board

established in the Organisational and Operational Rules of the Company. The members of the Board of Directors and the employees authorised by the Board of Directors to sign for the Company are entitled to sign for the Company. Officers may only sign for the Company by exercising their right to jointly sign for the Company as per their authentic specimen signature, subject to the provisions of the Articles of Association.
2.5 Report of the Board of Directors on the Activities in 2010

The Board of Directors of Magyar Villamos Művek Zrt. (Hungarian Power Companies Ltd.) holds its meetings as required, but at least six times a year pursuant to the provisions of Act IV of 2006 on Economic Associations, the Articles of Association and the Rules of Procedure of the Board of Directors. The Board of Directors held 17 meetings in the past business year and adopted 243 resolutions in total, together with the 23 resolutions adopted with urgency, by fax. Of these, 38 resolutions were related to the Shareholders’ Meetings of the Company (convocation and preparation of Shareholders’ Meeting, discussion of related motions), and 12 resolutions contain decisions with a strategy- or business plan-related subject-matter. Fifty-seven resolutions were adopted in connection with companies forming part of the MVM Holding, which were typically related to the Shareholders’ Meetings of these companies. The Board of Directors took a position in 122 cases on issues determining the technical, economic and commercial tasks of Magyar Villamos Művek Zrt. (Hungarian Power Companies Ltd.) and on the approval of the information documents relating to their implementation. In addition, the Board made a decision on organisational issues or issues associated with signature on behalf of the Company or issues affecting the Board of Directors’ own operation on 14 occasions. The Board of Directors provided written information on management and the pecuniary situation and business policy of the Company to the Supervisory Board in accordance with the provisions of Section 244, subsection (2) of the Companies Act.

The Shareholders’ Meeting held on 30 July 2010 decided on the persons of the members of the Board of Directors in such a way that it elected Messrs Csaba FARAGÓ, Csaba BAJI, István HAMVAS, Dr. Zoltán MOLNÁR, Dr. Ernő MURÁNYI and Árpád ROZGONYI and (Mrs) Németh, Lászlóné members of the Board from 31 July 2010 until the date of the Shareholders’ Meeting closing the 2012 business year, but not later than until 31 May 2013. According to the decision of the Board, Csaba FARAGÓ became Chairman of the Board of Directors as of 2 August 2010.

The elected Board of Directors dealt, as a priority, with the situation of Vértesi Erőmű Zrt. "cs.a." (Vértes Power Plant Ltd. [in bankruptcy]), the previously launched lignite-fired Mátra Power Plant Project and the VNKCE Project, with special regard to their expected pay-off and financiability. On the basis of expert analyses, the Board of Directors made a recommendation for stopping the projects at the Extraordinary Shareholders’ Meeting of Magyar Villamos Művek Zrt. (Hungarian Power Companies Ltd.) held on 14 January 2011. In the case of Vértesi Erőmű Zrt. "cs.a." (Vértess Power Plant Ltd. [in bankruptcy]), the Board of Directors reviewed the possible system of conditions of an agreement with the creditors, which Magyar Villamos Művek Zrt. (Hungarian Power Companies Ltd.) submitted to the Extraordinary Shareholders’ Meeting held on 14 January 2011 for approval.

2.5.1 Remuneration of the Board of Directors

The Board of Directors of Magyar Villamos Művek Zrt. (Hungarian Power Companies Ltd.) recommended, taking the Sample Rules worked out by the Hungarian State Holding Company as a basis, the Shareholders’ Meeting to adopt the amendment of the Remuneration Code. This recommendation was adopted by the Shareholders’ Meeting of Magyar Villamos Művek Zrt. (Hungarian Power Companies Ltd.) in its resolution. By doing so, the Board of Directors and Management of Magyar Villamos Művek Zrt. (Hungarian Power Companies Ltd.) complied with the provisions of Act CXXII of 2009 on the More Economical Operation of Publicly Owned Business Associations, and enforced the principles set forth in the new Remuneration Code also in practice.
2.6 Strategy

2.6.1 Strategic Vision of the MVM Group

After the change of Management in the second half of 2010, the Senior Management of Magyar Villamos Művek Zrt. (Hungarian Power Companies Ltd.) set a number of new requirements in connection with the Medium-term Business Strategy of the Group. Its elaboration began in August 2010 in order to ensure that the MVM Group have a new Strategy from 2011 onwards, which sets specific, numerical targets and tasks.

The new Strategy is based on the vision of the MVM Group: its principal objective is to ensure that the Company become a key integrated energy group also at the regional level by 2020 through intensive growth, with an EBITDA figure reaching HUF 250 billion.

The MVM Group also regards it as its important task to support the energy policy objectives of the Hungarian Government through the implementation of this Strategy, including:

- increasing the domestic security of supply and decreasing energy dependence;
- the sustainability and sustainable development of energy production and supply;
- increasing the competitiveness of the domestic economy and stimulating the domestic economy.

As a state-owned company, the MVM Group pays special attention, also in connection with strategy development, to ensuring that, besides implementing its economic goals, it meet the requirements of sustainable development. To this end, it makes every effort to render its operation environmentally sound, and to ensure that society become familiar with its value-creating efforts.

2.6.2 Goals Set in the Strategy of the MVM Group

The MVM Group set the main objectives of the Strategy serving the implementation of its vision primarily for the medium term (2011 to 2013); at the same time, it also outlined long-term directions (with an outlook to 2020). The Company formulated its Strategy organised around the following three pillars:

![Three strategic pillars of the MVM Group](image-url)
Increase of the competitiveness of the MVM Group, active participation in the development of the efficient operation of the electricity market

• The main goal of the MVM Group is to increase the competitiveness and to improve the market positions of the Group; to achieve this goal, it is essential that the Company have a proactive attitude towards the development of the Shareholders’ requirements which fundamentally influence its operations and towards the shaping of the environment determining its operations. The MVM Group is interested in establishing discrimination-free regulatory conditions, which facilitate the achievement of competitive conditions in the domestic market. The Company is also interested in ensuring that the market environment be predictable, lasting and investor-friendly, which facilitates the implementation of the growth-oriented Strategy. The Group bears in mind both the national interests of Hungary and its own business interests when it wishes to continuously participate in the development of energy concepts at the EU, regional and domestic levels and of an operational environment which meets the above conditions.

Operational excellence and efficiency

• The MVM Group aims to implement efficient operation to a high standard by using best international practices both at the member company and group levels. To this end, the Group wishes to implement comprehensive and intensive cost efficiency, operation development and management development programmes, the results of which will create a firm economic basis already in the medium term for starting value-creating growth. In order to increase its own financial sources, the MVM Group considers the continued improvement of its operational efficiency as its high priority goal.

Growth with value creation

• The MVM Group wishes to follow a growth strategy as a result of which the business value of the Group will increase significantly in the longer term, and the Group will acquire key positions also in the regional energy markets besides keeping and strengthening its domestic market positions. If conditions are given, the MVM Group can begin implementing certain developments (of low capital requirement) already in the short term (e.g., opening trade agencies in foreign markets and launching CO2 and gas trade).

According to the Strategy, in the first stage lasting until 2013, the MVM Group will primarily concentrate on increasing competitiveness and improving internal operational efficiency and profitability, and wishes to achieve growth in the areas of trade and renewable energy utilisation. In this stage, as a result of the announced Strategy, it plans to increase the EBITDA figure by HUF 50 to 60 billion until 2013. In the second stage, it will become possible as of 2014 on the basis of the achievement for the Company to take a more dynamic growth path and for a capital intensive investment and development programme to be launched.

2010–2013

Increase of competitiveness and internal operational efficiency. Developments of low capital requirement

2014–2020

Dynamic growth, achievement of vision
2.6.3 Main Elements of Strategy

Assumption of a greater role in the market by the MVM Group as a state-owned group

- As a state-owned key market player, the MVM Group supports the energy policy goals of the Hungarian State and the enforcement of the interests of the State relating to energy management. For example, the fact that the Group should facilitate in proportion to its weight in the market, by further developing its trading activities, that prices are kept at a reasonable level in the domestic electricity market and that, simultaneously, it should also ensure the expected profitability of the Group constitute such tasks for the MVM Group. Assuming such a role in the market by the MVM Group was a key element of its operations also in the past, and it will be able to support the energy management goals of the Hungarian State in the future as well by market means.

Lifetime extension of the Paks Nuclear Power Plant by 20 years

- The lifetime extension of the existing units is essential for ensuring power generation by the Paks Nuclear Power Plant in the long term. Naturally, this programme must be carried out in maximum compliance with the nuclear safety requirements. The preparations for lifetime extension progress according to the programme approved in Decision No. HA4918 of 19 June 2009 of the Nuclear Safety Directorate of the Hungarian Atomic Energy Agency.

Expansion of the Paks Nuclear Power Plant

- In accordance with the energy policy of Hungary and the relevant decision of Parliament, the MVM Group decided to also prepare the expansion of the Paks Nuclear Power Plant. According to plans, the new capacities will go into service between 2020 and 2030. The project is aimed at ensuring uninterrupted electricity supply in Hungary and protects the economy from the adverse effects that may be caused by the fluctuation of the market price of primary energy resources. The expansion of the nuclear power plant will, at the same time, increase employment, will improve the competitiveness of the Hungarian industrial sector, will increase its technical standard, and will contribute to the achievement of the environmental and climate protection goals of the Community. Nevertheless, by establishing new nuclear power plant capacities, the MVM Group wishes to increase its own business value, economic strength and weight in both the Hungarian energy economy and the region.

Regional expansion of the MVM Group

- It is the goal of the MVM Group to also appear on the energy markets of the countries of the Central and Eastern European Region both as a professional investor and as a project owner, thus to establish key positions also at the regional level. According to plans, in the first phase of regional expansion, the Group will enter these markets as an electricity wholesaler, where it will subsequently assume a role as a generator and in providing supply to end consumers. However, it does not consider it necessary to become an integrated market player filling a key position in every area of the value chain. A more narrow target area of the expansion essentially comprises the EU Member States of the Eastern and South-eastern European Region as well as the countries that are expected to join the European Union in the medium term. Primarily Romania, Croatia, Serbia and Bosnia and Herzegovina are among the countries where the Group wants to build positions within a few years through partnerships established with local state-owned, integrated electricity industry companies or privatisation.

Entry in the gas wholesale market

- There are a number of synergistic interactions between the Electricity and Gas Business Units; taking advantage of them offers economic benefits to the MVM Group. The Group plans to enter the gas market by exploiting these synergies. This conforms to the energy policy concept of the Government. According to plans, the member company assigned to this task will start its gas trading activity in 2011.

Preparation for entering the natural gas transport market

- Secure natural gas supply to Hungary makes it necessary to expand transport routes in order to gain access to alternative sources of procurement. Also conforming to the energy policy concept of the Government, the MVM Group began to examine the possibilities of constructing new natural gas pipelines.

Participation of the MVM Group in the utilisation of renewable energy resources

- The Group conforms to the energy objectives of Hungary at the EU and national levels. Also taking into account its own economic interests, it wishes to increasingly participate in projects serving the utilisation of renewable energy resources for electricity generation purposes.
3. BUSINESS OPERATIONS OF THE MVM GROUP IN 2010

3.1 Key Technical and Economic Indicators of the MVM Group

On 31 December 2010, the MVM Group consisted of 48 companies in total, including, regarding ownership rights, one parent company, 30 subsidiaries, two joint management companies, seven associated companies and eight companies of other forms of participation. The following significant changes took place in the size, structure or ownership conditions of the organisation during the period reported on:

**Change in the scope of consolidation:** In 2009, the fully consolidated group included 30 companies. During 2010, the number of companies included in full consolidation remained the same: It decreased by one company due to the sale of Tatabánya Erőmű Kft. (Tatabánya Power Plant Ltd.) and increased by one company due to the establishment of MVM Partner Serbia d.o.o.

<table>
<thead>
<tr>
<th>Key indicator</th>
<th>Unit</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>Change (%)</th>
</tr>
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<tbody>
<tr>
<td>Installed capacity of power plants</td>
<td>MWe</td>
<td>2,754</td>
<td>2,777</td>
<td>2,837</td>
<td>+ 2.2</td>
</tr>
<tr>
<td>Electricity output (gross)</td>
<td>GWh</td>
<td>16,963</td>
<td>17,295</td>
<td>17,327</td>
<td>+ 0.2</td>
</tr>
<tr>
<td>Electricity sold</td>
<td>GWh</td>
<td>33,252</td>
<td>27,499</td>
<td>29,134</td>
<td>+ 5.9</td>
</tr>
<tr>
<td>Electricity purchased</td>
<td>GWh</td>
<td>18,276</td>
<td>11,540</td>
<td>12,296</td>
<td>+ 6.6</td>
</tr>
<tr>
<td>Heat sold</td>
<td>TJ</td>
<td>4,571</td>
<td>4,295</td>
<td>3,849</td>
<td>(10.4)</td>
</tr>
<tr>
<td>Net sales</td>
<td>HUF m</td>
<td>721,241</td>
<td>580,667</td>
<td>557,468</td>
<td>(4.0)</td>
</tr>
<tr>
<td>EBITDA</td>
<td>HUF m</td>
<td>88,224</td>
<td>116,656</td>
<td>71,728</td>
<td>(38.5)</td>
</tr>
<tr>
<td>EBIT</td>
<td>HUF m</td>
<td>51,913</td>
<td>77,351</td>
<td>29,956</td>
<td>(61.3)</td>
</tr>
<tr>
<td>Profit/(−)loss after tax</td>
<td>HUF m</td>
<td>39,657</td>
<td>60,811</td>
<td>21,781</td>
<td>(64.2)</td>
</tr>
<tr>
<td>Total assets</td>
<td>HUF m</td>
<td>785,207</td>
<td>814,727</td>
<td>876,311</td>
<td>+ 7.6</td>
</tr>
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<td>Shareholders’ equity</td>
<td>HUF m</td>
<td>451,294</td>
<td>489,827</td>
<td>522,021</td>
<td>+ 6.6</td>
</tr>
<tr>
<td>Gross financial liability (outstanding bank loans)</td>
<td>HUF m</td>
<td>74,452</td>
<td>92,194</td>
<td>130,999</td>
<td>+ 41.2</td>
</tr>
<tr>
<td>Net financial liability (outstanding bank loans-liquid assets)</td>
<td>HUF m</td>
<td>1,788</td>
<td>53,923</td>
<td>80,301</td>
<td>+ 48.9</td>
</tr>
<tr>
<td>Fixed Assets Ratio</td>
<td>%</td>
<td>72</td>
<td>76</td>
<td>75</td>
<td>(1.2)</td>
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<tr>
<td>Rate of Return on Assets (ROA)</td>
<td>%</td>
<td>5</td>
<td>7</td>
<td>2</td>
<td>(66.7)</td>
</tr>
<tr>
<td>Rate of Return on Equity (ROE)</td>
<td>%</td>
<td>9</td>
<td>12</td>
<td>4</td>
<td>(66.4)</td>
</tr>
<tr>
<td>Rate of Return on Sales (ROS)</td>
<td>%</td>
<td>5</td>
<td>10</td>
<td>4</td>
<td>(62.7)</td>
</tr>
<tr>
<td>Earnings Per Share (EPS)</td>
<td>HUF m</td>
<td>1,584</td>
<td>2,429</td>
<td>870</td>
<td>(64.2)</td>
</tr>
<tr>
<td>Net debt / Shareholders’ equity</td>
<td>-</td>
<td>0.00</td>
<td>0.11</td>
<td>0.15</td>
<td>+ 39.7</td>
</tr>
<tr>
<td>Net debt / EBITDA</td>
<td>-</td>
<td>0.02</td>
<td>0.46</td>
<td>1.12</td>
<td>+ 142.2</td>
</tr>
<tr>
<td>EBITDA / Interest paid</td>
<td>-</td>
<td>17.71</td>
<td>29.24</td>
<td>21.75</td>
<td>(25.6)</td>
</tr>
<tr>
<td>Operating cash flow</td>
<td>HUF m</td>
<td>59,452</td>
<td>30,865</td>
<td>24,763</td>
<td>(19.8)</td>
</tr>
<tr>
<td>Assets in course of construction</td>
<td>HUF m</td>
<td>58,223</td>
<td>75,478</td>
<td>65,284</td>
<td>(13.5)</td>
</tr>
<tr>
<td>Average working headcount</td>
<td>persons</td>
<td>8,553</td>
<td>8,490</td>
<td>8,090</td>
<td>(4.7)</td>
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### 3.1.1 Key Financial Data of Subsidiaries

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<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Magyar Villamos Mûvek Zrt. (Hungarian Power Companies Ltd.)</td>
<td>10,707</td>
<td>+ 1.9</td>
<td>25,394</td>
<td>(24.0)</td>
<td>(8,736)</td>
<td>+ 36.6</td>
<td>3,094</td>
<td>(3.6)</td>
<td>27,585</td>
<td>(24.9)</td>
</tr>
<tr>
<td>MVM Trade Villamos-energia Kereskedelmi Zrt. (MVM Trade Power Trading Ltd.)</td>
<td>320,865</td>
<td>(6.9)</td>
<td>315,212</td>
<td>+ 1.3</td>
<td>9,258</td>
<td>(73.9)</td>
<td>38</td>
<td>(87.3)</td>
<td>8,511</td>
<td>(69.6)</td>
</tr>
<tr>
<td>MVM Partner Energiakereskedelem Zrt. (MVM Partner Energy Trading Ltd.)</td>
<td>69,099</td>
<td>(8.0)</td>
<td>72,373</td>
<td>+ 5.7</td>
<td>638</td>
<td>(93.0)</td>
<td>104</td>
<td>+ 11.4</td>
<td>499</td>
<td>(92.0)</td>
</tr>
<tr>
<td>MVM-ADWEST GmbH</td>
<td>41,915</td>
<td>+ 22.9</td>
<td>40,565</td>
<td>+ 22.8</td>
<td>1,386</td>
<td>+ 27.4</td>
<td>4</td>
<td>(30.8)</td>
<td>1,075</td>
<td>+ 24.9</td>
</tr>
<tr>
<td>HUPX Magyar Szervezett Villamosenergia-piac Zrt. (HUPX Hungarian Power Exchange Company Ltd.)</td>
<td>144</td>
<td>-</td>
<td>234</td>
<td>+ 2,208.8</td>
<td>(88)</td>
<td>(767.1)</td>
<td>2</td>
<td>-</td>
<td>(87)</td>
<td>(879.9)</td>
</tr>
<tr>
<td>MVM Partner Serbia d.o.o Beograd</td>
<td>0</td>
<td>-</td>
<td>0</td>
<td>-</td>
<td>0</td>
<td>-</td>
<td>0</td>
<td>-</td>
<td>0</td>
<td>-</td>
</tr>
<tr>
<td>MAVIR Magyar Villamos-energia-ipari Átviteli Rendszerirányító Zrt. (MAVIR Hungarian Transmission System Operator Company Ltd.)</td>
<td>123,252</td>
<td>+ 6.0</td>
<td>114,197</td>
<td>+ 6.7</td>
<td>28,014</td>
<td>+ 1.8</td>
<td>18,524</td>
<td>+ 8.8</td>
<td>5,949</td>
<td>(25.5)</td>
</tr>
<tr>
<td>Paksi Atomerûmû Zrt. (Paks Nuclear Power Plant Ltd.)</td>
<td>167,867</td>
<td>+ 6.9</td>
<td>145,044</td>
<td>+ 9.5</td>
<td>45,291</td>
<td>+ 4.9</td>
<td>18,164</td>
<td>+ 13.4</td>
<td>19,063</td>
<td>+ 11.7</td>
</tr>
<tr>
<td>Vértesi Erômû Zrt. (Vértes Power Plant Ltd.)</td>
<td>17,066</td>
<td>(29.7)</td>
<td>54,221</td>
<td>+ 8.6</td>
<td>(6,440)</td>
<td>(281.4)</td>
<td>4,225</td>
<td>(3.6)</td>
<td>(1,147)</td>
<td>(231.5)</td>
</tr>
<tr>
<td>MAVIR Eszak-Budai Köpenergécûs Tûđérûmû Kft. (MVM North Buda CoGeneration Power Plant Ltd.)</td>
<td>10,633</td>
<td>+ 6.6</td>
<td>10,198</td>
<td>+ 5.1</td>
<td>2,226</td>
<td>+ 16.8</td>
<td>1,008</td>
<td>(1.0)</td>
<td>603</td>
<td>+ 349.2</td>
</tr>
<tr>
<td>Tatábanya Erômû Kft. (Tatabánya Power Plant Ltd.)</td>
<td>2,127</td>
<td>(74.0)</td>
<td>1,694</td>
<td>(78.4)</td>
<td>518</td>
<td>(62.2)</td>
<td>85</td>
<td>(82.7)</td>
<td>392</td>
<td>(34.4)</td>
</tr>
<tr>
<td>MIFÜ Miskolci Fûtôerômû Kft. (MIFÜ Miskolc Central Heating Plant Ltd.)</td>
<td>11,295</td>
<td>+ 5.4</td>
<td>10,151</td>
<td>+ 8.0</td>
<td>2,699</td>
<td>(4.4)</td>
<td>1,021</td>
<td>+ 0.2</td>
<td>1,150</td>
<td>+ 51.0</td>
</tr>
<tr>
<td>MVM GTER Gazturbínás Erômû Zrt. (MVM GTER Gas Turbine Power Plant Ltd.)</td>
<td>7,538</td>
<td>+ 1.3</td>
<td>7,515</td>
<td>+ 3.1</td>
<td>109</td>
<td>(49.2)</td>
<td>24</td>
<td>(43.0)</td>
<td>47</td>
<td>(64.2)</td>
</tr>
<tr>
<td>Kárpát Energo Kft.</td>
<td>0</td>
<td>-</td>
<td>20,534</td>
<td>+ 14,220.5</td>
<td>(20,527)</td>
<td>(14,743.3)</td>
<td>3</td>
<td>(28.1)</td>
<td>(20,631)</td>
<td>(124,909.0)</td>
</tr>
<tr>
<td>Mûtrai Villamos Mûvek Termelô Zrt. (Mûtra Power Generation Co. Ltd.)</td>
<td>0</td>
<td>-</td>
<td>1,526</td>
<td>+ 3,910.7</td>
<td>(1,510)</td>
<td>(3,869.0)</td>
<td>6</td>
<td>-</td>
<td>(1,606)</td>
<td>(12,621.2)</td>
</tr>
<tr>
<td>BVMT Bakonyi Villamos Mûvek Termelô Zrt. (BVMT Bakony Power Generation Co. Ltd.)</td>
<td>0</td>
<td>(99.3)</td>
<td>557</td>
<td>+ 355.1</td>
<td>(556)</td>
<td>(445.8)</td>
<td>1</td>
<td>(59.5)</td>
<td>(131)</td>
<td>(22.1)</td>
</tr>
<tr>
<td>Hungarowind Szélérômû Üzemeltô Kft. (Hungarowind Wind Power Plant Operating Ltd.)</td>
<td>1,323</td>
<td>+ 3.8</td>
<td>565</td>
<td>+ 18.5</td>
<td>1,111</td>
<td>(2.1)</td>
<td>353</td>
<td>+ 5.4</td>
<td>189</td>
<td>+ 151.3</td>
</tr>
</tbody>
</table>
### Member companies included in the full consolidation of the MVM Group

<table>
<thead>
<tr>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>Országos Villamosításvezeték Zrt. (National Power Line Company)</td>
<td>47,472</td>
<td>+ 3.9</td>
<td>45,910</td>
<td>(0.1)</td>
<td>1,281</td>
<td>(0.8)</td>
<td>604</td>
<td>+ 9.1</td>
<td>484</td>
<td>+ 48.9</td>
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<td></td>
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<tr>
<td>MVM ERBE ENERGETIKA Mérnököri Zrt. (MVM ERBE Power Engineering &amp; Consulting Ltd.)</td>
<td>5,847</td>
<td>(37.2)</td>
<td>6,191</td>
<td>(32.0)</td>
<td>140</td>
<td>(54.5)</td>
<td>71</td>
<td>+ 21.3</td>
<td>43</td>
<td>(82.4)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>VILLKESZ Villamosipari Kereskedelmi és Szolgáltatós Kft. (VILLKESZ Electricity Industry Commercial and Service Providing Ltd.)</td>
<td>1,637</td>
<td>(35.0)</td>
<td>1,928</td>
<td>(25.2)</td>
<td>206</td>
<td>(632.5)</td>
<td>24</td>
<td>(2.0)</td>
<td>276</td>
<td>(79,043.7)</td>
<td></td>
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<td>MVM Informatikai Zrt. (MVM Information Technologies Service Centre Ltd.)</td>
<td>6,601</td>
<td>+ 15.9</td>
<td>6,571</td>
<td>+ 12.4</td>
<td>2,308</td>
<td>+ 25.3</td>
<td>2,181</td>
<td>+ 26.0</td>
<td>17</td>
<td>(1.1)</td>
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<tr>
<td>MVM Kontó Pénzügyi és Számviteli Szolgáltató Központ Zrt. (MVM Kontó Finance and Accounting Service Centre Ltd.)</td>
<td>1,302</td>
<td>+ 16.7</td>
<td>1,305</td>
<td>+ 26.2</td>
<td>18</td>
<td>(80.5)</td>
<td>10</td>
<td>(2.1)</td>
<td>16</td>
<td>(80.2)</td>
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<tr>
<td>ATOMIX Kft. (ATOMIX Kft.)</td>
<td>4,511</td>
<td>+ 12.6</td>
<td>4,473</td>
<td>+ 13.1</td>
<td>113</td>
<td>(19.6)</td>
<td>36</td>
<td>+ 14.3</td>
<td>30</td>
<td>(65.1)</td>
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<td>ENERGO-MERKUR Kft. (ENERGO-MERKUR Kft.)</td>
<td>294</td>
<td>+ 15.7</td>
<td>280</td>
<td>+ 14.2</td>
<td>19</td>
<td>+ 34.4</td>
<td>3</td>
<td>+ 19.3</td>
<td>12</td>
<td>+ 26.4</td>
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<td>ER-EF Erőmű Kft. (ER-EF Power Plant Ltd.)</td>
<td>0</td>
<td>-</td>
<td>2</td>
<td>(0.8)</td>
<td>(2)</td>
<td>+ 0.7</td>
<td>0</td>
<td>-</td>
<td>(1)</td>
<td>(352.7)</td>
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<td>MVM System Investment Ukrajna Beruházási Kft. (MVM System Investment Ukraine Ltd.)</td>
<td>0</td>
<td>-</td>
<td>6</td>
<td>(15.1)</td>
<td>(6)</td>
<td>+ 15.1</td>
<td>0</td>
<td>-</td>
<td>1</td>
<td>(99.2)</td>
<td></td>
<td></td>
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<tr>
<td>MVM System Investment Ukraine Subsidiary</td>
<td>3</td>
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<td>28</td>
<td>(68.7)</td>
<td>(6)</td>
<td>(529.2)</td>
<td>19</td>
<td>(76.3)</td>
<td>28</td>
<td>+ 63.6</td>
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<td>Niker d.o.o.</td>
<td>137</td>
<td>+ 40.0</td>
<td>122</td>
<td>+ 14.3</td>
<td>16</td>
<td>+ 329.6</td>
<td>2</td>
<td>(6.2)</td>
<td>14</td>
<td>(93.9)</td>
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<td>Hotel Aranyhíd Kft. (Hotel Golden Bridge Ltd.)</td>
<td>152</td>
<td>(41.6)</td>
<td>220</td>
<td>(12.1)</td>
<td>(42)</td>
<td>(198.3)</td>
<td>26</td>
<td>(2.7)</td>
<td>(92)</td>
<td>(5,012.9)</td>
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<tr>
<td>Hotel Vértes Kft.</td>
<td>158</td>
<td>(31.0)</td>
<td>323</td>
<td>+ 12.4</td>
<td>(134)</td>
<td>(518.8)</td>
<td>25</td>
<td>(8.6)</td>
<td>(176)</td>
<td>(215.2)</td>
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<td>Bánhida Erőmű Kft. (Bánhida Power Plant Ltd.)</td>
<td>3</td>
<td>(68.7)</td>
<td>97</td>
<td>(89.5)</td>
<td>(92)</td>
<td>+ 89.8</td>
<td>1</td>
<td>(4.4)</td>
<td>(115)</td>
<td>+ 87.7</td>
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<tr>
<td>Római Irodaház Kft. (Római Office Building Ltd.)</td>
<td>1,863</td>
<td>+ 107.1</td>
<td>1,187</td>
<td>+ 114.3</td>
<td>1,060</td>
<td>+ 96.0</td>
<td>377</td>
<td>+ 92.7</td>
<td>(95)</td>
<td>+ 43.8</td>
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<tr>
<td>Member companies included in the full consolidation of the MVM Group</td>
<td>Shareholders’ equity</td>
<td>Total assets</td>
<td>Technical performance of projects</td>
<td>Average working headcount</td>
<td></td>
<td></td>
<td></td>
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</tr>
</tbody>
</table>
| Mağyar Villamos Művek Zrt.  
(Hungarian Power Companies Ltd.) | 375,209 | + 4.4 | 526,671 | + 3.1 | 3,810 | + 7.0 | 163 | + 12.4 |
| MVM Trade Villamosenergia Kereskedelmi Zrt.  
(MVM Trade Power Trading Ltd.) | 18,103 | (0.0) | 67,850 | (9.6) | 43 | (31.5) | 67 | + 14.4 |
| MVM Partner Energiakereskedelmi Zrt.  
(MVM Partner Energy Trading Ltd.) | 3,996 | + 0.0 | 12,623 | (12.8) | 180 | + 4.1 | 57 | + 5.9 |
| MVM-ADWEST GmbH | 1,313 | + 4.0 | 6,109 | + 12.7 | 1 | (79.9) | 11 | + 46.0 |
| HUPX Magyar Szervezett Villamosenergia-piac Zrt.  
(HUPX Hungarian Power Exchange Company Ltd.) | 134 | + 646.3 | 186 | + 782.9 | 5 | - | 2 | - |
| MVM Partner Serbia d.o.o Beograd | 11 | - | 11 | - | 0 | - | 0 | - |
| MAVIR Magyar Villamosenergia-ipari Átviteli Rendszerügyi Zrt.  
(MAVIR Hungarian Transmission System Operator Company Ltd.) | 266,708 | + 10.9 | 399,874 | + 11.1 | 26,511 | + 6.9 | 611 | + 2.1 |
| Paks Atomérmû Zrt. (Paks Nuclear Power Plant Ltd.) | 129,612 | + 0.0 | 194,879 | + 3.8 | 18,470 | + 23.9 | 2,486 | + 6.4 |
| Vértes Ermû Zrt.  
(Vértes Power Plant Ltd.) | (11,902) | (2,702.9) | 31,350 | (26.2) | 724 | (63.9) | 1,318 | (30.0) |
| MVM Észak-Budai Kogenerációs Fűtûermû Kft.  
(MVM North Buda Cogeneration Power Plant Ltd.) | 7,355 | + 15.2 | 18,144 | + 5.5 | 44 | (50.5) | 45 | + 2.3 |
| Tatánnya Ermû Kft. (Tatánnya Power Plant Ltd.) | 392 | (89.6) | 0 | (100.0) | 0 | (100.0) | 0 | (100.0) |
| MIFU Miskolci Fűtûermû Kft.  
(MIFU Miskolc Central Heating Plant Ltd.) | 298 | + 102.9 | 2,037 | + 13.2 | 6 | (92.0) | 110 | (25.0) |
| Kápárt Energo Kft. | (10,746) | (208.7) | 8,387 | (60.1) | 1,400 | (69.4) | 6 | + 10.0 |
| Mûtrai Villamos Mûvek Termelô Zrt.  
(Mûtra Power Generation Co. Ltd.) | (420) | (135.4) | 409 | (67.0) | 835 | + 46.2 | 5 | - |
| BVMT Bakonyi Villamos Mûvek Termelô Zrt.  
(BVMT Bakony Power Generation Co. Ltd.) | 4,005 | (3.2) | 19,235 | + 200.6 | 8,553 | + 393.2 | 5 | + 14.5 |
| Hungarowind Szélérômû Üzemeltetô Kft.  
(Hungarowind Wind Power Plant Operating Ltd.) | 2,683 | + 542.9 | 8,332 | (8.9) | 0 | (91.0) | 0 | - |
| Országos Villamostávvezetô Zrt.  
(National Power Line Company) | 7,308 | + 21.2 | 19,067 | (6.5) | 1,345 | + 104.2 | 1,582 | (1.7) |
| MVM ERBE ENERGETIKA Mérnôközi Zrt.  
(MVM ERBE Power Engineering Consulting Ltd.) | 981 | + 0.0 | 3,100 | (18.9) | 161 | +11.2 | 270 | (4.3) |
| VILLKESZ Villamosipari Kereskedelmi és Szolgáltató Kft.  
(VILLKESZ Electricity Industry Commercial and Service Providing Ltd.) | 370 | (42.7) | 1,541 | (10.5) | 61 | (79.9) | 272 | + 11.5 |
| MVM Informatikai Zrt.  
(MVM Information Technologies Service Centre Ltd.) | 5,392 | + 0.0 | 8,246 | + 6.6 | 2,062 | (35.3) | 141 | + 7.6 |
| MVM Kontô Pénzûgyi és Számviteli Szolgáltató Központ Zrt.  
(MVM Kontô Finance and Accounting Service Centre Ltd.) | 302 | + 193.6 | 594 | + 16.2 | 22 | + 345.6 | 110 | (0.1) |
| ATOMIX Kft. | 230 | + 15.2 | 791 | (1.2) | 61 | + 20.0 | 734 | + 8.5 |
| ENERGO-MERKUR Kft. | 68 | + 0.0 | 108 | + 15.6 | 1 | (87.6) | 7 | - |
| ER-ER Érômû Kft. (ER-ER Power Plant Ltd.) | 49 | (1.4) | 49 | (1.0) | 0 | - | 0 | - |
| MVM System Investment Ukrajna Beruházási Kft.  
(MVM System Investment Ukraine Ltd.) | 201 | + 0.6 | 203 | (2.8) | 0 | - | 0 | - |
| MVM System Investment Ukrajna Subsidiary | 143 | (6.5) | 143 | (6.5) | 0 | - | 2 | - |
| Niker d.o.o. | (801) | + 3.6 | 513 | + 7.5 | 0 | (100.0) | 3 | (25.0) |
| Hotel Aranyhíd Kft. (Hotel Golden Bridge Ltd.) | 343 | (21.2) | 625 | (5.8) | 2 | (66.6) | 28 | (16.0) |
| Hotel Vértes Kft. | 296 | (37.2) | 907 | + 4.5 | 41 | + 2,229.9 | 38 | (2.6) |
| Bánhida Érômû Kft. (Bánhida Power Plant Ltd.) | 427 | (21.2) | 1,316 | (0.6) | 5 | (75.6) | 0 | (100.0) |
| Rômai Irodaház Kft. (Rômai Office Building Ltd.) | 8,324 | + 5,017.2 | 19,875 | + 0.4 | 945 | (94.8) | 10 | + 446.4 |
## 3.2 Pecuniary Situation of the Group

<table>
<thead>
<tr>
<th>Ratio</th>
<th>Fixed assets</th>
<th>Total assets</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Fixed Assets Ratio</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>31 December 2009</td>
<td>616,962</td>
<td>814,727</td>
<td>0.76</td>
</tr>
<tr>
<td>31 December 2010</td>
<td>655,689</td>
<td>876,311</td>
<td>0.75</td>
</tr>
<tr>
<td><strong>Current Assets Ratio</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>31 December 2009</td>
<td>187,868</td>
<td>814,727</td>
<td>0.23</td>
</tr>
<tr>
<td>31 December 2010</td>
<td>208,944</td>
<td>876,311</td>
<td>0.24</td>
</tr>
<tr>
<td><strong>Capital Adequacy Ratio</strong></td>
<td>Shareholders' equity</td>
<td>Total equity and liabilities</td>
<td>Value</td>
</tr>
<tr>
<td>31 December 2009</td>
<td>489,828</td>
<td>814,727</td>
<td>0.60</td>
</tr>
<tr>
<td>31 December 2010</td>
<td>522,021</td>
<td>876,311</td>
<td>0.60</td>
</tr>
<tr>
<td><strong>Leverage Ratio</strong></td>
<td>Liabilities</td>
<td>Shareholders' equity</td>
<td>Value</td>
</tr>
<tr>
<td>31 December 2009</td>
<td>191,220</td>
<td>489,828</td>
<td>0.39</td>
</tr>
<tr>
<td>31 December 2010</td>
<td>239,102</td>
<td>522,021</td>
<td>0.46</td>
</tr>
<tr>
<td><strong>Capital Growth Ratio</strong></td>
<td>Shareholders' equity</td>
<td>Issued capital</td>
<td>Value</td>
</tr>
<tr>
<td>31 December 2009</td>
<td>489,828</td>
<td>200,316</td>
<td>2.45</td>
</tr>
<tr>
<td>31 December 2010</td>
<td>522,021</td>
<td>200,316</td>
<td>2.61</td>
</tr>
<tr>
<td><strong>Fixed Assets Coverage Ratio</strong></td>
<td>Shareholders' equity, long-term liabilities</td>
<td>Fixed assets</td>
<td>Value</td>
</tr>
<tr>
<td>31 December 2009</td>
<td>574,716</td>
<td>616,962</td>
<td>0.93</td>
</tr>
<tr>
<td>31 December 2010</td>
<td>640,846</td>
<td>655,689</td>
<td>0.98</td>
</tr>
<tr>
<td><strong>Book Value Per Share (BVPS)</strong></td>
<td>Shareholders' equity (HUF th)</td>
<td>Number of shares</td>
<td>Value</td>
</tr>
<tr>
<td>31 December 2009</td>
<td>489,827,326</td>
<td>25,039,540</td>
<td>19.56</td>
</tr>
<tr>
<td>31 December 2010</td>
<td>522,021,385</td>
<td>25,039,540</td>
<td>20.85</td>
</tr>
</tbody>
</table>

The Fixed Assets Ratio and the Current Assets Ratio were largely influenced by the fact that tangible assets and financial assets increased within fixed assets, as well as inventories and the portfolio of liquid assets increased within current assets. The improvement of the Capital Growth Ratio was caused by an increase in the shareholders' equity.
3.3 Development of Profits and Losses

The development of the economic situation of the Group in 2010 can be compared to the 2009 figures by taking into account the effect of the following major factors:

In 2010, Tatabánya Erőmű Kft. (Tatabánya Power Plant Ltd.) was withdrawn from the consolidated group, the profit before tax of which increased the profit before tax of the Group by HUF 1,251 million in 2009, while it only increased the profit before tax of the Group by HUF 365 million in 2010 due to its removal from the books at the end of February.

The Group closed the 2010 business year with a profit before tax of HUF 36,742 million, which developed as follows with respect to the main items of the Profit and Loss Account:

<table>
<thead>
<tr>
<th>Ref. No.</th>
<th>Item description</th>
<th>2009 HUF m</th>
<th>2010 HUF m</th>
<th>Difference HUF m</th>
<th>Change (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>I.</td>
<td>Net sales</td>
<td>580,667</td>
<td>557,468</td>
<td>(23,199)</td>
<td>(4.00)</td>
</tr>
<tr>
<td>II.</td>
<td>Own performance capitalised</td>
<td>31,351</td>
<td>24,958</td>
<td>(6,393)</td>
<td>(20.39)</td>
</tr>
<tr>
<td>III.</td>
<td>Other income</td>
<td>30,990</td>
<td>43,702</td>
<td>12,712</td>
<td>41.02</td>
</tr>
<tr>
<td>IV.</td>
<td>Material-type expenses</td>
<td>378,330</td>
<td>377,786</td>
<td>(544)</td>
<td>(0.14)</td>
</tr>
<tr>
<td>V.</td>
<td>Staff costs</td>
<td>7,505</td>
<td>7,492</td>
<td>8 (0.11)</td>
<td>(0.11)</td>
</tr>
<tr>
<td>VI.</td>
<td>Depreciation charge</td>
<td>39,305</td>
<td>41,771</td>
<td>2,466</td>
<td>6.27</td>
</tr>
<tr>
<td>VII.</td>
<td>Other operating expenses</td>
<td>76,517</td>
<td>101,723</td>
<td>25,206</td>
<td>32.94</td>
</tr>
<tr>
<td>&quot;A&quot;</td>
<td>Trading profit/(−)loss</td>
<td>77,351</td>
<td>29,956</td>
<td>(47,395)</td>
<td>(61.27)</td>
</tr>
<tr>
<td>&quot;B&quot;</td>
<td>Profit/(−)loss on financial transactions</td>
<td>10,957</td>
<td>7,083</td>
<td>(3,874)</td>
<td>(35.36)</td>
</tr>
<tr>
<td>&quot;D&quot;</td>
<td>Extraordinary profit/(−)loss</td>
<td>(2,940)</td>
<td>(297)</td>
<td>2,643</td>
<td>(89.90)</td>
</tr>
<tr>
<td>&quot;E&quot;</td>
<td>Profit before tax</td>
<td>85,368</td>
<td>36,742</td>
<td>(48,626)</td>
<td>(56.96)</td>
</tr>
</tbody>
</table>

The profit before tax in the Profit and Loss Account of the Group prepared for consolidation amounted to HUF 45,264 million, which decreased by HUF 8,522 million during consolidation. The development of the 2010 profit before tax was influenced by the following major consolidation factors:

- Capital consolidation increased the change in the profit before tax mainly by the reversed amount of the loss in value accounted for the shares in subsidiaries accounted for in 2010 by HUF 2,642 million in total. (The loss in value accounted for the share held by Vértesi Erőmű Zrt. (Vértes Power Plant Ltd.) in Bánhida Erőmű Kft. (Bánhida Power Plant Ltd.) is HUF 115 million; the loss in value accounted for the share held by Magyar Villamos Művek Zrt. (Hungarian Power Companies Ltd.) in Hotel Aranyhid Kft. (Hotel Golden Bridge Panorama Ltd.) is HUF 238 million; the loss in value accounted for the share held by Magyar Villamos Művek Zrt. (Hungarian Power Companies Ltd.) in Hotel Vértés Kft. (Hotel Vértes Ltd.) is HUF 247 million; the loss in value accounted for the share held by Magyar Villamos Művek Zrt. (Hungarian Power Companies Ltd.) in VILLKESZ Villamosipari Kereskedelmi és Szolgáltató Kft. (VILLKESZ Ltd.) is HUF 544 million, and the loss in value accounted for the share held by Magyar Villamos Művek Zrt. (Hungarian Power Companies Ltd.) in Mátrai Villamos Művek Termelő Zrt. (Mátra Power Generation Co. Ltd.) is HUF 1,498 million.) At the same time, capital consolidation decreased the profit before tax by rolling over the HUF 332 million reversal at the consolidated level of the loss in value relating to the participating interest held by Magyar Villamos Művek Zrt. (Hungarian Power Companies Ltd.) in MVM Észak-Budai Kogenerációs Fűtőerőmű Kft. (MVM North Buda Cogeneration Power Plant Ltd.) in 2010. The effect of the valuation in the subject year of the companies treated as associated companies (through the valuation of participating interests) was an increase of HUF 2,781 million in 2010.

- The effect of the change in dividends and profit-sharing...
paid and approved, filtered out during the consolidation of yields and expenses, represented a decrease of HUF 35,757 million in the profit before tax.

- Similarly, the filtering out of the loss in value of loans within the Group during the consolidation of yields and expenses represented an increase of HUF 6,383 million in the profit before tax.

- The consolidation of intragroup profits/losses increased the profit before tax by HUF 16,073 million, including the following outstanding items:
  - profit achieved in 2010 in connection with the establishment of the TSO in 2006: HUF +5,844 million,
  - depreciation in 2010 of the profit generated on assets in course of construction and the sales of assets within the Group prior to 2010: HUF +2,646 million,
  - The roll-over of the scrapping of tangible assets and inventories by Kárpát Energo Kft. (Kárpát Energo Ltd.) in 2010 was carried out in such a way that these assets are stated at a value of HUF 0 in the 2010 Consolidated Report (losses in value/extraordinary depreciation had already been accounted for in respect of these assets in the pre-2010 Consolidated Reports, while these write-offs were only carried out in the individual books of Kárpát Energo Kft. (Kárpát Energo Ltd.) in 2010): HUF +12,746 million,
  - profit generated on assets in course of construction and the sales of assets within the Group in 2010: HUF +4,259 million,
  - loss in value of the tangible assets of MIFÜ Miskolci Fűtőerőmű Kft. (MIFÜ Ltd.) at the consolidated level in 2010: HUF –828 million.

The HUF 48,626 million decrease in the profit before tax achieved at the consolidated level relative to 2009 was mostly affected by the significant change in the individual profitability of the companies.

### 3.4 Financing and Risk Management

#### Financing

On 31 December 2010, the MVM Group had an outstanding loan balance of HUF 130.2 billion, mostly in the form of long-term HUF and foreign currency bank loans (the 2011 instalment of HUF 11.7 billion is included among current liabilities), which is HUF 16.7 billion lower than planned. The long-term outstanding loan balance increased by HUF 37.7 billion compared to the balance in the previous year as a result of a new long-term loan contract concluded in 2010. The Company was amortising its long-term bank loans according to their payment schedule in 2010.

As Holding Centre, Magyar Villamos Művek Zrt. (Hungarian Power Companies Ltd.) is responsible for ensuring the liquidity of the whole Group through the cash pool systems run by it. In previous years, multi-purpose credit facilities committed by leading domestic financial institutions (including overdraft facilities, revolving credit facilities and bank guarantee credit facilities) represented the primary source of liquidity. In 2010, too, the Group committed a significant amount of credit facilities and, at the same time, as a result of successful business operations, also had a significant amount of liquid assets to manage liquidity risks.

As part of the cash pool settlements of the MVM Group, Magyar Villamos Művek Zrt. (Hungarian Power Companies Ltd.) obtained HUF 46.0 billion in funds from the member companies on 31 December 2010, provided HUF 5.0 billion in funds to them, and placed HUF 64.2 billion within the framework of other loan transactions. Thus, Magyar Villamos Művek Zrt. (Hungarian Power Companies Ltd.) used the funds obtained from member companies which have surplus funds to finance other member companies of the Group which have a shortage of funds.

The portfolio of liquid assets of the Group was HUF 49.9 billion at the end of 2010, which exceeded the projected figure by HUF 4.4 billion, and decreased by HUF 7.8 billion compared to last year’s figure. The expenses on financial transactions exceeded the projected figure slightly, by HUF 0.5 billion, and improved by HUF 3.9 billion compared to the previous year’s figure. As a result of the foregoing, the consolidated profit generated by the financial activities of the Group was actually HUF 7.1 billion in 2010, which is higher than projected by HUF 3.9 billion and is lower than the profit figure at 2009 end by HUF 3.9 billion.

By analysing the cash flow of the Group, one can establish that in 2010, a cash flow of HUF 24.8 billion was generated by its operations, which is HUF 16.6 billion higher than projected, and HUF 6.1 billion lower than the previous year’s figure. The difference from the projected figures results from the following effects:
The effect of the profit before tax is HUF -0.7 billion, the effect of the payment of a corporate tax higher than projected is HUF -3.8 billion, and the effect of the interim dividend paid to the Shareholder on the previous year’s profit is HUF -15.0 billion. The adjustment of profit/loss items not involving any money movement and reclassified into the investment and financing cash flow category caused a difference of HUF +15.0 billion, of which the effect of losses in value and scrapping accounted for amounted to a difference of HUF +11.1 billion. The effect of a change in working capital elements on the cash flow was HUF 21.1 billion higher than projected, mainly in connection with the greater portfolio of liabilities.

Investment activities decreased the liquid assets at the disposal of the Group by HUF 57.0 billion, their figure is HUF 44.9 billion higher than projected, while it exceeded the previous year’s figure by HUF 5.0 billion, mainly as a result of the combined effect of unimplemented projects and investments and payments for implemented projects over the projected amounts. The cash flow resulting from financing increased the portfolio of liquid assets of the Group by HUF 43.9 billion, its value was HUF 22.1 billion lower than projected; the difference was caused by a higher cash flow from operations and lower financing needs decreasing as a result of unimplemented projects. Its value exceeded the previous year’s figure by HUF 47.1 billion. As a result of the foregoing, the group-level portfolio of liquid assets increased by HUF 11.6 billion compared to the opening portfolio of liquid assets in 2010.

The closing value of the outstanding loan balance in 2010 amounted to HUF 130.2 billion, which was HUF 16.7 billion lower than the value set in the plan. The major factors of the difference included the following: At Magyar Villamos Művek Zrt. (Hungarian Power Companies Ltd.), the lower outstanding loan balance associated with the lower financing needs of the member companies and projects decreased the outstanding loan balance by HUF 15.5 billion; the protraction of the disbursement of a bank loan associated with the rescheduling of the projects of BVMT Bakonyi Villamos Művek Termelő Zrt. (BVMT Bakony Power Generation Co. Ltd.) decreased the outstanding loan balance by HUF 2.1 billion, and the effect of the refinancing of the external outstanding loan balance of Hungarowind Szélerőmű Üzemeltető Kft. (Hungarowind Wind Power Plant Operating Ltd.) decreased the outstanding loan balance by HUF 2.0 billion. Due to the less favourable financing situation of the mandatory power purchase scheme (KÁT), the higher value of the short-term bank loans of MAVIR Magyar Villamosenergia-ipari Átviteli Rendszerirányító ZRT. (MAVIR Hungarian Transmission System Operator Company Ltd.) increased the outstanding loan balance by HUF 1.7 billion, the loan not amortised by Vértési Erőmű Zrt. (Vértes Power Plant Ltd.) due to the bankruptcy proceedings increased the outstanding loan balance by HUF 0.9 billion, and the revaluation of the bank loans borrowed by Római Iro-daház Kft. (Római Office Building Ltd.) in a foreign currency increased the outstanding loan balance by HUF 0.3 billion. The balance of unplanned short-term loan portfolio was HUF 0.2 billion, which included a loan borrowed by BVMT Bakonyi Villamos Művek Termelő Zrt. (BVMT Bakony Power Generation Co. Ltd.) from outside the Group.

The Group had an Indebtedness Ratio (liabilities/total equity and liabilities) of 27.3% at 2010 end, which represents a conservative capital structure. Its Liquidity Ratio was 1.9. Both ratios show a positive picture of the Group, and their value correspond to the generally expected values.

Risk Management System

In the past years, Magyar Villamos Művek Zrt. (Hungarian Power Companies Ltd.) continued the development of a framework for the risk management activities of the Group: a Group-level Risk Management Code of Practice was completed and, at the same time, its gradual introduction also began. The introduction of an integrated group-level risk management system and its application integrated in corporate management allow Magyar Villamos Művek Zrt. (Hungarian Power Companies Ltd.) and its member companies to:

- identify and analyse the strategic, operational, compliance and financial risks influencing the goals and success of the member companies in time according to a uniform methodology;
- assess the risks found according to a uniform methodology;
- appropriately coordinate the risks to be managed and to work out a successful action plan for the management of risks;
- systematically communicate the information associated with the risks to the responsible decision-makers in the form of a Risk Report;
- track the relevant risks.

Within the framework of regular reporting, each of the member companies reports on its risk situation on a quarterly basis. The member companies belong to three reporting categories according to the reporting limits they have to take into account when compiling their risk reports. Companies not included in the risk management project have not been included in any of the categories due to their low importance in terms of

The Group as a whole manages the risk report of the Hungarian Power Companies Ltd. and its member companies to:

- appropriately coordinate the risks to be managed and to work out a successful action plan for the management of risks;
- systematically communicate the information associated with the risks to the responsible decision-makers in the form of a Risk Report;
- track the relevant risks.

Within the framework of regular reporting, each of the member companies reports on its risk situation on a quarterly basis. The member companies belong to three reporting categories according to the reporting limits they have to take into account when compiling their risk reports. Companies not included in the risk management project have not been included in any of the categories due to their low importance in terms of.

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Concerning high priority risk areas, the Group performs its activities according to the following principles:

- **Financial risks:** The management of foreign exchange rate and interest risks is performed centrally by the Finance Department of Magyar Villamos Művek Zrt. (Hungarian Power Companies Ltd.) The risks are measured on the basis of a group-level model, and decisions are made on the conclusion of any hedging transactions which may be necessary on the basis of an analysis of group-level exposures.

- **Partner risk:** The centralised Partner Risk Management System operated by Magyar Villamos Művek Zrt. (Hungarian Power Companies Ltd.) covers the trading subsidiaries of the Group, since the generation and service-providing companies sell their products mainly to the Group members. The maximum credit risk exposure allowable towards business partners (partner limit) is determined by Magyar Villamos Művek Zrt. (Hungarian Power Companies Ltd.) on the basis of the partner’s credit solvency. The trading companies determine the applicable terms of payment by taking into account such credit solvency.

- **Operational risks:** Paksi Atomerőmű Zrt. (Paks Nuclear Power Plant Ltd.), which generates electricity using nuclear energy, and MAVIR Magyar Villamosenergiaipari Átviteli Rendszerirányító Zrt. (MAVIR Hungarian Transmission System Operator Company Ltd.), which performs the Transmission System Operator’s responsibilities, perform activities that require an especially high availability by running high-value technologies. At these companies, the proper management of operative risks plays a key role in allowing the Group as a whole to operate successfully. With regard to this, both companies have a comprehensive quality assurance system in place guaranteeing controlled technological processes and full compliance with the regulations, which minimises operational risks.
4. EVALUATION OF ACTIVITIES

4.1 Economic and Regulatory Environment

Statutory Background in the European Union

In order to improve the conditions of energy market liberalisation, the European Commission worked out a new proposal entitled “Third Energy Package” in 2007, which was approved by the European Parliament in 2009. The two new directives (regarding the electricity market and the gas market) introduced new regulations which are different from the previous ones in a number of areas (taking effect in 2011 and 2012). The most important such change relates to the separation of the operation of the transmission and distribution network from generation and trade.

According to the new Electricity Directive (2009/72) adopted within the framework of the third energy regulatory package, the Member States may choose from the following three alternatives:
1. Full Ownership Unbundling
2. Designation of an Independent System Operator (ISO model)
3. Independent Transmission Operator (ITO model)

Of the options offered by the EU regulation, Hungary decided in favour of implementing the ITO model by passing Act VII of 2010 on the Amendment of Certain Energy-related Acts, on the basis of the following arguments:
- The ITO model ensures that the operation of the transmission system be independent of the generation and trading&supply activities.
- It excludes discrimination in favour of vertically integrated companies.
- It excludes the omission of developments for the purpose of restricting competition.
- It does not allow the forced sale of any participating interest held in the company operating the network infrastructure and system (threatening with serious economic damage for the vertically integrated company) and against the national interests of Hungary.
- The ITO model (as opposed to full ownership unbundling) does not represent a definitive, irrevocable obligation, thus full ownership unbundling is possible at any time.
- No change is needed in the ownership of the infrastructure.

According to Directive 2009/73/EC, the essence of the ITO model is that:
- the electricity transmission system is operated by its owner;
- the company engaged in system operation activity may remain within the framework of the vertically integrated company.

This condition is met in the electricity market (and also in the natural gas market), that is, the electricity transmission system operator is the owner of the network infrastructure operated by it, and compliance with the new directives essentially means that the regulations are rendered more stringent. The Member States are obliged to take the measures required for their compliance with the directive by 3 March 2012, and are obliged to apply the national rules serving the implementation of the directive as of 3 March 2012.

The other provisions of the Third Energy Package apply to the strengthening of the role of the market supervision and regulatory authorities, the establishment of a framework for their international cooperation and the establishment of the Agency for the Cooperation of Energy Regulators (ACER).

The next important change in the European Union law took place in December 2010, when a Council Decision facilitating the closure of uncompetitive coal mines

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was adopted in Brussels³. The previous Council Regulation 1407/2002/EC on state aid to the coal industry ceased to be in force on 31 December 2010. The new law (Council Decision) allowed some of the costs associated with the closure of uncompetitive coal mines to be covered from state funds as shutdown subsidy. Within the MVM Group, it can be examined in connection with the closure of Vértesi Erômû Zrt. (Vértes Power Plant Ltd.) what opportunities are offered by the change in law.

Statutory Changes in Hungary (2010)

The statutory changes affecting the electricity sector concerned the following areas:

- **Chapter II of Act VII of 2010 (on the Amendment of Certain Energy-related Acts)** amended Act LXXXVI of 2007 on Electricity. The Act was amended due to the provisions of the Third Energy Package of the European Union. According to the amendment, ownership of MAVIR Magyar Villamosenergia-ipari Átviteli Rendszerirányító ZRt. (MAVIR Hungarian Transmission System Operator Company Ltd.), which is responsible for the operation of the electricity transmission system and operates according to the ITO model (Independent Transmission Operator) as an independent transmission system operator company instead of the previous TSO model (Transmission System Operator)⁴, remains with Magyar Villamos Mûvek Zrt. (Hungarian Power Companies Ltd.) The transmission system operator has to comply with the ownership unbundling rules under the ITO model not later than by 3 March 2012.

- **According to Act LV of 2010 (on the Amendment of Act XL of 2008 on Natural Gas Supply and Act LXXXVI of 2007 on Electricity), the consumers may purchase electricity of specific quality from universal service providers within the framework of universal services at an equitable, easily and clearly comparable, transparent price. The universal service providers sell electricity to the public, small businesses and public institution users on the basis of an operational licence. The price of the electricity so sold qualifies as government-regulated price. The establishment of the unit prices of universal service providers was transferred to the competence of the Minister as of the second half of 2010. The government-regulated prices shall be announced at least 30 days before they take effect, and the announced government-regulated prices shall be regarded as the highest prices.

- **Act CLXXXI of 2010 (on the Amendment of Certain Energy-related Acts and Act LXXVIII of 1997 on the Alteration and Protection of the Built Environment)** decreased the acceptance price of electricity cogenerated with heat and sold under mandatory power purchase terms (KÁT) significantly (by 15%) as of 1 January 2011, and prescribed an additional reduction of 15% as of 2012. Almost 60% of the funds collected through the mandatory power purchase scheme was used for the subsidisation of electricity cogeneration in 2010. Therefore, it was stated that this proportion needed to be reduced, even through the complete transformation of the mandatory power purchase scheme. This statutory change was one of the steps of the transformation of the mandatory power purchase scheme.

³Council Decision of 10 December 2010 on State aid to facilitate the closure of uncompetitive coal mines

⁴The essence of the model is that one company performs the activities of the transmission licence holder and the system operation licence holder, and the Transmission System Operator (TSO) has to be established within the MVM Group. It was another condition of the TSO model that all activities should be performed in a stand-alone company in the vertically integrated system
4.2 Trade

The MVM Group is the dominant electricity wholesaler in Hungary (through 26. MVM Trade Villamosenergia Kereskedelmi ZRt. [MVM Trade Power Trading Ltd.]) and also holds a major interest in the retail and direct consumer sales markets (MVM Partner Energiakereskedelmi ZRt. [MVM Partner Energy Trading Ltd.] and MVM Adwest GmbH).

At the end of 2010, the Trading Division of the MVM Group comprised the member companies listed below:

- **MVM Trade Villamosenergia Kereskedelmi ZRt.** (MVM Trade Power Trading Ltd.)
- **MVM Partner Energiakereskedelmi ZRt.** (MVM Partner Energy Trading Ltd.)
- **MVM-ADWEST Marketing und Handelsgesellschaft GmbH** (MVM-ADWEST GmbH)
- **HUPX Magyar Szervezett Villamosenergia-piac Zrt.** (HUPX Hungarian Organised Electricity Market Ltd.)
- **MVM Partner Serbia d.o.o.**

In 2010, MVM Partner Energiakereskedelmi ZRt. (MVM Partner Energy Trading Ltd.) established a subsidiary under the name of MVM Partner Serbia d.o.o., holding 100% interest in it, and the MVM Group acquired a further interest in the power supply companies 27. ELMŰ Nyr. (ELMŰ plc) and 27. ÉMÁSZ Nyr. (ÉMÁSZ plc) through share purchases. It has no significant influence for the time being on the universal service provision activity due to its minority interest held in the power supply companies.

### 4.2.1 MVM Trade Villamosenergia Kereskedelmi ZRt. (MVM Trade Power Trading Ltd.)

Within the MVM Group, the activities of MVM Trade Villamosenergia Kereskedelmi ZRt. (MVM Trade Power Trading Ltd.) are determined by, on the one hand, the laws in force and, on the other hand, the group-level Trading Strategy of Magyar Villamos Művek Zrt. (Hungarian Power Companies Ltd.), which covers all trading activities relating to electricity. On the basis of its electricity trading operations, MVM Trade Villamosenergia Kereskedelmi ZRt. (MVM Trade Power Trading Ltd.) is predominantly engaged in wholesale activities in a transparent way, almost exclusively with market products. The Company is market leading in this segment in the Hungarian electricity market, but it is also an important player in the regional market which also includes the markets of the surrounding countries. Its objectives are to continuously strengthen its role in the region and to increase its success and market value. Evaluating its role in the domestic market, the Hungarian Energy Office identified MVM Trade Villamosenergia Kereskedelmi ZRt. (MVM Trade Power Trading Ltd.) as a licence holder with Significant Market Power (SMP) in its Decisions Nos. 727/2008, 739/2008 and 963/2008. The Company sells electricity under market conditions, using the opportunities provided by the domestic and regional electricity markets. It sells electricity, on the one hand, to companies holding a “universal service licence” under a several-year market-based purchase agreement and, on the other hand, it also participates in regular “capacity auctions” in connection with the Significant Market Power rating given by the Hungarian Energy Office.

The source side of the sales activities of MVM Trade Villamosenergia Kereskedelmi ZRt. (MVM Trade Power Trading Ltd.) mostly comprise the agreements concluded by the Company and the generators pursuant to the EU regulations and the recommendations made by the European Federation of Energy Traders (EFET). Procurements from power plants are supplemented by purchases from the System Operator and in the competitive market.

In cooperation with the other market players, the Company intensively aimed for continuously increasing the liquidity of the domestic competitive electricity market. The success of this activity is shown by the fact that despite the extraordinary and dramatic

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5 HUPX Magyar Szervezett Villamosenergia-piac Zrt. (HUPX Ltd.) is a subsidiary owned 100% by MAVIR Magyar Villamosenergia-ipari Átviteli Rendszerirányító Zrt. (MAVIR Hungarian Transmission System Operator Company Ltd.) The licence holder active in the organised electricity market does not qualify as a trader, it is a completely different licence holder category, but it was included in the Trading Business Unit in accordance with the categorisation used by MVM from a management point of view.
In 2010, purchases from domestic power plants accounted for 90.9% of power purchases. The proportion of power purchased from abroad was 4.3%, and the proportion of power purchased from the competitive market and MAVIR Magyar Villamosenergiaipari Átviteli Rendszerirányító Zrt. (MAVIR Hungarian Transmission System Operator Company Ltd.) was 4.8%. The majority of the purchased power was nuclear-based power, which is advantageous from a sustainability point of view, not only at the annual level, but also within that, because its generation did not result in greenhouse gas emissions. Almost all electricity generated from hydrocarbon fuels was obtained from highly efficient, what are called combined cycle power plants, and it was electricity cogenerated with heat to a significant extent. Universal service providers demanded 46.4% of all power sold under wholesale arrangements, and 47.3% of the power was sold in the competitive market. The share of exports was 4.3%. Sale to the System Operator accounted for the remaining 2.0%.

The wholesale activities of MVM Trade Villamosenergia Kereskedelmi ZRt. (MVM Trade Power Trading Ltd.) are characterised by transparency. It lays down the terms and conditions of the agreements under the same conditions and at the same time as with the companies which hold a licence for the provision of universal services. It publishes the auctions in the competitive market on the internet websites of MVM, thus, in the case of the products offered by MVM Trade, all trading licence holders and consumers can make its decisions on the basis of a system of rules made public in advance and in the knowledge of the terms and conditions. Decree No. 6/2008 (V.18.) KHEM made mandatory the disclosure of information which is important with regard to sustainability effects, and pursuant to the decree, all traders, including MVM Trade Villamosenergia Kereskedelmi ZRt. (MVM Trade Power Trading Ltd.), shall inform electricity customers of the breakdown of the products purchased by them by primary energy resource. The obligation to provide information is to be fulfilled once a year, subsequently. MVM Trade Villamosenergia Kereskedelmi ZRt. (MVM Trade Power Trading Ltd.) fulfils its above obligation on every occasion.

Since MVM Trade Villamosenergia Kereskedelmi ZRt. (MVM Trade Power Trading Ltd.) is predominantly engaged in wholesale activities and the large consumers that may appear among its customers, being usually trading licence holders at the same time, are closer to traders than to traditional end consumers, the marketing communication of the Company is also totally different from usual. The reason for this is that the partners can also have wide, correct and standard
knowledge about the conditions in the electricity market. Essential features of communication are reliability, transparency and freedom from discrimination, and MVM Trade Villamosenergia Kereskedelmi ZRT. (MVM Trade Power Trading Ltd.) also met these requirements in 2010.

4.2.2 MVM Partner Energiakereskedelmi ZRt. (MVM Partner Energy Trading Ltd.)

The wholesale activities of MVM Partner Energiakereskedelmi ZRt. (MVM Partner Energy Trading Ltd.), as the electricity trading subsidiary of the MVM Group in the competitive market, cover the domestic and—through cross-border interconnections—international markets in addition to consumer sales. In 2010, the Company purchased electricity from domestic power plants, MVM Trade Villamosenergia Kereskedelmi ZRT. (MVM Trade Power Trading Ltd.), other traders and through import. The market share of MVM Partner Energiakereskedelmi ZRT. (MVM Partner Energy Trading Ltd.) was 2.7% in the wholesale market and 7% in the market of non-household users.

In 2010, the total electricity sales of the Company exceeded 4 TWh, and it achieved a profit after tax of HUF 499 million.

The main components of the electricity sales of the Company are set forth in the following table:

<table>
<thead>
<tr>
<th>Major trade figures of MVM Partner Energiakereskedelmi ZRt. (MVM Partner Energy Trading Ltd.) (GWh)</th>
<th>2009 HUF m</th>
<th>2010 HUF m</th>
<th>Change (%) 2010/2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total electricity purchased</td>
<td>3,994</td>
<td>4,249</td>
<td>+ 6.4</td>
</tr>
<tr>
<td>Of which: from domestic power plants</td>
<td>1,677</td>
<td>1,295</td>
<td>(22.8)</td>
</tr>
<tr>
<td>from electricity traders</td>
<td>1,626</td>
<td>1,418</td>
<td>(12.8)</td>
</tr>
<tr>
<td>from imports</td>
<td>343</td>
<td>1,199</td>
<td>+ 249.7</td>
</tr>
<tr>
<td>from the Transmission System Operator</td>
<td>348</td>
<td>336</td>
<td>(3.3)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Total electricity sold</th>
<th>3,994</th>
<th>4,249</th>
<th>+ 6.4</th>
</tr>
</thead>
<tbody>
<tr>
<td>Of which: to users</td>
<td>1,458</td>
<td>1,499</td>
<td>+ 2.8</td>
</tr>
<tr>
<td>to electricity traders</td>
<td>2,179</td>
<td>1,657</td>
<td>(24.0)</td>
</tr>
<tr>
<td>exports</td>
<td>356</td>
<td>1,093</td>
<td>+ 206.9</td>
</tr>
</tbody>
</table>

When the market was opened on 1 January 2003, the primary goal of the Company was to supply electricity to the very large industrial consumers. It managed to efficiently reach a customer size of up to 1 GWh/year in the whole country within a few years with a sales method common in the large consumer segment, which had become well proven over the years, namely, through customer managers assigned to the companies (personal sales). The customers of the Company include the prominent representatives of the domestic industry from various industries (manufacture of machines, electronic industry, glass-making, cement industry, etc.), food chains with a number of company sites and service providing companies (public utilities, banking services, etc.) alike.

In the interest of further development, the Company also began, as of 1 September 2008, to focus on a new target group, i.e., those small and medium-sized companies (“SMC”) the annual electricity consumption of which does not exceed 1 GWh. In this segment, the Company offers contractual schemes with a flexible term for the individual products, fixed prices, based on familiarisation with consumer habits and customised to the given company. The most important principles of the administration model are expedition and simplicity. An always available customer service provides help to the partner companies. MVM Partner Energiakereskedelmi ZRT. (MVM Partner Energy Trading Ltd.) sells electricity not only reliably and to a high quality standard, but also assumes as many tasks as possible from its customers in changing their trader or consulting the network licence holders.

The wholesale activities are continued to be focused on the Hungarian market, but MVM Partner Energiakereskedelmi ZRT. (MVM Partner Energy Trading Ltd.) had a branch office and held a trading licence also in Romania by the end of 2009, which was registered under the name of MVM Partner Energy Trading Ltd. Budapesta - Sucursala Bucuresti by the Romanian Court of Registration. The Romanian Branch Office is owned 100% by MVM Partner Energiakereskedelmi ZRt. (MVM Partner Energy Trading Ltd.). The Company
In 2010, MVM Partner Energiakereskedelmi ZRt. (MVM Partner Energy Trading Ltd.) agreed to support domestic sports that could be associated with the positioning of the Company: it provided support to energetic, dynamic competitive and recreational sports requiring determination, and tried to embrace talented athletes. Thus, the Company is also proud of having been able to help the children participating in contests with the Kai Sei Karate Sport Club to produce excellent domestic and international sports achievements. Tennis fans were pleased to attend the Tennis Classics Gala in 2010, the organisation of which MVM Partner Energiakereskedelmi ZRt. (MVM Partner Energy Trading Ltd.) also contributed to.

4.2.3 MVM-ADWEST GmbH

Among the companies of the MVM Group, MVM-ADWEST GmbH, a company registered in Austria, participates in the regional trade of electricity. It is engaged in wholesale activities on its own account in and between the Austrian, German, Slovakian and Czech markets. It is a member of the Austrian and German electricity exchanges and the Czech and Slovakian organised daily markets, and is also eligible to trade on several brokerage platforms. The Company supplemented its activities performed at its own risk with trading activities performed on an agency basis. In addition to electricity trade, the Company also engaged in the trade of environmental quotas on an agency basis in 2010.

MVM-ADWEST GmbH engaged in the wholesale trade of electricity in the free market in 2010, too. The activities of the Company were dominated by trade on an agency basis. As part of this, the Company was participating in the portfolio management of the trading subsidiaries of the MVM Group as well as was trading in portfolios managed on an agency basis. Appropriate market opportunities and expertise were provided for this by the marketing activity performed in the previous years and active presence in the trading
sector. The electricity-trading activity was performed on the Central Trading Floor (CTF) of Budapest in respect of standard products to be delivered over a period of one year. The professional work admittedly performed to a high standard by the CTF was also supplemented by independent market analysis and risk management functions, thereby contributing to meeting the requirements of the principals to ever higher standards.

The main business partners of the Company are large companies engaged in international wholesale trade, and also represent themselves in the areas of electricity generation, sales and distribution. In 2010, MVM-ADWEST GmbH only traded electricity procured from the markets of the European Union, mostly standard electricity products. Its annual trading turnover was 3.3 TWh. The following figure shows the breakdown of traded volumes in 2010 by market:

<table>
<thead>
<tr>
<th>Major trade figures of MVM-ADWEST GmbH (GWh)</th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purchased</td>
<td>Sold</td>
<td>Purchased</td>
</tr>
<tr>
<td>Cross-border trade</td>
<td>1,219</td>
<td>210</td>
</tr>
<tr>
<td>Austria</td>
<td>516</td>
<td>684</td>
</tr>
<tr>
<td>Germany</td>
<td>687</td>
<td>1,253</td>
</tr>
<tr>
<td>Slovakia</td>
<td>212</td>
<td>288</td>
</tr>
<tr>
<td>Czech Republic</td>
<td>110</td>
<td>308</td>
</tr>
<tr>
<td>Total</td>
<td>2,746</td>
<td>2,746</td>
</tr>
</tbody>
</table>

4.2.4 HUPX Magyar Szervezett Villamosenergia-piac Zrt. (HUPX Hungarian Organised Electricity Market Ltd.)

The Hungarian Energy Office granted an operational licence for the organised electricity market to HUPX Zrt. (HUPX Ltd.) for a period of 10 years, effective 9 April 2009. In September 2009, HUPX contacted EPEX Spot SE, an integrated power exchange engaged in next day trade in the French, German, Swiss and Austrian markets. The service contract between HUPX and EPEX Spot on the introduction of the trading system used by EPEX and the letter of intent between HUPX and the European Commodity Clearing (ECC) on the preparation of the clearing services to be performed by the ECC were signed at the beginning of March 2010. HUPX and the European Commodity Clearing entered into a contract on the clearing services themselves at the end of April 2010.

In 2010, MAVIR Magyar Villamosenergia-ipari Átviteli Rendszerirányító ZRT. (MAVIR Hungarian Transmission System Operator Company Ltd.), as parent company, carried out a capital increase of HUF 110 million and provided a capital contribution of HUF 92.9 million. In May 2010, a business tour aimed at the introduction of HUPX Zrt. (HUPX Ltd.) entered in an intensive phase. That month, the Company had talks with the following trading companies, power plants and other market players: RWE Supply & Trading, E.ON Energy Trading, Statkraft Markets, MÁSZ, CEZ, Espada, RE Hungary, EDF Energy, Dunamenti Power Plant, Mátra Power Plant, JAS Budapest, Alpiq Energy, EGL and Mercuria Energy Trading. On 17 May, HUPX Zrt. (HUPX Ltd.) became a full member of the organisation called EuroPEX (Association of European Power Exchanges). After the technical conditions had been established, the test run of the ETS system developed by the EPEX began on 18 June 2010. Among other things, it also became possible for the members in this system to be able to submit offers without a stake.

In July 2010, preliminary consultations began for establishing futures electricity trading (physical futures) and for raising the funds required for it. As a result, the Company entered into a software licence and support contract with Trayport Ltd. and also signed a letter of intent in this matter with the ECC Clearing House at the end of December. HUPX Zrt. (HUPX Ltd.) met the obligations set forth in the operational licence by commencing the introduction of an integrated quality management system in September 2010 in accordance with the ISO 9001:2008 and ISO/IEC 27001:2005 standards. The audit conducted on 16 and 17 December 2010 was successfully closed, thus the Company earned the title of certified organisation.

4.2.5 MVM Partner Serbia d.o.o.

MVM Partner Energiakereskedelmi Zrt. (MVM Partner Energy Trading Ltd.) established a subsidiary in Serbia under the name of MVM Partner Serbia d.o.o. on 27 December 2010. The Serbian subsidiary is owned 100% by MVM Partner Energiakereskedelmi Zrt. (MVM Partner Energy Trading Ltd.) and will begin its electricity trading activities in 2011.
4.3 Generation

The generation portfolio of the MVM Group comprised the following companies in 2010:

- Paksi Atomerőmű Zrt. (Paks Nuclear Power Plant Ltd.)
- Vértesi Erőmű Zrt. "cs.a." (Vértes Power Plant Ltd. [in bankruptcy])
- MVM Észak-Budai Kogenerációs Fűtőerőmű Kft. (MVM North Buda Cogeneration Power Plant Ltd.)
- Tatabánya Erőmű Kft. (Tatabánya Power Plant Ltd.)
- MIFŰ Miskolci Fűtőerőmű Kft. (MIFŰ Miskolc Central Heating Plant Ltd.)
- MVM GTER Gázturbinás Erőmű Zrt. (MVM GTER Gas Turbine Power Plant Ltd.)
- Hungarowind Szélerőmű Üzemeltető Kft. (Hungarowind Wind Power Plant Operating Ltd.)
- Kárpát Energo Zrt. (Kárpát Energo Ltd.)
- BVMT Bakonyi Villamos Művek Termelő Zrt. (BVMT Bakony Power Generation Co. Ltd.)
- Mátrai Villamos Művek Termelő Zrt. (Mátra Power Generation Co. Ltd.)

The MVM Group provides the primary electricity supply to meet demand in Hungary through the operation of the Paks Nuclear Power Plant, while the gas turbine power plants belonging to MVM GTER Gázturbinás Erőmű Zrt. (MVM Gas Turbine Power Plant GTER Ltd.) play a special role as emergency back-up units: They do not generate a significant quantity of electricity, but are essential for the stable operation of the system and the availability of appropriate system reserves. In 2009, the Hungarian Parliament had approved the commencement of the preparation of the establishment of new unit(s) at the Paks Nuclear Power Plant, as part of which the Lévai Project was launched. (The preparatory working groups pay their respect in such a way to the memory of the late András Lévai, member of the Academy and former Deputy Minister for Heavy Industry [1908-2003]. Professor Lévai was a pioneer in the research and development of nuclear energy in Hungary.)

In addition, the MVM Group assumed a role in the technological renewal of district heat generation in several cities by installing modern and environmentally friendly units into the systems. MIFŰ Kft. (MIFŰ Ltd.), MVM Észak-Budai Kogenerációs Fűtőerőmű Kft. (MVM North Buda Cogeneration Power Plant Ltd.) and Tatabánya Erőmű Kft. (Tatabánya Power Plant Ltd.) are considered such high-efficiency cogeneration units. However, after the delivery of each project, it was raised as a requirement repeatedly that the local governments responsible for district heat supply may also join district heat generation as owners of the heating power plants in actual operation. Therefore, consultations began at the individual locations on how the local governments can acquire an interest in the completed heating power plants, and the considerations relating to these were also included in the updated Strategy of the Group. It can also be fit into this process that the Local Government of the town of Tatabánya and ELMIB Energetikai Zrt. (ELMIB Power Engineering Pte. Ltd.) purchased a 100% ownership of Tatabánya Erőmű Kft. (Tatabánya Power Plant Ltd.) from the MVM Group in February 2010.
The updated Medium-term Business Strategy deals with the issue of the generation portfolio as a priority. The responsible Development Policy required by the changed market situation and the economic crisis warranted that the MVM Group should treat the projects in Hungary, primarily the development of the generation portfolio, as a priority. To this end, MVM launches new projects or appears as an investor in projects that allow environmentally friendly, competitive electricity generation through modern technological solutions, optimise the composition of the domestic generation portfolio, while also create jobs.

Keeping in mind the objectives of the energy policy concept of the Government, the Medium-term Strategy of the MVM Group set the participation of the National Electricity Company in the utilisation of renewable energy resources in Hungary also as a priority objective. At the same time, the Company stipulated as a condition that all this must be implemented on a business basis, subject to the Shareholder’s requirements. On the basis of the Strategy, taking also into account the potentials in Hungary, the capabilities of the Group and considerations of system balancing, primarily the establishment of biomass-fired power plants, wind power plants and waste-to-energy power plants as well as participation in such projects may be considered. In 2009, Hungarowind Szélérőmű Üzemeltető Kft. (Hungarowind Wind Power Plant Operating Ltd.) operating one of the most important wind farms in the country joined the Group as a result of a successful acquisition.

Magyar Villamos Művek Zrt. (Hungarian Power Companies Ltd.) holds a 26.15% participating interest in MÁTRAI ERŐMŰ Zrt. (Mátra Power Plant Ltd.). The previously planned project would have been aimed at the capacity expansion of the currently operating two units. Having reviewed the changed market conditions, the two main shareholders, Magyar Villamos Művek Zrt. (Hungarian Power Companies Ltd.) and RWE, reached an agreement that they would stop this project which costs HUF 300 billion. The two project owners interested in the development project carefully considered economic pay-off, the environmental protection considerations and the energy management plans of Hungary and the European Union, and found that the proposed joint project would not be profitable in the long term, therefore, they stopped the construction of the new unit of MÁTRAI ERŐMŰ ZRT. (Mátra Power Plant Ltd.). The power plant announced the new, 440 megawatt development plan four years ago, which would have represented an about 50% expansion of the existing capacities as of 2011 and 2012. The proposed project would have needed considerable external funds and would have required a bank loan considered to be of a substantial amount even in the energy sector.

The review of Magyar Villamos Művek Zrt. (Hungarian Power Companies Ltd.) established that if the VÁSÁROSNAMÉNY Power Plant Project of Kárpát Energo Kft. (Kárpát Energo Ltd.) were continued, a considerable loss could be reckoned with. In the light of this, the Shareholders’ Meeting of MVM adopted a resolution, whereby the project may not be continued under the current conditions, thus it cut its financing.
4.3.1 Paksi Atomerőmű Zrt. (Paks Nuclear Power Plant Ltd.)

Paksi Atomerőmű Zrt. (Paks Nuclear Power Plant Ltd.) is a key electricity generation company in Hungary. The core activity of the Company is electricity generation. The nuclear power plant pollutes the environment the least in comparison with other electric power plants and does not emit any carbon dioxide, thereby saving a quantity of oxygen corresponding to 2 million persons’ oxygen demand per year. Thus, the Paks Nuclear Power Plant is essential for the country from energy, environmental protection and economic points of view alike.

The Power Plant would like to have the support of the majority of the Hungarian public for continuing its work. Public opinion polls demonstrate year after year that more than 70% of the population agree with the operation of a nuclear power plant in Hungary.
Electricity Generation and Sales

The four units of the power plant generated 15,761 GWh of electricity in total last year. The electricity generation and sales quantity data are summarised in the following table:

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Installed electrical capacity</td>
<td>Mwe</td>
<td>1,940</td>
<td>2,000</td>
</tr>
<tr>
<td>Electricity output</td>
<td>GWh</td>
<td>15,427</td>
<td>15,761</td>
</tr>
<tr>
<td>House load</td>
<td>%</td>
<td>6.4</td>
<td>6.1</td>
</tr>
<tr>
<td>Net electrical output</td>
<td>GWh</td>
<td>14,447</td>
<td>14,802</td>
</tr>
<tr>
<td>Electricity output sold</td>
<td>GWh</td>
<td>14,447</td>
<td>14,802</td>
</tr>
<tr>
<td>of which: sale of electricity subject to mandatory purchase (KÁT)</td>
<td>GWh</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Electricity purchased for trading purposes and sold</td>
<td>GWh</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Balancing power sold</td>
<td>GWh</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Power regulation items sold</td>
<td>GWh</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Total domestic electricity sales</td>
<td>GWh</td>
<td>14,447</td>
<td>14,802</td>
</tr>
<tr>
<td>Total electricity sales abroad</td>
<td>GWh</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

Paksi Atomerőmű Zrt. (Paks Nuclear Power Plant Ltd.) sells its electricity output to MVM Trade Villamosenergia Kereskedelmi Zrt. (MVM Trade Power Trading Ltd.) under a power purchase agreement concluded with each other. The Company does not have a direct relationship with the consumers, quality-related information can be found in the balance group agreements concluded with traders and in the power purchase agreement.

Heat Sales

Paksi Atomerőmű Zrt. (Paks Nuclear Power Plant Ltd.) sells the majority of its heat output to Dunacenter Therm Kft. (Dunacenter Therm Ltd.), and its remainder is taken by Országos Villamostávvezeték Zrt. (National Power Line Ltd.) and MAVIR Magyar Villamosenergia-ipari Átviteli Rendszerirányító Zrt. (MAVIR Hungarian Transmission System Operator Company Ltd.) from the nuclear power plant. The heat generation and sales quantity data are summarised in the following table:

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Installed heat capacity</td>
<td>MWth</td>
<td>5,720</td>
<td>5,940</td>
</tr>
<tr>
<td>Heat output</td>
<td>TJ</td>
<td>509</td>
<td>502</td>
</tr>
<tr>
<td>Net heat output</td>
<td>TJ</td>
<td>509</td>
<td>502</td>
</tr>
<tr>
<td>Heat sold</td>
<td>TJ</td>
<td>145</td>
<td>142</td>
</tr>
</tbody>
</table>
Investments and Development Activities

The Strategy of Paksi Atomerőmű Zrt. (Paks Nuclear Power Plant Ltd.) is aimed at generating as much electricity as possible, securely, at as low environmental load as possible and economically (at as low cost as possible).

High Priority Projects

Capacity extension (from 470 MW to 500 MW)
Capacity could be increased in compliance with principles set forth in the feasibility study and the concept, in accordance with the decisions of the Board of Directors and the Shareholders’ Meeting of Paksi Atomerőmű Zrt. (Paks Nuclear Power Plant Ltd.) and on the basis of the approved Capacity Extension Project Plan (CEPP). In the course of the implementation of the technical and licensing tasks set forth in the CEPP, it was not necessary to change the safety requirements in force.

The capital costs of the project were lower than projected and were recovered within one year. Capacity extension will result in a significant sales revenue surplus for the Company in the coming period. Modifications relating to capacity extension did not have an adverse effect on the achievement of the goals of the lifetime extension project, and the completed modifications also served operational safety and safety enhancement purposes. The capacity extension project was closed with the approval of the Board of Directors of Paksi Atomerőmű Zrt. (Paks Nuclear Power Plant Ltd.)

Lifetime Extension

After the acceptance by the authorities of the lifetime extension (LE) programme aimed at obtaining an environmental permit and establishing the conditions of operability beyond the design lifetime (LE Programme), the implementation phase of the lifetime extension activity of the Paks Nuclear Power Plant began in 2010 with the approval of the Shareholders’ Meeting. The LE Programme and its assessment by the authorities prescribe what tasks need to be carried out for the authorisation of lifetime extension and the establishment of the conditions of operation beyond the design lifetime, as well as in connection with the modification of the technical practices of the Company. The Lifetime Extension Implementation Programme (LEIP) containing these tasks was completed quarterly pro rata in 2010 by the specialists assigned to it. The primary goal of the project covering the entire Company was to compile the documentation providing grounds for a lifetime extension licence application, which has to be submitted to the nuclear authority by the end of 2011 (first for Unit 1).

Simultaneously, the Supercontrol Team established for reviewing the documentation also started its operation. The external review of the documents prepared during the LEIP will be carried out by the experts of the International Atomic Energy Agency, on the one hand, and an independent US expert company, on the other hand.

The implementation of the programme is monitored by the Nuclear Safety Directorate of the Hungarian Atomic Energy Agency, which has prescribed the obligation to the Company to provide information on a regular basis. Periodic monitoring reports are prepared for the Directorate and the Project Management Committee comprising senior executives. The projects required for the authorisation of operation beyond the design lifetime (such as the projects of “PRISE Process Management” and “Modifications Required for Handling Serious Accidents”) are under way.

Capacity Expansion

The Lévai Project, aimed at preparing a new nuclear power plant to be established at the Paks site, obtaining all permits and licences and working out the steps of the specific project were launched within the framework of the expansion programme of the nuclear power plant. According to the Deed of Foundation of the Lévai Project, the majority of the organisational and human resources required for the work are provided by Paksi Atomerőmű Zrt. (Paks Nuclear Power Plant Ltd.), while the funds are provided by Magyar Villamos Művek Zrt. (Hungarian Power Companies Ltd.). As a stand-alone organisational unit, the Project performs its procurement activity according to its adopted internal regulations. In its Resolution No. 46/2010 (II.26.), the Board of Directors of Magyar Villamos Művek Zrt. (Hungarian Power Companies Ltd.) also approved the internal concept relating to the implementation principles of the preparatory tasks. Professional consultations on French, Russian and Korean unit types were conducted in accordance with this concept. The Company entered into several contracts on the basis of the adopted project schedule and budget in 2010 in order to carry out the preparatory works according to the schedule, and the first technical intermediate results were obtained by the end of the year. The implementation of one of the most important tasks, the activities associated with obtaining an environmental permit and a site permit, began. Under the Lévai Project, wide cooperation was started with the international players involved in the expansion. The preparation of a report made to the Government, discussing the expansion of the nuclear power plant, and official consultations on the draft at the ministry and authority level also began.
Activities of Paksi Atomerőmű Zrt. (Paks Nuclear Power Plant Ltd.) in the Area of Research and Development in 2010

In 2010, the research and development activities carried out at the nuclear power plant were motivated by the objectives to increase the safety of the facility, to meet the requirements set by the authorities and to facilitate the more efficient and reliable generation of electricity. The research and development tasks were aimed at the following areas of engineering:

- Reactor physics, reactor engineering, thermohydraulics;
- Ageing and lifetime management, testing of structural materials;
- Development of analytical tools to assess accidents and breakdowns;
- Development of chemical and cleaning technologies;
- Development of special test and measuring equipment.

The Company carried out its research and development activities this year, too, by involving university departments, research institutes and experts that have considerable theoretical and experimental background. The research and development activities of Paksi Atomerőmű Zrt. (Paks Nuclear Power Plant Ltd.) are indirectly or directly related to sustainable development. The development of a methodology for the analysis of beyond-design-basis failures can be mentioned as an example of the highly diverse research areas. Several projects deal with the reduction of the quantities and emissions of radioactive substances, the elaboration of emission measurement methods, research in reactor physics and the prevention of serious accidents. The above development activities also contribute to ensuring long-term energy generation by the Paks Nuclear Power Plant. By providing grounds for energy generation and increasing installed capacity and availability, such research directly facilitate the reduction of CO$_2$ emissions in Hungary.

4.3.2 Vértesi Erőmű Zrt. "cs.a." (Vértes Power Plant Ltd. [in Bankruptcy])

The activities of Vértesi Erőmű Zrt. "cs.a." (Vértes Power Plant Ltd. [in bankruptcy]) include the mining of sub-bituminous coal as well as electricity and heat generation and trade.

Mining

The Márkushegy Mine began production at the end of the 1970s under the Eocene Programme. The underground facility operating at a depth of about 300 to 550 m produces Eocene sub-bituminous coal, thereby providing fuel supply to the Oroszlány Power Plant. Márkushegy is now the only operational deep coal mine in Hungary. The previous single-face operation was continued at the facility in 2010.

The output of the Márkushegy Mine in 2010 is summarised in the following table:

<table>
<thead>
<tr>
<th>Mármkushegy Mine</th>
<th>2009</th>
<th>2010</th>
<th>Change (%) 2010/2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Coal production</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>kilotonnes</td>
<td>908</td>
<td>809</td>
<td>(10.9)</td>
</tr>
<tr>
<td>TJ</td>
<td>10,058</td>
<td>9,601</td>
<td>(4.5)</td>
</tr>
<tr>
<td>kJ/kg</td>
<td>11,081</td>
<td>11,868</td>
<td>+ 7.1</td>
</tr>
</tbody>
</table>

Electricity Generation and Sales

The Oroszlány Power Plant with an installed capacity of 240 MW is owned by Vértesi Erőmű Zrt. "cs.a." [Vértes Power Plant Ltd. (in bankruptcy)] and operates under a generation licence. It is fired on sub-bituminous coal produced at the Márkushegy Mine. The Oroszlány Power Plant began electricity generation in 1961 with four 50 MW units entering service one after the other, then district heat and hot water supply began in the town of Oroszlány in the winter of 1978. After its upgrading carried out in the 1980s, the Oroszlány Power Plant with four operational units became a highly reliable electricity-generating power plant that has 240 MW of electrical and 84 MW of thermal capacity.

A lifetime extension investment (retrofit) programme was carried out at the power plant between 2002 and 2005. Under this programme, a flue gas desulphurisation plant operating with the wet limestone and gypsum technology was constructed at the Oroszlány Power Plant, thus sulphur dioxide emissions were reduced by several tens of thousands of tonnes. It became possible in the boilers at Oroszlány (in Boiler No. 1 from 2006 and in Boiler No. 2 from 2008) to also fire renewable energy resources, in addition to coal
Heat supply

Heat supply is provided under long-term framework agreements for district heating sales existing between the Company and Oroszlány Service Pte. Ltd. for supplying the space heating and domestic hot water – demands of the town of Oroszlány and the locality of Bokod.

The quantity data of heat supply are shown in the following table:

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Installed heat capacity</td>
<td>MWth</td>
<td>88</td>
<td>88</td>
</tr>
<tr>
<td>Heat output</td>
<td>TJ</td>
<td>347</td>
<td>386</td>
</tr>
<tr>
<td>Net heat output</td>
<td>TJ</td>
<td>340</td>
<td>374</td>
</tr>
<tr>
<td>Heat sold</td>
<td>TJ</td>
<td>332</td>
<td>365</td>
</tr>
</tbody>
</table>

In 2008, the Company was held liable in all lawsuits for damages filed in connection with trading transactions concluded for 2009. With regard to its liquidity situation, the Company could not have been able to pay these liabilities. Therefore, in order to avoid complete insolvency, the Extraordinary Shareholders’ Meeting convened for 24 August 2010 decided that Vértesi Erőmű Zrt. (Vértes Power Plant Ltd.) would apply for bankruptcy protection. Finally, the third creditors’ meeting held on 31 January 2011 was closed with a composition in bankruptcy, which restored the solvency of the Company, the legal existence of the Company could be maintained through it, and the Company was able to handle the financial consequences of losing the lawsuits.
4.3.3 MIFŰ Miskolci Fűtőerőmű Kft. (MIFŰ Miskolc Central Heating Plant Ltd.)

The Company’s core activity consists of combined power and heat generation. It performs its business activities with five generation units. At the Tatár utca Site, a power plant operates with five gas engines, each with a capacity of 3.9 MWe. A gas-fired boiler plant purchased from MIHŐ Kft. (MIHŐ Ltd.) on 1 March 2008 and a combined cycle gas turbine power plant with a capacity of 39.6 MWe, which started its commercial operation on 1 December 2007, also operate here. These three facilities jointly provide the total heat supply to the heating districts of Central Miskolc and Avas. The Bulgárföld (1.05 MWe capacity) and Diósgyőr (3.9 MWe capacity) Gas Engine Power Plants supply some of the heat demand of these districts. Heat is sold to MIHŐ Ltd. under a long-term agreement. Electricity is also cogenerated with heat. The cogenerated electricity, which is subject to mandatory power purchase terms (KÁT), is purchased by MAVIR Magyar Villamosenergia-ipari Átviteli Rendszerirányító Zrt. (MAVIR Hungarian Transmission System Operator Company Ltd.)

The heat and electricity generation and sales quantity data of the Company are summarised in the following table:

<table>
<thead>
<tr>
<th>MIFŰ Kft. (MIFŰ Ltd.)</th>
<th>2009</th>
<th>2010</th>
<th>Change (%) 2010/2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Installed electrical capacity</td>
<td>MWe</td>
<td>64</td>
<td>64</td>
</tr>
<tr>
<td>Electricity output</td>
<td>GWh</td>
<td>284</td>
<td>302</td>
</tr>
<tr>
<td>Net electrical output</td>
<td>GWh</td>
<td>276</td>
<td>294</td>
</tr>
<tr>
<td>Electricity output sold</td>
<td>GWh</td>
<td>276</td>
<td>294</td>
</tr>
<tr>
<td>Installed heat capacity</td>
<td>MWth</td>
<td>408</td>
<td>408</td>
</tr>
<tr>
<td>Heat output</td>
<td>TJ</td>
<td>1,406</td>
<td>1,524</td>
</tr>
<tr>
<td>Net heat output</td>
<td>TJ</td>
<td>1,318</td>
<td>1,439</td>
</tr>
<tr>
<td>Heat sold</td>
<td>TJ</td>
<td>1,318</td>
<td>1,439</td>
</tr>
</tbody>
</table>

The Company plans the operating hours as optimally as possible (peak, shoulder and off-peak), taking into account the tasks associated with full heat supply. It performs preventive maintenance on the equipment depending on the hours of operation completed, based on the manufacturer’s instructions.

4.3.4 Tatabánya Erőmű Kft. (Tatabánya Power Plant Ltd.)

The power plant is responsible for providing district heat supply to the town of Tatabánya and, in addition, generating cogenerated electricity as economically as possible. In February 2010, the Local Government of the town of Tatabánya and ELMIB Power Engineering Pte. Ltd. acquired 100% ownership in Tatabánya Erőmű Kft. (Tatabánya Power Plant Ltd.) after the Company had been sold, thus the Company was removed from the MVM Group.
The heat and electricity generation and sales quantity data of the Company in January and February 2010 are summarised in the following table:

<table>
<thead>
<tr>
<th>Tatabánya Erőmű Kft. (Tatabánya Power Plant Ltd.)</th>
<th>2009</th>
<th>Jan. and Feb. 2010</th>
<th>Change (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Installed electrical capacity (MWe)</td>
<td>50</td>
<td>50</td>
<td>+0.6</td>
</tr>
<tr>
<td>Electricity output (GWh)</td>
<td>170</td>
<td>43</td>
<td>(74.8)</td>
</tr>
<tr>
<td>Net electrical output (GWh)</td>
<td>162</td>
<td>40</td>
<td>(75.1)</td>
</tr>
<tr>
<td>Electricity output sold (GWh)</td>
<td>162</td>
<td>40</td>
<td>(75.1)</td>
</tr>
<tr>
<td>Installed heat capacity (MWth)</td>
<td>181</td>
<td>181</td>
<td>+0.3</td>
</tr>
<tr>
<td>Heat output (TJ)</td>
<td>1,295</td>
<td>446</td>
<td>(65.6)</td>
</tr>
<tr>
<td>Net heat output (TJ)</td>
<td>1,156</td>
<td>417</td>
<td>(63.9)</td>
</tr>
<tr>
<td>Heat sold (TJ)</td>
<td>1,156</td>
<td>417</td>
<td>(63.9)</td>
</tr>
</tbody>
</table>

4.3.5 MVM Észak-Budai Kogenerációs Fűtőerőmű Kft. (MVM North Buda Cogeneration Power Plant Ltd.)

The Company is responsible for providing the conditions required for the operation of a power plant with an electrical capacity of 49.98 MWe and a thermal capacity of 74 MWth, overseeing the operations and carrying out sales. The power plant is engaged in combined heat and electricity generation. It sells the heat to FŐTÁV Zrt. (FŐTÁV Pte. Ltd.) under a long-term heat supply agreement. The heat generated there meets the heat demand of the North Buda Heat District. It sells the generated electricity to MAVIR Magyar Villamosenergia-ipari Átviteli Rendszerirányító ZRT. (MAVIR Hungarian Transmission System Operator Company Ltd.) under mandatory power purchase terms (KÁT). In connection with the amendment of the Electricity Act in 2009, the Company submitted an application to the Hungarian Energy Office for the extension of the mandatory purchase period relating to the generated electricity. The licence issued by the Office includes an extension until 31 December 2015. In order to fulfil the conditions set forth in the licence, the Company entered into an agreement with MAVIR Magyar Villamosenergia-ipari Átviteli Rendszerirányító ZRT. (MAVIR Hungarian Transmission System Operator Company Ltd.), under which, if necessary, it would limit its electricity output in the interest of the maintenance of the optimum balance of the Hungarian electricity system.
MVM GÁZTURBINÁS ERŐMŰ ZRt. (MVM GTER Ltd.) under a long-term agreement for operation. The maintenance of the gas turbines is carried out by the US company Turbomach, a subsidiary of Caterpillar. The project establishing the power plant was closed at the end of 2008, and at present, the Company only carries out capital projects that increase the operational safety of the power plant. MVM ÉSZAK-BUDAÍ KOGENERÁCIÓS FŰTŐERŐMŰ KFT. (MVM North Buda Cogeneration Power Plant Ltd.) does not engage in research and development activities.

4.3.6 MVM GTER GÁZTURBINÁS ERŐMŰ ZRT. (MVM GTER Gas Turbine Power Plant Ltd.)

The core activities of MVM GTER Gázturbinás Erőmű Zrt. (MVM GTER Ltd.) are the operation of power plant equipment and the sale of reserve capacities. In addition, the Gas Turbine Business Unit is responsible for carrying out upkeep and maintenance works and participating in the implementation of development tasks decided and financed by its Shareholder. The electricity generation data of the Company are set forth in the following table:
4.3.7 Hungarowind Szélerőmű Üzemeltető Kft. 
(Hungarowind Wind Power Plant Operating Ltd.)

In the interest of sustainable development and environmental protection, the MVM Group wishes to participate in the domestic utilisation of renewable energy resources. With this in mind, Hungarian Power Companies Ltd. purchased Hungarowind Szélerőmű Üzemeltető Kft. (Hungarowind Wind Power Plant Operating Ltd.), a company which operates a wind farm comprising eight wind turbines with a total installed capacity of 23 MW, located in the vicinity of Sopronkövesd and Nagylózs in Győr-Moson-Sopron County, from Raiffeisen Energiaszolgáltató Kft. (Raiffeisen Energy Supply Ltd.) in 2009 under a contract for the sale and purchase of a partnership share. The utilisation of wind energy does not load the environment, the operation of the turbines does not result in pollutant emissions, and no wastewater, radioactive wastes, smoke, particulates or cinders are produced during electricity generation.

Wind energy is natural, inexhaustible and is continuously renewed. The core activity of the Company is electricity generation and sale through the utilisation of wind energy. To this end, it maintains the reliable operation of the wind farm, and performs the essential operational tasks and necessary maintenance works.

The wind farm owned by Hungarowind Szélerőmű Üzemeltető Kft. (Hungarowind Wind Power Plant Operating Ltd.) had an electricity output of 45.3 GWh in 2009 and 45.1 GWh in 2010. With its output, it also contributed at the same time to the efforts made by the Group for sustainable development and environmental protection. Hungarowind Szélerőmű Üzemeltető Kft. (Hungarowind Wind Power Plant Operating Ltd.) sells the electricity generated through the use of renewable energy resources under the mandatory power purchase scheme (KÁT). Sale in other markets is not included in its core activities.

The electricity generation data of the Company are shown in the following table:

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Installed electrical capacity</td>
<td>MWe</td>
<td>23</td>
<td>23</td>
</tr>
<tr>
<td>Electricity output</td>
<td>GWh</td>
<td>45</td>
<td>45</td>
</tr>
</tbody>
</table>
4.3.8 BVMT Bakonyi Villamos Művek Termelő Zrt. (BVMT Bakony Power Generation Co. Ltd.)

The Company was established under the name of Bakonyi Kombiciklus Kft. (Bakony CCPP Ltd.) to establish a new peaking power plant comprising two gas turbines, each with a capacity of 58 MW, at Ajka, at the site of the Bakony Power Plant. The project company founded for the establishment of the power plant is owned 50.5% by Magyar Villamos Művek Zrt. (Hungarian Power Companies Ltd.) and 49.5% jointly by Euroinvest Közép-Európai Befektetési Zrt. (Euroinvest Central-European Investment Pte. Ltd.) and Bakonyi Erőmű Zrt. (Bakony Power Plant Ltd.). Bakonyi Kombiciklus Kft. (Bakony CCPP Ltd.) was transformed into BVMT Bakonyi Villamos Művek Termelő Zrt. (BVMT Bakony Power Generation Co. Ltd.) on 31 December 2009.

The power plant generates electricity according to the within-the-day peak demands of the domestic electricity market, its operation is characterised by flexibility, quickness and cost efficiency, and meets the requirements set forth in the establishment licence and the environmental permit in every respect. The most important main equipment of the new power plant is two Rolls-Royce gas turbines, which are characterised by particularly high efficiency and extremely high reliability. Modern technology allows the units to reach full load within 10 minutes after start-up.

The physical implementation of the project started on 24 July 2009. All contracts required for the implementation of the project have been concluded with the partners. According to the schedule, the completion of the project and, at the same time, the commercial operation date of the new power plant (after the successful completion of a test run and warranty measurements) are expected to occur in the first half of 2011. On 11 February 2010, the company entered into a loan contract with a consortium comprising four banks (MKB Bank Zrt. [MKB Bank Pte. Ltd.], K&H Bank Zrt. [K&H Bank Pte. Ltd.], Erste Bank Hungary Nyrt. [Erste Bank Hungary plc] and OTP Bank Nyrt. [OTP Bank plc]) for financing the project. In 2010, the value of the technical performance of the capital projects attained HUF 10,479 million, and the closing portfolio of unfinished assets in course of construction and advances on assets in course of construction was HUF 8,345 million.

4.4 Transmission and System Operation

MAVIR Magyar Villamosenergia-ipari Átviteli Rendszerirányító Zrt. (MAVIR Hungarian Transmission System Operator Company Ltd.)

In Hungary, high-voltage electricity is transported on a single common transmission line network, which is owned and operated by the Hungarian Transmission System Operator, MAVIR Magyar Villamosenergia-ipari Átviteli Rendszerirányító Zrt. (MAVIR Hungarian Transmission System Operator Company Ltd.), a member of the MVM Group. The System Operator operates independently of the other economic operators which use the transmission system, and its independence is prescribed by law. In accordance with the relevant statutory regulations, MAVIR Magyar Villamosenergia-ipari Átviteli Rendszerirányító Zrt. (MAVIR Hungarian Transmission System Operator Company Ltd.)—as an organisation independent of the other participants in the electricity system—is responsible for ensuring the security of power supply and competition neutrality in the electricity market.

As an electricity transmission system operation licence holder, MAVIR Magyar Villamosenergia-ipari Átviteli Rendszerirányító Zrt. (MAVIR Hungarian Transmission System Operator Company Ltd.) transmits the electricity generated by domestic power plants or coming from import sources through the high-voltage network elements in its ownership with the route lengths shown in the table and figure below to the distribution licence holders, which directly supply consumers. Under the laws, market players have access to the transmission system on equal terms.
The following table and figure show the transmission lines of MAVIR Magyar Villamosenergia-ipari Átviteli Rendszerirányító ZRt. (MAVIR Hungarian Transmission System Operator Company Ltd.):

<table>
<thead>
<tr>
<th>Item</th>
<th>Unit</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>750 kV</td>
<td>km</td>
<td>268</td>
<td>268</td>
<td>268</td>
</tr>
<tr>
<td>single circuit</td>
<td>km</td>
<td>268</td>
<td>268</td>
<td>268</td>
</tr>
<tr>
<td>double circuit</td>
<td>km</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>planned</td>
<td>km</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>400 kV</td>
<td>km</td>
<td>2,444</td>
<td>2,600</td>
<td>2,762</td>
</tr>
<tr>
<td>single circuit</td>
<td>km</td>
<td>1,594</td>
<td>1,594</td>
<td>1,757</td>
</tr>
<tr>
<td>double circuit</td>
<td>km</td>
<td>850</td>
<td>1,006</td>
<td>1,005</td>
</tr>
<tr>
<td>planned</td>
<td>km</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>220 kV</td>
<td>km</td>
<td>1,481</td>
<td>1,481</td>
<td>1,481</td>
</tr>
<tr>
<td>single circuit</td>
<td>km</td>
<td>730</td>
<td>730</td>
<td>730</td>
</tr>
<tr>
<td>double circuit</td>
<td>km</td>
<td>751</td>
<td>751</td>
<td>751</td>
</tr>
<tr>
<td>total underground 220 kV</td>
<td>km</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>120 kV</td>
<td>km</td>
<td>197</td>
<td>197</td>
<td>198</td>
</tr>
<tr>
<td>single circuit</td>
<td>km</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>double circuit</td>
<td>km</td>
<td>97</td>
<td>97</td>
<td>98</td>
</tr>
<tr>
<td>planned</td>
<td>km</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>total underground 120 kV</td>
<td>km</td>
<td>17</td>
<td>17</td>
<td>17</td>
</tr>
</tbody>
</table>

Figure 3: Map presentation of the transmission lines of MAVIR Magyar Villamosenergia-ipari Átviteli Rendszerirányító ZRt. (MAVIR Hungarian Transmission System Operator Company Ltd.)
The following table shows the extent of the losses of the transmission system:

<table>
<thead>
<tr>
<th>Transmission system losses</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Quantity of electricity fed to the transmission system and measured at metering points used for accounting purposes</td>
<td>GWh</td>
<td>41,753</td>
<td>37,006</td>
</tr>
<tr>
<td>Quantity of electricity output from the transmission system and measured at metering points</td>
<td>GWh</td>
<td>41,335</td>
<td>36,655</td>
</tr>
<tr>
<td>Transmission system loss</td>
<td>GWh</td>
<td>417</td>
<td>351</td>
</tr>
<tr>
<td>Transmission loss</td>
<td>%</td>
<td>0.999</td>
<td>0.948</td>
</tr>
</tbody>
</table>

Activities of MAVIR Magyar Villamosenergia-ipari Átviteli Rendszerirányító ZRt. (MAVIR Hungarian Transmission System Operator Company Ltd.):

- ensures the reliable, efficient and secure operation of the Hungarian Power System and provides the required back-up capacities for the power plants and the grid;
- oversees and augments the network assets and carries out the appropriate refurbishment, maintenance and development works required for reliable supply;
- ensures the uninterrupted operation and further expansion of the electricity market and access on equal terms for system users;
- summarises the data received from the participants of electricity supply;
- provides information to the market players to avoid entering into unfeasible contracts;
- coordinates the operation of the Hungarian electricity system with the neighbouring systems;
- ensures the uninterrupted operation and further expansion of the electricity market and access on equal terms for system users;
- summarises the data received from the participants of electricity supply;
- provides information to the market players to avoid entering into unfeasible contracts;
- coordinates the operation of the Hungarian electricity system with the neighbouring systems;
- coordinates international technical cooperation;
- prepares the Network Development Strategy by looking into the future and puts forward proposals for the development of the power plant fleet.

MAVIR Magyar Villamosenergia-ipari Átviteli Rendszerirányító ZRt. (MAVIR Hungarian Transmission System Operator Company Ltd.) operates the electricity system in its ownership and the associated equipment so as to continuously ensure uninterrupted domestic electricity supply. Besides maintaining the security of supply, through development efforts, it must meet changing market and consumer demand and the requirement that the infrastructure of the transmission system should be able to satisfactorily cooperate with the European electricity system. The Company must have the reserves required for maintaining the balance of the electricity system, and must have the cross-border transmission lines and network capacities at its disposal.

It is the obligation of the Transmission System Operator, furthermore, to operate a balance group for the settlement of the electrical output subject to a mandatory power purchase obligation (KÁT). In turn, its partners generating the electricity subject to the mandatory power purchase obligation are entitled to join the so-established balance group and to enter into a balance group agreement in accordance with the Code of Business Practice of the Transmission System Operator. Balancing this balance group is the responsibility of the Transmission System Operator. In the introduced system, every electricity trader, universal service provider, generation licence holder selling electricity directly to the users and other market players obliged to off-take electricity are obliged to off-take the electricity subject to the mandatory power purchase obligation in proportion to the electricity sold to the users, and for this they have to enter into an agreement with the Transmission System Operator.

The Hungarian electricity system forms part of the European system, therefore, MAVIR Magyar Villamosenergia-ipari Átviteli Rendszerirányító ZRt. (MAVIR Hungarian Transmission System Operator Company Ltd.) is responsible for representing the position of Hungary in international system operator organisations (e.g., ENTSO-E) and continuously coordinating cooperation. The Company is also responsible for performing technical and diplomatic activities to enforce the interests of Hungary, as well as for participating in the work of the management bodies and working teams of the individual organisations and for organising their meetings. With this, it also contributes to the reliable and economical operation of the Hungarian and European electricity systems.

Major memberships in associations and organisations:

Domestic organisations: Hungarian Section of EURELECTRIC and Hungarian Electrotechnical Association.
Development Activities

In its capacity as transmission licence holder, MAVIR Magyar Villamosenergia-ipari Átviteli Rendszerirányító ZRt. (MAVIR Hungarian Transmission System Operator Company Ltd.) is also responsible for ensuring the long-term, secure availability of the grid by its development, refurbishment, maintenance and operation activities on its transmission system, which forms part of the Hungarian electricity system, based on a Strategy corresponding to the domestic and international requirements, and for providing equal conditions for the players of the electricity market to access the grid.

By implementing what are prescribed in the Network Development Plan approved by the Hungarian Energy Office and other development activities, MAVIR Magyar Villamosenergia-ipari Átviteli Rendszerirányító ZRt. (MAVIR Hungarian Transmission System Operator Company Ltd.) ensures that the level of security of supply be maintained or increased wherever possible. Bearing in mind these goals, the Company identifies and carries out the necessary interventions on the grid on the basis of the least cost principle.

The required development activities are specified in the Network Development Plan of the Hungarian electricity system on the basis of calculations and modelling. MAVIR Magyar Villamosenergia-ipari Átviteli Rendszerirányító ZRt. (MAVIR Hungarian Transmission System Operator Company Ltd.) submits this plan to the HEO every two years (according to the new regulation, every year as of 2011), and begins its implementation after it has been accepted by the Office. In order to efficiently achieve the above goal, the development works rated by the Hungarian Energy Office as ones serving public purposes continued in 2010: they were aimed at the refurbishment of the aged primary and secondary technologies, and, simultaneously, the extension of remote control, the refurbishment of the transmission lines, including the replacement of insulators and the refurbishment of foundations.

The development and refurbishment plan, which is updated every year, was worked out by the specialists of the Company with consideration to the above and according to the following additional considerations:
- The new construction, refurbishment and maintenance works required for maintaining or, wherever possible, enhancing the level of security of supply form a complex unity in order that the performance of these tasks can be ensured in a coordinated way and the most efficiently even in the long term, at optimum cost.
- During the development activities, the requirements that ensure the enforcement of the “n-1” principle prescribed by the UCTE for transmission systems must be specified by means of network calculations.

- For providing support to the substations of the transmission system in the other direction, the possibility of interconnections with international transmission lines must be taken into account and, considering a domestic alternative, the more favourable solution must be applied.
- Due to the quality parameters expected by the consumers, the possibility of installing supports for a second transmission system for cities must be examined.
- The availability of dependable reserve stocks required for the secure operation of the grid must be ensured.

In 2010, the value of the capital projects of the Company was HUF 26,511 million, and the assets commissioned (capitalised) were worth HUF 33,718 million.

Development Activities Performed in 2010 in Relation to Transmission Lines and Substations

Due to the development works, in accordance with the Network Development Plans, more than 500 km of new 400 kV transmission lines and five new transmission system substations were established and several substations were expanded in Hungary in the past 11 years. Of these developments, the following were the most important in 2010:

- In order to provide discrimination-free access to the transmission system, as laid down in the relevant Hungarian Act and EU Directive, the Gönyû 400 kV Substation providing interconnection to the Gönyû Combined Cycle Power Plant (Gönyû CCP) of E.ON Erômûvek Kft. (E.ON Power Plants Ltd.) and a necessary new 400 kV transmission line, which was implemented by splitting the Gyôr-Litér 400 kV transmission line, were delivered in June 2010. The project will ensure the secure delivery of the electricity generated by the Gönyû CCP.
- In December 2010, a 400 kV transmission line between Martonvásár and Bicske as well as the new Bicske South 400/120 kV Substation were completed, which will further enhance the security of supply in the region.

In addition to the domestic transmission lines, international interconnections have also been constructed; they are also aimed at increasing the security of supply, furthermore, these interconnections improve the possibility of cross-border exchanges in electricity, thereby expanding possibilities for electricity trade as well as enhancing cooperation between, and the security of, the European systems at the same time. These factors explain that the establishment of such interconnections is also supported by the European Union.

- In May 2010, the Szombathely-Vienna 400 kV interconnection was delivered, which used one section of each of System No. 2 of the previously constructed
Naturally, the development works have not been finished with composite insulators made of glass or highly advanced insulators made of silicone rubber, which have become widespread in the last decade. Since these insulators could only be replaced by switching off the transmission line, the pylons have also been painted simultaneously, taking advantage of deenergisation, thereby ensuring the preservation of their condition and reducing environmental loads.

At the substations, modern apparatuses replaced practically all the obsolete primary and secondary equipment of low reliability. At the same time, advanced control and instrumentation (C&I) systems began to operate, which allow that no personnel need to stay at the substation for continuous monitoring, and that all monitoring and operating activities can be performed from a distance, from operation centres. In the past years, MAVIR Magyar Villamosenergia-ipari Átviteli Rendszerirányító ZRt. (MAVIR Hungarian Transmission System Operator Company Ltd.) has established five such operation centres. However, the new technology lived up to the expectations to such an extent that all 28 substations can be controlled from a single common operation centre as of 2011, as a result of the development.

Due to the refurbishments, a European-level technology serves the security of electricity supply to European standards from the side of the transmission system in Hungary today not only in the new, but also in the old (occasionally more than 50-year old) facilities.

Research and Experimental (R&D) Activities

The Company spent HUF 111 million on research and development in 12 subject areas in 2010. The subject areas of this activity were as follows:

- Optimisation of system-level interventions by means of dynamic simulation;
- Analysis of the operation of power plant excitation regulators and PSSs cooperating with them from the points of view of the stability of the UCTE system and the reduction of the propensity for oscillation;
- Visualisation supporting operational preparations of the network of the Hungarian electricity system requiring system-level coordination;
- Establishment of a Wide-Area Monitoring System on the basis of phasor measurements synchronised in the Hungarian electricity system;
- Determination of overhead line parameters by computer-assisted identification methods based on a series of on-site measurements;
- Research on the risk management methodology of the Company;
- Renewal of the actual setting of the Frequency-dependent Load Curtailment System of the Hungarian electricity system to increase operational safety.
4.5 Services and Other Activities

4.5.1 Holding Centre, Magyar Villamos Művek Zrt. (Hungarian Power Companies Ltd.)

Asset Management

As Holding Centre, Magyar Villamos Művek Zrt. (Hungarian Power Companies Ltd.) essentially performs strategic management and control activities of the business organisations in its ownership. This sphere of activities includes strategic planning and decision-making, the controlling, monitoring and management of the members of the Group and the units of the organisation, as well as the centralised financial management, asset management and administration activities of the Holding. The management-type tasks are not applicable to the activities that are subject to a licence (electricity generation, system operation, electricity trade and transmission and activities related to nuclear safety). In the case of MAVIR Magyar Villamosenergia-ipari Átviteli Rendszerirányító Zrt. (MAVIR Hungarian Transmission System Operator Company Ltd.), strategic management is performed by guaranteeing its operational independence and in accordance with the provisions of the what is called Compliance Code as approved by the HEO. A substantial part of the revenues of the Company comes from dividend earnings paid by its subsidiaries, associated companies and companies of other forms of participation.

Telecommunications Services

Magyar Villamos Művek Zrt. (Hungarian Power Companies Ltd.) is an electronic communications service provider registered by the National Communications Authority. It operates the telecommunications network in its ownership jointly with Országos Villamos-távvezeték Zrt. (National Power Line Ltd.), serving the telecommunications requirements of MAVIR Magyar Villamosenergia-ipari Átviteli Rendszerirányító Zrt. (MAVIR Hungarian Transmission System Operator Company Ltd.) aimed at system operation and transmission. The Company provides telecommunications services to the members of the Group and, as a public trunk service provider, provides leased line and other high-value services in the wholesale telecommunications market.

Leasing Out Secondary Back-up Power Plants and Real Estate Letting

The Company leases out the secondary back-up power plants in its ownership to its subsidiary, MVM GTER Gáz Burbánás Erőmű Zrt. (MVM Gas Turbine Power Plant GTER Ltd.) Furthermore, it also draws revenues from letting its own real estates (office building and other properties).

Development Activities

In 2010, the actual performance of the capital projects of Magyar Villamos Művek Zrt. (Hungarian Power Companies Ltd.) was HUF 3,810 million and their capitalisation amounted to HUF 4,287 million. The majority of its development activities comprised telecommunications replacement projects, refurbishments (telecommunications transmission and monitoring systems, upgrading of the pre-installation devices of telecommunications premises), which were carried out in accordance with the schedule and requirements, in order to maintain operational safety (topping up of operational safety reserves) and to be able to satisfy the changing requirements of MAVIR Magyar Villamosenergia-ipari Átviteli Rendszerirányító Zrt. (MAVIR Hungarian Transmission System Operator Company Ltd.) The control systems were upgraded as part of development works at the gas turbine power plants (Litér, Sajószöged).
4.5.2 Services Business Unit

4.5.1.1 Technical Services (Engineering Services, Maintenance, Other Technical Activities)

Országos Villamostávvezeték ZRt. (National Power Line Ltd.) is the establishment and installation company with the widest sphere of activities in the energy industry in Hungary. It has been performing the establishment, maintenance and development of the high-voltage transmission lines and transformer stations for six decades. The activities of this Company with great traditions are essentially associated with the Hungarian transmission system and the domestic power plants; in addition, it regularly undertakes establishment, maintenance, refurbishment and development tasks for the domestic power supply companies and large industrial consumers and foreign customers as well.

The area of operation of Országos Villamostávvezeték ZRt. (National Power Line Ltd.) covers the whole country: it has sites in a number of regions of Hungary, in Budapest and in the towns of Paks, Tatabánya, Felsőzsolca, Göd and Bicske, and employs nearly 1,600 persons. The Company performs its traditional tasks and wide-ranging qualified undertakings essentially in a market-oriented system. Its strategic activities are:

- Design, establishment, expansion and refurbishment of transmission lines and substations;
- Maintenance, project management and establishment of power plants;
- Manufacture of industrial steel constructions;
- Operation of the power supply system of industrial facilities;
- Transport of special, oversized and overweight goods by road, rail and water;
- Special service activities;
- Manufacture of low-voltage auxiliary equipment;
- Operation, installation and refurbishment of telecommunications networks.

Customers and customer groups served by Országos Villamostávvezeték ZRt. (National Power Line Ltd.): Companies of the MVM Group (especially Magyar Villamos Művek Zrt. [Hungarian Power Companies Ltd.], MAVIR Magyar Villamosenergia-ипари Átviteli Rendszerrőlalkító Zrt. [MAVIR Hungarian Transmission System Operator Company Ltd.] and Paksi Atomerőmű Zrt. [Paks Nuclear Power Plant Ltd.]), as well as other companies outside the MVM Group (power plants and power network and power supply companies). The Steel Structure Manufacturing and Overweight Transport Business Unit also has a significant Western European clientele.

MVM ERBE ENERGETIKA Mérnökiroda Zrt. (MVM ERBE Power Engineering & Consulting Ltd.) is the engineering office of the Hungarian Power Companies looking back over a history of 60 years. Its core activity is the provision of comprehensive engineering services which ensure the preparation, design, implementation and technical and quality management of the capital projects of energy generation, transmission and supply facilities. It performs its activities in the following areas:

- Power plants, heating plants: power plants utilising fossil fuels (conventional coal-, lignite-, oil- and gas-fired power plants), nuclear power plants, renewable energy-based (wind, biomass, biogas, landfill gas, solar energy) and waste-to-energy power plants and heating plants;
- High-voltage transmission lines and substations;
- Environmental protection projects;
- Info-communication solutions.

Independent of manufacturers, the engineering office is a reliable partner with its qualifications, experience and competitive services to a high standard in drafting feasibility studies and business plans and making economic calculations for the technical, financial and financing preparation of capital projects, in conducting official permitting procedures and drafting documents required for such procedures. If requested by the customers, it participates in the preparatory phase of construction and installation from the selection of manufacturers and suppliers through the quality supervision of the manufacturing phase to the direction and organisation of on-site works, technical inspection then commissioning. The Company also performs implementation works as a prime contractor.

The Company performs most of its activities in Hungary. Its business activity was focussed on Magyar Villamos Művek Zrt. (Hungarian Power Companies Ltd.) and the companies under its control as well as various power plant projects and development activities in the country.

Its market presence is shared among the following major customer groups:

- Works performed for companies which belong to the Group:
  - Works performed for Magyar Villamos Művek Zrt. (Hungarian Power Companies Ltd.) (parent company) (under a framework contract): oversight of the overhaul of gas turbines, preparation of small biomass-fired power plants, preparation of renewable energy source-based power plants;
- Paksi Atomerőmű Zrt. (Paks Nuclear Power Plant Ltd.): project for blowing down the water space on the secondary side (PRISE Project) (under contracting); framework agreement for technical inspection tasks; general design tasks; refurbishment of the air conditioning and ventilation system (under contracting); technical supervision of the refurbishment of the 120/400 kV substation;
- MAVIR Magyar Villamosenergia-ipari Átviteli Rendszerirányító ZRt. (MAVIR Hungarian Transmission System Operator Company Ltd.): preparation, management and engineering tasks of the establishment of switchyards; public procurement consulting; engineering services works of info-communication projects; preparation of, and obtaining permits for, the establishment of transmission systems; technical supervision and documentation of the installation of transmission systems;
- Bánhidai Erőmű Zrt. (Bánhida Power Plant Ltd.): preparatory and approval process tasks of the new straw-fired power plant;
- Országos Villamostávvezeték ZRt. (National Power Line Ltd.): technical supervision of the overhaul of turbogenerators at Paks;
- Mátrai Villamos Művek Termelő Zrt. (Mátra Power Generation Co. Ltd.): preparation of the implementation of a 500 MW lignite-fired unit;
- Kárpát Energo Zrt. (Kárpát Energo Ltd.): works relating to a prime contract for work and services and preservation of the condition of equipment delivered by Russian partners;
- BVMT Bakonyi Villamos Művek Termelő Zrt. (BVMT Bakony Power Generation Co. Ltd.): design review and on-site technical inspection tasks of the 2x58 MW simple cycle gas turbine units of the Ajka Power Plant.

- Markets outside the Holding:

- Preparatory and approval process works relating to combined cycle gas turbine power plants comprising new units:
- Central European Power Plant (EMFESZ), 6x400 MW Almásfüzitő, 2x400 MW Csepel III (Alpiq), 400 MW MOL, 800 MW MOL (Hungarian Oil and Gas Company plc.): submission of low capacity gas engine power plants for approval;
- Pannon-HŐ Kft. (Pannon-Heat Ltd.): comprehensive engineering services works for the implementation of a new straw-fired unit;
- BorsodChem Zrt. (BorsodChem Pte. Ltd.): conversion of a gas-fired boiler with a capacity of 125 tonnes/h into a hydrogen-fired one;
- FKF Zrt. (FKF Pte. Ltd.): technical and quality supervision of the replacement of the boiler drums of the Metropolitan Waste-to-energy Plant in Budapest;
- RWE AG: working out approval manuals for gas turbine and pumped storage power plants;
- PRECON Kft. (PRECON Ltd.): technical supervision of landfill gas collection systems, gas yield measurement and consulting for operators/owners.

- Projects in preparation:

- Establishment of a heat storage system for MIFŰ Kft. (MIFŰ Ltd.);
- Installation of a hot water boiler for Dunamenti Erőmű Zrt. (Dunamenti Power Plant Ltd.)

- Opportunities abroad:

The Company has paid increased attention in recent years to opportunities provided by foreign markets. It may provide supervision for the establishment of a high-voltage transmission line in Ukraine. By participating in EBRD tenders, the Company has submitted bids for the banking engineering tasks of several projects, and their assessment is under way.

The core activities of VILLKESZ Villamosipari Kereskedelmi és Szolgáltató Kft. (VILLKESZ Electricity Industry Commercial and Service Providing Ltd.) consist of the performance of technical service tasks associated with the operation of power plants (Paksi Atomerőmű Zrt. [Paks Nuclear Power Plant Ltd.], Vértes Erőmű Zrt. [Vértes Power Plant Ltd.] and the gas turbine power plants of Magyar Villamos Művek Zrt. [Hungarian Power Companies Ltd.]) (maintenance, installation, transport, forwarding, crane operation, construction and refurbishment works, joinery works, steel structure works, manufacture of steel structures, and electrical installation and maintenance works). In addition to the maintenance works, the Company carries out the maintenance, management and guarding of buildings and motor vehicle fleet management for the Group and external market partners, and also operates a printing house.

ATOMIX Kft. (ATOMIX Ltd.) is a subsidiary owned 100% by Paksi Atomerőmű Zrt. (Paks Nuclear Power Plant Ltd.). Its services are essentially used by the owner Company. Its major activities are: property and security guard protection services, fire fighting and environmental cleanup activities, passenger and goods
transport activities, operation of sports and recreation facilities, restaurant catering, operation of canteen kitchens, provision of cleaning and laundry services, educational and education organisational activities and temporary placement of employees.

**Enero-Merkur Kft. (Enero-Merkur Ltd.)** is engaged primarily in the wholesale and retail trade of electrical fittings and cables.

**MVM Investment Ukrajna Beruházási Kft. (MVM Investment Ukraine Ltd.)** is a subsidiary of MVM Trade Villamosenergia Kereskedelmi ZRt. (MVM Trade Power Trading Ltd.) Its core activity includes the maintenance and refurbishment of substation equipment in Ukraine. The core activity of the System Investment Ukraine Subsidiary is renting out a shunt choke located in Ukraine to MVM Trade Villamosenergia Kereskedelmi ZRt. (MVM Trade Power Trading Ltd.) The Company is a subsidiary of MVM Investment Ukraine Ltd. **ER-EF Erőmű Kft. (ER-EF Power Plant Ltd.)** and **Bánhida Erőmű Kft. (Bánhida Power Plant Ltd.)** are currently inactive companies. The latter is the subsidiary of Vértes Erőmű Zrt. (Vértesszékelő Zrt.)

### 4.5.1.2 Administration Services (Information Technology and Accounting Activities)

The main function of **MVM KONTÓ Pénzügyi és Számviteli Szolgáltató Központ ZRt. (MVM KONTÓ Finance and Accounting Service Centre Ltd.)** is to provide financial, accounting and payroll accounting services to a high standard mainly for the member companies of the MVM Group.

- Financial services: treasury, money transactions (bank, cashier’s desk), entry of supplier invoices in the books, invoicing, entry of customer invoices in the books;
- Accounting services: general ledger bookkeeping, asset management; taxation, (monthly, quarterly and annual) closing, preparation of domestic and international reports;
- HR services: payroll accounting including the computation of salaries, wages and social insurance provisions, keeping of staff records, keeping of cafeteria records and settlement of cafeteria invoices.

The Company lays special emphasis on ensuring that it performs the services provided by it reliably, as defined in advance, within a standard framework and on ensuring their transparency and verifiability.

The service model working between the Company and the members of the MVM Group is based on a client-principal relationship between the participants, which is regulated in service contracts from the points of view of the division of work, liability, agency fee, etc.

**MVM KONTÓ Zrt. (MVM KONTÓ Ltd.)** performs financial, accounting and payroll accounting services for 23 member companies of the MVM Group and three companies outside the Group. Its customers are usually companies based in Hungary. In the case of one customer, it provides comprehensive services to the Hungarian branch office of a foreign (Austria)-based company.

The activities of **MVMI Informatika Zrt. (MVMI Information Technologies Service Centre Ltd.)** include providing comprehensive IT services for general economic, technical and administration purposes to the member companies of the MVM Group. **MVMI Zrt. (MVMI Ltd.)** operates and develops the IT infrastructure of the member companies. Its most important services are: provision of SAP and ORACLE HR services, provision of Asset Suite (PASSPORT) application services for Paksi Atomerőmű Zrt. (Paks Nuclear Power Plant Ltd.), comprehensive operation of workstations and provision of electronic document management system (EDMS) services for large companies.

### 4.5.1.3 Real Estate Operation and Welfare Services

**Római Irodaház Kft. (Római Office Building Ltd.)** was established in June 2009. Its core activity is to let to the member companies of the MVM Group and to operate the premises, parking spaces and common areas of the office building in its ownership, located at 1031 Budapest, Szentendrei út 207-209. The Company provides modern, Category A office space and meeting rooms to the companies listed above.

**Hotel Aranyhid Panorama Kft. (Hotel Golden Bridge Panorama Ltd.)** was still the subsidiary of Vértesszékelő Erőmű Zrt. (Vértesszékelő Zrt.) in 2009, and was transferred to the ownership of Magyar Villamos Művek Zrt. (Hungarian Power Companies Ltd.) in 2010. It is engaged in the provision of organised holidays and the operation of Hotel Panorama located in Balatongyörök.

**Hotel Vértess Kft. (Hotel Vértess Ltd.)** was transferred into the ownership of Magyar Villamos Művek Zrt. (Hungarian Power Companies Ltd.) from Vértesszékelő Erőmű Zrt. (Vértesszékelő Zrt.) in December 2009. It is engaged in the provision of organised holidays and the operation of Vértess Conference and Wellness Hotel located in Siófok.

**Niker d.o.o.** is a subsidiary registered in Croatia and engaged in the provision of organised holidays. It is responsible for the operation of the tourist and food establishment “Pansion ALBATROS” located in Rovinj.
Personnel development and labour management are areas of strategic importance, which have the following main pillars:

- Selecting, hiring and retaining the most talented employees, providing career opportunities;
- Maintaining and developing a competitive and performance-oriented remuneration system;
- Strengthening the employees’ commitment;
- Guaranteeing equal opportunities;
- Supporting lifelong learning and knowledge sharing;
- Keeping the high standard of social and welfare benefits;
- Providing for modern, healthy and safe conditions of work;
- Fair, long-term cooperation with employee advocacy organisations.

At the end of 2010, 7,867 persons worked at the MVM Group.

The Management of the Group is convinced that the expertise, commitment and harmonious cooperation of the staff as well as their environmental awareness appearing as a new element may be key factors in the success of the MVM Group. The employees are characterised by high level qualifications, expertise integrated with specific local and general skills and long work experience. All these are fortunately associated also with personal commitment to continuous development, thus all conditions are provided for the enhancement of the timely principles and practice of lifelong learning.

The proportion of employees covered by a collective agreement and/or the Collective Agreement for the Electricity Sector (CAES) apply to the employees.

In accordance with the Remuneration Policy, the member companies of the Group offer competitive salaries and wages to their employees. The employees may also be granted rewards or bonuses in appreciation of their individual achievements. In addition, the number of our companies that offer an optional package to their employees from a set of benefits supported by a tax break increased further in 2010. This optional fringe benefit package (OFB or cafeteria) allows the employees to use them individually, while the employer incurs the same expenditure.

The group-level Safety Code of MVM is to ensure the achievement of the industrial safety and hygiene objectives at the group level. Under the code, the Safety Directorate of Magyar Villamos Művek Zrt. (Hungarian Power Companies Ltd.) annually verifies the existence and development—as required—of, and compliance with, the industrial safety and hygiene regulations at the member companies. The industrial safety specialists of the companies ensure the employees’ regular training and the documentation of the completion of such training in the case of both the employees and the contractual partners. The members of the Group fulfil their data and information provision obligations to the Industrial Safety Inspectorates as incurred from their activities and any incidents. The number of working hours lost due to accidents has decreased within the Group by about 50,000 since 2007.
The year 2010 brought significant changes to the life of the MVM Group, thus both external and internal communication focused primarily on making the public familiar with the new Management, goals and initiatives of the Group and on the tasks of setting the Company on a new path. The renewed Management clearly included efficient and integrated operations among its priorities. The reorganisation of the communication of the Group began. The area of communication also progressed towards coordination and conscious, professional and target-oriented operation in order to strengthen the image of the MVM Group.

Magyar Villamos Művek Zrt. (Hungarian Power Companies Ltd.) and its subsidiaries coordinate their communication more closely than before, thus they make use of the advantages and synergies offered by the group structure not only in the Communications Strategy and the press and public relations, but also, for example, in the area of sponsorship.

The communication associated with the Vértes Power Plant and the lifetime extension and expansion of the Paks Nuclear Power Plant represented a high priority professional task and coordination. Magyar Villamos Művek Zrt. (Hungarian Power Companies Ltd.) met the business and communication challenges, and, in addition to responsible operations, also assumed a serious role in supporting causes of concern for the whole society. In 2010, the Group launched several initiatives which combine novel goals of micro- and wider communities with the means of advanced power engineering. The company donated a solar collector working on the principle of solar parabola to the Care Home for the Elderly managed by the local government in Hatvany Lajos utca, Óbuda-Békásmegyer. A special feature of the project is that this was the first time in the world that such a device was integrated into the system of an institution using district heat supply.

The MVM Group also took a leading role in helping the victims of one of the most serious tragedies last year, the red sludge disaster in autumn: The larger member companies and the employees supported the victims who found themselves in a difficult situation due to the industrial disaster, not through their own fault, with more than HUF 100 million in total.

Magyar Villamos Művek Zrt. (Hungarian Power Companies Ltd.) and the Group under its control consider it especially important to support those who enrich the country with their knowledge and talent. It was the third occasion in the autumn of 2010 that the Junior Prima Awards established with the cooperation of Magyar Villamos Művek Zrt. (Hungarian Power Companies Ltd.), as co-founder, were presented in the category of Hungarian Musical Arts. The goal of the establishment of the award was to help discover young talents and to provide the conditions required for their development. Ten young Hungarian talents, including a composer, a female signer, an instrument soloist and a quartet were granted the recognition and the EUR 7,000 associated with it.

The series of events which attracted perhaps the greatest public attention during the year was the settlement of the situation of the Vértes Power Plant and the dialogues with the various groups concerned. Important steps had already been taken previously for handling certain business problems, and the new Management was compelled to make particularly difficult decisions to reduce the sources of loss, thus communication associated with the bankruptcy situation helped solve special challenges.

The Company also took a significant step in respect of the means of communication and channels used in the area of meeting challenges set by the 21st century. The intranet interface of the parent company was renewed, and the MVM Group switched to a more active use of web interfaces on the whole, including websites.
4.8 Environmental Protection and Quality Management

Role of environmental protection influencing the financial situation of the Company

In 2010, the concerned power plants of the Group also met their obligations imposed on them by the carbon dioxide allowance trading system of the EU by the deadline. The power plants took advantage of the financial opportunities arising from the market price differences of the different types of emission allowances (EUA-CER), which may be used for settlement. Every facility has emission allowances in a number corresponding to its emissions.

Green energy

The Medium-term Strategy of the MVM Group had laid down the participation of the National Electricity Company in the utilisation of renewable energy resources in Hungary as a high priority objective. To this end, on 23 November 2009, Magyar Villamos Művek Zrt. (Hungarian Power Companies Ltd.) purchased Hungarowind Szélerömű Üzemeltető Kft. (Hungarowind Wind Power Plant Operating Ltd.) operating one of the most important wind farms in the country, which had an electricity output of 45.17 GWh in 2010. In 2009, Magyar Villamos Művek Zrt. (Hungarian Power Companies Ltd.) began to study the applicability of pyrolysis technology in Hungary. At the beginning of 2010, a R&D contract was concluded for the construction of a pilot plant to examine whether it is possible to utilise this technology at an industrial scale by producing oil from plastic wastes, then electricity from oil in a closed system in compliance with the prescribed environmental protection parameters. In 2010, the pilot plant built in Győr, which is able to achieve an output of 0.5 MW, proved the applicability of the technology at an industrial scale.

In 2010, MVM Trade Villamosenergia Kereskedelmi Zrt. (MVM Trade Power Trading Ltd.) traded 137.6 GWh of electricity and MVM Partner traded 268.6 GWh of electricity generated from renewable energy sources. The use of the solar collector decreases the quantity of natural gas used. Magyar Villamos Művek Zrt. (Hungarian Power Companies Ltd.) has donated seven solar parabolas in total to social, health care and educational institutions, and four were installed on the office building of the Company, which resulted in saving approximately 2,500 m³ of natural gas in 2010.

At the end of 2010, the Environmental Protection Department of Magyar Villamos Művek Zrt. (Hungarian Power Companies Ltd.) assessed in advance the points where the environmental load of the office building can be decreased. The goal is that the conditions of selective waste collection, already implemented on the premises of Magyar Villamos Művek Zrt. (Hungarian Power Companies Ltd.), should be identical in the whole area of the Central Office Building and, consequently, the quantity of selectively collected wastes should increase by 20% year-on-year, also decreasing the proportion of municipal wastes. To increase the environmental awareness of the employees of the new Central Office Building, the Environmental Protection Department prepared an information brochure entitled “Green Island”, which can be found on the intranet.

“Green” projects

A technology comprising a solar collector working on the principle of what is called solar parabola, which is considered new even in Europe, opens up a new possibility for the increasing utilisation of renewable energy sources. The use of the solar collector decreases the quantity of natural gas used. Magyar Villamos Művek Zrt. (Hungarian Power Companies Ltd.) has donated seven solar parabolas in total to social, health care and educational institutions, and four were installed on the office building of the Company, which resulted in saving approximately 2,500 m³ of natural gas in 2010.

At the end of 2010, the Environmental Protection Department of Magyar Villamos Művek Zrt. (Hungarian Power Companies Ltd.) assessed in advance the points where the environmental load of the office building can be decreased. The goal is that the conditions of selective waste collection, already implemented on the premises of Magyar Villamos Művek Zrt. (Hungarian Power Companies Ltd.), should be identical in the whole area of the Central Office Building and, consequently, the quantity of selectively collected wastes should increase by 20% year-on-year, also decreasing the proportion of municipal wastes. To increase the environmental awareness of the employees of the new Central Office Building, the Environmental Protection Department prepared an information brochure entitled “Green Island”, which can be found on the intranet.
Assessment of the storage conditions of materials potentially harmful to environment at the companies of the MVM Group and remediation of sites

Drawing lessons from the red sludge disaster near Ajka and in order to prevent similar incidents, the Board of Directors of Magyar Villamos Mûvek Zrt. (Hungarian Power Companies Ltd.) ordered the assessment of the storage conditions of materials potentially harmful to the environment. Commenced in 2010, the assessment of the storage conditions of the materials stored in the sludge ponds of Vértesi Erômû Zrt. (Vértes Power Plant Ltd.) and Paksi Atomerômû Zrt. (Paks Nuclear Power Plant Ltd.) is still under way.

The environmental protection authority accepted the documentation submitted to the authority on the completion of the environmental remediation performed at the Inota gas turbine site owned by Magyar Villamos Mûvek Zrt. (Hungarian Power Companies Ltd.), and ordered post-remediation monitoring for four years, which is still under way.

Post-remediation monitoring was still under way in 2010 (for nearly 10 years) at the Tuzsér site owned by Magyar Villamos Mûvek Zrt. (Hungarian Power Companies Ltd.)

Management system of the MVM Group

Magyar Villamos Mûvek Zrt. (Hungarian Power Companies Ltd.) operates a certified Environmental Management System harmonised with the Strategy of the Company, forming an integral part of its decision-making system and conforming to the specifications of Hungarian Standard MSZ EN ISO 14001:2005, according to which it also has a group-level Environmental Protection Policy.

Quality Management

The next re-certification audit of Magyar Villamos Mûvek Zrt. (Hungarian Power Companies Ltd.) took place on 17 and 18 March 2010, at which the Company successfully renewed the certificate of its Integrated Management System. With this, the Company merited the Gold Certificate of the Hungarian Standards Institution (HSI). This certificate of merit may be awarded to companies that continuously develop their management system and continuously maintain their certificate with the HSI for 12 years.

The project entitled “Development of the Quality Management System of Magyar Villamos Mûvek Zrt. (Hungarian Power Companies Ltd.), Preparation of Group-level Harmonisation” was launched in 2009. The project is aimed at ensuring that the management system conform to the central functions of Magyar Villamos Mûvek Zrt. (Hungarian Power Companies Ltd.) and at creating a framework and a possibility for integrating the already existing quality management systems of the subsidiaries into a uniform system, thereby supporting the efficient operation of the central management functions (e.g., comprehensive risk management and strategic controlling). As part of the project, operational and business models were worked out for the MVM Group, the management, key and support processes were identified, and the modelling of these in a uniform support tool (ARIS) was completed. The Company also developed the electronic approval process of regulation documents (work-flow), which it wishes to introduce and apply in 2011.
5. REPORT OF THE SUPERVISORY BOARD

Magyar Villamos Művek Zrt. (Hungarian Power Companies Ltd.)
Supervisory Board

**Decision No. 5/2011 (IV.4.)**

passed in connection with the closing of the 2010 business activities of Magyar Villamos Művek Zrt. (Hungarian Power Companies Ltd.), regarding the report of the Supervisory Board

The Supervisory Board of Magyar Villamos Művek Zrt. (Hungarian Power Companies Ltd.) performed its tasks in the reporting period pursuant to Act IV of 2006 on Business Associations (Companies Act) as well as pursuant to the Articles of Association of Magyar Villamos Művek Zrt. (Hungarian Power Companies Ltd.) and the Rules of Procedure of the Supervisory Board in force.

The Supervisory Board drafted its present report on the basis of the Annual Report of the Board of Directors, taking into account the auditor’s opinion and on the basis of continuous interim audits.

The body held meetings on 14 occasions as defined in its Rules of Procedure, and passed 78 decisions in total. It discussed the Report of the Board of Directors on the operation and development of the pecuniary situation of the Company quarterly, as prescribed in the Companies Act, and continuously monitored the activities of the Board of Directors and the decisions passed, during which it did not find any unlawful operation.

The Chairman of the Supervisory Board regularly represented the Supervisory Board at the meetings of the Board of Directors, and explained the position of the body within the individual agenda items discussed by the Board of Directors, such as:

- development of the medium-term strategy of the MVM Group and
- mechanisms for the operation of Magyar Villamos Művek Zrt. (Hungarian Power Companies Ltd.)

The recommendations made by the Supervisory Board, also verified by the minutes taken of the meetings of the Board of Directors, were adopted and integrated into the documents of the Management of Magyar Villamos Művek Zrt. (Hungarian Power Companies Ltd.) and the decisions of the Board of Directors.

The books were kept in accordance with the provisions of the Accounting Act and according to the Accounting Policy, and all figures in the Balance Sheet are supported in the analytical records, thus the 2010 Report of the Company gives a true picture of its business operations.

With regard to the following, the Supervisory Board recommends the Shareholders’ Meeting to approve the Annual Report and Business Report prepared on the 2010 business operations and pecuniary situation of the Company, as well as the 2010 Balance Sheet and Profit and Loss Account of Magyar Villamos Művek Zrt. (Hungarian Power Companies Ltd.) with a balance sheet total of HUF 526,671 m, say five
hundred and twenty-six billion six hundred and seventy-one million Hungarian forints, and a balance sheet profit of HUF 27,585 m, say twenty-seven billion five hundred and eighty-five million Hungarian forints.

The Supervisory Board agrees with the recommendation of the Board of Directors, whereby—with regard to the current market position of the Company—HUF 27,585 m, say twenty-seven billion five hundred and eighty-five million Hungarian forints, out of the profit after tax should be included in the profit and loss reserve.

Budapest, 30 March 2011

Dr. Árpád KOVÁCS
Chairman of the Supervisory Board
1. We have audited the accompanying 2010 consolidated annual financial statements of MVM Zrt. (MVM Ltd.) (“the Company”) and its subsidiaries (“the Group” or “the MVM Group”), which comprises the consolidated balance sheet as at 31 December 2010 — showing a balance sheet total of HUF 876,311 million and a profit for the year of HUF 9,523 million —, the related consolidated profit and loss account for the year then ended and the summary of significant accounting policies and other explanatory notes.

2. We issued an unqualified opinion on the Group’s consolidated annual financial statements as at 31 December 2009 on 22 March 2010.

Management’s Responsibility for the Consolidated Financial Statements

3. Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with the Hungarian Accounting Law and generally accepted accounting principles in Hungary. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor’s Responsibility

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

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

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

7. We have audited the elements of and disclosures in the consolidated annual financial statements, along with underlying records and supporting documentation, of MVM Zrt. (MVM Ltd.) in accordance with Hungarian National Auditing Standards and have gained sufficient and appropriate evidence that the consolidated annual financial statements have been prepared in accordance with the Hungarian Accounting Law and with generally accepted accounting principles in Hungary. In our opinion the consolidated annual financial statements give a true and fair view of the equity and financial position of the group of companies controlled by MVM Zrt. (MVM Ltd.) as at 31 December 2010 and of the results of its operations for the year then ended. The consolidated business report corresponds to the disclosures in the consolidated financial statements.

Without qualifying our opinion, we draw attention to the matters presented in the following paragraphs:

8. In our independent auditor’s report on the Company’s 2008 consolidated financial statements, we draw the attention to the fact that several investigations were carried out at MVM Zrt. (MVM Ltd.) and at some of its subsidiaries regarding certain transactions, the Company launched criminal proceedings in connection with these transactions with the National Investigation Agency based on the resolution of the Board of Directors dated 8 April 2009. The ultimate outcome of the investigations and their possible impact on the accounting records is not presently determinable. These transactions and the related events in 2010 are presented in note E.7. to the financial statements.

9. As discussed in note E.7 to the financial statements, the MVM Zrt. (MVM Ltd.) and its subsidiary, MVM Trade Zrt. (MVM Trade Ltd.) were party to long-term electricity power purchase agreements (“PPA”) that had been terminated by the end of 2008. Regarding to the effective period of the PPAs Dunamenti Erômû has launched ICSID procedures against the Hungarian State claiming damages as a result of termination of the PPAs. This procedure is still in progress and its outcome is undeterminable. As both the existence, the amount and the debtor of this possible future obligation is uncertain and the MVM Group’s management has taken the view that any potential obligation towards the power producers shall have to be primarily borne by the Hungarian State, the Group has not made any provision with respect to obligations arising as a result of termination of the PPAs. However, the Group has made a provision of HUF 11.4 billion for certain potential liabilities unsettled until 31 December 2010 resulting from the disputed items arising during the period when the PPAs were in force. The provision has been determined based on the Management’s present best estimation but the amount will only be final after the ending of the settlement dispute between the parties or after the end of the possible litigation.

Budapest, 30 March 2011

Except for the effect of the resolution of the shareholders at 29 April 2011 on the distribution of dividends of HUF 12,520 million for the year ended 31 December 2010.

Ernst & Young Kft. 
Registration No. 001165

István HAVAS
Registered Auditor
Chamber membership No.: 003395
### 7. MAIN FIGURES OF THE COMPANIES BELONGING TO THE GROUP

<table>
<thead>
<tr>
<th>Name</th>
<th>Short name</th>
<th>Activities</th>
<th>Head office</th>
<th>Website</th>
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<tbody>
<tr>
<td><strong>Holding Centre</strong></td>
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<tr>
<td>Magyar Villamos Művek Zrt. (Hungarian Power Companies Ltd.)</td>
<td>MVM Zrt. (MVM Ltd.)</td>
<td>strategic management, asset management, provision of telecommunications services</td>
<td>1031 Budapest, Szentendréi út 207-209.</td>
<td><a href="http://www.mvm.hu">www.mvm.hu</a></td>
</tr>
<tr>
<td><strong>Trading Business Unit</strong></td>
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<tr>
<td>MVM Partner Energiakereskedelmi Zrt. (MVM Partner Energy Trading Ltd.)</td>
<td>MVM Partner Zrt. (MVM Partner Ltd.)</td>
<td>wholesale and retail trade of electricity</td>
<td>1031 Budapest, Szentendréi út 207-209.</td>
<td><a href="http://www.mvmp.hu">www.mvmp.hu</a></td>
</tr>
<tr>
<td>MVM-ADWEST Marketing und Handels GmbH</td>
<td>MVM-Adwest GmbH</td>
<td>electricity trade in the competitive market</td>
<td>Wienerbergstr. 7, 1100 Wien, Austria</td>
<td><a href="http://www.mvm-adwest.at">www.mvm-adwest.at</a></td>
</tr>
<tr>
<td>HUPX Magyar Szervezett Villamosenergia-piac Zrt. (HUPX Hungarian Organised Electricity Market Ltd.)</td>
<td>HUPX Zrt. (HUPX Ltd.)</td>
<td>operation of the power exchange</td>
<td>1031 Budapest, Anikó utca 4.</td>
<td><a href="http://www.hupx.hu">www.hupx.hu</a></td>
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<tr>
<td><strong>Generation Business Unit</strong></td>
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<tr>
<td>Vértesi Erőmű Zrt. (Vértes Power Plant Ltd.)</td>
<td>VÉ Zrt. (Vértes PP Ltd.)</td>
<td>electricity and heat generation, electricity trade, coal mining</td>
<td>2841 Oroszlány, Kültérutó hrsz. 0718/5.</td>
<td><a href="http://www.vert.hu">www.vert.hu</a></td>
</tr>
<tr>
<td>Mátrai Villamos Művek Termelő Zrt. (Mátra Power Generation Co. Ltd.)</td>
<td>MVMZRT. (MVMZ Ltd.)</td>
<td>establishment of the Visonta lignite-fired power plant</td>
<td>3271 Visonta, Erőmű utca 11.</td>
<td>-</td>
</tr>
<tr>
<td>BVMT Bakonyi Villamos Művek Termelő Zrt. (BVMT Bakony Power Generation Co. Ltd.)</td>
<td>BVMT Zrt. (BVMT Ltd.)</td>
<td>establishment of the Ajka gas turbine peaking power plant</td>
<td>8400 Ajka, Gyártelep hrsz.1961.</td>
<td>-</td>
</tr>
<tr>
<td>Kárpát Energo Kereskedelmi és Szolgáltató Zrt. (Kárpát Energo Trading and Service Ltd.)</td>
<td>Kárpát Energo Zrt. (Kárpát Energo Ltd.)</td>
<td>establishment of the Vásárosnamény combined cycle power plant</td>
<td>1031 Budapest, Szentendréi út 207-209.</td>
<td><a href="http://www.karpatenergo.hu">www.karpatenergo.hu</a></td>
</tr>
<tr>
<td>Tatabánya Erőmű Kft. (Tatabánya Power Plant Ltd.)</td>
<td>-</td>
<td>heat generation (heat supply to Tatabánya) with electricity cogeneration</td>
<td>2800 Tatabánya, Vájár köz 2.</td>
<td><a href="http://www.tber.hu">www.tber.hu</a></td>
</tr>
<tr>
<td>MIFÜ Miskolci Fűtőerőmű Kft. (MIFÜ Miskolc Central Heating Plant Ltd.)</td>
<td>MIFÜ Kft. (MIFÜ Ltd.)</td>
<td>heat generation (heat supply to Miskolc) with electricity cogeneration</td>
<td>3531 Miskolc, Tatár u. 29/b.</td>
<td>-</td>
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<tr>
<td>MVM Észak-Budai Kogenerációs Fűtőerőmű Kft. (MVM North Buda Cogeneration Power Plant Ltd.)</td>
<td>MVM Észak-Budai Fűtőerőmű Kft. (MVM North Buda PP Ltd.)</td>
<td>heat generation (heat supply to the North Buda Region) with electricity cogeneration</td>
<td>1037 Budapest, Kunigunda út 49.</td>
<td>-</td>
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<tr>
<td>Hungarowind Szélérőmű Üzemeltető Kft. (Hungarowind Wind Power Plant Operating Ltd.)</td>
<td>Hungarowind Kft. (Hungarowind Ltd.)</td>
<td>owner and operator of a 23 MW wind farm</td>
<td>1031 Budapest, Szentendréi út 207-209.</td>
<td><a href="http://www.hungarowind.hu">www.hungarowind.hu</a></td>
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<td><strong>TSO Business Unit</strong></td>
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<tr>
<td>MAVIR Magyar Villamosenergia-ípari Átviteli Rendszereinhelyítő Zrt. (MAVIR Hungarian Transmission System Operator Company Ltd.)</td>
<td>MAVIR ZRL. (MAVIR Ltd.)</td>
<td>direction of the operation of the electricity system, operation and development of the transmission system</td>
<td>1031 Budapest, Anikó utca 4.</td>
<td><a href="http://www.mavir.hu">www.mavir.hu</a></td>
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<tr>
<td>Name</td>
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<td><strong>Technical Services</strong></td>
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<tr>
<td>Országos Villamosállamosítás ZRT. (National Power Line Ltd.)</td>
<td>OVIT Zrt. (OVIT Ltd.)</td>
<td>maintenance and establishment of the power lines of the transmission system; maintenance, operation and monitoring of the telecommunications network</td>
<td>1158 Budapest, Körvasút sor 105.</td>
<td><a href="http://www.ovit.hu">www.ovit.hu</a></td>
</tr>
<tr>
<td>MVM ERBE ENERGETIKA Mérnökiroda Zrt. (MVM ERBE Power Engineering &amp; Consulting Ltd.)</td>
<td>MVM ERBE Zrt. (MVM ERBE Ltd.)</td>
<td>power engineering services, design of power engineering facilities and project management</td>
<td>117 Budapest, Budafoki út 95.</td>
<td><a href="http://www.erce.hu">www.erce.hu</a></td>
</tr>
<tr>
<td>VILKESZ Villamosipari Kereskedelmi és Szolgáltató Kft. (VILKESZ Electricity Industry Commercial and Service Providing Ltd.)</td>
<td>VILKESZ Kft. (VILKESZ Ltd.)</td>
<td>electrical services tasks, operation, guarding and maintenance of facilities</td>
<td>2040 Budatőrs, Kinizsi u. 26.</td>
<td><a href="http://www.vilkesz.hu">www.vilkesz.hu</a></td>
</tr>
<tr>
<td>ATOMIX Kereskedelmi és Szolgáltató Kft. (ATOMIX Trading and Service Ltd.)</td>
<td>ATOMIX Kft. (ATOMIX Ltd.)</td>
<td>a subsidiary of Paks NPP Ltd., provides mostly services associated with the operation of facilities on the premises of Paks NPP Ltd.</td>
<td>7030 Paks, Gesztenyés u. 2.</td>
<td><a href="http://www.atomix.hu">www.atomix.hu</a></td>
</tr>
<tr>
<td>ENERGO-MERKUR Villamosenergiaipari Kereskedelmi és Szolgáltató Kft. (ENERGO-MERKUR Electricity Trading and Service Ltd.)</td>
<td>ENERGO-MERKUR Kft. (ENERGO-MERKUR Ltd.)</td>
<td>wholesale and retail trade of electrical fittings and cables</td>
<td>1239 Budapest, Grassalkovich u. 255.</td>
<td><a href="http://www.energo-merkur.hu">www.energo-merkur.hu</a></td>
</tr>
<tr>
<td>MVM Investment Ukrajna Beruházási Kft. (MVM Investment Ukraine Ltd.)</td>
<td></td>
<td>maintenance and refurbishment of substation equipment in Ukraine, a subsidiary of MVM Trade Villamosenergia Kereskedelmi ZRT. (MVM Trade Power Trading Ltd.)</td>
<td>1031 Budapest, Szentendrei út 207-209.</td>
<td></td>
</tr>
<tr>
<td>System Investment Ukraine Subsidiary</td>
<td></td>
<td>ownership of substation equipment (shunt chokes) in Ukraine, a subsidiary of MVM Investment Ukraine Ltd.</td>
<td>Fjodorova Square 5, 89600 Mukacevo, Ukraine</td>
<td></td>
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<tr>
<td>ER-EF Erőmű Kft. (ER-EF Power Plant Ltd.)</td>
<td></td>
<td>no operative activity is performed at present</td>
<td>1126 Budapest, Béla király út 30/c</td>
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<tr>
<td>Bánhida Erőmű Kft. (Bánhida Power Plant Ltd.)</td>
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<td>electricity generation (currently suspended), a subsidiary of Vértes PP Ltd.</td>
<td>2800 Tatabánya, Környei út 38.</td>
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<tr>
<td><strong>Administration Services</strong></td>
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<tr>
<td>MVM KONTÓ Pénzügyi és Számviteli Szolgáltató Központ ZRT. (MVM KONTÓ Finance and Accounting Service Centre Ltd.)</td>
<td>MVM KONTÓ Zrt. (MVM KONTÓ Ltd.)</td>
<td>provision of financial and accounting services to the companies of the Group</td>
<td>7030 Paks, Gaagarin u. 1.</td>
<td></td>
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<tr>
<td>MVMI Informatika Zrt. (MVMI Information Technologies Service Centre Ltd.)</td>
<td>MVMI Zrt. (MVMI Ltd.)</td>
<td>provision of comprehensive information technology services (infrastructure, operation of application systems, customer service and services management) to the companies of the Group</td>
<td>7030 Paks, Dózsa Gy. utca 30-32.</td>
<td><a href="http://www.mvmi-informatika.hu">www.mvmi-informatika.hu</a></td>
</tr>
<tr>
<td><strong>Real Estate Operation and Welfare Services</strong></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Római Irodaház Kft. (Római Office Building Ltd.)</td>
<td></td>
<td>operation of the Central Office Building</td>
<td>1031 Budapest, Szentendrei út 207-209.</td>
<td></td>
</tr>
<tr>
<td>Hotel Vértes Kereskedelmi és Szolgáltató Kft. (Hotel Vértes Trading and Service Ltd.)</td>
<td>Hotel Vértes Kft. (Hotel Vértes Ltd.)</td>
<td>provision of organised holidays (operation of a hotel in Siófok), a subsidiary of Vértes PP Ltd.</td>
<td>8600 Siófok, Batthyány u. 24.</td>
<td><a href="http://www.hotelvertes.hu">www.hotelvertes.hu</a></td>
</tr>
<tr>
<td>Hotel Aranyhíd Panorama Kft. (Hotel Golden Bridge Panorama Ltd.)</td>
<td></td>
<td>provision of organised holidays (operation of a hotel in Balatongyörök), a subsidiary of Vértes PP Ltd.</td>
<td>8313 Balatongyörök, Petőfi S. u. 5.</td>
<td><a href="http://www.hotelpanorama.hu">www.hotelpanorama.hu</a></td>
</tr>
<tr>
<td>NIKER d.o.o. Kereskedelmi kft. (NIKER d.o.o. Trading Ltd.)</td>
<td></td>
<td>operation of the tourist and food establishment “Pansion ALBATROS” (Rovinj, Croatia)</td>
<td>52210 Rovinj, Valbruna II. Jugi, Croatia</td>
<td></td>
</tr>
</tbody>
</table>
### Companies included in consolidation as associated companies

#### Joint management company:

<table>
<thead>
<tr>
<th>Name</th>
<th>Short name</th>
<th>Activities</th>
<th>Head office</th>
<th>Website</th>
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<tbody>
<tr>
<td>EKS Service Kft. (EKS Service Ltd.)</td>
<td>-</td>
<td>corrosion protection of the components of power transmission lines</td>
<td>1158 Budapest, Késmárk u. 24-28.</td>
<td><a href="http://www.eks.hu">www.eks.hu</a></td>
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#### Associated companies:

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<tr>
<th>Name</th>
<th>Short name</th>
<th>Activities</th>
<th>Head office</th>
<th>Website</th>
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<tbody>
<tr>
<td>Dunamenti Erőmű ZRt. (Dunamenti Power Plant Ltd.)</td>
<td>DE ZRT. (Dunamenti PP Ltd.)</td>
<td>a company engaged in hydrocarbon-based electricity generation</td>
<td>2440 Százhalombatta, Erőmű u. 2.</td>
<td><a href="http://www.electrabel.hu/content/corporate/dunamenti.hu">www.electrabel.hu/content/corporate/dunamenti.hu</a></td>
</tr>
<tr>
<td>Mátrai Erőmű ZRt. (Mátra Power Plant Ltd.)</td>
<td>Mátra PP Ltd.</td>
<td>a company engaged essentially in electricity generation and associated coal mining activities</td>
<td>3271 Visonta, Erőmű utca 11.</td>
<td><a href="http://www.mert.hu">www.mert.hu</a></td>
</tr>
<tr>
<td>Zsigmondy Vilmos Harkány Gyógyfürdőkórház Kht. (Zsigmondy Vilmos Harkány Spa and Balneological Hospital Not-for-profit Company)</td>
<td>-</td>
<td>a company engaged in the provision of organised holidays</td>
<td>7815 Harkány, Zsigmondy sétány 1.</td>
<td><a href="http://www.harkanykorhaz.hu">www.harkanykorhaz.hu</a></td>
</tr>
<tr>
<td>MM Energy Corporate Finance Beratungs GmbH</td>
<td>-</td>
<td>a Vienna-based company engaged in financial consulting</td>
<td>Bauermarkt 2, 1010 Wien, Austria</td>
<td>-</td>
</tr>
<tr>
<td>Biomassza Erőművek egyesülése (Association of Biomass-fired Power Plants)</td>
<td>-</td>
<td>support and advocacy of biomass-fired power plants</td>
<td>7630 Pécs, Edison u. 1.</td>
<td>-</td>
</tr>
<tr>
<td>Dél-Dunántúli Humán Erőforrás Köszhasznú Nonprofit Kht. (Southern Transdanubia Human Resources Not-for-profit Ltd.)</td>
<td>-</td>
<td>human resources, social services</td>
<td>7030 Paks, Dózsa Gy. u. 95. I/110.</td>
<td><a href="http://www.biomasszaeromuvek.hu">www.biomasszaeromuvek.hu</a></td>
</tr>
<tr>
<td>Technopark Ukraine Subsidiary</td>
<td>-</td>
<td>electricity generation (currently suspended), a subsidiary of Vértes PP Ltd.</td>
<td>Ukraine</td>
<td>-</td>
</tr>
</tbody>
</table>