

## PROSPECTUS

# MAGNOLIA FINANCE LIMITED

(incorporated in Jersey with registration number 92692)

**€610,000,000**

**Perpetual Exchangeable Capital Securities**

exchangeable for existing ordinary shares of

**MOL Hungarian Oil and Gas  
Public Limited Company**

(a company incorporated in Hungary)

*The €610,000,000 Perpetual Exchangeable Capital Securities (the “Capital Securities”) will be issued by Magnolia Finance Limited (the “Issuer”) on 20 March 2006 (the “Closing Date”). The Capital Securities will be issued at an issue price of 100 per cent. of their nominal amount and will be in registered form in the denomination of €100,000 each and integral multiples thereof.*

*The Capital Securities will bear interest from and including 20 March 2006 to but excluding 20 March 2016 at the rate of 4 per cent. per annum payable quarterly in arrear and from 20 March 2016 the Capital Securities will bear interest at a rate reset quarterly of 5.50 per cent. per annum above the euro interbank offered rate payable quarterly in arrear on the Interest Payment Dates (as defined herein), all as more particularly described in Condition 5 (Interest) of the terms and conditions of the Capital Securities (the “Conditions”).*

*The Capital Securities will be direct, unsecured and subordinated limited recourse obligations of the Issuer.*

*The Issuer may, at its option, elect to defer Interest Payments (as defined herein) for any period of time as described in Condition 6 (Deferrals). Such deferred payments will bear interest at the then current rate of interest on the Capital Securities. While any such deferred payments exist each of the Issuer and MOL Hungarian Oil and Gas Public Limited Company (“MOL”) will be subject to certain restrictions in relation to the declaration and payment of dividends and distributions, see Condition 6 (Deferrals) and “Material Contracts of the Issuer - Swop Agreement”.*

*Subject to the Issuer's option to deliver a Cash Settlement Notice (as defined herein) and subject to certain conditions for exchange being met, each holder of the Capital Securities shall have the right to exchange his Capital Securities for a pro rata share of the Exchange Property, which shall initially comprise series A ordinary shares in MOL (“Shares”), at any time on or after 20 March 2011 and up to the close of business (at the place where such Capital Security is deposited for exchange) on 13 March 2016 or, if such Capital Securities shall have been called for redemption on or prior to 20 March 2016, then up to the close of business (at the place aforesaid) on the eighth calendar day prior to the date fixed for redemption thereof, all as described more particularly in Condition 7 (Exchange).*

**For a discussion of certain factors which should be considered in connection with an investment in the Capital Securities, see “Risk Factors” beginning on page 7 of this Prospectus.**

*The Shares are listed on the Budapest Stock Exchange. On 13 March 2006, the closing price of the Shares on the Budapest Stock Exchange was HUF 20,440 per Share.*

*Application will be made to the Commission de Surveillance du Secteur Financier (the “CSSF”) in its capacity as competent authority under the Luxembourg act dated 10 July 2005 relating to prospectuses for securities (loi relative aux prospectus pour valeurs mobilières) for its approval of this Prospectus and application will be made to the Luxembourg Stock Exchange for the Capital Securities to be admitted to trading on the Luxembourg Stock Exchange's regulated market and to be listed on the Luxembourg Stock Exchange. The Luxembourg Stock Exchange's regulated market is a regulated market for the purposes of the Investment Services Directive (Directive 93/22/EEC).*

*The Capital Securities and the Exchange Property that is deliverable upon exchange of the Capital Securities have not been and will not be registered under the United States Securities Act of 1933, as amended (the “Securities Act”), nor with any securities regulatory authority of any other jurisdiction. The Capital Securities are being offered and sold in offshore transactions outside the United States to non-US persons in reliance on Regulation S under the Securities Act (“Regulation S”), and except in a transaction exempt from the registration requirements of the Securities Act, may not be offered, sold or delivered within the United States or to or for the benefit of US persons (as defined in Regulation S).*

*The Capital Securities will be represented by a permanent global certificate in registered form (the “Global Certificate”), without interest coupons, which will be deposited on its issue date with a common depositary for Euroclear Bank S.A./N.V., as operator of the Euroclear System, (“Euroclear”) and Clearstream Banking, société anonyme (“Clearstream, Luxembourg”). Interests in the Global Certificate will be exchangeable in whole, but not in part, for definitive registered Capital Securities only in certain limited circumstances—see (“The Global Certificates”).*

## MORGAN STANLEY

*The date of this Prospectus is 17 March, 2006.*



The Issuer accepts responsibility for the information contained in this Prospectus with regard to itself and the Capital Securities and to the best of the knowledge and belief of the Issuer (having taken all reasonable care to ensure that such is the case) such information contained in this Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

With regard to information contained in this Prospectus relating to MOL, MOL and its subsidiaries and subsidiary undertakings taken as a whole (the MOL Group) and the Shares (such information being the MOL Information), the Issuer confirms that such information is contained in or is derived from documents which are referred to herein under “*Documents Incorporated by Reference*” or are otherwise publicly available. Such documents were not prepared in connection with the offering of the Capital Securities and the Issuer has not been involved in the preparation of such documents or the MOL Information and, as such, the Issuer is not in a position to independently verify the contents thereof in connection with the offer or issue of the Capital Securities.

The Issuer does not accept responsibility for the MOL Information, other than to ensure that it has been accurately reproduced from information published by MOL and which is publicly available, and as far as the Issuer is aware and is able to ascertain from such information, no facts have been omitted which would render the reproduced information inaccurate or misleading.

The inclusion of the MOL Information shall not create any implication that there has been no change relating to MOL, the MOL Group or the Shares since the date thereof or that the information contained therein is current as at any time subsequent to its date. None of the Issuer (other than as stated above), the Manager or the Trustee makes any representation or warranty as to the accuracy, completeness or sufficiency of the MOL Information.

This Prospectus is to be read in conjunction with all documents which are incorporated herein by reference (see “*Documents Incorporated by Reference*” below). This Prospectus shall be read and construed on the basis that such documents are incorporated and form part of this Prospectus. This Prospectus may only be used for the purposes for which it has been published.

The Manager and the Trustee have not independently verified the information contained herein. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by the Manager or the Trustee as to the accuracy or completeness of the information contained or incorporated in this Prospectus or any other information provided by the Issuer in connection with the issue of the Capital Securities. The Manager and the Trustee accept no liability in relation to the information contained or incorporated by reference in this Prospectus or any other information provided by the Issuer in connection with the offer or issue of the Capital Securities.

Any individual intending to invest in any investment described in this document should consult his or her professional adviser and ensure that he or she fully understands all the risks associated with making such an investment and has sufficient financial resources to sustain any loss that may arise from it.

No person is or has been authorised by the Issuer to give any information or to make any representation not contained in or not consistent with this Prospectus or any other information supplied in connection with the issue of the Capital Securities and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer, the Manager or the Trustee.

If you are in any doubt about the contents of this document you should consult your stockbroker, bank manager, solicitor, accountant or other approved financial adviser. It should be remembered that the price of securities and the income from them can go down as well as up.

Neither this Prospectus nor any other information supplied in connection with the offer or issue of the Capital Securities (a) is intended to provide the basis of any credit or other evaluation or (b) should be considered as a recommendation by the Issuer or the Manager that any recipient of either this Prospectus or any other information supplied in connection with the offer or issue of the Capital Securities should purchase the Capital Securities. Each investor contemplating purchasing the Capital Securities should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer and MOL. Neither this Prospectus nor any other information

supplied in connection with the offer or issue of any Capital Securities constitutes an offer or invitation by or on behalf of the Issuer or the Manager to any person to subscribe for or to purchase the Capital Securities.

Neither the delivery of this Prospectus nor the offering, sale or delivery of any Capital Securities shall in any circumstances imply that the information contained herein concerning the Issuer or MOL is correct at any time subsequent to the date hereof or that any other information supplied in connection with the offer or issue of the Capital Securities is correct as of any time subsequent to the date indicated in the document containing the same. The Manager expressly does not undertake to review the financial condition or affairs of the Issuer or MOL during the life of the Capital Securities or to advise any investor in the Capital Securities of any information coming to their attention. Investors should review, *inter alia*, the most recently published documents incorporated by reference into this Prospectus when deciding whether or not to purchase any Capital Securities.

The Capital Securities have not been and will not be registered under the Securities Act and are subject to U.S. tax law requirements. Subject to certain exceptions, Capital Securities may not be offered, sold or delivered within the United States or to U.S. persons (see “*Subscription and Sale*”).

The Jersey Financial Services Commission (the Commission) has given, and has not withdrawn, its consent under Article 4 of the Control of Borrowing (Jersey) Order 1958 to the issue of the Capital Securities by the Issuer. A copy of this document has been delivered to the Jersey Registrar of Companies in accordance with Article 5 of the Companies (General Provisions) (Jersey) Order 2002, and the Registrar has given, and not withdrawn, consent to its circulation. It must be distinctly understood that, in giving these consents, neither the Jersey Registrar of Companies nor the Commission takes any responsibility for the financial soundness of the Issuer or for the correctness of any statements made, or opinions expressed, with regard to it.

The investments described in this document do not constitute a collective investment fund for the purpose of the Collective Investment Funds (Jersey) Law 1988, as amended, on the basis that they are investment products designed for financially sophisticated investors with specialist knowledge of, and experience of investing in, such investments, who are capable of fully evaluating the risks involved in making such investments and who have an asset base sufficiently substantial as to enable them to sustain any loss that they might suffer as a result of making such investments. These investments are not regarded by the Commission as suitable investments for any other type of investor.

This Prospectus does not constitute an offer to sell or the solicitation of an offer to buy any Capital Securities in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. The distribution of this Prospectus and the offer or sale of Capital Securities may be restricted by law in certain jurisdictions. The Issuer and the Manager do not represent that this Prospectus may be lawfully distributed, or that the Capital Securities may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Issuer or the Manager which would permit a public offering of the Capital Securities outside the European Economic Area or distribution of this Prospectus in any jurisdiction where action for that purpose is required. Accordingly, no Capital Securities may be offered or sold, directly or indirectly, and neither this Prospectus nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this Prospectus or any Capital Securities may come must inform themselves about, and observe, any such restrictions on the distribution of this Prospectus and the offering and sale of Capital Securities. In particular, there are restrictions on the distribution of this Prospectus and the offer or sale of Capital Securities in the United States, Jersey, the United Kingdom, Japan, Luxembourg and the Republic of Hungary (see “*Subscription and Sale*”).

All references in this document to *U.S. dollars*, *U.S.\$*, *USD* and *\$* refer to United States dollars, to *EUR*, *euro* and *€* refer to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty establishing the European Community (signed in Rome on 25 March, 1957), as amended, all references to *HUF* and *Forint* are to Hungarian Forint, all references to *SKK* are to Slovakian Koruny and all references to *Sterling* and *£* refer to pounds sterling.

**As at 13 March, 2006:**

the exchange rate for HUF to € was HUF 262.65 to €1;  
the exchange rate for SKK to € was SKK 37.616 to €1; and  
the exchange rate for USD to € was USD 1.19 to €1.

**As at 31 December, 2005:**

the exchange rate for HUF to € was HUF 252.80 to €1;  
the exchange rate for SKK to € was SKK 37.89 to €1; and  
the exchange rate for USD to € was USD 1.18 to €1.

**As at 29 September, 2005:**

the exchange rate for HUF to € was HUF 248.74 to €1;  
the exchange rate for SKK to € was SKK 38.87 to €1; and  
the exchange rate for USD to € was USD 1.21 to €1.

**As at 30 June, 2005:**

the exchange rate for HUF to € was HUF 247.36 to €1;  
the exchange rate for SKK to € was SKK 38.35 to €1; and  
the exchange rate for USD to € was USD 1.21 to €1.

**As at 31 December, 2004:**

the exchange rate for HUF to € was HUF 245.93 to €1;  
the exchange rate for SKK to € was SKK 38.73 to €1; and  
the exchange rate for USD to € was USD 1.36 to €1.

**As at 30 June, 2004:**

the exchange rate for HUF to € was HUF 253.23 to €1;  
the exchange rate for SKK to € was SKK 39.94 to €1; and  
the exchange rate for USD to € was USD 1.21 to €1.

**As at 31 December, 2003:**

the exchange rate for HUF to € was HUF 262.23 to €1;  
the exchange rate for SKK to € was SKK 41.17 to €1; and  
the exchange rate for USD to € was USD 1.26 to €1.

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**In connection with the issue of the Capital Securities, the Manager, acting as the Stabilising Manager (or persons acting on behalf of any Stabilising Manager) may over-allot Capital Securities (provided that the aggregate principal amount of Capital Securities allotted does not exceed 105 per cent. of the aggregate principal amount of the issue of the Capital Securities) or effect transactions with a view to supporting the market price of the Capital Securities at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager (or persons acting on behalf of a Stabilising Manager) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the final terms of the offer is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the Closing Date of the Capital Securities and 60 days after the date of the allotment of the Capital Securities.**

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\* Source: MOL Eurobond Prospectus dated 30 September 2005.

## SUMMARY

*This summary must be read as an introduction to this Prospectus. Any decision to invest in any Capital Securities should be based on a consideration of this Prospectus as a whole, including the documents deemed to be incorporated by reference, by any investor. Following implementation of the relevant provisions of Directive 2003/71/EC (the “**Prospectus Directive**”) as supplemented by the European Commission Regulation No. 809/2004 (the “**Prospectus Regulation**”), in each EEA Member State, no civil liability will attach to the Issuer on the basis of this summary, including any translation hereof, unless it is misleading, inaccurate or inconsistent when read together with the other parts of this Prospectus. Where a claim relating to information contained in this Prospectus is brought before a court in an EEA Member State, the plaintiff may, under the national legislation of the EEA Member State where the claim is brought, be required to bear the costs of translating this Prospectus before the legal proceedings are initiated.*

Description of the Issuer . . . . . Magnolia Finance Limited is a public company with limited liability incorporated in Jersey under the Companies (Jersey) Law 1991, as amended, on 6 March 2006, having its registered office at 22 Grenville Street, St. Helier, Jersey, JE4 8PX, Channel Islands under number 92692.

The issued share capital of the Issuer is £2 divided into two ordinary shares of £1 each. The share capital is held by two nominee shareholders on behalf of Mourant & Co. Trustees Limited as share trustee under the terms of a charitable trust constituted by an instrument of trust dated 6 March 2006 (the “**Magnolia Trust**”).

The Issuer has no subsidiaries. MOL does not own directly or indirectly any of the share capital of the Issuer but benefits from the Call Option (see “*Material Contracts*” below) in relation to the entire issued share capital of the Issuer.

The Issuer was established, *inter alia*, to issue the Capital Securities, to acquire the Shares and to enter into the Swap Agreement.

Description of the MOL Group . . . . . The MOL Group is a leading integrated oil and gas group in Central Europe and MOL is the largest company in Hungary by sales revenues. MOL is primarily engaged in the exploration and production of crude oil and natural gas, refining crude oil, wholesale and retail sales of refined petroleum products as well as production and sales of olefins and polyolefins. The Gas Subsidiaries (as defined below) are also active in natural gas wholesale, transmission and storage within Hungary. In addition to its own production, MOL purchases natural gas and crude oil from foreign sources. The MOL Group operates through a number of direct and indirect wholly or majority owned subsidiaries. Its operations are broadly divided among the following businesses:

- (i) the Exploration and Production business is responsible for domestic and international oil and gas exploration, development and production activities;
- (ii) the Refining and Marketing business processes crude oil and other feedstock from domestic and imported sources, and is responsible for the wholesale marketing of refined products; the Retail Marketing business is part of Refining and Marketing business and operates the network of retail filling stations and manages retail sales of petroleum products, as well as non-fuel (shop) products and services;
- (iii) the Natural Gas business, operating through MOL Natural Gas Supply Plc., MOL Natural Gas Storage Plc., and MOL Natural Gas Transmission Plc. (together, the “**Gas Subsidiaries**”), is responsible for the purchasing, transmission, wholesale supply and underground storage of natural gas; and



- (iv) the Petrochemicals business is responsible for the production and marketing of olefin and polyolefin products.

MOL is the largest company in Hungary by group level net sales revenues of HUF 1,955.8 billion and group level net income of HUF 209.3 billion in 2004.

Risk Factors relating to the  
Issuer, MOL and to the  
Capital Securities .....

There are certain factors that may affect the Issuer's ability to fulfil its obligations under the Capital Securities. These are set out under "*Risk Factors*" below and include the following risk factors related to the Issuer:

- (1) credit risk;
- (2) market risk; and
- (3) structural risk (special purpose vehicle, limited resources, unsecured obligations, limited recourse, non-petition and subordination).

There are also certain risk factors related to MOL and its industries as follows:

- (1) credit risk;
- (2) market risk;
- (3) operational risk; and
- (4) regulatory risk.

In addition, there are certain factors which are material for the purpose of assessing the risks associated with the Capital Securities, including the following:

- (1) the Capital Securities are perpetual and subordinated and Capital Securityholders have no right of redemption;
- (2) the Issuer has the right to defer Interest Payments at any time; Deferred Payments may be satisfied by way of Share Swap Payment Satisfaction and/or Payment in Kind Payment Satisfaction and, if certain limits on Share Swap Payment Satisfaction and/or Payment in Kind Payment Satisfaction are reached in respect of an Interest Period, further Deferred Amounts outstanding or arising during that Interest Period will be deemed to be satisfied;
- (3) the Issuer relies solely on payments from MOL under the Swap Agreement to fund payments in respect of the Capital Securities;
- (4) there is no Issuer tax gross-up;
- (5) Capital Security holders have no shareholder rights before Exchange;
- (6) the Issuer was not involved in the preparation of the MOL Information;
- (7) the trading market for Capital Securities may be volatile and may be adversely impacted by many events; and
- (8) an active trading market for the Capital Securities may not develop.

Closing Date ..... 20 March 2006

Capital Securities ..... €610,000,000 perpetual exchangeable capital securities.



Denominations .....	The Capital Securities are in denominations of €100,000 each and integral multiples thereof.
Form .....	The Capital Securities will be in registered form without interest coupons and initially will be represented by a Global Certificate which will be deposited on its issue date with a common depository for Clearstream, Luxembourg and Euroclear, on or about the Closing Date.
Status .....	The Capital Securities are direct, unsecured and subordinated, limited recourse obligations of the Issuer and rank and will rank <i>pari passu</i> , without preference among themselves, at least equally and rateably with all other present and future direct, unsecured and subordinated obligations of the Issuer. Claims of the Trustee and the Capital Securityholders against the Issuer in respect of the Capital Securities shall, save for claims relating to Deferred Amounts and subject to applicable law be subordinated to the claims of Senior Creditors and rank <i>pari passu</i> with holders of all Priority Securities and in priority to the rights and claims of holders of all ordinary shares of the Issuer. The Capital Securities will rank senior to the ordinary share capital of the Issuer.
Exchange .....	Subject to the Issuer's cash settlement option (described below), each Capital Securityholder shall have the right during the Exchange Period to have all or any of his Capital Securities exchanged (without involving part only of a Capital Security) for a pro rata share of the Exchange Property.
Exchange Property .....	The Exchange Property initially comprises 6,007,479 Shares. The composition of the Exchange Property is subject to adjustment in accordance with Condition 8 ( <i>Exchange Property</i> ) and Condition 9 ( <i>General Offers</i> ).
Exchange Period .....	The Capital Securities are exchangeable on and after 20 March 2011 and up to the close of business (at the place where the Capital Security is deposited for exchange) on 13 March 2016, and, prior to 20 March 2011, at such times as are permitted pursuant to Condition 10.3 ( <i>Redemption on Illegality or Breach of Other Agreements</i> ) or Condition 10.4 ( <i>Redemption or Adjustment upon a Change of Control</i> ), subject to a Make-Whole Payment in certain circumstances.
Cash Settlement Option .....	The Issuer has the option, in lieu of its obligation to procure the delivery of a pro rata share of the Exchange Property, to cash-settle its exchange obligations.
Redemption .....	The Capital Securities are perpetual, but are subject to certain discretionary and Change of Control call options described in Condition 10 ( <i>Redemption</i> ).
Share Settlement Option .....	The Issuer has the option to settle any amount payable on redemption of the Capital Securities pursuant to Condition 10.2 ( <i>Redemption at the Option of the Issuer</i> ), Condition 10.3 ( <i>Redemption on Illegality or Breach of Other Agreements</i> ) or Condition 10.4 (a) (ii) ( <i>Redemption or Adjustment upon a Change of Control — where more than 50 per cent. of the consideration consists of cash or unlisted securities</i> ) through a combination of a delivery of a number of the Exchange Property and a payment of cash.

Interest .....	The Capital Securities shall bear interest at 4 per cent. per annum (the “ <b>Fixed Interest Rate</b> ”) from and including the Closing Date to 20 March 2016, and, thereafter at the floating rate equal to the aggregate of 5.50 per cent. per annum and the EURIBOR for three-month euro deposits (the “ <b>Floating Interest Rate</b> ”). Interest is payable quarterly in arrear.
Deferral of payments .....	In certain circumstances described in Condition 6 ( <i>Deferrals</i> ) the Issuer may elect to defer any payment of interest on the Capital Securities. Any such Deferred Payment will bear interest on the amount so deferred at the then current rate of interest on the Capital Securities (a Deferred Payment together with any interest accrued thereon, a “ <b>Deferred Amount</b> ”). The non-payment of any interest following the giving of any Deferral Notice in respect thereof shall not constitute an Event of Default or otherwise be subject to enforcement until such time as such interest shall have become due and payable under Condition 6.2 ( <i>Satisfaction of Deferral Amounts</i> ) and has not been paid or deemed satisfied in accordance with Condition 6.2.
Settlement of Outstanding Payments .....	Deferred Amounts may only be settled in accordance with one of the Alternative Swap Payment Satisfaction Mechanisms described in Condition 6 ( <i>Deferrals</i> ).
Certain restrictions during period of deferral .....	For the period of deferral, and, in the case of MOL where it settles suspended swap payments by Notional Increase Payment Satisfaction, for a period of 12 months after such deferral ceases, certain restrictions on dividend payments and distributions shall apply to both the Issuer and MOL - see Condition 6 ( <i>Deferrals</i> ) and “Material Contracts of the Issuer - Swap Agreement”.
Distributions .....	Any dividend, other income or other benefits and rights received by the Issuer in relation to the Exchange Property and the proceeds of sale of certain rights or benefits derived by the Issuer in relation to the Exchange Property shall be reinvested by the Issuer into Shares and/or other Relevant Securities. Such Shares and/or other Relevant Securities shall thereafter comprise part of the Exchange Property available for exchange - see Condition 8 ( <i>Exchange Property</i> ). To the extent that the amounts held in the Reserve Account (as defined below) become insufficient to make any required payments from the Reserve Account, the Issuer shall be entitled to apply any dividend or other income received by the Issuer in relation to the Exchange Property to make such required payments.
Voting Rights .....	The Issuer only, but none of the Capital Securityholders or the Trustee (on behalf of the Capital Securityholders), shall be entitled to exercise the voting rights attaching to the Shares and other Relevant Securities on any matters submitted to the holders of the Shares or holders of any other Relevant Securities. In exercising any voting rights attaching to the Shares and other Relevant Securities, it is possible that the Issuer may act in a manner which is contrary to the best interests of the Capital Securityholders.
No gross-up in respect of withholding taxes .....	The Issuer will not pay any additional amounts in connection with any withholding taxes that may be imposed and, accordingly, the amounts received by the Capital Securityholders will be net of any applicable withholding taxes.

Events of Default .....	The Trustee at its discretion may, and if so requested in writing by the holders of at least one-fifth in principal amount of the Capital Securities then outstanding or if so directed by an Extraordinary Resolution of the Capital Securityholders shall, (subject to the further provisions of Condition 14 ( <i>Events of Default</i> )) give notice to the Issuer that the Capital Securities are, and they shall accordingly forthwith become, immediately due and repayable at their principal amount, together with accrued interest as provided in the Trust Deed, upon the occurrence of any of the Events of Default set out in Condition 14 ( <i>Events of Default</i> ).
Trustee .....	The Bank of New York, London
Calculation Agent .....	The Bank of New York, London
Principal Paying Transfer and Exchange Agent .....	The Bank of New York, London
Registrar .....	The Bank of New York, London
Luxembourg Paying Transfer and Exchange Agent .....	Bank of New York (Luxembourg) S.A.
Escrow Agent .....	ING Bank (Hungary) Rt., Budapest
Rating .....	BB by Standard and Poors
Listing .....	Luxembourg Stock Exchange
Governing Law .....	English Law
Material Contracts .....	<p>The Issuer will enter into an agreement (the “<b>Share Purchase Agreement</b>”) with MOL under which it will purchase 6,007,479 Shares for an aggregate purchase price of HUF 123,243,431,685, being an amount equal to the volume weighted average price of each Share listed on the Budapest Stock Exchange during the full day’s trading on 13 March 2006, multiplied by the number of Shares to be purchased.</p> <p>The Issuer will enter into a subordinated swap agreement with MOL (the “<b>Swap Agreement</b>”) under which MOL agrees to pay to the Issuer amounts that generally reflect payments by the Issuer to the Capital Securityholders in consideration of certain payments by the Issuer to MOL and pursuant to which the Issuer grants to MOL a call option to acquire all or any of the listed securities forming part of the Exchange Property at its then current market value.</p>
Reserve Account .....	Approximately €6,900,000 of the net proceeds of the offering of the Capital Securities, representing the estimated expenses of the Issuer to 20 March 2016 together with a sum intended to provide comfort for the Trustee, the Calculation Agent and the Principal Paying, Transfer and Exchange Agents in connection with their respective fees, costs, expenses and indemnities under the Trust Deed and the Agency Agreement (the “ <b>Retention</b> ”), will be retained by the Issuer in accounts kept for the purpose (the “ <b>Reserve Accounts</b> ”). If there is a cash balance remaining in the Reserve Accounts on the date on which all of the Capital Securities have been redeemed, or exchanged, then MOL shall be entitled to acquire control of such cash balance, subject to the Deposit Agreement with the Trustee, by acquiring, pursuant to the Call Option Agreement (see “ <i>Material Contracts</i> ”) below, the entire issued share capital of the Issuer.

## **RISK FACTORS**

*Any investment in the Capital Securities is subject to a number of risks. Before making any investment decision, prospective investors should carefully consider the factors and risks attaching to an investment in the Capital Securities, together with all other information contained in this document including, in particular, the risk factors described below.*

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

*In addition, factors which are material for the purpose of assessing the market risks associated with the Capital Securities are also described below.*

*The Issuer believes that the factors described below represent the principal risks inherent in investing in the Capital Securities, but the inability of the Issuer to pay interest, principal or other amounts on or in connection with the Capital Securities may occur for other reasons which are as yet unknown and the Issuer does not represent that the statements below regarding the risks of holding the Capital Securities are exhaustive. Prospective investors should also read the detailed information set out elsewhere in this Prospectus and reach their own views prior to making any investment decision.*

### **Factors that may affect the Issuer's ability to fulfil its obligations under the Capital Securities**

#### ***The Issuer is a special purpose vehicle with limited resources***

The Issuer is a special purpose vehicle in the form of a public company with limited liability incorporated in Jersey (with registered number 92692) under the Companies (Jersey) Law 1991, as amended, on 6 March 2006. The business of the Issuer is restricted pursuant to the Conditions to certain activities described in Condition 4 (*Certain Covenants*) of the Conditions of the Capital Securities. The assets of the Issuer will initially consist of 6,007,479 Shares, all of which are to be purchased from MOL pursuant to the Share Purchase Agreement, cash retained by the Issuer from the proceeds of the sale of the Capital Securities on account of certain charges, taxes and other amounts that are or may become payable by the Issuer and the Issuer's rights to receive payments under the Swap Agreement. The only assets of the Issuer available to meet claims of the holders of the Capital Securities will be the assets to be acquired with the proceeds of the issue of the Capital Securities, the benefit of any agreement relating to the Capital Securities, the sum of £2 representing the Issuer's issued and paid up share capital, fees generated in connection with the issue of Capital Securities, the Issuer's rights under the Share Purchase Agreement the Swap Agreement, and the Issuer's rights to receive payments under the Swap Agreement, and the balance from time to time of the Reserve Account, which may not be sufficient to meet all such claims in certain circumstances.

#### ***Unsecured Obligations***

Neither the Trust Deed nor the Capital Securities create any security interest in favour of Capital Securityholders either to secure the payment obligations arising under the Capital Securities or to secure the performance of the Exchange Rights thereunder. Accordingly, in the event of any insolvency of the Issuer, the Capital Securityholders will have no direct rights over the Exchange Property.

#### ***Limited recourse and non-petition***

The Issuer will enter into the Swap Agreement with MOL. Under the terms of the Swap Agreement, MOL will make payments to the Issuer that generally reflect payments by the Issuer to the Capital Securityholders in consideration of the Issuer making certain payments to MOL. The Swap Agreement provides that at any time after 20 March 2016 and at any time before 20 March 2016 in the event of the termination of the Swap Agreement by MOL, MOL shall have the right to repurchase the Shares at the current prevailing market price. Amounts received by the Issuer under the Swap Agreement will be used to fund any cash settlement by the Issuer pursuant to a Cash Settlement Notice or, as the case may be, the redemption of the Capital Securities. As a result, holders of Capital Securities must rely on amounts received by the Issuer from MOL pursuant to MOL's obligations under the Swap Agreement for payments of principal, interest and other amounts in respect of the Capital Securities.

The Issuer's claims against MOL under the Swap Agreement rank junior to the claims of MOL's senior creditors and on a winding up of MOL there may be insufficient amounts to satisfy the Issuer's claims under the Swap Agreement. To the extent that the Issuer has remedies against MOL and is in a position to enforce those remedies, the amounts recoverable or actually recovered may be materially less than amounts due to holders of the Capital Securities. Accordingly, to the extent that MOL fails to make payments due to the Issuer under the Swap Agreement, the Issuer will be unable to meet its obligations in respect of the Capital Securities. In such event, holders of the Capital Securities will have restricted remedies against the Issuer.

The recourse of the Capital Securityholders against the Issuer in respect of the Issuer's obligations in respect of the Capital Securities shall be limited to the assets of the Issuer available to the Issuer to pay such amounts after discharging the claims of all Senior Creditors and, to the extent that any amounts due from the Issuer to the Capital Securityholders exceed the remaining assets of the Issuer available to the Issuer to pay such amounts after discharging the claims of Senior Creditors, and any other amounts due to other unsecured creditors of the Issuer, the claims of the Capital Securityholders in relation to any such excess amount shall be extinguished.

None of the Capital Securityholders will be entitled to petition or take any corporate action or other steps or legal proceedings for the winding-up, dissolution, arrangement, reconstruction, reorganization, liquidation, bankruptcy or insolvency of the Issuer or the appointment of a liquidator, receiver, manager, administrator, administrative receiver or similar officer of the Issuer or any, or all, of its assets or revenues for two years and one day from the date of termination of the Swap Agreement.

### **Factors which are material for the purpose of assessing the market risks associated with the Capital Securities**

#### ***The Capital Securities may not be a suitable investment for all investors***

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

- (i) have sufficient knowledge and experience to make a meaningful evaluation of the Capital Securities, the merits and risks of investing in the Capital Securities and the information contained or incorporated by reference in this Prospectus or any applicable supplement;
- (ii) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Capital Securities and the impact the Capital Securities will have on its overall investment portfolio;
- (iii) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Capital Securities;
- (iv) understand thoroughly the terms of the Capital Securities and be familiar with the behaviour of any relevant indices and financial markets; and
- (v) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

### **Risks related to the market generally**

Set out below is a brief description of the principal market risks, including liquidity risk, exchange rate risk, interest rate risk and credit risk:

#### ***The secondary market generally***

Although application has been made to list the Capital Securities on the Luxembourg Stock Exchange, the Capital Securities may have no established trading market when issued, and one may never develop. If a market does develop, it may not be very liquid. Therefore, investors may not be able to sell their Capital Securities easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. Illiquidity may have an adverse effect on the market value of the Capital Securities. If a trading market for the Capital Securities were to develop, the Capital Securities could trade at prices that may be higher or lower than the Issue Price depending on many factors, including prevailing interest rates, the market price of the Shares (and, following any change in composition of the Exchange Property, the market price of any other Relevant Securities comprised in the Exchange Property) and the market for similar securities.

### *Exchange rate risks and exchange controls*

The Issuer will pay principal and interest on the Capital Securities in €. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the “**Investor's Currency**”) other than €. These include the risk that exchange rates may significantly change (including changes due to devaluation of the € or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to the € would decrease (1) the Investor's Currency-equivalent yield on the Capital Securities, (2) the Investor's Currency-equivalent value of the principal payable on the Capital Securities, and (3) the Investor's Currency-equivalent market value of the Capital Securities.

The Issuer will pay any cash paid in lieu of delivery of Exchange Property pursuant to Condition 7 (*Exchange*) of the Conditions in the case of Shares and/or other Relevant Securities in Hungarian Forint or such other currency as may be relevant to the trading of such Shares and/or other Relevant Securities and in the case of Cash, in such currency as such cash is included in the Exchange Property on the relevant Exercise Date (the “**Cash Settlement Currency**”). An appreciation in value of the Investor's currency relative to the Cash Settlement Currency would decrease the Investor's currency-equivalent of any cash paid in lieu of delivery of Exchange Property on exercise by the Issuer of its Cash Alternative Election.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive less interest or principal than expected, or no interest or principal.

### *Credit ratings may not reflect all risks*

One or more independent credit rating agencies may assign credit ratings to the Capital Securities. The ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed above, and other factors that may affect the value of the Capital Securities. A credit rating is not a recommendation to buy, sell or hold Capital Securities and may be revised or withdrawn by the rating agency at any time.

### *Legal investment considerations may restrict certain investments*

The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (1) the Capital Securities are legal investments for it, (2) the Capital Securities can be used as collateral for various types of borrowing and (3) other restrictions apply to its purchase or pledge of any of the Capital Securities. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of the Capital Securities under any applicable risk-based capital or similar rules.

## **Factors relating to the Capital Securities**

### *Deferral of Interest Payments*

The Issuer may elect to defer any Interest Payment on the Capital Securities as provided in Condition 7 (*Exchange*). If the Issuer does defer or does not make an Interest Payment, such Deferred Payment will become due only on the earliest of (i) the date on which the Capital Securities are redeemed; (ii) the date the Issuer receives Share Deferred Swap Payment Satisfaction or Notional Increase Payment Satisfaction (each as defined below) under the Swap Agreement and (iii) the date on which an order is made or a resolution is passed for the winding-up of the Issuer. Under the Swap Agreement MOL must satisfy Swap Deferred Amounts by (1) issuing new ordinary shares of MOL or transferring existing ordinary shares of MOL to the Issuer (a “**Share Deferred Swap Amount Satisfaction**”) and/or (2) increasing the notional amount of the Swap Agreement (a “**Notional Increase Payment Satisfaction**”). Following a Share Deferred Swap Amount Satisfaction under the Swap Agreement, the Issuer is required to settle Deferred Amounts under the Capital Securities by selling Shares received as Share Deferred Swap Amount Satisfaction and distributing the proceeds to Capital Securityholders. The amount of the Deferred Amount so satisfied is equal to the Current Market Value of the Shares received, regardless of whether or not the proceeds of sale are equal to such Current Market Value. Following a Notional Increase Payment Satisfaction under the Swap Agreement, the Issuer is required to settle Deferred Amounts by increasing prorata the principal amount of the Capital Securities in respect of such Deferred Amount (a “**Payment in Kind Payment Satisfaction**”). Since, following a Payment in Kind Payment Satisfaction, the



Exchange Property will be left unchanged, the portion of Exchange Property attributable to each Capital Security will be reduced pro-rata to the increase in principal amount of the Capital Securities.

#### ***Deemed Satisfaction of Certain Deferred Amounts***

The maximum aggregate principal amount of the increases in principal amount of the Capital Securities pursuant to a Payment in Kind Payment Satisfaction is 25% of the aggregate initial principal amount of the Capital Securities issued on 20 March 2006. Share Deferred Swap Amount Satisfaction is subject to a limit of 0.5% of the total number of the then outstanding Shares per each calculation period under the Swap Agreement aggregated for every calculation period under the Swap Agreement for which a deferral is outstanding. If, in respect of any Interest Period, the limits applicable to Payment in Kind Payment Satisfaction and Share Deferred Swap Amount Satisfaction have both been reached, any further Deferred Amounts outstanding or arising during that Interest Period shall be deemed to be satisfied.

#### ***Perpetual Capital Securities***

The Issuer is under no obligation to redeem the Capital Securities at any time and the holders of the Capital Securities have no right to call for their redemption. The Issuer is entitled to redeem the Capital Securities in the circumstances set out in Condition 10 (*Redemption*) of the Conditions.

#### ***Subordination***

The Capital Securities shall rank junior to the claims of Senior Creditors of the Issuer. **Accordingly, in the winding-up of the Issuer and after payment of the claims of Senior Creditors, there may not be a sufficient amount to satisfy the amounts owing to the holders of the Capital Securities.**

#### ***No tax gross up***

The Issuer is not obliged to make any additional payments to Capital Securityholders in the event that any payment in respect of the Capital Securities is required or permitted by applicable law to be withheld or deducted for taxation. Neither the Issuer nor the Capital Securityholders has the right to require redemption of the Capital Securities in the event of such a withholding or deduction - see Condition 12 (*Taxation*) of the Conditions. If a withholding tax is imposed on payment made by a paying agent following implementation of the EU Savings Directive (EC Council Directive 2003/48/EC on the taxation of savings income), the Issuer will be required to maintain a paying agent in a Member State that will not be obliged to withhold or deduct tax pursuant to the Directive.

#### ***The MOL Information***

Set out and incorporated by reference in this Offering Circular is certain publicly available information relating to MOL (the “**MOL Information**”). The Issuer was not involved in the preparation of the MOL Information and has not verified the accuracy or completeness of such information. MOL and the MOL Group are evolving rapidly and have experienced significant changes in recent periods. Subsequent disclosure of any such events or the disclosure of or failure to disclose material future events concerning MOL or the MOL Group could affect the trading price of the Shares deliverable upon exchange of Capital Securities and therefore the trading price of the Capital Securities. Furthermore, MOL has no obligation with respect to the Capital Securities or amounts to be paid to the Capital Securityholders, including any obligation to take into account, for any reason, the needs of the Capital Securityholders.

#### ***Capital Securityholders have no shareholder rights before exchange***

An investor in a Capital Security will not be a holder of the Exchange Property. No Capital Securityholder will have any voting rights, any right to receive dividends or other distributions or any other rights with respect to Relevant Securities (as defined in the Conditions) until such time, if any, as he exchanges his Capital Security for such Relevant Securities and (to the extent applicable) becomes the registered holder thereof (although distributions in respect of the Exchange Property will be distributed to Capital Securityholders in accordance with the Conditions). In exercising any voting rights attaching to the Shares and other Relevant Securities, it is possible that the Issuer may act in a manner which is contrary to the best interests of the Capital Securityholders.



## **Risks related to the Capital Securities generally**

Set out below is a brief description of certain risks relating to the Capital Securities generally:

***As the Global Certificate is held by or on behalf of Euroclear and Clearstream, Luxembourg, investors will have to rely on their procedures for transfer, payment and communication with the Issuer***

The Capital Securities will be represented by the Global Certificate in registered form, without interest coupons, which will be registered in the name of The Bank of New York (Nominees) Limited as nominee for, and shall be deposited on its issue date with a common depositary for Euroclear and Clearstream, Luxembourg. Except in certain limited circumstances, (see “*The Global Certificate*” – 8. *Exchange*), investors will not be entitled to receive definitive Capital Securities. Euroclear and Clearstream, Luxembourg will maintain records of the beneficial interests in the Global Certificate. While the Capital Securities are represented by the Global Certificate, investors will be able to trade their beneficial interests only through Euroclear and Clearstream, Luxembourg.

The Issuer will discharge its payment obligations under the Capital Securities by making payments to the common depositary for Euroclear and Clearstream, Luxembourg for distribution to their account holders. A holder of a beneficial interest in the Global Certificate must rely on the procedures of Euroclear and Clearstream, Luxembourg to receive payments under the Capital Securities. The Issuer has no responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in the Global Certificate.

Holders of beneficial interests in the Global Certificate will not have a direct right to vote in respect of the Capital Securities. Instead, such holders will be permitted to act only to the extent that they are enabled by Euroclear and Clearstream, Luxembourg to appoint appropriate proxies.

### ***Change of law***

The conditions of the Capital Securities are based on English and Hungarian law in effect as at the date of this Prospectus. No assurance can be given as to the impact of any possible judicial decision or change to English and Hungarian law or administrative practice after the date of this Prospectus.

*The information in the following sections, which relate to risk factors relating to the MOL Group or the Shares is contained in or derived from documents which are referred to herein under “Documents Incorporated by Reference” or are otherwise publicly available. Such documents were not prepared in connection with the offering of Capital Securities and the Issuer has not been involved in the preparation of such documents or the information included below and, as such, the Issuer is not in a position to independently verify the contents thereof in connection with the issue of the Capital Securities and the risks to investors thereby arising.*

**Factors that may have a negative affect on the value of the Shares and affect the ability of MOL to conduct and operate its business\***

***Fluctuations in crude oil and natural gas prices may have a negative effect on MOL’s business***

As MOL purchases most of the crude oil it processes and the natural gas it sells, its business is significantly affected by changes in the market prices it pays for crude oil and natural gas. In 2004, MOL imported 91.9% of the crude oil it refined and 80% of the natural gas it sold. In line with other international oil and gas companies, MOL purchases all of its crude oil and natural gas pursuant to agreements priced in or by reference to spot world market prices. Such prices may fluctuate widely in response to changes in many factors over which MOL has no control, including but not limited to:

- economic and political developments in oil and gas producing regions, particularly the Middle East and Russia;
- global and regional supply and demand and expectations regarding future supply and demand;
- actions taken by oil and gas producing or consuming countries and by major suppliers of oil and natural gas;
- prices and availability of alternative fuels;
- global economic and political conditions; and
- weather conditions.

***Fluctuations in currency exchange rates could increase MOL’s costs and reduce its margins***

The natural gas and crude oil that MOL purchases from external sources is priced in or by reference to U.S. dollars. However, a substantial amount of its sales of refined petroleum products and natural gas is denominated in Forint. Consequently, fluctuations in the value of the Forint against the U.S. dollar may impact on MOL’s results of operations. The Forint trades within an official exchange rate band determined by the National Bank of Hungary with reference to the trading price of the €. Accordingly, the value of the Forint fluctuates against other currencies, including the U.S. dollar, and there can be no assurance that exchange rates will remain stable in the future. A sudden or severe decline in the value of the Forint against foreign currencies, particularly the U.S. dollar, could reduce MOL’s margins on sales of its products denominated in Forint to the extent that MOL is unable to increase its prices accordingly. Conversely, a sustained increase in the value of the Forint against foreign currencies may weaken MOL’s margins on products denominated in such foreign currencies. Although MOL engages in currency hedging transactions and has generally been able to increase the price of its products in line with declines in the value of the Forint, MOL may not be successful in eliminating this currency risk. In addition, a sustained decline in the value of the Forint could have a material adverse effect on the macroeconomic position of Hungary and, in turn, MOL’s business. MOL cannot predict the currency policy of the National Bank of Hungary and the Hungarian government in the future. The Forint has been subject to significant devaluations by the National Bank of Hungary in recent years and may be subject to additional devaluations. Thus, fluctuations in the Forint/U.S. dollar exchange rate could materially adversely effect MOL’s business, results of operations or financial condition.

MOL is also exposed to foreign exchange risk arising from loans denominated in foreign currencies. As at 31 December, 2004 the currency composition of its total debt was 60.6% in €, 32.7% in US Dollar and 6.7% in Hungarian Forint.

***MOL significantly depends on Russian natural gas and crude oil imports***

MOL imports significant volumes of natural gas and crude oil from Russia in addition to its Hungarian production. In 2004, MOL purchased 82.8% of its natural gas import requirements from one

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\* Source: MOL Eurobond Prospectus dated 30 September 2005

supplier in Russia (which accounted for 66.3% of MOL's total natural gas sales in 2004) and all of its imported crude oil from Russia. To secure a supply of natural gas, in November 1996 MOL entered into two long-term supply agreements with Panrusgáz Rt. ("**Panrusgáz**"), a company owned jointly by MOL, Gazexport Ltd, a Russian natural gas company, and Interprocom Ltd. Under these take-or-pay agreements, Panrusgáz supplies more than 80% of MOL's natural gas imports at prices which are determined in accordance with a pricing formula based on prevailing European market prices of competing fuels. Panrusgáz delivers natural gas to MOL through two pipelines: one is the Russian Brotherhood pipeline entering Hungary at the Hungarian-Ukrainian border, and the second is the Hungary-Austria Gasleitung ("**HAG**") pipeline. MOL's remaining natural gas imports are supplied from Germany and France through the HAG pipeline, under take-or-pay contracts, under which MOL is required to purchase certain minimum volumes. MOL obtains most of its crude oil supplies from Russian crude oil suppliers, primarily from OAO Lukoil ("**Lukoil**"), through the Friendship pipeline which runs from Russia through the Ukraine. MOL typically purchases Russian crude oil at a discount to the quoted Urals Blend price for similar quality crude oil.

Although MOL has not experienced any significant disruption in Russian natural gas or crude oil supplies, any sustained disruption could have a material adverse effect on its business, results of operations and financial condition. In the event of any reduction in Russian crude oil and natural gas supplies, MOL may be forced to import crude oil through the Adria pipeline, which runs from the Adriatic Sea through Croatia into Hungary, and to import natural gas through the HAG pipeline. The Adria pipeline has the capacity to meet all of MOL's current import requirements, although there are currently discussions regarding a reversal of the crude oil flow of this pipeline to export Russian oil further west in Europe and to the United States. However, even if this reversal is accomplished, imports will have a priority in case of emergency.

In addition, the demand for natural gas in Hungary exceeds the volumes which could be purchased from Western Europe via the HAG pipeline. Accordingly, MOL may experience difficulty replacing Russian natural gas imports. Additionally, the importation of crude oil and natural gas through the Adria and HAG pipelines, respectively, is more expensive than the importation of Russian crude oil and natural gas through the Russian Friendship and Brotherhood pipelines. As a result, a significant reduction in Russian crude oil and natural gas supplies could increase MOL's costs and reduce its margins. There are no assurances that future changes in the Russian oil and gas industry will not result in higher prices for Russian crude oil and natural gas. Any such increase may have a material adverse effect on MOL's business, results of operations and financial condition.

***Under MOL's natural gas contracts MOL is obliged to pay for specified volumes even if its actual usage is lower***

All of the contracts under which MOL purchases natural gas are take-or-pay agreements, that require MOL to purchase specified minimum volumes. Under the agreements, prior purchases in excess of the applicable minimum may be applied to current or future minimum purchase requirements. Under these take-or-pay agreements MOL may be required to make payments for these minimum volumes even if its actual importation of natural gas under the agreements is less than the specified minimum volumes. MOL generally plans for the maximum expected Hungarian usage of natural gas, which fluctuates and may be particularly affected by seasonal temperatures and the domestic and global economic environment.

To date, MOL has generally satisfied the minimum purchases under these contracts and it believes that there are a number of factors that may limit MOL's exposure under take-or-pay agreements. The Act XLII of 2003 on Natural Gas Supply (2003. évi XLII. törvény a földgázellátásról) (the "**Gas Act**") contains provisions intended to limit take-or-pay risk by authorising the re-negotiation of major contracts, through risk-sharing arrangements to be negotiated between the parties. Under the Gas Act, as from 2004 MOL sells gas to eligible customers, including gas traders, who elect to purchase natural gas from MOL in the unregulated market. However, only a limited number of major industrial consumers have signalled their intention to leave the regulated public gas market. In addition MOL's obligation for the purchase of specified minimum volumes was defined when the consumption of Hungary was lower than at the current time, therefore should this higher demand stabilise as in recent years, the risk of MOL would decrease.

***Estimates of MOL's crude oil and natural gas reserves are subject to uncertainties and MOL's total reserves may continue to decline***

MOL's reserves of crude oil and natural gas are important to its business. A proportion of the oil and gas that MOL sells comes from its own production, and the oil and gas that MOL extracts is generally significantly less expensive than the supplies purchased and imported from third parties. Accordingly, MOL's production and, indirectly, its profitability, is dependent upon the levels of its oil and natural gas reserves.

There are a number of uncertainties inherent in estimating quantities of proven reserves, projecting future rates of production and the timing of development expenditures, including many factors beyond the producer's control. This Prospectus includes MOL's unaudited domestic reserve data as well as the reserve data audited by Gaffney, Cline & Associates and unaudited data of MOL's international joint ventures, including Zapadno-Malobalyk ("ZMB"). This data represents only estimates and should not be considered as exact quantities. Reserve estimation is a subjective process and estimates of different experts often vary. In addition, results of drilling, testing and production subsequent to the date of an estimate may justify revision of any such estimate. Accordingly, reserve estimates may be materially different from the quantities of crude oil and natural gas that are ultimately recovered and, if recovered, the revenue therefrom and the costs related thereto could be more or less than the estimated amounts. Reserve estimates are also highly dependent upon the accuracy of the assumptions upon which they were based, the quality of the information available and the ability to verify such information against industry standards. For example, the assumed production rates, prices received for production and costs incurred in recovering reserves may vary from actual results due to government policies, particularly related to natural gas purchase price, and the uncertainties of supply and demand.

MOL's domestic natural gas and crude oil reserves have gradually decreased over the past several years (with slight increases in 2000 and 2001) as the number of new Hungarian exploration and development opportunities declines. Accordingly, MOL is seeking selected opportunities to expand its production activities internationally and to purchase interests in hydrocarbon properties. MOL might not be successful in profitably expanding its international development activities or in locating, developing or purchasing hydrocarbon reserves.

***MOL is dependent on licences and permits issued by Hungarian and other governmental authorities to conduct its business***

MOL holds exploration and production licences from the Hungarian mining authorities. Each of the exploration licences is granted for a period of not more than four years and each may be extended two times for up to an additional two-year period. The licences require that, in order to maintain exclusivity, MOL must define the exploration block within a period of time specified in the licence. However, Act XLVIII of 1993 on Mining (*a bányászatról szóló 1993. évi XLVIII törvény*) (the "**Mining Act**") permits MOL to apply for new exploration licences. MOL's production licences are generally granted for the production life of the relevant field. ZMB and its other international projects in Yemen, Pakistan and Kazakhstan, also hold exploration and/or production licences in the countries in which they operate.

In accordance with the Gas Act, as of 1 January, 2004, MOL has unbundled its gas activity into three legal entities: the public service wholesale and the competitive trading is carried out by MOL Natural Gas Supply Plc., storage activities by MOL Natural Gas Storage Plc. and transmission by MOL Natural Gas Transmission Plc., each of which is a wholly-owned subsidiary of MOL. MOL's gas subsidiaries also hold licences relating to the access to the cross border pipelines, transmission, storage, public utility wholesale and trading of natural gas. The licences were granted to the gas subsidiaries on 31 December, 2003.

All of MOL's licences can be suspended and/or terminated by the licensing authorities if MOL is deemed to have violated their terms, or repeatedly violated the applicable requirements of law. The termination, modification or failure, for any reason, to renew these licences in a timely manner could have a material adverse effect on MOL's business, results of operations and financial condition as MOL will not be able to carry on some or all of its current activities.

Based on the modification of the Mining Act, each mining contractor can have a maximum of eight exploration blocks in Hungary with a total area of 3200 km<sup>2</sup>. At present MOL has 33 exploration blocks covering more than 36 000 km<sup>2</sup>. Accordingly, the Mining Act will significantly hinder MOL in extending expiring exploration licences and obtaining new ones.

***The Hungarian government and the Special Share***

The Hungarian government owns 12 per cent. of the share capital of MOL, which consists mainly of "A" series ordinary shares and also a single "B" series voting preference share (the "**Special Share**"). The European Union (EU) may require the Hungarian government to divest its Special Share in the future or require the Hungarian government to change the rights it has in respect of the Special Share. If either of these things were to occur, this may have an impact on MOL's ability to conduct its business. Through its ability to regulate the markets in which MOL operates in Hungary, the Hungarian government may have a conflict of interest by virtue of its holding of the Special Share. Most of the agreements relating to MOL's bank borrowings and guarantee facilities contain mandatory provisions that grant to each lender the right to require the prepayment of the debt or

the cash collateralisation of issued guarantees attributable to that lender in the event that the Hungarian government ceases to own the Special Share during the term of the agreement. The EU may require the Hungarian government to divest its Special Share in the future or require the Hungarian Government to change the rights it has in respect of the Special Share. If either of these occur, MOL will seek to amend these loan agreements or seek to obtain waivers of these mandatory provisions from its lenders and/or seek to replace the relevant loans and guarantee facilities. However, MOL may not be successful in this regard and its lenders may seek prepayment or cash collateralisation relating to all or part of these loans.

***MOL's expansion strategy imposes additional risks***

MOL has significant investments in oil and gas businesses and it may seek additional opportunities to further expand its operations in the future where appropriate. As part of this strategy, it is continuing to negotiate with oil and gas companies outside of Hungary regarding investment possibilities and will assess each investment based on extensive financial and market analysis, which may include certain assumptions.

MOL cannot assure investors in the Capital Securities that these assumptions will prove to be correct. Among the risks associated with this strategy, including, in particular, investment in INA d.d. (INA) (the Croatian national oil and gas company) which could materially adversely affect MOL's business, results of operations and financial condition, are the following:

- MOL may incur substantial costs, delays or other operational or financial problems in integrating acquired businesses, production sites and distribution networks;
- MOL may not be able to identify, acquire or profitably manage such additional businesses;
- such acquisitions may adversely affect MOL's operating results;
- such acquisitions may divert management's attention from the operation of existing businesses;
- MOL may not be able to fully or effectively enforce its ownership rights in the entities in which it invests;
- MOL may not be able to retain key personnel of acquired businesses; and
- MOL may encounter unanticipated events, circumstances or legal liabilities.

MOL's ability to continue to grow and to penetrate new markets will depend on a number of factors. These include, among others, the availability of internal and external financing, as well as existing and future competition. MOL might not be able to implement its growth strategy or successfully manage its growth in the future.

***MOL is subject to general operational risks which may result in losses and additional expenditures***

MOL business operations, like those of other oil, gas and petrochemical companies, may be adversely affected by many factors, including fires and explosions, discharges of gases and toxic chemicals, the breakdown or failure of equipment or processes, performance below expected levels of output or efficiency, labour disputes, natural disasters, weather conditions, terrorist attacks or sabotage. Although MOL maintains comprehensive property and liability insurance policies, and business interruption insurance relating to the Duna Refinery located at Szazhalombatta, Tiszai Vegyi Kombinat Rt. ("TVK") plants in Hungary and the Slovnaft a.s. ("Slovnaft") refinery in the Slovak Republic, its property insurance does not cover the following:

- a significant proportion of its natural gas and oil pipelines;
- wells producing hydrocarbons; and
- exploited and unexploited underground hydrocarbon reserves.

In addition, as a general policy, MOL does not insure groups of assets where the amount of the joint potential loss resulted from a single occurrence is less than USD 1 million. To the extent that MOL incurs losses which are not covered by insurance, such losses would generally have to be satisfied out of MOL's cash flow.

***MOL may be subject to significant environmental liabilities***

MOL's operations, which are often potentially hazardous, are subject to the risk of liabilities arising from environmental pollution and the cost of any associated remedial work. MOL is currently responsible for



significant remedial work for past environmental damage relating to its operations. In addition, MOL expects to incur significant expenses to comply with increasingly strict environmental legislation in Hungary and in other countries in which it operates. Accordingly, MOL has established a provision of HUF 21.2 billion for (i) the estimated cost as at 31 December, 2004 of rectifying past environmental problems and (ii) future measures required to enable it to comply with existing environmental protection legislation and known future changes to such legislation. The provision was HUF 21.3 billion at the end of the first half of 2005.

As at 31 December, 2004, Slovnaft had established an environmental provision of SKK 902.9 million (HUF 5.7 billion) to cover the remediation costs of downstream activity (refining-logistics-retail of business of Slovnaft). The provision was SKK 856.5 million (HUF 5.5 billion) at the end of the first half of 2005.

The environmental provisions of TVK made on 31 December, 2004 amounted to HUF 4.0 billion, which covers only those clean-up costs of underground pollution that could be assessed and reliably quantified at the time of reporting. The volume of provision was HUF 4.0 billion at the end of the first half of 2005. In addition, MOL maintains insurance that covers certain elements of potential future environmental damage.

To adequately identify and quantify the measure of compliance with forthcoming environmental regulations, MOL's policy is to regularly assess its environmental liabilities twice a year with an internal assessment, and every 5 years with an external liability assessment.

#### **Factors connected with the business environment of MOL's activities\***

##### ***MOL is subject to general political, economic and legal risks***

In the 1990s, the Hungarian economy was characterised by relatively high inflation and correspondingly high interest rates, moderate growth in real gross domestic product, low disposable income, declining real wages and high national convertible currency debt (in relation to gross domestic product and convertible currency reserves). Hungary has developed institutions and a legal and regulatory system characteristic of parliamentary democracies and Hungary joined the EU in May 2004.

The Hungarian government's policies and regulations may have a significant impact on business in general and on MOL in particular. For example, tax rates have a significant effect on MOL's upstream profitability. Such policies can also affect capital market conditions and returns on investments. As Hungary seeks currency convergence standards, the Hungarian government may find it necessary to curb public spending further and to locate additional sources of revenue, which could lead to actions adverse to MOL and Hungarian investors. In addition, Hungary's civil code and corporate, competition, capital securities, environmental, gas, privatisation and other laws continue to be revised to meet EU standards. National elections scheduled for 2006 may result in changes in government policies, including those related to the natural gas business of MOL.

As a result of these uncertainties, there can be no assurance that previously discontinued or relaxed government controls, regulations or practices will not be reimposed or tightened or that other restrictions will not be imposed in the future. Furthermore, there can be no assurance that other restrictions that would limit MOL's business opportunities will not be introduced in the future. Moreover, the interpretation and procedural safeguards of the new legal and regulatory systems are in the process of being developed and defined and existing laws and regulations may be applied inconsistently. Also, in some circumstances, it may not be possible to obtain the legal remedies provided for under those laws and regulations in a timely manner.

MOL operates in the Slovak Republic through Slovnaft. As such, MOL is exposed to changes in the Slovakian regulatory environment over which MOL has limited or no control.

##### ***International operations of MOL may prove more difficult or costly than domestic operations***

MOL has significant operations outside of Hungary, primarily in the Slovak Republic, Austria, the Czech Republic, Poland, Russia, Kazakhstan, Slovenia, Croatia and Romania and it has smaller operations in Syria, Pakistan and Yemen. Accordingly, MOL is subject to risks associated with cross-border business transactions. Political, legal, trade or economic changes or instability in any of the countries in which MOL conducts operations could limit its operations. Unexpected changes in regulatory requirements, tariffs and other trade barriers, and price exchange controls in any of these countries could limit operations and make the distribution of products difficult. In addition, uncertainty concerning the legal environment in any of these areas could limit MOL's ability to effectively enforce its rights.

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\* Source: MOL Eurobond Prospectus dated 30 September 2005

### ***MOL faces significant competition, which may increase in the future***

Despite MOL's significant market position in Hungary and the Slovak Republic and, through its interests in INA in Croatia, MOL faces increasing competitive pressure in some areas of its business. Hungary, like other countries in Central and Eastern Europe, has deregulated the retail and wholesale marketing of petroleum products, and this market has become highly competitive. MOL's retail competitors include multinational and Russian oil companies, many of which have significantly greater financial resources than MOL. In addition, some discount players, like hypermarkets selling petroleum products, have appeared in MOL's retail markets. With respect to oil refining, MOL is subject to competition from other regional refiners. MOL also competes with other regional wholesale distributors and importers of refined petroleum products and petrochemical companies, many of which have significantly greater resources than it has.

MOL also faces competition in the exploration and development of reserves. Currently, foreign companies have been granted concessions by the Hungarian Ministry for Economy and Transport and foreign and domestic companies have been granted exploration licences by the Hungarian mining authorities to explore blocks in Hungary. Internationally, MOL competes with local and global oil and gas companies for exploration and production licences.

In line with the expected high demand growth rate for polymers also MOL's competitors are increasing their production capacities. As one of the first developers in the region, MOL Group's additional olefin and polymer capacities, which are now on-stream, will be well placed to satisfy anticipated demand growth. To strengthen market position, the MOL Group has already successfully implemented a single sales channel management system allowing for joint purchasing by MOL and Slovnaft, on its main markets.

As a result of increasing competitive pressures, MOL cannot assure investors that it will be able to maintain its current prices and/or market share in any of its businesses or that such increased competition will not result in a material negative effect on its business, results of operations and financial condition.

### ***Remaining regulatory risk in the gas business***

Due to the introduction of the Gas Act, the profitability of the gas segment has improved significantly, while the regulatory regime tends to conform to the EU rules and be more predictable. However, the maximum prices and fees MOL can charge for the public utility supply, public utility storage and the transmission of natural gas are regulated. MOL cannot give any assurances that the current regulation, which provides for a certain amount of income from these activities, will not be amended to create a less profitable environment. In addition, if the published price of natural gas is not set in line with the rules of the price mechanism, based on the current court practice, MOL does not have an efficient legal remedy and this may have a negative impact on MOL's business, its results of operations and financial condition.

### ***Ongoing tax, customs, excise and other financial audits***

There are several tax, customs, excise and other financial audits ongoing at MOL Group entities in Hungary, Slovakia and other countries in which MOL operates. At this stage, the outcome of these procedures is not predictable. Due to the highly sensitive political situation in Slovakia, MOL and Slovnaft are facing increased scrutiny from the authorities. Should the outcome of these audits be adverse, this may have a detrimental effect on the business operations of the MOL Group.

### ***Limited information on INA***

MOL holds a minority stake in INA, with the remaining majority interest being held by the Croatian government. Although MOL is in the process of co-ordinating certain of INA's operations with its own, it is not integrating INA into the MOL Group. In addition, although MOL has the right to appoint certain senior managers, it does not have operational managers involved in the supervision of INA's day-to-day business. As a result of MOL's limited role in the management of INA, it does not have access to the same detailed operational information that it has with respect to Slovnaft and TVK. In addition, MOL signed a confidentiality agreement with the Croatian government which prohibits the disclosure of non-public information regarding INA without its approval. Although MOL has obtained the approval of the Croatian government with respect to the information disclosed in the Prospectus concerning INA, there may be other information relevant to investors of which MOL is unaware.



### ***Changes in the motor fuel market***

The motor fuel market is experiencing a period of reduced growth in the sales of higher margin petrol and an increase in the growth in the sales of lower margin diesel. Whilst MOL is well positioned to meet the increased demand for diesel, the sale of diesel is less profitable than the sale of petrol and this may, over time, have an impact on the financial condition of MOL.

### ***General Group Structure***

MOL conducts a number of its operating activities through its subsidiaries. MOL has in place agreements with its subsidiaries for the entry into of intra-group indebtedness. Should a MOL material subsidiary cease its business operations, this may have an impact on the financial condition of MOL.

## DOCUMENTS INCORPORATED BY REFERENCE

The following documents which have previously been published and have been filed with the CSSF shall be incorporated in, and form part of, this Prospectus:

- (a) the audited consolidated financial statement of MOL for the year ended 31 December, 2003 (prepared in accordance with IFRS) and the auditor's reports thereon, the audited consolidated financial statement of MOL for the financial year ended 31 December, 2004 (prepared in accordance with IFRS) and the auditor's reports thereon; and
- (b) MOL Group 2005 first half preliminary results (Unaudited Consolidated Stock Exchange Report for the six months ended 30 June, 2005),

save that any statement contained herein or in a document which is deemed to be incorporated by reference herein shall be deemed to be modified or superseded for the purpose of this Prospectus to the extent that a statement contained in any such subsequent document which is deemed to be incorporated by reference herein modifies or supersedes such earlier statement (whether expressly, by implication or otherwise). Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Prospectus.

Copies of documents incorporated by reference in this Prospectus and this Prospectus can be obtained from the Luxembourg Stock Exchange, [www.bourse.lu](http://www.bourse.lu). In addition, such documents will be available free of charge from the principal office in Luxembourg of the Paying Agent for the time being.

The following documents shall be incorporated in, and form part of, this Prospectus:

<u>Document</u>	<u>Section incorporated</u>
Annual Report 2004 of MOL .....	Pages 1 to 104
- Management Discussion and Analysis .....	Pages 23 to 31
- Consolidated financial statements for the year ended 31 December, 2004 prepared in accordance with International Financial Reporting Standards (IFRS) together with the auditor's report .....	Pages 32 to 77
- Independent Auditors Report .....	Page 33
- Balance sheet (audited information) .....	Page 34
- Statement of Operations (audited information) .....	Page 35
- Changes in shareholders equity (audited information) .....	Page 36
- Statements of cash flows (audited information) .....	Page 37
- Notes to the financial statements (audited information) .....	Pages 38 to 77
Annual Report 2003 of MOL .....	Pages 1 to 96
- Management Discussion and Analysis .....	Pages 21 to 29
- Consolidated financial statements for the year ended 31 December, 2003 prepared in accordance with International Financial Reporting Standards (IFRS) together with the auditor's report .....	Pages 31 to 70
- Independent Auditors Report .....	Page 31
- Balance sheet (audited information) .....	Page 32
- Statement of Operations (audited information) .....	Page 33
- Changes in shareholders equity (audited information) .....	Page 34
- Statements of cash flows (audited information) .....	Page 35

- Notes to the financial statements (audited information) .....	Pages 36 to 69
2005 second quarter and first half preliminary results of MOL .....	Pages 1 to 16
- Financial overview .....	Pages 8 to 9
- Statements of Operations .....	Page 10

Any information not included in the references above but included in the documents incorporated by reference, is given for information purposes only.

## INCORPORATION OF PUBLICLY AVAILABLE INFORMATION

The information contained in Appendix A (*Information on MOL*) and Appendix B (*Financial Information on MOL*) has been extracted from a eurobond prospectus, dated 30 September 2005, issued by MOL (the “**Eurobond Prospectus**”). The information contained in Appendix C (*Recent Developments*) has been extracted from announcements made by MOL to the Budapest Stock Exchange, including fourth quarter and full year flash report. The information contained in the Appendices A, B and C is provided for information only; it was not prepared in connection with the offering of the Capital Securities, the Issuer was not involved in its preparation and has not verified its accuracy or completeness.

## CONDITIONS OF THE CAPITAL SECURITIES

*The following is the text of the Conditions of the Capital Securities which (subject to modification and except for the paragraphs in italics) will be endorsed on each Certificate in definitive form (if issued) in respect of the Capital Securities.*

The Perpetual Exchangeable Capital Securities (the “**Capital Securities**” which expression shall in these Conditions, unless the context otherwise requires, include any further capital securities issued pursuant to Condition 4.2 and to Condition 21 (*Further Issues*) and forming a single series with the Capital Securities) of Magnolia Finance Limited (the “**Issuer**”) are constituted by the Trust Deed. The issue of the Capital Securities was authorised pursuant to a resolution of the board of directors of the Issuer passed on 8 March, 2006.

Each Capital Security is exchangeable for a *pro rata* share of the Exchange Property, subject to these Conditions. The initial Exchange Property will comprise the Shares purchased by the Issuer under the Share Purchase Agreement. The Issuer has also entered into the Swap Agreement with MOL Hungarian Oil and Gas Public Limited Company (“**MOL**” which term shall include any successor entity) under which MOL agrees, amongst other things, to make to the Issuer quarterly payments in respect of a notional amount that will equal the principal amount of the Capital Securities outstanding from time to time and the Issuer agrees to make an initial payment equal to the net proceeds of the issue of the Capital Securities less amounts retained by the Issuer to fund certain ongoing operating costs and less the purchase price payable under the Share Purchase Agreement. The Swap Agreement is documented as a schedule and confirmation subject to a 2002 ISDA Master Agreement that incorporates the 2000 ISDA Definitions. The claims of the Issuer against MOL under the Swap Agreement shall, save for such exceptions as may be provided by applicable legislation and except as otherwise provided in the Swap Agreement, be subordinated to the claims of MOL senior creditors and claims in respect of certain preferred amounts. In addition, under the Swap Agreement, the Issuer has granted to MOL a call option to acquire all or any of the Exchange Property at its then current market value, calculated in accordance with the terms of the Swap Agreement and otherwise on the terms of the Swap Agreement.

*The Shares, or, if the Shares are placed in the GDR Facility, the GDSs representing the Shares, will be placed in an escrow arrangement and held by the Escrow Agent on behalf of the Issuer until such time as the Shares or GDSs, as the case may be, are either released to the Issuer to be delivered to the Capital Securityholders or returned to MOL as a result of MOL exercising its option to repurchase them.*

*Neither the Exchange Property nor any of the other assets of the Issuer will be the subject of any security in favour of the Trustee or any other person for the benefit of the Capital Securityholders, the Trustee or the Agents. The escrow arrangement does not constitute security in favour the Trustee or any other person for the benefit of the Capital Securityholders, the Trustee or the Agents.*

*The Shares are denominated in Hungarian Forint and other securities and cash comprising the Exchange Property may be denominated in currencies other than Euro or Hungarian Forint. In order to obtain certain parts of the Exchange Property the Capital Securityholders may need to enter into custody or banking arrangements, in appropriate currencies and jurisdictions, sufficient to enable them to receive the proportions of the Exchange Property deliverable to them under these Conditions.*

The statements in these Conditions include summaries of, and are subject to, the detailed provisions of the Trust Deed and the Agency Agreement. Copies of the Swap Agreement, the Agency Agreement and the Trust Deed are available for inspection during normal business hours by the Capital Securityholders at the principal office for the time being of the Trustee, being at the date of issue of the Capital Securities at One Canada Square, London, E14 5AL and at the specified office of each of the Agents. The Capital Securityholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and the Agency Agreement applicable to them.

### 1. FORM, DENOMINATION AND TITLE

#### 1.1 Form and Denomination

The Capital Securities are issued in registered form in a denomination of €100,000 (as adjusted from time to time pursuant to these Conditions, this amount is referred to as the “**principal amount**” of a Capital Security). A capital security certificate (each a “**Certificate**”) will be issued to each Capital Securityholder in respect of its registered holding of Capital Securities. Each Certificate will be numbered serially with an identifying number which will be recorded on the relevant Certificate and in the Register.

*The Capital Securities are not issuable in bearer form. Definitive Certificates will be issued to Capital Securityholders only in certain circumstances specified in the Global Certificate, which will represent the Capital Securities on the issue date.*

## 1.2 Title

Title to the Capital Securities passes only by registration in the register of Capital Securityholders. The holder of any Capital Security will (except as may otherwise be required by law) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any interest or any writing on, or the theft or loss of, the Certificate issued in respect of it) and no person will be liable for so treating the holder. In these Conditions “**Capital Securityholder**” and (in relation to a Capital Security) “**holder**” means the person in whose name a Capital Security is registered in the register of Capital Securityholders.

*For a description of the procedures for transferring title to book-entry interests in the Capital Securities, see Condition 2 (Transfers of Capital Securities and Issue of Certificates).*

## 2. TRANSFERS OF CAPITAL SECURITIES AND ISSUE OF CERTIFICATES

### 2.1 Register

The Issuer will cause the Register to be kept at an office of the Registrar outside the United Kingdom. The names and addresses of the Capital Securityholders and the particulars of any Capital Securities held by them and all transfers of, redemptions of (in whole or in part) and exercises of Exchange Rights with respect to the Capital Securities shall be entered on the Register.

### 2.2 Transfers

A holding of Capital Securities may, subject to the terms of the Agency Agreement and Conditions 2.4, 2.5 and 2.6, be transferred, in whole or in part in amounts representing the minimum denomination and integral multiples thereof, by depositing the Certificate issued in respect of that Capital Security, with the form of application for transfer in respect thereof (which shall be in the form for the time being current, obtainable during normal office hours from the specified office of any Paying, Transfer and Exchange Agent) duly completed and executed and, where applicable, duly stamped, completed and signed, at the specified office of the Registrar or any Paying, Transfer and Exchange Agent.

No transfer of a Capital Security will be valid unless and until entered on the Register. A Capital Security may be registered in the name of, and transferred only to, a named person or persons (not exceeding four in number).

*For a description of certain restrictions on transfers of interests in the Capital Securities, see Condition 2.5.*

### 2.3 Delivery of new Certificates

Each new Certificate to be issued upon transfer of Capital Securities will, subject to Conditions 2.4, 2.5 and 2.6 within seven Transfer Business Days of receipt by the Registrar or the relevant Paying, Transfer and Exchange Agent of a duly made application for the transfer of a Capital Security, be mailed by uninsured mail at the risk of the holder entitled to the Capital Security to the address specified in the form of transfer. For the purposes of this Condition 2.3, “**Transfer Business Day**” shall mean a day on which banks are open for business in the city in which the specified office of the Registrar and the Paying, Transfer and Exchange with whom a Certificate is deposited in connection with a transfer is located.

*Except in the limited circumstances described herein (see “The Global Certificate—Registration of Title”), owners of interests in the Global Capital Security will not be entitled to receive delivery of definitive Certificates or to be registered in the Register.*

*Issues of Certificates upon transfer of Capital Securities are subject to compliance by the transferor and transferee with the certification procedures described above and in the Agency Agreement.*

Where some but not all of the Capital Securities in respect of which a Certificate is issued are to be transferred a new Certificate in respect of the Capital Securities not so transferred will, within seven Transfer Business Days of receipt by the Registrar or the relevant Paying, Transfer and Exchange Agent of the original Certificate, be mailed by uninsured mail at the risk of the holder of the Capital Securities not so transferred to the address of such holder appearing on the register of Capital Securityholders or as specified in the form of transfer.

## 2.4 Formalities free of charge

Registration of transfer of Capital Securities will be effected without charge by or on behalf of the Issuer, the Registrar or any Paying, Transfer and Exchange Agent but upon: (i) payment (or the giving of such indemnity as the Issuer, the Registrar or any Paying, Transfer and Exchange Agent may reasonably require) in respect of any tax, duty or other governmental charges which may be imposed or payable in relation to such transfer, (ii) the Registrar or, as the case may be, any Paying, Transfer and Exchange Agent, being satisfied with the document(s) of title and/or identity of the person making the application, and (iii) the Regulations (as defined in Condition 2.6 below) having been complied with.

## 2.5 Closed Periods

No Capital Securityholder may require the transfer of a Capital Security (or any part thereof) to be registered (i) during the period of 15 days ending on the due date for any payment of principal, in whole or in part, premium or interest on that Capital Security or (ii) in respect of which an Exchange Notice has been delivered in accordance with Condition 7.3.

## 2.6 Regulations

All transfers of Capital Securities and entries on the register of Capital Securityholders will be made subject to the detailed regulations concerning transfer of Capital Securities scheduled to the Agency Agreement (the “**Regulations**”). The regulations may be changed by the Issuer with the prior written approval of the Registrar and the Trustee. A copy of the current regulations will be mailed (free of charge) by the Registrar to any Capital Securityholder who requests one.

# 3. STATUS

The Capital Securities constitute direct, unsecured and subordinated limited recourse obligations of the Issuer and rank and will rank *pari passu*, without any preference among themselves and at least equally and rateably with all other present and future direct, unsecured and subordinated obligations of the Issuer. Claims of the Trustee and the Capital Security holders against the Issuer in respect of the Capital Securities shall, save for claims related to Deferred Amounts and for such exceptions as may be provided by applicable legislation, be subordinated to the claims of Senior Creditors, rank *pari passu* with the holders of all Parity Securities and in priority to the rights and claims of holders of all ordinary shares of the Issuer.

Claims of the Trustee and the Capital Securityholders against the Issuer in respect of Deferred Amounts shall, save for such exceptions as may be provided by applicable legislation, be subordinated to the claims of Senior Creditors, behind all other claims related to the Capital Securities and behind the holders of all Parity Securities, but in priority to the rights and claims of holders of all ordinary shares of the Issuer.

# 4. CERTAIN COVENANTS

## 4.1 Activities of the Issuer

Save as may be required by the applicable law or regulation or otherwise with the prior written consent of the Trustee (which shall not be unreasonably withheld) and subject as provided in or envisaged by any of the Transaction Documents the Issuer will not:

- (i) carry out or engage in any activities other than those that are necessary for or incidental to the performance of its obligations under the Transaction Documents in relation to the Capital Securities and any securities that the Issuer may issue in the future in accordance with Condition 4.2;
- (ii) open any account whatsoever with any bank or other financial institution other than as provided for or envisaged by the Transaction Documents;
- (iii) have any subsidiaries or employees or premises;
- (iv) amend, supplement or otherwise modify its constitutional documents;
- (v) act as a director of any company or other corporation; or
- (vi) incur any liabilities otherwise than under the Transaction Documents or as envisaged by the Conditions of the Capital Securities.



## 4.2 Issues of securities

For so long as any of the Capital Securities remains outstanding the Issuer will not issue any securities other than:

- (i) further Capital Securities having the same terms (except for the first payment of interest thereon) so as to be consolidated and form a single series with the outstanding Capital Securities constituted by the Trust Deed or any supplemental deed (a “**Fungible Issue**”); and/or
- (ii) such further securities exchangeable into Shares and/or other Relevant Securities upon such terms as to interest, exchange, redemption and otherwise as the Issuer may determine at the time of the issue provided that they will rank *pari passu* with the Capital Securities (a “**Non-Fungible Issue**”).

Upon issuance of further Capital Securities, the Issuer will acquire further Shares and/or Relevant Securities to be included in the Exchange Property and either (a) in the case of Fungible Issue, supplement or amend the Swap Agreement with MOL; or (b) in the case of a Non-Fungible Issue, enter into a new swap agreement or swap agreements with MOL substantially similar to the Swap Agreement in respect of such securities.

## 4.3 Further covenants

The Issuer will not, except with the prior written content of the Trustee and subject as provided in any of the Transaction Documents:

- (i) create or permit to subsist any mortgage, pledge, lien (unless arising by operation of law) or charge upon the whole or any part of its assets, present and future (including any uncalled capital) or its undertaking;
- (ii) transfer, sell, lend, part with or otherwise dispose of, or deal with, or grant any option or present or future right to acquire any of its assets or undertaking or any interest, estate, right, title or benefit therein (other than the grant of any call option in respect of Shares under a swap agreement entered into pursuant to Condition 4.2(ii) above and as otherwise contemplated or permitted by these Conditions);
- (iii) pay any dividend or make any other distribution to its shareholders other than the declaration and payment annually of a dividend of up to £700;
- (iv) issue any further shares;
- (v) incur any indebtedness in respect of money borrowed or raised whatsoever (other than the Capital Securities or by way of an issue of further securities as described in Conditions 4.2 and 21 (*Further Issues*) or under the terms of the Swap Agreement) or give any guarantee in respect of any obligation of any person;
- (vi) consolidate or merge with any other person or convey or transfer its properties or assets substantially as an entirety to any other person (other than any transfer of assets pursuant to these Conditions or any conditions relating to any further securities issued pursuant to Conditions 4.2 and 21 (*Further Issues*)); or
- (vii) subject to being entitled to amend the Swap Agreement to accommodate any increase in the principal amount of the Capital Securities after the issue date in accordance with Conditions 4.2 and 21 (*Further Issues*), and subject as set out below, for so long as any of the Capital Securities remains outstanding the Issuer will not agree to any amendment to the terms of the Swap Agreement (other than such amendments/supplements as may be required pursuant to an issue effected pursuant to Conditions 4.2 and 21 (*Further Issues*)). However, the Issuer may agree to such amendments to the Swap Agreement (which, for the avoidance of doubt, shall include such amendments as may be necessary to comply with any changes to applicable law) that are, in the opinion of the Trustee (acting on the advice of an Approved Investment Bank), not materially prejudicial to the interests of the Capital Securityholders or are, in the opinion of the Trustee, of a formal, minor or technical nature or to correct a manifest error.

#### 4.4 Shares to be held in the form of GDSs

The Issuer may, at its option, deposit the Shares or cause for them to be deposited into the GDR Facility before, on or after the issue date for the Capital Securities and, if it does so, for as long as any part of the Exchange Property consists of Shares, the Issuer shall, to the extent practicable, continue to hold the relevant Shares in the form of GDSs, provided that the GDSs are at all relevant times duly and validly issued and existing.

### 5. INTEREST

#### 5.1 Fixed Interest Payment Dates

Subject to Condition 10.4, the Capital Securities bear interest on their outstanding principal amount at a rate of four per cent (4%) per annum (the **“Fixed Interest Rate”**) from and including 20 March 2006 to, but excluding, 20 March 2016 payable (subject to Conditions 5.3 and 6 (*Deferrals*)) quarterly in arrear on 20 March, 20 June, 20 September and 20 December in each year (each a **“Fixed Interest Payment Date”**).

Where, prior to 20 March 2016, interest is to be calculated in respect of a period which is equal to or shorter than a Fixed Interest Period, the day-count fraction used will be the number of days in the relevant period, from and including the date from which interest begins to accrue to but excluding the date on which it falls due, divided by the product of (i) the number of days in the Fixed Interest Period in which the relevant period falls (including the first such day but excluding the last) and (ii) the number of Fixed Interest Periods normally ending in any year. The period beginning on 20 March 2006 and ending on but excluding the first Fixed Interest Payment Date and each successive period beginning on and including a Fixed Interest Payment Date and ending on but excluding the next succeeding Fixed Interest Payment Date is called a **“Fixed Interest Period”**. The amount of interest payable for the Fixed Interest Period on each Capital Security determined in accordance with this Condition 5.1 is called a **“Fixed Interest Amount”**.

#### 5.2 Floating Interest Payment Dates

Subject to Condition 10.4, the Capital Securities bear interest on their outstanding principal amount from, and including, 20 March 2016 at the rate determined in accordance with Conditions 5.2(a) and (b) (the **“Floating Interest Rate”**) payable (subject to Conditions 5.3 and 6 (*Deferrals*)) quarterly in arrear on 20 March, 20 June, 20 September and 20 December in each year (each a **“Floating Interest Payment Date”** and together with the Fixed Interest Payment Dates, the **“Interest Payment Dates”**). If any Floating Interest Payment Date would otherwise fall on a day which is not a Floating Rate Business Day (as defined below) or if there is no numerically corresponding day in the calendar month in which a Floating Interest Payment Date should occur, it shall be postponed to the next day which is a Floating Rate Business Day unless it would thereby fall into the next calendar month in which event it shall be brought forward to the immediately preceding Floating Rate Business Day.

The period beginning on and including 20 March 2016 and ending on but excluding the first Floating Interest Payment Date and each successive period beginning on and including a Floating Interest Payment Date and ending on but excluding the next succeeding Floating Interest Payment Date is called a **“Floating Interest Period”** and, together with the Fixed Interest Periods, the **“Interest Periods”**. The amount of interest payable for the relevant Interest Period on each Capital Security determined in accordance with Condition 5.2(a) and (b) is called a **“Floating Interest Amount”**, and a Floating Interest Amount or a Fixed Interest Amount, as the case may be, is called an **“Interest Payment”**.

##### (a) Floating Interest Rate

The Floating Interest Rate in respect of the Capital Securities will be determined by the Calculation Agent on the following basis:

- (i) On the second Floating Rate Business Day before the beginning of each Floating Interest Period (the **“Interest Determination Date”**) the Calculation Agent will determine the EURIBOR for three-month Euro deposits as at 11.00 a.m. (Brussels time) on the Interest Determination Date in question. Such offered rate will be that which appears on the display designated as page **“248”** on the Telerate Monitor (or such other page or service as may replace it for the purpose of displaying such rates). From and

including 20 March 2016 the Floating Interest Rate for such Floating Interest Period shall be the aggregate of the Margin and the rate which so appears, as determined by the Calculation Agent.

- (ii) If for any reason such offered rate does not so appear, or if the relevant page is unavailable, the Calculation Agent will determine EURIBOR based on quotations from the Reference Banks chosen by the Calculation Agent for EURIBOR for a period of three months as at 11.00 a.m. (Brussels time) on the Interest Determination Date in question. From and including 20 March 2016 the Floating Interest Rate for such Floating Interest Period shall be the aggregate of the Margin and the arithmetic mean (rounded, if necessary, up to the nearest fifth decimal place, with 0.000005 being rounded upwards) of such quotations (or of such of them, being at least two, as are so provided), as determined by the Calculation Agent. The Agency Agreement contains provisions for determining the Floating Interest Rate in the case where fewer than two such quotations appear.
- (iii) In this Condition 5 (*Interest*), the expression “**Floating Rate Business Day**” means a day which is both a day upon which commercial banks and foreign exchange markets settle payments and are open for general business (including dealings in foreign exchange and foreign currency deposits) in London and Budapest and the TARGET System is operating and “**TARGET System**” means the Trans-European Automated Real-time Gross Settlement Express Transfer (TARGET) System or any successor thereto.

For the purposes of these Conditions “**Margin**,” means 5.50 per cent. per annum.

**(b) Determination of Floating Interest Rate and calculation of Interest Amount**

The Calculation Agent will, as soon as practicable after 11.00 a.m. (Brussels time) on each Interest Determination Date, determine the Floating Interest Rate and the Floating Interest Amount for the relevant Floating Interest Period. The Floating Interest Amount shall be calculated by applying the Floating Interest Rate to the outstanding principal amount of one Capital Security, multiplying such product by the actual number of days in the Floating Interest Period concerned divided by 360 and rounding the resulting figure to the nearest Euro 0.01 (Euro 0.005 being rounded upwards). The determination of the Floating Interest Rate and the Floating Interest Amount by the Calculation Agent shall (in the absence of manifest error) be final and binding upon all parties.

**(c) Publication of Floating Interest Rate and Floating Interest Amount:**

The Calculation Agent will cause the Floating Interest Rate and the corresponding Floating Interest Amount for each Floating Interest Period and the relevant Floating Interest Payment Date to be notified to the Trustee, each of the Paying, Transfer and Exchange Agents and any stock exchange or other relevant authority on which the Capital Securities are for the time being listed and to be notified to Capital Securityholders, as soon as possible after their determination but in no event later than the second Floating Rate Business Day thereafter. The Floating Interest Amount and Floating Interest Payment Date so published may subsequently be amended (or appropriate alternative arrangements made with the consent of the Trustee by way of adjustment) without notice in the event of an extension or shortening of the Floating Interest Period.

**(d) Determination or calculation by Trustee**

If the Calculation Agent does not at any time for any reason so determine the Floating Interest Rate or calculate the corresponding Floating Interest Amount for a Floating Interest Period, the Trustee (or an agent appointed by it) may without liability therefore do so and such determination or calculation shall be deemed to have been made by the Calculation Agent. In doing so, the Trustee shall apply the foregoing provisions of this Condition 5 (*Interest*), with any necessary consequential amendments, to the extent that, in its opinion, it can do so, and, in all other respects it shall do so in such manner as it shall deem fair and reasonable in all the circumstances.

(e) **Reference Banks and Calculation Agent**

So long as any Capital Security is outstanding, the Issuer will designate the Reference Banks (where the Floating Interest Rate is to be calculated by reference to them) and a Calculation Agent for the purposes of the Capital Securities. If any such bank (acting through its relevant office) is unable or unwilling to continue to act as a Reference Bank or the Calculation Agent, as the case may be, or if the Calculation Agent fails duly to establish the Floating Interest Rate for any Floating Interest Period or to calculate the corresponding Floating Interest Amount, the Issuer shall (with the prior approval of the Trustee) appoint some other leading bank engaged in the Euro-zone interbank market to act as such in its place. The Calculation Agent may not resign its duties without a successor having been so appointed.

**5.3 Interest Accrual**

Each Capital Security will cease to bear interest from the due date for final redemption, or, as the case may be, from the Interest Payment Date immediately preceding the date of the Exchange Notice in relation thereto unless, in the case of final redemption, upon due presentation, payment of principal is improperly withheld or refused or a default is otherwise made in respect of the payment. In such event, it shall continue to bear interest in accordance with this Condition (both before and after judgment) until whichever is the earlier of (i) the day on which all sums due in respect of such Capital Security up to that day are received by or on behalf of the relevant Capital Securityholder, and (ii) the day seven days after the Trustee or the Principal Paying, Transfer and Exchange Agent has notified Capital Securityholders of receipt of all sums due in respect of all the Capital Securities up to that seventh day (except to the extent that there is failure in the subsequent payment to the relevant holders under these Conditions). In the case of a partial redemption the interest shall continue to accrue on the principal amount that remains outstanding.

**6. DEFERRALS**

The Issuer shall make each payment of interest on the relevant Interest Payment Date subject to and in accordance with these Conditions. However, an Interest Payment is subject to deferral in accordance with this Condition 6 (*Deferrals*).

**6.1 Deferral of payments**

If MOL has given a deferral notice under the Swap Agreement and for as long as MOL suspends payments under the Swap Agreement the Issuer shall, by giving a Deferral Notice not less than 5 Business Days prior to the relevant Interest Payment Date, defer any Interest Payment on the Capital Securities, subject to and in accordance with this Condition 6.1. Each Deferred Payment will bear interest on the amount so deferred, at the Fixed Interest Rate to but excluding (and subject to earlier satisfaction in accordance with Condition 6.2) 20 March 2016 and thereafter at the Floating Interest Rate, from and including the Interest Payment Date on which such Interest Payment would otherwise than by reason of the operation of this Condition 6.1 become due, up to but excluding the date on which the Deferred Amount is satisfied or deemed satisfied in accordance with Condition 6.2. The non-payment of any interest following the giving of any Deferral Notice in respect thereof shall not constitute a Default for any purpose (including, for the avoidance of doubt, Condition 14 (*Events of Default*)) on the part of the Issuer or otherwise be subject to enforcement in accordance with Condition 15 (*Enforcement*)) until such time as such interest shall have become due under Condition 6.2 and has not been paid or deemed satisfied in accordance with Condition 6.2.

**6.2 Satisfaction of Deferred Amounts**

Once MOL has satisfied the Deferred Swap Amount through one of the Alternative Swap Payment Satisfaction Mechanisms (as described below), the Issuer shall satisfy the Deferred Amount in whole or in parts, by:

- (i) in the case of a Share Deferred Swap Amount Satisfaction (which is subject to the Share Satisfaction Limit (as defined below)) the Issuer selling the received Shares and distributing the proceeds (after deduction of any costs relating to the sale) to the Capital Securityholders (a “**Share Swap Payment Satisfaction**”); such sale shall be carried out by the Issuer or an agent appointed by the Issuer for this purpose (which may be the GDR Depositary or the Escrow Agent). The amount of the Deferred Amount satisfied by the distribution of such proceeds shall be equal to the Current Market Value of the Shares received from MOL, as

determined by the Calculation Agent, regardless of whether or not the proceeds of the sale of the Shares are equivalent to such Current Market Value; the distribution of such proceeds shall constitute full and final satisfaction of the relevant part or entirety, as the case may be, of the relevant Deferred Amount; for the avoidance of doubt, none of the Shares issued or transferred to the Issuer by MOL as Share Deferred Swap Amount Satisfaction shall be included in the Exchange Property;

“**Share Satisfaction Limit**”, for the purposes of this Condition 6.2, means a number of Shares calculated by the Calculation Agent as (A) the product of (a) 0.5 per cent., (b) the total number of Shares in issue on the date immediately prior to the relevant satisfaction date and (c) the number of Deferred Swap Amounts that have arisen in the period (the “**Swap Deferral Period**”) since the coming into existence of the first Deferred Swap Amount (which has not previously been satisfied) forming part of the Deferred Swap Amounts outstanding as at the relevant satisfaction date, less (B) the total number of any Shares issued and/or transferred pursuant to any previous such satisfaction during that Swap Deferral Period.

and/or

- (ii) in the case of a Notional Increase Payment Satisfaction, increasing, pro rata, the principal amount of the Capital Securities in respect of such Deferred Amount (a “**Payment in Kind Payment Satisfaction**”), by an aggregate principal amount equal to the amount of the increase of the notional amount of the Swap Agreement pursuant to such Notional Increase Payment Satisfaction; such increase by the Issuer shall constitute full and final satisfaction of the relevant part or entirety, as the case may be, of the relevant Deferred Amount. The aggregate principal amount of the increases pursuant to a Payment in Kind Payment Satisfaction shall not at any time exceed 25 per cent. of the aggregate initial principal amount of the Capital Securities issued on 20 March 2006.

*It should be noted that, since the Exchange Property will be left unchanged, following a Payment in Kind Payment Satisfaction the portion of Exchange Property attributable to each Capital Security will be reduced pro-rata to the increase in the principal amount of the Capital Securities.*

If, in respect of any Interest Period, the cumulative limits set out in both (i) and (ii) above are reached, any further Deferred Amounts outstanding or arising during that Interest Period shall be deemed to be satisfied.

The Issuer will notify the Capital Securityholders no less than 10 and no more than 20 Business Days in advance of the satisfaction of any Deferred Amount. The notification will specify the chosen method(s) of satisfaction and whether any Deferred Amounts shall be deemed to be satisfied pursuant to the preceding paragraph.

If the Exchange Right is exercised by a Capital Securityholder all Deferred Amounts (together with any Deferred Cash Proceeds Redemption and/or Deferred Cash Make-Whole Payment) relating to such Capital Securities and outstanding on the Exercise Date shall cease to be outstanding and shall be extinguished on the Business Day following the delivery of the relevant Exchange Notice to the Paying, Transfer and Exchange Agent in accordance with Condition. 7.3 (*Exchange Notices*).

*The nominal amount of any Deferred Swap Payment will accrue interest on the amount so deferred from the day following the swap payment date on which such Swap Deferred Payment would have become due but for the suspension of the swap payment in accordance with the Swap Agreement. MOL may at its option satisfy its obligations to pay the Swap Deferred Amounts in accordance with the Swap Agreement and must, other than on any swap termination date, so satisfy such obligation prior to MOL, subject to certain permitted exceptions: (i) declaring, paying or making any dividend, distribution or other payment in respect of its Shares; or (ii) redeeming, repurchasing or otherwise acquiring any of its Shares or Parity Securities or Junior Securities.*

*Under the Swap Agreement, MOL may satisfy any Deferred Swap Amounts in whole or in part (i) up to (and including) 20 March 2016, at any time from and including the day following the swap payment date on which such Deferred Swap Amount first occurs; or (ii) after 20 March 2016 on any swap payment date next following the swap payment date on which such Deferred Swap Amount occurs; in each case on giving not less than 11 and not more than 21 Business Days’ prior written notice to the Issuer specifying the chosen method(s) of satisfying the Deferred Swap Amount and, in the case of (i) above, specifying the settlement date for such Deferred Swap Amount. MOL may satisfy its*



obligations to pay any Deferred Swap Amount at its option, by either of the following (or a combination thereof, each an “**Alternative Swap Payment Satisfaction Mechanism**”):

- (i) issuing new Shares or transferring existing Shares to the Issuer (a “**Share Deferred Swap Amount Satisfaction**”). If any Deferred Swap Amount is to be satisfied in full or in part through the Share Deferred Swap Amount Satisfaction method, the amount of the Deferred Swap Amount so satisfied shall be equal to the Current Market Value of the Shares delivered. MOL may only use the Share Deferred Swap Amount Satisfaction **up to a limit** (the “**Share Satisfaction Limit**”) of (A) the product of (a) 0.5 per cent., (b) the total number of Shares in issue on the date immediately prior to the relevant satisfaction date under the Swap Agreement and (c) the number of Deferred Swap Amounts that have arisen in the period (the “**Swap Deferral Period**”) since the coming into existence of the first Deferred Swap Amount (which has not previously been satisfied) forming part of the Deferred Swap Amounts outstanding as at the relevant satisfaction date, less (B) the total number of any Shares issued and/or transferred pursuant to any previous such satisfaction during that Swap Deferral Period.
- (ii) increasing the notional amount of the Swap Agreement (a “**Notional Increase Payment Satisfaction**”) by the Deferred Swap Amount. The Notional Amount of the Swap Agreement (as defined in the Swap Agreement) shall not at any time exceed 125 per cent. of the Initial Notional Amount of the Swap Agreement.

*If the notional amount of the Swap Agreement exceeds 125 per cent. of the Initial Notional Amount and the limit set under (i) for the issuance or transfer of Shares has been reached in respect of any calculation period under the Swap Agreement, all Deferred Swap Amounts then existing or arising during the remainder of the relevant calculation period under the Swap Agreement will be deemed automatically satisfied. For the avoidance of doubt, MOL may not satisfy any Deferred Swap Amount in cash, except on a Cash Change of Control, a Non-Recommended Change of Control and upon payment of certain dividends or making certain redemptions and repurchases of its Shares as described below.*

### **6.3 Acceleration of Deferred Amounts**

If the Issuer shall: (i) declare, pay or make any dividend, distribution or other payment on any of its shares (other than the payment annually of a dividend of up to £700; or (ii) redeem, repurchase or otherwise acquire any of its shares or any Parity Securities or Junior Securities, all Deferred Amounts shall become immediately due and payable.

*Under the terms of the Swap Agreement if MOL shall, before all Deferred Swap Amounts have been satisfied and, in the case of the Payment in Kind Payment Satisfaction by the Issuer referred to in Condition 6.2, for a period of 12 months following such satisfaction:*

- (i) declare, pay or make any dividend, distribution or other payment on any of the Shares or
- (ii) redeem, repurchase or otherwise acquire any of its shares or other securities which rank *pari passu* with or junior to MOL’s payment obligation under the Swap Agreement.

*all Deferred Swap Amounts shall become immediately due and payable in cash.*

*The acceleration of the Deferred Swap Amounts set out above does not apply to:*

- (i) in respect of any Swap Deferral Period, to any dividend, distribution or payment pursuant to a declaration made prior to the date of the earliest notice of MOL electing to defer payments under the Swap Agreement otherwise falling due in Swap Deferral Period;
- (ii) in respect of any Swap Deferral Period, to any redemption, repurchase or acquisition of Shares or other securities pursuant to an agreement dated or the exercise of a right or an option granted prior to the date of the earliest notice of MOL electing to defer payments under the Swap Agreement otherwise falling due in such Swap Deferral Period;
- (iii) any redemption of Shares or other securities in connection with the employee share option plans of MOL from time to time;
- (iv) any conversion or exchange in accordance with their terms of Parity Securities or Junior Securities into or for Shares or other securities of MOL;

- (v) *any redemption, repurchase or acquisition of fractional entitlements or interests in securities pursuant to the conversion or exchange in accordance with their terms of such securities;*
- (vi) *any redemption, repurchase or acquisition of Shares pursuant to a reclassification of its share capital by MOL; and*
- (vii) *any acquisition by MOL of Shares or other securities pursuant to the terms of the Swap Agreement.*

*Under the terms of the Swap Agreement if MOL shall, before any deferred amount relating to the Cash Proceeds Redemption and/or Make-Whole Payment arising pursuant to the provisions of Condition 10.4(ii) have been satisfied:*

- (i) *declare, pay or make any dividend, distribution or other payment on any of its Shares or*
  - (ii) *redeem, repurchase or otherwise acquire any of its Shares or other securities which rank pari passu with or junior to MOL's payment obligations under the Swap Agreement,*
- all such deferred amounts shall become immediately due and payable.*

*The acceleration of deferred amounts relating to the Cash Proceeds Redemption and/or Make-Whole Payment arising pursuant to the provisions of Condition 10.4(ii) set out above does not apply to:*

- (i) *in respect of any Swap Deferral Period any dividend to any, distribution or payment pursuant to a declaration made prior to the earliest notice of MOL electing to defer payments under the Swap Agreement otherwise falling due in such Swap Deferral Period*
- (ii) *in respect of any Swap Deferral Period, to any redemption, repurchase or acquisition of Shares or other securities pursuant to an agreement dated or the exercise of a right or an option granted prior to the earliest notice of MOL electing to defer payments under the Swap Agreement otherwise falling due in such Swap Deferral Period;*
- (iii) *any redemption of Shares or other securities in connection with the employee share option plans of MOL from time to time;*
- (iv) *any conversion or exchange in accordance with their terms of Parity Securities or Junior Securities into or for Shares or other securities of MOL;*
- (v) *any redemption, repurchase or acquisition of fractional entitlements or interests in securities pursuant to the conversion or exchange in accordance with their terms of such securities;*
- (vi) *any redemption, repurchase or acquisition of Shares pursuant to a reclassification of its share capital by MOL; and*
- (vii) *any acquisition by MOL of Shares or other securities pursuant to the terms of the Swap Agreement.*

## 7. EXCHANGE

### 7.1 Exchange Right

- (a) Subject to Condition 7.1(b) and provided that the Issuer has not exercised the Share Settlement Option, each Capital Securityholder shall have the right (the “**Exchange Right**”), subject as provided herein and to any applicable fiscal or other laws and regulations and in the manner described below, to have all or any of his Capital Securities exchanged (without involving part only of a Capital Security) by means of the delivery or transfer of a *pro rata* share of the Exchange Property as at the relevant Exercise Date (such *pro rata* share of the Exchange Property shall be calculated by the Calculation Agent). Upon exercise of Exchange Rights, the Issuer shall, except as otherwise provided in these Conditions, exchange any Capital Security delivered for exchange by procuring, in accordance with Condition 7.7, the delivery or transfer into the relevant Capital Securityholder's name (or as it may direct) of a *pro rata* share of the Exchange Property on the relevant Settlement Date.
- (b) Notwithstanding the provisions of Condition 7.1(a) above, the Issuer shall have the option by delivering a Cash Settlement Notice no later than the third Trading Day after the Exercise Date, in lieu of its obligation to procure the delivery or transfer of the relevant *pro rata* share of the Exchange Property on the relevant Settlement Date, to make a payment on the relevant Settlement Date to the relevant Capital Securityholder of a sum in cash (in Hungarian Forint or such other currency as may be relevant to the trading of the Shares or other Relevant



Securities) equal to the Cash Value of the Shares or other Relevant Securities comprised in such *pro rata* share of the Exchange Property as at the Exercise Date, plus an amount of any cash included in the relevant *pro rata* share of the Exchange Property on the relevant Exercise Date, in such currency as such cash is included in the Exchange Property on the Exchange Date. The Issuer may exercise its right under this Condition 7.1(b) in respect of the relevant *pro rata* share of the Exchange Property in whole or in part and as often as it thinks fit.

## 7.2 Exchange Period

Exchange Rights shall be exercisable by the Capital Securityholders at any time, subject to any applicable fiscal or other laws and regulations and save as provided in this Condition 7 (*Exchange Right*), in Condition 8, (*Exchange Property*) and Condition 9 (*General Offers*) on and after 20 March 2011 and up to the close of business (at the place where the Capital Security is deposited for exchange) on 13 March 2016, and, prior to 20 March 2011, at such times as permitted pursuant to Condition 10.3 (*Redemption on Illegality*) or Condition 10.4 (*Redemption or Adjustment upon a Change of Control*), (such period being called the “**Exchange Period**”).

The Exchange Right in respect of any Capital Security in respect of which any condition required for exchange has not been satisfied by the relevant Capital Securityholder by the end of the eighth calendar day prior to any date for redemption thereof pursuant to Condition 10 (*Redemption*) shall, save as provided below, thereupon terminate.

Without prejudice to any other rights of a Capital Securityholder, upon the occurrence of any Event of Default, the Exchange Right in respect of any Capital Security becoming immediately due and repayable as a result of such Event of Default and in respect of which any conditions required for exchange have not been satisfied by the relevant Capital Securityholder by the end of the twenty-first day (the “**Expiry Date**”) following that day upon which notice (specifying the Expiry Date) is given to the Capital Securityholders pursuant to Condition 16 (*Notices*) by the Issuer or the Trustee specifying that the Capital Securities have become immediately due and repayable pursuant to such Event of Default shall, save as provided below, thereupon terminate.

## 7.3 Exchange Notices

To exercise the Exchange Right, a Capital Securityholder must deliver each relevant Capital Security to a Paying, Transfer and Exchange Agent on any Exchange Business Day during the Exchange Period, together with a duly completed and signed Exchange Notice and any payment in respect of Exchange Expenses. The relevant Paying, Transfer and Exchange Agent shall deliver a copy of the Exchange Notice to the Issuer, the Escrow Agent, the Trustee and, if appropriate, the GDR Depositary as soon as practicable and in any event by no later than the close of normal business hours at the specified office of the relevant Paying, Transfer and Exchange Agent on the next Exchange Business Day following the date on which the relevant Exchange Notice is received by the Paying, Transfer and Exchange Agent.

Copies of uncompleted Exchange Notices may be obtained from the specified office of any Paying, Transfer and Exchange Agent (including the Paying, Transfer and Exchange Agent in Luxembourg).

Each Exchange Notice must:

- (i) specify the name and address of the Capital Securityholder or Accountholder;
- (ii) specify the number of Capital Securities being exchanged;
- (iii) contain a representation and warranty from the relevant Capital Securityholder or, as applicable, Accountholder to the effect that the Capital Securities to which the Exchange Notice relates are free from all liens, charges, encumbrances and other third party rights;
- (iv) specify the securities account to be credited with the Shares and/or other Relevant Securities or other assets comprising or comprised in the relevant *pro rata* share of the Exchange Property, such account to be in such jurisdiction and with such securities broker and/or custodian so as to be capable of being credited with such Shares, other Relevant Securities or assets;
- (v) where applicable, specify the number(s) and account name(s) and relevant bank address(es) of the relevant currency account(s) to which any amounts payable in cash to such Capital

Securityholder are to be credited, or the relevant details of the Capital Securityholder's or the relevant intermediary's Euroclear and/or Clearstream account capable of being credited with the relevant currency;

- (vi) authorise the production of the Exchange Notice in any applicable administrative or legal proceedings, all as provided in the Agency Agreement;
- (vii) include details of the relevant tax or other authorities to which the Issuer must pay monies received in settlement of Exchange Expenses payable pursuant to Condition 7.4; and
- (viii) include a certification that the relevant Capital Securityholder is outside the United States and all certifications and other documents necessary to comply with the requirements of the Stock Exchange and any other applicable laws or regulations,

all as provided in the Agency Agreement.

An Exchange Notice once delivered to a Paying, Transfer and Exchange Agent shall be irrevocable and may not be withdrawn without the consent in writing of the Issuer. A Capital Securityholder may not transfer any Capital Security which is the subject of an Exchange Notice following delivery of such Exchange Notice to a Paying, Transfer and Exchange Agent. An Exchange Notice shall only be valid to the extent that the relevant Paying, Transfer and Exchange Agent has not received conflicting prior instructions in respect of any Capital Security that is the subject of the Exchange Notice.

Failure to deliver properly and completely an Exchange Notice may result in such notice being treated as null and void. Any determination as to whether such notice has been properly and completely delivered as provided above shall be made by the relevant Paying and Exchange Agent and shall be conclusive and binding on the Issuer and the relevant Capital Securityholder and the Trustee.

For the purposes of this Condition 7.3 “**Exchange Business Day**” shall mean a day on which commercial banks are open for business in Jersey, Budapest and in the city in which the specified office of the Registrar or the relevant Paying, Transfer and Exchange Agent is located.

#### **7.4 Stamp and other duties and payments**

Payment of all Exchange Expenses will be for the account of the Capital Securityholder. A Capital Securityholder exercising Exchange Rights must pay to the Issuer (or to such person as the Issuer may direct) any Exchange Expenses before delivery of such Capital Securityholder's *pro rata* share of the Exchange Property will be made. Each Capital Securityholder must provide the Issuer with details of the relevant tax or other authorities to which the Issuer must pay monies received in settlement of Exchange Expenses payable pursuant to this Condition 7.4. Neither the Issuer nor the relevant Paying, Transfer and Exchange Agents are under any obligation to determine whether a Capital Securityholder is liable to pay any Exchange Expenses. The Issuer shall not be concerned with, nor shall it be obliged or required to enquire into the sufficiency of any amount paid to it for this purpose.

#### **7.5 Exercise Date**

Subject as provided in these Conditions, exchange of Capital Securities shall be deemed to take place at 12 noon (London time) on the relevant Exercise Date.

#### **7.6 Delivery of Exchange Property**

The Issuer shall use all reasonable endeavours to procure that (i) forms of transfer and share certificates (if certificates for the Shares and/or other Relevant Securities are then generally being issued) together with all other documents of title and evidence of ownership and all other documents necessary to transfer the Shares and/or other Relevant Securities to be delivered or transferred on exchange into such name as the Capital Securityholder shall direct, will be dispatched by mail, free of charge (but uninsured and at the risk of the person entitled thereto) to such address, other than an address in the United States and otherwise subject to applicable securities laws, as the Capital Securityholder may request (as specified in the relevant Exchange Notice) and/or (ii) such documents of title and evidence of ownership of any other Exchange Property to which any Capital Securityholder shall become entitled in consequence of exercising the Exchange Right shall be issued and so dispatched and/or (iii) in the case of the payment of any cash sum payable to a Capital Securityholder pursuant to these Conditions (other than any payment(s) pursuant to the second paragraph below which will be made on the date(s) specified therein), the requisite amount of cash is paid to the account of the

Capital Securityholder specified in the relevant Exchange Notice, in each case on the relevant Settlement Date, save that, in relation to (i) or (ii) above if, due to a Settlement Disruption, such delivery or despatch cannot be made on the relevant Settlement Date, such delivery or despatch shall be made as soon as possible thereafter.

Notwithstanding the above, if the Exchange Property has changed in whole or in part as a result of acceptance of an Offer (as described in Condition 9 (*General Offers*)) for the Shares and/or other Relevant Securities or as a result of the compulsory acquisition of the Shares and/or other Relevant Securities on or before the Settlement Date, in each case as provided in Condition 9 (*General Offers*), then the time for such delivery shall be the relevant Settlement Date or, if later, the day falling five Business Days after the date on which the consideration is delivered under the terms of the Offer or, as the case may be, the day falling five Business Days following the date on which the consideration pursuant to such compulsory acquisition is delivered to the persons entitled thereto.

If, at any time when the transfer or delivery of any Exchange Property (other than cash) is required, such transfer or delivery would be unlawful under the laws of any applicable jurisdiction or contrary to any official declaration, order, directive or regulation in any applicable jurisdiction, the Issuer will sell the relevant Exchange Property and redeem the relevant Capital Securities at a price, calculated by the Calculation Agent, equal to the *pro rata* share of the aggregate net proceeds of sale of such Exchange Property plus (i) an amount equal to the amount of any cash included in the relevant *pro rata* share of the Exchange Property and (ii) any amount otherwise payable by the Issuer under Condition 7.7. The Issuer will further procure that such redemption moneys are paid to the relevant Capital Securityholder (in Hungarian Forint or such other currency relevant to the sale of the relevant Exchange Property or the relevant cash included in the Exchange Property), not later than 10 calendar days after the relevant Settlement Date and otherwise in accordance with directions given by the relevant Capital Securityholder as provided in the relevant Exchange Notice.

#### **7.7 Right to Interest/Dividends**

- (a) Subject as provided herein, no payment shall be made upon exercise of Exchange Rights for interest accrued or any Deferred Amount on any Capital Securities in respect of which the relevant Exchange Rights are being exercised from and including the Interest Payment Date immediately preceding the Exercise Date.
- (b) Subject as provided herein, Exchange Property delivered or transferred on exercise of Exchange Rights shall not include any dividends or income thereon or other distributions or rights in respect thereof declared, paid or made (1) by reference to a record date prior to the relevant Exercise Date or (2) in the case of the Shares or other listed Relevant Securities, by reference to a date on which the listed Shares and/or other listed Relevant Securities trade “ex rights” in relation thereto and which date is prior to the relevant Exercise Date.

#### **7.8 Fractions arising on Exchange**

No fraction of a Share or any other Relevant Security or cash value thereof or any other property comprised in the Exchange Property which is not divisible shall be delivered to any Capital Securityholder on exercise of Exchange Rights. If any fraction arises on exercise of the Exchange Rights the number of relevant Shares or any other Relevant Security or any other property comprised in the Exchange Property shall be rounded down to the nearest whole Share or any other Relevant Security or any other property comprised in the Exchange Property. Upon exercise of Exchange Rights, Capital Securityholders shall not be entitled to any cash comprised in the Exchange Property as at the Exercise Date that is pending reinvestment in accordance with these Conditions.

#### **7.9 Exchange Agents**

Under the Agency Agreement, the Issuer has initially appointed as exchange agents, the Principal Paying, Transfer and Exchange Agent and the Paying, Transfer and Exchange Agent(s). The Issuer reserves the right, with the prior written approval of the Trustee, at any time to vary or terminate the appointment of any Paying, Transfer and Exchange Agent and to appoint additional or other Paying, Transfer and Exchange Agent, provided that it will at all times maintain Paying, Transfer and Exchange Agents having a specified office in a major European city approved by the Trustee and in Luxembourg. Notice of any such removal or appointment or of any change of the specified office of any Paying, Transfer and Exchange Agent will be given to the Capital Securityholders by the Issuer in accordance with Condition 16 (*Notices*) not more than 45 nor less than 30 days prior to such removal

or appointment or change taking effect, save in the case of insolvency of the relevant Paying, Transfer and Exchange Agent when any such removal or appointment shall take effect immediately and notice thereof shall be given to the Capital Securityholders by the Issuer in accordance with Condition 16 (*Notices*) as soon as possible thereafter.

## **8. EXCHANGE PROPERTY**

### **8.1 Initial Exchange Property**

The Exchange Property initially comprises 6,007,479 Shares which are beneficially owned by the Issuer (subject to the terms of the Escrow Agreement, pursuant to which the Shares are held on behalf of the Issuer by the Escrow Agent). On exercise of Exchange Rights, Capital Securityholders shall be entitled, subject to the provisions of Condition 7 (*Exchange*), to have their Capital Securities exchanged by means of the procurement by the Issuer of the delivery or transfer to or to the order of each relevant Capital Securityholder of a *pro rata* share of the Exchange Property as of the Exercise Date (all as more particularly described in Condition 7.1).

If the Issuer shall in accordance with this Condition 8 reinvest any proceeds resulting from the sale of any rights or securities into Shares and/or other Relevant Securities (which shall be Listed Securities), there shall be deducted from such proceeds an amount equal to any stamp, transfer, registration or similar duties payable by or on behalf of the Issuer and any expenses incurred by the Issuer in connection with the sale of the relevant rights or securities and such amount (if any) as the Issuer shall in good faith determine to be necessary to indemnify it in respect of any liability to taxation of the Issuer arising therefrom.

### **8.2 Income, etc. arising on the Exchange Property**

Any dividend (which, for the avoidance of doubt, shall include interim or final ordinary cash dividends paid out of the profits for the year or other period in respect of which such dividends are paid), other income and other benefits and rights derived from the Exchange Property (other than any benefits and rights falling within the provisions of Conditions 8.5 and 8.6 which will be dealt with in accordance with the provisions of such Conditions) and received by the Issuer on or prior to 20 March 2016 (if not in Euro, converted into Euro in such manner and at such time and at such rates as the Issuer shall consider appropriate) shall (net of an amount in respect of applicable withholding tax (if any) and after deduction of reasonable costs of the Issuer in connection with such distribution, including any cost of conversion into Euro) be distributed by the Issuer to the Capital Securityholders *pro rata* in accordance with the relevant share of the Exchange Property attributable to the relevant Capital Securityholder during the 5 Trading Days immediately following receipt of such dividend or other income, benefits or rights. Any dividend or other income, benefits and rights derived from the Exchange Property and received by the Issuer after 20 March 2016 shall be reinvested by the Issuer, subject to a deduction in respect of the costs of such reinvestment, into Shares and/or other Relevant Securities (which shall be Listed Securities) during the 5 Trading Days immediately following receipt of such dividend or other income, benefits or rights, by the Issuer or by an agent on behalf of the Issuer making open market purchases.

### **8.3 Voting rights in respect of the Exchange Property**

None of the Capital Securityholders or the Trustee (on behalf of the Capital Securityholders) shall be entitled to exercise the voting rights attaching to the Shares and other Relevant Securities on any matters submitted to the shareholders of MOL or holders of any other Relevant Securities.

*In exercising any voting rights attaching to the Shares and/or other Relevant Securities, it is possible that the Issuer may act in a manner which is contrary to the best interests of the Capital Securityholders.* Capital Securityholders are referred to the Issuer's constitutional documents describing, inter alia, certain provisions relating to the exercise by the Issuer of its voting rights in relation to the Shares and/or other Relevant Securities. Under the escrow arrangements entered into between the Issuer and MOL described on page 64 of the Prospectus the Escrow Agent is required to exercise the voting rights in relation to the Shares and/or other Relevant Securities in accordance with the Issuer's constitutional documents.

### **8.4 Sub-division, Consolidation and Redenomination**

If the Shares and/or other Relevant Securities shall be sub-divided or consolidated or in any other manner have their par value changed ("**Sub-division, Consolidation or Redenomination**") then the securities resulting from such Sub-division, Consolidation or Redenomination, so far as attributable to

the Exchange Property, shall be included in the Exchange Property; provided that if any such resulting securities are Unlisted Securities, the Issuer shall, during the 5 Trading Days immediately following such Sub-division, Consolidation and Redenomination, (either itself or by appointing an agent for this purpose, who may be the GDR Depositary) sell such Unlisted Securities on an arms' length basis in good faith and, after deducting the costs of such sale, reinvest the proceeds into Shares and/or other Relevant Securities (which shall be Listed Securities). The expressions "Shares" and "Relevant Securities" as used herein shall, after a Sub-division, Consolidation or Redenomination thereof, refer to such securities resulting from such Sub-division, Consolidation or Redenomination.

## 8.5 Rights Issues

If a Rights Issue shall be offered to the Issuer by virtue of being a holder of Shares and/or other Relevant Securities, then the Issuer shall: (i) in the case of receipt of rights relating to securities that are listed on a stock exchange, on an arm's length basis in good faith procure the sale of sufficient rights to enable the whole of the balance of such rights to be taken up and procure the application of the net proceeds of sale (after deduction of the amounts referred to below) in the taking up of such rights, and (ii) in the case of receipt of rights relating to securities that are not listed on a stock exchange, on an arm's length basis in good faith procure the sale of such rights and apply the proceeds, after deduction of the costs of such sale, in purchasing additional Shares and/or other Relevant Securities (which shall be Listed Securities) and in either case shall add such additional Shares and/or Relevant Securities and any excess proceeds of sale (converted, if necessary, into Euro at the fixing rate quoted by the Hungarian National Bank (provided, that if the Hungarian National Bank does not provide a fixing rate and/or in the case of any conversion that does not involve Hungarian Forint, at the spot buying rate of an Approved Investment Bank) for the relevant date) to the Exchange Property whereupon they shall become available for exchange in accordance with the provisions of Condition 7 (*Exchange*).

There shall be deducted from the proceeds of sale of the relevant rights an amount equal to any stamp, transfer, registration or similar duties payable by or on behalf of the Issuer and any expenses incurred by the Issuer in connection with the sale of the relevant rights and such amount (if any) as the Issuer shall in good faith determine to be necessary to indemnify it in respect of any liability to taxation of the Issuer arising therefrom.

## 8.6 Bonus Issues, Capital Distributions and Reorganisations

If any of the following events occur (each a "**Relevant Event**"):

- (i) shares or other securities being issued credited as fully paid by the issuer of Shares and/or Relevant Securities to the Issuer by virtue of being a holder of Shares and/or Relevant Securities by way of capitalisation of profits or reserves;
- (ii) any evidence of indebtedness, assets (including cash other than interim or final ordinary cash dividends paid out of the profits for the year or other period in respect of which such dividends are paid) or stock (other than by issue of Shares) being distributed by the issuer of Shares and/or Relevant Securities to the Issuer by virtue of being a holder of Shares and/or Relevant Securities (each a "**Capital Distribution**"); or
- (iii) pursuant to any scheme of arrangement, compromise, reorganisation, amalgamation, merger, demerger or reconstruction of any issuer or company (whether or not involving liquidation or dissolution) (and in particular, but not limited to, any demerger of any part of the business of MOL and any merger between MOL and any other issuer or company), any further Shares or other securities being issued or transferred to the Issuer by virtue of being a holder of Shares and/or Relevant Securities;

then the Issuer, or an agent on the Issuer's behalf, shall: (a) in the case of receipt of shares received in relation to the Relevant Event that are Listed Securities, add such securities to the Exchange Property and (b) in the case of receipt of shares or other equity securities, evidences of indebtedness or other assets, received in relation to the Relevant Event that are Unlisted Securities, procure the sale of the same on an arm's length basis in good faith apply the proceeds, after deduction of the costs of such sale, in purchasing additional Shares and/or Relevant Securities (which shall be Listed Securities) and shall add such additional Shares and/or Relevant Securities and any excess proceeds of sale (converted, if necessary, into Euro at the fixing rate quoted by the Hungarian National Bank (provided, that if the Hungarian National Bank does not provide a fixing rate and/or in the case of any conversion that does not involve Hungarian Forint, at the spot buying rate of an Approved Investment Bank) for the relevant date) to the Exchange Property whereupon they shall become available for exchange in accordance with the provisions of Condition 7 (*Exchange*).



## 8.7 Notice of Change in Exchange Property

The Issuer shall give notice to the Capital Securityholders, the Trustee, the Calculation Agent and the Principal Paying, Transfer and Exchange Agent in accordance with Condition 16 (*Notices*) containing details of any change in composition of the Exchange Property, as soon as reasonably practicable following such change. Copies of the notice will be available for inspection by Capital Securityholders at the specified offices of the Transfer, Paying and Exchange Agents.

## 8.8 Release from the Exchange Property

Upon actual delivery of Exchange Property (and/or, if applicable, payment of an amount in cash in lieu of the transfer of the *pro rata* share of the Exchange Property or part thereof as set out in Condition 7.1, 7.6 or 7.8) to the relevant Capital Securityholder following exercise of Exchange Rights or upon redemption of the Capital Securities for cash or otherwise or upon any purchase or cancellation of the Capital Securities, the *pro rata* share of the Exchange Property or the relevant part thereof attributable to each relevant Capital Security shall cease to be part of the Exchange Property and the Exchange Property shall be reduced accordingly.

## 8.9 Other Adjustments to the Exchange Property

If the Issuer determines that an adjustment should be made to the Exchange Property as a result of one or more events or circumstances not referred to above in Condition 8.4, 8.5 or 8.6 (even if the relevant event is or circumstances are specifically excluded from the operation of Condition 8.4, 8.5 or 8.6), the Issuer shall, at its own expense and acting reasonably, request an Approved Investment Bank to determine as soon as practicable what adjustment (if any) to the Exchange Property is fair and reasonable to take account thereof and the date on which such adjustment should take effect, and upon such determination such adjustment (if any) shall be made and shall take effect in accordance with such determination, provided that an adjustment shall only be made pursuant to this paragraph if the Approved Investment Bank is so requested to make such a determination in writing not more than 21 calendar days after the Issuer becomes aware of the occurrence of the relevant event or circumstance.

## 8.10 No Liability

The Trustee is not obliged to monitor whether any adjustment should be made under the foregoing provisions of this Condition 8 and shall assume that, until a determination is made by the Issuer to the contrary, no such adjustment should be made. Any adjustment made in accordance with the foregoing provisions of this Condition 8 shall, in the absence of manifest error, be conclusive and binding on the Issuer, the Trustee, the Calculation Agent, the Paying, Transfer and Exchange Agents and the Capital Securityholders. The Trustee, the Calculation Agent, the Paying, Transfer and Exchange Agents and the Issuer may rely absolutely, without further enquiry, on any determinations made by any Approved Investment Bank.

# 9. GENERAL OFFERS

In the event of an Offer for any Shares and/or other Relevant Securities which is a tender or merger-related offer recommended by the Management of the issuer of the Relevant Securities (a “**Recommended Offer**”), the Issuer shall accept such offer regardless of the effect of such action on the Capital Securityholders. In the event of an Offer for any Shares and/or other Relevant Securities which is not a tender or merger-related offer recommended by the management of the issuer of the Relevant Securities, the Issuer shall not be entitled to accept such offer regardless of the effect of such action on the Capital Securityholders.

If the Issuer accepts such Offer in accordance with this Condition 9 (*General Offers*) (or if the Shares and/or other Relevant Securities are subject to compulsory acquisition), then, depending on the type of Offer and with effect from the Final Date, the Exchange Property may consist, in whole or in part, of the Offer Consideration or the consideration received pursuant to such compulsory acquisition and the Capital Securities may, in certain circumstances, be partially or fully redeemed or repurchased, all as described in Condition 10.4.

Unless Condition 10.4 is applicable, if any such Offer Consideration or consideration received pursuant to such compulsory acquisition comprises Unlisted Securities, the Issuer shall, as soon as commercially practicable, sell such Unlisted Securities (either itself or by appointing an agent for this purpose, who may be the GDR Depositary) and, after deducting the costs of such sale, reinvest the proceeds into Shares and/or other Relevant Securities (which shall be Listed Securities).

The Exchange Rights shall be suspended from (i) the Specified Date until the acceptance of the relevant Offer is withdrawn or the relevant Offer lapses or becomes or is declared unconditional in all respects or (ii) the date a resolution is passed by the required majority in respect of any applicable scheme of arrangement, reorganisation, amalgamation, merger, demerger or reconstruction until the same is approved or rejected by the relevant judicial or other authorities.

*In accepting or rejecting any Offer or in voting on, exercising its rights in respect of, or otherwise participating in, any scheme of arrangement, reorganisation, amalgamation, compromise, merger, demerger or reconstruction, the Issuer is not obliged to take account of the interests of the Capital Securityholders and it is therefore possible that the Issuer may act in a manner which is contrary to the best interests of the Capital Securityholders.*

## **10. REDEMPTION**

### **10.1 No Fixed Redemption Date**

The Capital Securities are perpetual securities in respect of which there is no fixed redemption date and the Issuer shall (subject to the provisions of Condition 3 (*Status*) and without prejudice to the provisions of Condition 14 (*Events of Default*)) only have the right to repay them in accordance with the following provisions of this Condition 10 (*Redemption*).

### **10.2 Redemption at the Option of the Issuer**

On giving not less than 35 nor more than 90 days' notice to the Trustee, the Paying, Transfer and Exchange Agents and the Capital Securityholders in accordance with Condition 16 (*Notices*), the Issuer may, on 20 March 2016 or on any Interest Payment Date thereafter, redeem all, but not some only, of the Capital Securities for the time being outstanding at the Redemption Price, by making a payment of the amount representing the Redemption Price in cash, but subject to the Share Settlement Option as described in Condition 10.9.

### **10.3 Redemption on Illegality or Breach of Other Agreements**

If, (i) as a result of any change in the applicable laws or regulations, it becomes illegal for the Swap Agreement to continue in full force and effect or the Swap Agreement becomes void or voidable or the voting rights relating to the Shares are suspended, cancelled, or otherwise become non-exercisable (any such event, an “**Illegality**”), (ii) the Issuer is in breach of any agreement (other than the Swap Agreement) to which MOL and the Issuer are parties (an “**Issuer Default**”), (iii) the Share Trustee is in breach of the Magnolia Trust Deed, (iv) the Escrow Agent is in breach of the Escrow Agreement, or (v) any shareholder of the Issuer is in breach of any agreement to which MOL and the Issuer are parties, the Issuer shall have the right, on giving not less than 35 nor more than 90 days' notice to the Trustee, the Paying, Transfer and Exchange Agents and the Capital Securityholders in accordance with Condition 16 (*Notices*), to redeem the Capital Securities for an amount in Euro, calculated by the Calculation Agent, equal to the sum of (a) the Redemption Price; provided that this clause (a) shall be subject to the Share Settlement Option, plus (b) any Deferred Amounts plus (c) in the case of redemption upon an Illegality or Issuer Default only, the Make-Whole Payment (including any Make-Whole Payment determined previously pursuant to a Change of Control that has not already been satisfied by the Issuer).

The Capital Securities will become exchangeable, subject as provided below and to the procedural requirements of Condition 7 being satisfied, and otherwise subject to the provisions of Condition 5 and Condition 6 and provided that the Issuer has not exercised the Share Settlement Option, during the 30 calendar days preceding the redemption date specified in any redemption notice given pursuant to this Condition 10.3, provided that (i) such redemption date occurs prior to 20 March 2016, and (ii) where any condition required for exchange has not been satisfied by the relevant Capital Securityholder by the end of the eighth calendar day prior to any date for redemption thereof this Exchange Right shall thereupon terminate. The Issuer shall pay to any Capital Securityholder exercising Exchange Rights in accordance with this Condition 10.3 any Make-Whole Payment in respect of the principal amount of Capital Securities being exchanged that would otherwise have been payable upon redemption pursuant to this Condition 10.3.



*In the event that the Swap Agreement is terminated and the Issuer has received the relevant termination payment and/or the Exchange Property is released from the Escrow Agreement, and the Issuer is able to redeem the Capital Securities, it will effect such redemption. Upon a winding up, dissolution or liquidation of MOL, the Swap Agreement will automatically terminate. Upon such automatic termination, the Issuer will have a subordinated claim under the Swap Agreement for a liquidation preference expected to be equal to the principal amount of the Capital Securities (less the amount of any cash forming part of the Exchange Property and the proceeds of sale (if any) of any Relevant Securities forming part of the Exchange Property) together with accrued interest and will use any amounts received to discharge its obligations under Conditions 14 and 15.*

#### **10.4 Redemption or Adjustment upon a Change of Control**

##### **(a) Change of Control as a result of recommended offer**

###### **(i) Where 50 per cent. or less of the consideration consists of cash or unlisted securities**

If at any time while any of the Capital Securities remains outstanding, a Change of Control occurs as a result of a Recommended Offer for consideration the value of which received as a class by the holders of the Shares and/or other Relevant Securities is constituted by 50 per cent. or less of cash or Unlisted Securities the Issuer shall, as soon as commercially practicable, sell such Unlisted Securities (either itself or by appointing an agent for this purpose, who may be the GDR Depositary) and, after deducting the costs of such sale, reinvest the proceeds, together with the cash element of the consideration into Relevant Securities (which shall be Listed Securities) which will, from the time they are acquired by the Issuer, form part of the Exchange Property.

The Issuer shall notify the Capital Securityholders promptly upon effecting such reinvestment of (i) the occurrence of the Change of Control, and (ii) the changes to the Exchange Property including as a result of such Change of Control, in accordance with Condition 16 (*Notices*).

###### **(ii) Where more than 50 per cent. of the consideration consists of cash or unlisted securities**

If at any time prior to 20 March 2016 while any of the Capital Securities remains outstanding, a Change of Control occurs as a result of a Recommended Offer for a consideration the value of which received as a class by the holders of the Shares and/or other Relevant Securities is constituted by more than 50 per cent. of cash or Unlisted Securities (a “**Cash Change of Control**”), and the Issuer sells the Shares and/or other Relevant Securities pursuant to the provisions of Condition 9 (*General Offers*) then the Issuer shall, as soon as reasonably practicable sell the Unlisted Securities component, if any, of the consideration (either by itself or by appointing an agent for this purpose) (the aggregate of the cash so received and the cash proceeds of such sales together (if not in Euro, converted into Euro in such manner and at such time and at such rates as the Issuer shall consider appropriate), the “**Cash Proceeds**”) and, subject to the provisions of Condition 10.4 below, the Issuer shall, no later than the later of (i) the third Business Day following the thirtieth calendar day after the occurrence of the Cash Change of Control, and (ii) the third Business Day following the receipt by the Issuer of the consideration for the Recommended Offer and the realization by the Issuer of the Cash Proceeds (the “**First Notice Date**”), (A) give notice to the Trustee and the Capital Securityholders in accordance with Condition 16 (*Notices*) specifying a date for partial (or total, pursuant to this Condition, as the case may be) redemption not less than 35 nor more than 90 days following the date of such notice, (B) apply the Cash Proceeds *pro rata* to redeem the Capital Securities in part (or in full, pursuant to this Condition, as the case may be) on the date specified in such notice together with any accrued but unpaid interest thereon (a “**Cash Proceeds Redemption**”) and (C) in addition pay to the Capital Securityholders on the date specified in such notice the Make-Whole Payment in respect of the principal amount of the Capital Securities being redeemed (the “**Cash Make-Whole Payment**”). The amount of each Capital Security so redeemed will be calculated by the Calculation Agent as the lower of: (i) the Cash Proceeds expressed as a percentage of the value of the total consideration received pursuant to the Recommended Offer (such total consideration to be calculated as the sum of the Cash Proceeds plus the market value of the Listed Security consideration received valued on the basis of the VWAP of such Listed Securities during the period of ten consecutive Trading Days ending on the last Trading Day when such offer could have been accepted) multiplied by the principal amount of the Capital Security prior to such redemption and (ii) the amount of Cash Proceeds distributed per Capital Security.

The Cash Proceeds Redemption and/or the Cash Make-Whole Payment may be deferred by the Issuer until such time as the Capital Securities are redeemed in whole but not in part (respectively a “**Deferred Cash Proceeds Redemption**” and/or a “**Deferred Cash Make-Whole Payment**”). Any such Deferred Cash Proceeds Redemption and/or Deferred Cash Make-Whole Payment and will bear interest on the amount so deferred, at the then current rate of interest on the Capital Securities, from and including the Cash Proceeds Redemption Date and/or the Cash Make-Whole Payment Date on which it would become due and payable, up to but excluding the date on which the Cash Proceeds Redemption is made and/or the Make-Whole Payment is paid. Any Deferred Cash Proceeds Redemption and/or Deferred Cash Make-Whole Payment shall only be satisfied in cash and shall not be subject to the Share Settlement Option. If the Cash Proceeds Redemption is deferred, the Cash Proceeds shall comprise Exchange Property.

Any listed securities received as Offer Consideration will become part of the Exchange Property.

Furthermore, the Issuer, on giving not less than 35 nor more than 90 days’ notice to the Trustee and the Capital Securityholders in accordance with Condition 16 (*Notices*), may redeem any remaining outstanding principal amount of the Capital Securities at a redemption price per Capital Security, calculated by the Calculation Agent, equal to (i) the greater of (a) the principal amount outstanding in respect of such Capital Security at such time and (b) the sum of the market value of the consideration constituted by Listed Securities the holder of such Capital Security would have received had it exchanged its Capital Security and accepted the Offer, valued on the basis of the VWAP of such Listed Securities during the period of ten consecutive Trading Days ending on the last Trading Day when such offer could have been accepted plus the amount of any cash, if any, (other than the Cash Proceeds) comprised in the Exchange Property (the “**Recommended Cash Change of Control Redemption Price**”); provided, that this clause (i) shall be subject to the Share Settlement Option, plus (ii) any accrued but unpaid interest in respect of such Capital Security plus (iii) any Deferred Amount in respect of such Capital Security plus (iv) the Make-Whole Payment in respect of the further proportion of the principal amount of each Capital Security being redeemed.

The notice in respect of the redemption of such remaining outstanding principal amount shall be given on or within 5 calendar days following the First Notice Date (the “**Cash Change of Control Notice Period**”). For the avoidance of doubt, if no notice of redemption is given pursuant to the foregoing paragraph during the Cash Change of Control Notice Period, no Make-Whole Payment will be payable on Capital Securities subsequently redeemed.

Whether a Cash Change of Control occurs during a Fixed Interest Period or during a Floating Interest Period, commencing from the first day of the next Interest Period after the expiry of the Cash Change of Control Notice Period, interest will accrue on the principal amount outstanding of the Capital Securities at a Floating Interest Rate equal to the aggregate of the Change of Control Margin and the relevant Floating Interest Rate (calculated in accordance with Condition 5.2), for each Interest Period thereafter.

The Capital Securities will become exchangeable, subject as provided below and to the procedural requirements of Condition 7 being satisfied, and otherwise subject to the provisions of Condition 5 and Condition 6 and provided that the Issuer has not exercised the Share Settlement Option, during the 30 calendar days preceding the redemption date specified in any notice given pursuant to the foregoing paragraph provided that (i) such redemption date occurs prior to 20 March 2016 and (ii) where any condition required for exchange has not been satisfied by the relevant Capital Securityholder by the end of the eighth calendar day prior to any date for redemption thereof this Exchange Right shall thereupon terminate. The Issuer shall pay to any Capital Securityholder exercising Exchange Rights in accordance with this Condition 10.4(a)(ii) the Make-Whole Payment in respect of the principal amount of Capital Securities being exchanged.

**(b) Change of Control as a result of Non-Recommended Change of Control**

If at any time prior to 20 March 2016 while any of the Capital Securities remains outstanding, a Change of Control occurs as a result of an Offer and such Offer is not a Recommended Offer (a “**Non-Recommended Change of Control**”) then, subject to the provisions of Condition 10.4 below, the Issuer may, on giving not less than 35 nor more than 90 days’ notice to the Trustee, Paying, Transfer and Exchange Agents and the Capital

Securityholders in accordance with Condition 16 (*Notices*), redeem the Capital Securities, in whole but not in part, at the Change of Control Price of the Capital Securities together with any accrued but unpaid interest (including any portion of a Deferred Amount attributable to such Capital Security) and the Make-Whole Payment. Such notice shall state, *inter alia*, the date the Non-Recommended Change of Control occurred and the date on and the price at which the redemption of the Capital Securities will take place. Such notice shall be given no later than 30 calendar days following the occurrence of the Non-Recommended Change of Control (the “**Non-Recommended Change of Control Notice Period**”).

If a Non-Recommended Change of Control occurs prior to 20 March 2016 and the Issuer does not give notice to redeem the Capital Securities within the Non-Recommended Change of Control Notice Period, the principal amount of each Capital Security shall be increased (for all purposes under the Conditions including interest and redemption) upon the first day of the next Interest Period after the expiry of the Non-Recommended Change of Control Notice Period to an amount equal to the Change of Control Price.

*It should be noted that, since the Exchange Property will be left unchanged following a Non-Recommended Change of Control, the portion of Exchange Property attributable to each Capital Security will be reduced pro-rata to such increase in principal amount.*

Subject to (c) below, the Make-Whole Payment will become due on the third Business Day following the thirtieth calendar day after the occurrence of the Non-Recommended Change of Control.

Whether a Non-Recommended Change of Control occurs during a Fixed Interest Period or during a Floating Interest Period, commencing from the first day of the Interest Period after the expiry of the Non-Recommended Change of Control Notice Period, interest will accrue on the principal amount outstanding of the Capital Securities at a Floating Interest Rate equal to the aggregate of the Change of Control Margin and the relevant Floating Interest Rate (calculated in accordance with Condition 5.2), for each Interest Period thereafter.

The Capital Securities will become exchangeable, subject as provided below and to the procedural requirements of Condition 7 being satisfied, and otherwise subject to the provisions of Condition 5 and Condition 6, during the 30 calendar days preceding the redemption date specified in any notice given pursuant to this Condition 10.4(b) provided that (i) such redemption date occurs prior to 20 March 2016 and (ii) where any condition required for exchange has not been satisfied by the relevant Capital Securityholder by the end of the eighth calendar day prior to any date for redemption thereof this Exchange Right shall thereupon terminate. The Issuer shall pay to any Capital Securityholder exercising Exchange Rights in accordance with this Condition 10.4(b) the Make-Whole Payment in respect of the principal amount of Capital Securities being exchanged.

**(c) Make-Whole Payment**

The Make-Whole Payment may be deferred until such time as the Capital Securities are redeemed (a “**Deferred Make-Whole Payment**”). Any such Deferred Make-Whole Payment will bear interest on the amount so deferred, at the then current rate of interest on the Capital Securities, from and including the Make-Whole Payment Date on which it would become due and payable, up to but excluding the date on which the Make-Whole Payment is paid.

The Make-Whole Payment may only be paid in cash.

*Under the Swap Agreement, if there occurs a Cash Change of Control or a Non-Recommended Change of Control, MOL will pay an additional payment to the Issuer which is expected to be equal to the Make-Whole Payment.*

**10.5 Limitation on Redemption Right**

The Issuer will satisfy any Deferred Amounts that may exist in relation to the Capital Securities prior to effecting any early redemption under these Conditions.

**10.6 Purchase**

The Issuer or any of the Issuer’s subsidiaries or affiliates may at any time purchase the Capital Securities in the open market or otherwise at any price and such Capital Securities may be retained for the account of the relevant purchaser or resold or otherwise dealt with at its discretion. Any purchase

by tender shall be made available to all Capital Securityholders alike. The Capital Securities so purchased, while held by or on behalf of the Issuer or any such subsidiary, shall not entitle the holder to vote at any meetings of the Capital Securityholders and shall not be deemed to be outstanding for the purposes of calculating quorums at meetings of the Capital Securityholders or for the purposes of Condition 19 (*Meetings of Capital Securityholders, Modification, Waiver and Authorisation*).

### 10.7 Cancellation

All Capital Securities redeemed or exchanged will be cancelled forthwith and may not be reissued or resold. All Capital Securities purchased by or on behalf of the Issuer or any of the Issuer's subsidiaries or affiliates may be surrendered for cancellation, by surrendering each such Capital Security to the Principal Paying, Transfer or Exchange Agent and, if so surrendered, shall be cancelled forthwith (and may not be reissued or resold) and the obligations of the Issuer in respect of any such Capital Securities shall be discharged.

### 10.8 Multiple Notices

If more than one notice of redemption is given pursuant to this Condition 10 (*Redemption*), the first of such notices to be given shall prevail.

### 10.9 Share Settlement Option

Subject to the applicable laws and regulations, in the event of a redemption pursuant to Conditions 10.2, 10.3 or 10.4(a)(ii), the Issuer may elect (the "**Share Settlement Option**") to redeem the Capital Securities through:

- (a) (i) in the case of a redemption on or before 20 March 2016, the delivery of a number of Shares and/or other Relevant Securities that in aggregate represent the *pro rata* share of the Exchange Property attributable to the relevant Capital Securityholder in effect on the Selection Date, or (ii) in the case of a redemption after 20 March 2016, the delivery of a number of Shares and/or Relevant Securities at the Issuer's discretion (provided that, for the avoidance of doubt, such Shares and/or other Relevant Securities shall in either case be Listed Securities); and
- (b) a payment (the "**Additional Cash Amount**") in respect of each Capital Security of an amount of cash equal to the difference, if positive, between (A) the Recommended Cash Change of Control Redemption Price (in the case of a redemption pursuant to Condition 10.4(a)(ii)) or the Redemption Price (in the case of any other redemption) and (B) the Redemption Market Value of the relevant *pro rata* share of the Exchange Property or the Redemption Market Value of the number of Shares and/or Relevant Securities delivered, as the case may be.

The Issuer may exercise its Share Settlement Option by giving notice thereof to the Trustee and the Principal Paying, Transfer and Exchange Agent no later than 10.00 a.m. (London time) and to the Capital Securityholders in accordance with Condition 16 no later than 5.00 p.m. (London time) on a Selection Date. In the absence of any such notification to the Principal Paying, Transfer and Exchange Agent, the Issuer shall be deemed not to have exercised its Share Settlement Option and shall be required to redeem the Capital Securities on the Redemption Date in cash. The decision to exercise the Share Settlement Option or to redeem the Capital Securities in cash shall apply in the same manner to all of the Capital Securities being redeemed on such Redemption Date.

The Principal Paying, Transfer and Exchange Agent shall notify the Paying, Transfer and Exchange Agents and the Calculation Agent by no later than 12.00 noon (London time) on the Selection Date of the Issuer's decision whether to exercise the Share Settlement Option.

In the event that the Issuer decides to exercise the Share Settlement Option:

- (i) In the case of a redemption on or before 20 March 2016, the Calculation Agent shall determine the aggregate number of Shares or other Relevant Securities comprising the relevant proportion of the Exchange Property to be delivered to each Capital Securityholder in exchange for the Capital Securities held by it on the Selection Date and shall notify the determination to the Issuer, the Trustee and the Paying, Transfer and Exchange Agents no later than 14.00 hours (London time) on the Selection Date.
- (ii) On the fifth Trading Day following the Selection Date, the Issuer shall cause the number of Shares or other Relevant Securities determined in accordance with clause (i) above (rounded down, in the event such number is not a whole number, to the next lowest whole number) to

be transferred to the relevant intermediary that maintains the account of the relevant Capital Securityholder for credit to the security account of such Capital Securityholder (or as such Capital Security holder may direct in the Share Settlement Notice). No fraction of a Share or any other Relevant Security or any other property comprised in the Exchange Property which is not divisible shall be delivered to any Capital Securityholder on exercise of Exchange Rights.

- (iii) The Calculation Agent shall inform the Issuer and the Principal Paying, Transfer and Exchange Agent by no later than the fourth Trading Day prior to the Redemption Date, of the Additional Cash Amount and the amount payable in respect of any fractional Share or other Relevant Security pursuant to clause (ii) above.
- (iv) At the later of the Redemption Date and the fourth Business Day after the notification given pursuant to (iii) above, the Issuer shall cause to be paid to the relevant intermediary that maintains the account of the relevant Capital Securityholder (or as such Capital Securityholder may direct in the Share Settlement Notice) for credit to the cash account of such Capital Securityholder an amount of cash (in Euro) equal to the sum of the Additional Cash Amount due with respect to the Capital Securities held by such Capital Securityholder that have been redeemed and the amount payable in respect of any fractional Share or other Relevant Security pursuant to clause (ii) above.

If, in the reasonable opinion of the Issuer, it is not possible to effect the relevant transfer of Shares or other Relevant Securities on the fifth Trading Day following the Selection Date by reason of a Settlement Disruption, the Issuer will cause the relevant transfer of Shares or other Relevant Securities to be made on the next succeeding Trading Day on which, in the reasonable opinion of the Issuer, there is no Settlement Disruption. However, if there is still a Settlement Disruption on what would be, but for such Settlement Disruption, the eighth Trading Day following the Selection Date, then the Issuer shall be deemed not to have exercised its Share Settlement Option, and shall redeem the Capital Securities through the payment of the Redemption Price in cash on the Redemption Date.

- (v) In order to obtain delivery of the relevant Shares, the relevant Capital Securityholder must deliver to any Paying, Transfer and Exchange Agent by the Notice Cut-off Date, a Share Settlement Notice, a copy of which may be obtained from the specified office of any Paying, Transfer and Exchange Agent, together in each case with the relevant Capital Securities.
- (vi) Subject as provided herein, the relevant Shares or other Relevant Securities will be delivered in accordance with the instructions given in the Share Settlement Notice and the Additional Cash Amount (if any) will be paid in accordance with Condition 11 (*Payments*) or as specified in the Share Settlement Notice, in each case on the Redemption Date of such Capital Securities, provided the Share Settlement Notice and the relevant Capital Securities are delivered no later than the Notice Cut-off Date.
- (vii) If the Share Settlement Notice and relevant Capital Securities are not delivered to a Paying, Transfer and Exchange Agent on or before the Notice Cut-off Date, then the Additional Cash Amount (if any) will be paid in accordance with Condition 11 (*Payments*) on the due date for redemption of such Capital Securities. All of such Shares or other Relevant Securities shall be sold by, or on behalf of, the Issuer as soon as practicable, and (subject to any necessary consents being obtained and to the deduction by the Issuer of any amount which it determines to be payable in respect of its liability to taxation and the payment of any capital, stamp, issue or registration duties (if any) and any costs incurred by the Issuer in connection with the allotment and sale thereof) the net proceeds of sale shall, if not in Euro, be converted into Euro in such manner and at such time and at such rates as the Issuer shall consider appropriate and shall be held by the Issuer and distributed rateably to the holders of the relevant Capital Securities in accordance with Condition 11 (*Payments*). The amount of such net proceeds of sale payable to a holder pursuant to this sub-paragraph (vii) plus the Additional Cash Amount (if any) shall be treated for all purposes as the full amount due from the Issuer in respect of the relevant Capital Securities.
- (viii) Any Share Settlement Notice shall be irrevocable. Failure properly to complete and deliver a Share Settlement Notice and deliver the relevant Capital Securities may result in such notice being treated as null and void and the Issuer shall be entitled to effect settlement in accordance with sub-paragraph (vii) above. Any determination as to whether such notice has



been properly completed and delivered as provided in the Conditions shall be made by the Issuer in its sole and absolute discretion and shall be conclusive and binding on the relevant Capital Securityholders.

- (ix) Shares to be delivered pursuant to this Condition 10.9 shall be deemed to be registered as of the due date for redemption of the relevant Capital Security.
- (x) Payment of all Exchange Expenses will be for the account of the Capital Securityholder. A Capital Securityholder exercising Exchange Rights must pay to the Issuer (or to such person as the Issuer may direct) any Exchange Expenses before delivery of such Capital Securityholder's *pro rata* share of the Exchange Property will be made. Each Capital Securityholder must provide the Issuer with details of the relevant tax or other authorities to which the Issuer must pay monies received in settlement of Exchange Expenses payable pursuant to this Condition 7.4. Neither the Issuer nor the relevant Paying, Transfer and Exchange Agents are under any obligation to determine whether a Capital Securityholder is liable to pay any Exchange Expenses. The Issuer shall not be concerned with, nor shall it be obliged or required to enquire into the sufficiency of any amount paid to it for this purpose.

It is the Issuer's intention to use the Share Settlement Option. However, MOL may exercise a call option on the Exchange Property under certain circumstances. If this call option is exercised, the Issuer will not use the Share Settlement Option.

*It is MOL's intention not to exercise the optional termination payment under the Swap Agreement and hence not to cause the Issuer to redeem the Capital Securities except to the extent that MOL has raised funds within a preceding period of 12 months of such redemption or would seek to raise funds in the period of 6 months following such redemption, by selling either (i) ordinary shares, (ii) preferred shares or (iii) any securities ranking no higher than pari passu with the Swap Agreement and, if not junior to the Swap Agreement, with similar terms and conditions with particular regard to: subordination, deferability, replacement and maturity, in an aggregate principal amount equal to or greater than the aggregate principal amount of the Capital Securities to be redeemed. In the event that the Capital Securityholders elect for an exchange of the Capital Securities into Shares and/or Relevant Securities and upon such exchange MOL elects to exercise its call option and henceforth the Issuer elects to exercise its cash settlement option (in accordance with condition 7.1(b) as described herein), it is MOL's intention to raise funds within a time period of 12 months following such exchange by selling either (i) ordinary shares, (ii) preferred shares or (iii) any security ranking no higher than pari passu with the Swap Agreement and, if not junior to the Swap Agreement, with similar terms and conditions with particular regard to: subordination, deferability, replacement and maturity, in an aggregate principal amount equal to or greater than the aggregate principal amount of the Capital Securities so elected for exchange.*

In relation to any matter required by these Conditions or the Trust Deed to be determined by an Approved Investment Bank, the Issuer shall promptly appoint an Approved Investment Bank with the prior written approval of the Trustee. If when any matter is required by these Conditions or the Trust Deed to be determined by an Approved Investment Bank, the Issuer shall within a reasonable time fail to appoint an Approved Investment Bank the Trustee shall be entitled (but not obliged) to make such appointment without liability therefore. In either case, any such appointment shall be for the account of the Issuer. Unless specifically referred to herein, neither the Trustee nor the Calculation Agent shall be responsible for any of the determinations or calculations referred to in this Condition 10.

## **11. PAYMENTS**

### **11.1 Payments in respect of Capital Securities**

For the purposes of this Condition, a Capital Securityholder's registered account means the Euro, U.S. dollar and/or any other relevant currency account(s) maintained by or on behalf of it with a bank or banks that processes payments in Euro, U.S. dollars and/or any other relevant currency, respectively, details of which, in the case of Euro, appear on the register of Capital Securityholders at the close of business, in the case of principal and premium (if any) and interest due otherwise than on an Interest Payment Date, on the second Payment Day (as defined below) before the due date for payment and, in the case of interest due on an Interest Payment Date, on the relevant record date, and a Capital Securityholder's registered address means its address appearing on the register of Capital Securityholders at that time.

## 11.2 Payments subject to Applicable Laws

Payments in respect of principal and interest on Capital Securities are subject in all cases to any fiscal or other laws and regulations applicable in the place of payment, but without prejudice to the provisions of Condition 12 (*Taxation*).

## 11.3 No commissions

No commissions or expenses shall be charged to the Capital Securityholders in respect of any payments made in accordance with this Condition 11.

## 11.4 Payment on Payment Days

Where payment is to be made by transfer to a registered account, payment instructions (for value the due date or, if that is not a Payment Day, for value the first following day which is a Payment Day) will be initiated and, where payment is to be made by cheque, the cheque will be mailed, on the Payment Day preceding the due date for payment or, in the case of a payment of principal and premium (if any) or a payment of interest due otherwise than on an Interest Payment Date, if later, on the Payment Day on which the relevant Capital Security is surrendered at the specified office of a Paying, Transfer and Exchange Agent.

Capital Securityholders will not be entitled to any interest or other payment for any delay after the due date in receiving the amount due if the due date is not a Payment Day, if the Capital Securityholder is late in surrendering its Certificate (if required to do so) or if a cheque mailed in accordance with this Condition arrives after the due date for payment.

In this Condition 11 (*Payments*) “**Payment Day**” means a day (other than a Saturday or Sunday) on which commercial banks are open for business in London, Jersey and Budapest and a day on which the TARGET System is open and, in the case of presentation of a Capital Security, in the place in which the Capital Security is presented.

## 11.5 Partial Payments

If the amount of principal, premium (if any) or interest which is due on the Capital Securities is not paid in full, the Registrar will annotate the register of Capital Securityholders with a record of the amount of principal, premium (if any) or interest in fact paid.

## 11.6 Agents

The names of the initial Agents and their initial specified offices are set out at the end of these Conditions. The Issuer reserves the right, subject to the prior written approval of the Trustee, at any time to vary or terminate the appointment of any Agent and to appoint additional or other Agents provided that:

- (a) there will at all times be a Principal Paying, Transfer and Exchange Agent;
- (b) there will at all times be a Paying, Transfer and Exchange Agent (which may be the Principal Paying, Transfer and Exchange Agent) having a specified office in a European city which so long as the Capital Securities are listed on the Luxembourg Stock Exchange, shall be Luxembourg;
- (c) the Issuer undertakes that it will ensure that it maintains a Paying, Transfer and Exchange Agent in a Member State of the European Union that is not obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any law implementing or complying with, or introduced in order to conform to, such Directive;
- (d) there will at all times be a Paying, Transfer and Exchange Agent in a jurisdiction within continental Europe, other than the jurisdiction in which the Issuer is incorporated; and
- (e) there will at all times be a Registrar.

Notice of any termination or appointment and of any changes in specified offices shall be given to the Capital Securityholders promptly by the Issuer in accordance with Condition 16 (*Notices*).

In acting under the Agency Agreement and in connection with the Capital Securities, the Paying, Transfer and Exchange Agents act solely as agents of the Issuer and (to the extent provided therein) the Trustee and do not assume any obligations towards or relationship of agency or trust for or with any of the Capital Securityholders.



References in these Conditions to any calculation or determination being performed by the Calculation Agent are subject to the detailed provisions and limitations of the Agency Agreement in relation thereto and Capital Securityholders are, accordingly, advised to review the Agency Agreement.

## 12. TAXATION

All payments in respect of the Capital Securities by or on behalf of the Issuer shall be made without withholding or deduction for, or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or on behalf of the any jurisdiction, unless the withholding or deduction thereof is required by law. If such withholding or deduction is required, the Issuer will not pay any additional amounts in respect thereof and, accordingly, the amounts received by the Capital Securityholders will be net of such withholding or deduction.

## 13. PRESCRIPTION

Claims in respect of principal and interest will become prescribed unless made within 10 years (in the case of principal) and five years (in the case of interest) from the Relevant Date.

## 14. EVENTS OF DEFAULT

The Trustee at its discretion may, and if so requested in writing by the holders of at least one-fifth in principal amount of the Capital Securities then outstanding or if so directed by an Extraordinary Resolution of the Capital Securityholders shall (subject in each case to being indemnified to its satisfaction), (but, in the case of the happening of the events described in subparagraph (c) below, only if the Trustee shall have certified in writing to the Issuer that such event is, in its opinion, materially prejudicial to the interests of the Capital Securityholders) give notice to the Issuer that the Capital Securities are, and they shall accordingly forthwith become, immediately due and repayable at their principal amount, together with accrued interest as provided in the Trust Deed, upon the occurrence of any of the following Events of Default:

- (a) if MOL has performed its payment obligation under the Swap Agreement and the Issuer defaults in making of payments of any interest due in respect of the Capital Securities or any of them and the default continues for a period of 14 days; or
- (b) if any Event of Default (as defined in the Swap Agreement) or termination under paragraph (viii) of the Swap Agreement occurs and is continuing under the Swap Agreement; or
- (c) if the Issuer fails to perform or observe any of its other obligations under these Conditions or the Trust Deed and (except in any case where the Trustee considers the failure to be incapable of remedy, when no continuation or notice as is hereinafter mentioned will be required) the failure continues for the period of 30 days (or such longer period as the Trustee may permit) following the service by the Trustee on the Issuer of notice requiring the same to be remedied; or
- (d) if any order is made by any competent court or resolution is passed for the winding up, dissolution or liquidation of the Issuer or a declaration of “*desastre*” is made in respect of the assets of the Issuer, save for the purposes of reorganisation on terms approved in writing by the Trustee or by an Extraordinary Resolution of the Capital Securityholders; or
- (e) if any event occurs which, under the laws of any relevant jurisdiction, has or may have, in the Trustee’s opinion, an analogous effect to any of the events referred to in subparagraph (d) above.

*In the event that the Swap Agreement is terminated and the Issuer has received the relevant termination payment and/or the Exchange Property is released from the Escrow Agreement, and the Issuer is able to redeem the Capital Securities, it will effect such redemption. Upon a winding up, dissolution or liquidation of MOL, the Swap Agreement will automatically terminate. Upon such automatic termination, the Issuer will have a subordinated claim under the Swap Agreement for a liquidation preference expected to be equal to the principal amount of the Capital Securities (less the amount of any cash forming part of the Exchange Property and the proceeds of sale (if any) of any Relevant Securities forming part of the Exchange Property) together with accrued interest and will use any amounts received to discharge its obligations under Conditions 14 and 15.*

## **15. ENFORCEMENT**

The Trustee may at any time, at its discretion and without notice, take such proceedings against the Issuer as it may think fit to enforce the provisions of the Trust Deed and the Capital Securities, but it shall not be bound to take any such proceedings or any other action in relation to the Trust Deed or the Capital Securities unless (a) it shall have been so directed by an Extraordinary Resolution of the Capital Securityholders or so requested in writing by the holders of at least one-fifth in principal amount of the Capital Securities then outstanding, and (b) it shall have been indemnified to its satisfaction.

No Capital Securityholder shall be entitled to proceed directly against the Issuer unless the Trustee, having become bound so to proceed, fails so to do within a reasonable period and the failure shall be continuing.

The Capital Securityholders agree with the Issuer that their recourse against the Issuer in respect of the Issuer's obligations in respect of the Capital Securities shall be limited to the assets of the Issuer available to the Issuer to pay such amounts after discharging the claims of all Senior Creditors and, to the extent that any amounts due from the Issuer to the Capital Securityholders exceed the remaining assets of the Issuer available to the Issuer to pay such amounts after discharging the claims of all Senior Creditors, the claims of the Capital Securityholders in relation to any such excess amount shall be extinguished.

None of the Capital Securityholders will be entitled to petition or take any other step for the winding-up, reorganisation, liquidation, bankruptcy or insolvency of the Issuer for so long as the Capital Securities are outstanding and for two years and one day after the Capital Securities have been paid in full or redeemed.

## **16. NOTICES**

### **16.1 Notices to the Capital Securityholders**

All notices to the Capital Securityholders will be valid if mailed to them at their respective addresses in the register of Capital Securityholders maintained by the Registrar. The Issuer shall also ensure that notices are duly given or published in a manner which complies with the rules and regulations of any stock exchange or other relevant authority on which the Capital Securities are for the time being listed. Any notice shall be deemed to have been given on the second day after being so mailed or on the date of publication or, if so published more than once or on different dates, on the date of the first publication. Whilst any of the Capital Securities held by a Capital Securityholder are represented by a Global Certificate, any notice to such Capital Securityholder given by delivery of the relevant notice to a clearing system on behalf of which the Global Certificate is held shall be deemed to have been given on the date of remittance.

### **16.2 Notices from the Capital Securityholders**

Notices to be given by any Capital Securityholder shall be in writing and given by lodging the same, together with the relevant Certificates, with the Registrar or a Paying, Transfer and Exchange Agent or, if the Capital Securities are held in a clearing system, may be given through the clearing system in accordance with its standard rules and procedures. Any notice by a Capital Securityholder given by delivery of the relevant notice to such clearing system shall be deemed to have been given on the date of remittance.

## **17. REPLACEMENT OF CERTIFICATES**

If any Certificate is lost, stolen, mutilated, defaced or destroyed it may be replaced at the specified office of the Registrar or the Paying, Transfer and Exchange Agent in Luxembourg upon payment by the claimant of the expenses incurred in connection with the replacement and on such terms as to evidence and indemnity as the Issuer may reasonably require. Mutilated or defaced Certificates must be surrendered before replacements will be issued.

## **18. SUBSTITUTION**

The Trustee may, without the consent of the Capital Securityholders, agree with the Issuer to the substitution in place of the Issuer (or of any previous substitute under this Condition) as the principal debtor under the Capital Securities and the Trust Deed, subject to:

- (a) the Trustee being satisfied that the interests of the Capital Securityholders will not be materially prejudiced by the substitution; and
- (b) certain other conditions set out in the Trust Deed being complied with.

## **19. MEETINGS OF CAPITAL SECURITYHOLDERS, MODIFICATION, WAIVER AND AUTHORISATION**

### **19.1 Meetings of Capital Securityholders**

The Trust Deed contains provisions for convening meetings of the Capital Securityholders to consider any matter affecting their interests, including the modification or abrogation by Extraordinary Resolution of any of these Conditions or any of the provisions of the Trust Deed. The quorum at any meeting or at any adjourned meeting for passing an Extraordinary Resolution will be one or more persons present holding or representing more than 50 per cent. in principal amount of the Capital Securities for the time being outstanding, except that, at any meeting or at any adjourned meeting the business of which includes the modification or abrogation of certain of the provisions of these Conditions and certain of the provisions of the Trust Deed, the necessary quorum for passing an Extraordinary Resolution will be one or more persons present holding or representing not less than three-quarters, of the principal amount of the Capital Securities for the time being outstanding. An Extraordinary Resolution passed at any meeting of the Capital Securityholders will be binding on all Capital Securityholders, whether or not they are present at the meeting.

### **19.2 Modification, Waiver, Authorisation and Determination**

The Trustee may agree, without the consent of the Capital Securityholders, to any modification of, or to the waiver or authorisation of any breach or proposed breach of, any of these Conditions or any of the provisions of the Trust Deed, or determine, without any such consent as aforesaid, that any Event of Default shall not be treated as such (provided that, in any such case, such modification, waiver, authorisation or consent is not, in the opinion of the Trustee, materially prejudicial to the interests of the Capital Securityholders) or may agree, without any such consent as aforesaid, to any modification which, in its opinion, is of a formal, minor or technical nature or to correct a manifest error.

### **19.3 Trustee to have Regard to Interests of Capital Securityholders as a Class**

In connection with the exercise by it of any of its trusts, powers, authorities and discretions (including, without limitation, any modification, waiver, authorisation, determination or substitution), the Trustee shall have regard to the general interests of the Capital Securityholders as a class but shall not have regard to any interests arising from circumstances particular to individual Capital Securityholders (whatever their number) and, in particular but without limitation, shall not have regard to the consequences of any such exercise for individual Capital Securityholders (whatever their number) resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory or any political sub-division thereof and the Trustee shall not be entitled to require, nor shall any Capital Securityholder be entitled to claim, from the Issuer, the Trustee or any other person any indemnification or payment in respect of any tax consequence of any such exercise upon individual Capital Securityholders.

### **19.4 Notification to the Capital Securityholders**

Any modification, abrogation, waiver, authorisation, determination or substitution shall be binding on the Capital Securityholders and, unless the Trustee agrees otherwise, any modification or substitution shall be notified by the Issuer to the Capital Securityholders as soon as practicable thereafter in accordance with Condition 16 (*Notices*).

## **20. INDEMNIFICATION OF THE TRUSTEE AND ITS CONTRACTING WITH THE ISSUER**

### **20.1 Indemnification of the Trustee**

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility, including provisions relieving it from taking action unless indemnified to its satisfaction.

## 20.2 Trustee Contracting with the Issuer

The Trust Deed also contains provisions pursuant to which the Trustee is entitled, *inter alia*, (i) to enter into business transactions with the Issuer and to act as trustee for the holders of any other securities issued or guaranteed by, or relating to, the Issuer, (ii) to exercise and enforce its rights, comply with its obligations and perform its duties under or in relation to any such transactions or, as the case may be, any such trusteeship without regard to the interests of, or consequences for, the Capital Securityholders, and (iii) to retain and not be liable to account for any profit made or any other amount or benefit received thereby or in connection therewith.

## 21. FURTHER ISSUES

The Issuer may from time to time, without the consent of the Capital Securityholders, create and issue certain further securities, as described in Condition 4.2.

## 22. GOVERNING LAW AND SUBMISSION TO JURISDICTION

### 22.1 Governing Law

The Trust Deed and the Capital Securities are governed by, and will be construed in accordance with, English law.

### 22.2 Jurisdiction of English Courts

The Issuer has, in the Trust Deed, irrevocably agreed for the benefit of the Trustee and the Capital Securityholders that the courts of England are to have exclusive jurisdiction to settle any disputes which may arise out of or in connection with the Trust Deed or the Capital Securities and accordingly has submitted to the exclusive jurisdiction of the English courts.

The Issuer has, in the Trust Deed, waived any objection to the courts of England on the grounds that they are an inconvenient or inappropriate forum. The Trustee and the Capital Securityholders may take Proceedings against the Issuer in any other court of competent jurisdiction and concurrent Proceedings in any number of jurisdictions.

### 22.3 Appointment of Process Agent

The Issuer has, in the Trust Deed, irrevocably and unconditionally appointed Mourant & Co Capital SPV Limited of PO Box 1310, 6<sup>th</sup> Floor, 69 Park Lane, Croydon CR9 1TQ (Tel 020 8409 8888; fax 020 8409 8911) as its agent for the time being for service of process in England in respect of any Proceedings and have undertaken that in the event of such agent ceasing so to act it will appoint such other person as the Trustee may approve as its agent for that purpose.

## 23. RIGHTS OF THIRD PARTIES

No rights are conferred on any person under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of the Capital Securities, but this does not affect any right or remedy of any person which exists or is available apart from that Act.

## 24. DEFINITIONS

The following definitions apply throughout this document, unless the context otherwise requires:

“**Accountholder**” means each person (other than another clearing system) who is for the time being shown in the records of Euroclear or Clearstream, Luxembourg (as the case may be) as the holder of a particular aggregate principal amount of such Capital Securities;

“**Agency Agreement**” means the paying, transfer and exchange agency agreement dated on or about 20 March 2006 made between the Issuer, the Agents, the Registrar and the Trustee;

“**Agents**” means the Principal Paying, Transfer and Exchange Agent, the other Paying, Transfer and Exchange Agents and the Calculation Agent and “**Agent**” shall mean any one of them;

“**Alternative Swap Payment Satisfaction Mechanism**” means either the Share Deferred Swap Payment Satisfaction or the Notional Increase Payment Satisfaction;

**“Approved Investment Bank”** means an independent bank of international repute appointed by the Issuer and approved by the Trustee;

**“Business Day”** means a day on which commercial banks are open for business in Jersey, London and Budapest;

**“Calculation Agent”** means The Bank of New York as calculation agent, which expression shall include any successor as agent bank under the Agency Agreement;

**“Capital Securityholders”** means the holders of the Capital Securities;

**“Cash Make-Whole Payment”** has the meaning given to it in Condition 10.4;

**“Cash Settlement Notice”** means a notice in writing from the Issuer, with a copy to the Calculation Agent, to a Capital Securityholder at the address specified in the Exchange Notice so delivered by such Capital Securityholder;

**“Cash Value”** means (subject as the context may otherwise require) the product of the relevant number of Shares and/or other Relevant Securities and the VWAP of the Shares and/or other Relevant Securities calculated as the arithmetic average of the daily VWAP during the period of five consecutive Trading Days ending on the sixth Trading Day immediately preceding the Settlement Date, as calculated by the Calculation Agent;

**“Certificate”** means a physical certificate representing one or more Capital Securities;

**“Change of Control”** means, in respect of either MOL or the issuer of any Relevant Securities, as the case may be, an event where any person or persons acting in concert or any person or persons acting on behalf of any such person(s), at any time directly or indirectly owns or acquires, (A) more than 33 per cent of the ordinary share capital of such entity or (B) such number of the shares in the capital of such entity carrying more than 50 per cent of the voting rights normally exercisable at an ordinary general meeting of such entity or (C) a number of shares sufficient to appoint the majority of the members of the Board of Directors of such entity at an ordinary general meeting of such entity;

**“Change of Control Margin”** means 5.50%;

**“Change of Control Period”** means, in respect of a Change of Control, the period ending 90 calendar days after the first public announcement of the Change Control.

**“Change of Control Price”** means, per Capital Security 105 per cent. of the greater of (i) the principal amount of such Capital Security and (ii) an amount calculated by the Calculation Agent as the sum of (a) the market value of the Listed Security consideration the holder of such Capital Security would have received had it exchanged its Capital Security and accepted the offer with any Share or other Relevant Security component valued using the VWAP of such Listed Securities during the period of ten consecutive Trading Days ending on the last Trading Day when such offer could have been accepted, (b) the cash consideration and cash value of Unlisted Securities the holder of such Capital Security would have received had it exchanged its Capital Security and accepted the offer with any Share or other Relevant Security (such cash value to be determined by an Approved Investment Bank and notified to the Calculation Agent) and (c) the amount of any cash comprised in the Exchange Property.

**“Clearstream, Luxembourg”** means Clearstream Securities, societe anonyme;

**“Current Market Value”** means in respect of the Share Swap Payment Satisfaction the product of the number of Shares and/or other Relevant Securities, issued and/or transferred and the VWAP of such Shares and/or other Relevant Securities calculated as the arithmetic average of the daily VWAP during the period of ten consecutive Trading Days ending on the second Trading Day immediately preceding the date on which the notice specifying the Share Swap Payment Satisfaction as the chosen method of satisfying the Deferred Swap Amount by MOL is given by the Issuer to the Capital Securityholders, converted (if necessary) into Euro at the at the fixing rate quoted by the Hungarian National Bank (provided, that if the Hungarian National Bank does not provide a fixing rate and/or in the case of any conversion that does not involve Hungarian Forint, at the spot buying rate of an Approved Investment Bank) for the relevant date), as calculated by the Calculation Agent;

**“Deed of Assignment”** means the deed of assignment of the Issuer dated 13 March 2006,

**“Deferral Notice”** means notice given by the Issuer to the Capital Securityholders, the Calculation Agent, the Paying, Transfer and Exchange Agents and the Trustee in accordance with Condition 16 (Notices) electing to defer an Interest Payment;

**“Deferred Amount”** means the Deferred Payment together with any interest accrued thereon;

**“Deferred Payment”** means a deferred Interest Payment on the Capital Securities pursuant to Condition 6.1;

**“Deferred Swap Amount”** means the Deferred Swap Payment together with any interest accrued thereon;

**“Deferred Swap Payment”** means an amount of any suspended payment under the Swap Agreement;

**“Escrow Agent”** means the escrow agent appointed pursuant to the terms of the Escrow Agreement;

**“Escrow Agreement”** means the escrow agreement between MOL, the Issuer and ING Bank (Hungary) RT as the Escrow Agent dated on or about 20 March 2006, pursuant to the terms of which the relevant Shares will be held by the Escrow Agent on behalf of the Issuer;

**“EURIBOR”** means the Euro Interbank Offered Rate;

**“Euroclear”** means Euroclear Bank S.A/N.V, as operator of the Euroclear System;

**“Euro-zone”** means the region comprised of Member States of the European Union that adopt or have adopted the single currency the “Euro” in accordance with the Treaty establishing the European Community, as amended by the Treaty on the European Union.

**“Event of Default”** means each of the events described in Condition 14;

**“Exchange Expenses”** means all taxes and duties including, without limitation, any stamp duty reserve tax, capital, stamp, transfer and registration duties arising on the exercise of Exchange Rights and/or on or as a result of the delivery, transfer of other disposition of Exchange Property by the Issuer to or to the order of the relevant Capital Securityholder, together with any other taxes arising to that Capital Securityholder;

**“Exchange Notice”** means a notice substantially in the form set out in Schedule 2 to the Agency Agreement;

**“Exchange Period”** has the meaning given to it in Condition 7 (*Exchange*);

**“Exchange Property”** means at the Issue Date 6,007,479 Shares and thereafter shall include such other property (if any) as may be available from time to time for exchange as described in Condition 8 (*Exchange Property*) and/or Condition 9 (*General Offers*);

**“Exchange Right”** has the meaning given to it in Condition 7 (*Exchange*);

**“ex-date”** means a record date where the Exercise Date falls after the date (the “ex-date”) on which the Shares or such other listed Relevant Securities trade “ex-rights” in relation thereto;

**“Exercise Date”** means the second Business Day after delivery of an Exchange Notice to Euroclear, Clearstream, Luxembourg or, as the case may be, to or to the order of the relevant Paying, Transfer and Exchange Agent and compliance by the relevant Capital Securityholder with the other conditions set out in the Exchange Notice and these Conditions, provided that if such day falls during a period when the Exchange Rights are suspended in accordance with Condition 9 (*General Offers*) the Exercise Date shall be the first Business Day on which the Exchange Rights are no longer so suspended;

**“Expiry Date”** means the twenty-first day following that upon which notice (specifying the Expiry Date) is given to the Capital Securityholders pursuant to Condition 16 (*Notices*) by the Issuer or the Trustee specifying that the Capital Securities have become immediately due and repayable pursuant to Condition 14 (*Events of Default*);

**“Final Date”** means, in relation to any Offer or compulsory acquisition, the date upon which the Offer Consideration is made available to the Issuer by virtue of being the holder of Relevant Securities;

**“Fungible Issue”** has the meaning given to it in Condition 4.2;

**“GDR Depositary”** means the depositary appointed under the GDR Facility;

**“GDR Facility”** means a MOL sponsored GDR or other similar depositary receipt programme into which the Shares may be deposited;



“**GDSs**” means Global Depositary Shares, issued by the GDR Depositary, each representing one or, in the case of a ratio change, a number of Shares, pursuant to the terms of the GDR Facility;

“**Illegality**” has the meaning given in Condition 10.3;

“**Initial Notional Amount**” means the Notional Amount of the Swap Agreement as at 20 March 2006;

“**Interest Payment Dates**” means the Floating Interest Payment Date and the Fixed Interest Payment Dates together;

“**Issuer**” means Magnolia Finance Limited;

“**Junior Securities**” means, in respect of the Issuer, any securities or obligations issued or owed by the Issuer (including guarantees or indemnities given by the Issuer in respect of securities or obligations owed by other persons) and effectively ranking or expressed to rank junior to the Capital Securities;

“**Listed Securities**” means shares that are listed on a stock exchange;

“**Management**” in relation to a company means its board of directors;

“**Magnolia Trust Deed**” means the instrument of trust dated 6 March, 2006 in relation to The Magnolia Trust pursuant to which the Share Trustee holds the entire issued share capital of the Issuer, as may be amended or supplemented from time to time;

“**Make-Whole Payment**” means in relation to a Capital Security an amount calculated by the Calculation Agent as the product of the relevant Reference Make-Whole Percentage multiplied by the principal amount of the Capital Securities being redeemed (or, pursuant to Conditions 10.3, 10.4(a)(ii) or 10.4(b), exchanged), divided by the number of Capital Securities then outstanding;

“**MOL**” has the meaning given on page 1;

“**Moody’s**” means Moody’s Investors Service, Inc.;

“**Non-Fungible Issue**” has the meaning given to it in Condition 4.2;

“**Notice Cut-off Date**” means the date 10 Business Days prior to the relevant redemption date;

“**Notification Date**” means a day specified by the Issuer which day falls after the relevant Exercise Date but prior to the fifteenth Trading Day prior to the Settlement Date in relation thereto;

“**Notional Increase Payment Satisfaction**” means the increase of the notional amount of the Swap Agreement in satisfaction of Deferred Swap Amounts under the Swap Agreement;

“**Offer**” means an offer to acquire any Shares and/or Relevant Securities, whether expressed as a legal offer, an invitation to treat or in any other way, in circumstances where such offer is available to all holders of the applicable Shares and/or Relevant Securities or all such holders other than any holder who is, or is connected with, or is deemed to be acting in concert with, the person making such offer;

“**Offer Consideration**” means the consideration offered for the Shares and/or Relevant Securities pursuant to the Offer or compulsory acquisition;

“**Parity Securities**” means, in respect of the Issuer, any securities or obligations issued or owed by the Issuer (including guarantees or indemnities given by the Issuer in respect of securities or obligations owed by other persons) and effectively ranking or expressed to rank *pari passu* with the Capital Securities;

“**Paying, Transfer and Exchange Agents**” means the paying, transfer and exchange agents for the time being under the Agency Agreement together with the Principal Paying, Transfer and Exchange Agent, which expression shall include their successors as paying, transfer and exchange agents under the Agency Agreement;

“**Principal Paying, Transfer and Exchange Agent**” means The Bank of New York, London, as principal paying, transfer and exchange agent, which expression shall include any successor as principal paying, transfer and exchange agent under the Agency Agreement;

“**Proceedings**” means any suit, action or proceeding arising out of or in connection with the Trust Deed or the Capital Securities;

**“pro rata share”** means, initially for each €100,000 principal amount of the Capital Securities (a) initially, a 1/6,100 share of the Exchange Property; and (b) thereafter, a fractional share of the Exchange Property of which the numerator shall be the principal amount of a Capital Security (as may be adjusted in accordance with these Conditions) and the denominator shall be the aggregate principal amount of the Capital Securities (including the Capital Security to which the *pro rata* share relates) which are outstanding at such time;

**“Redemption Date”** in relation to a Capital Security to be redeemed, the date on which the Capital Security is to be redeemed.

**“Redemption Market Value”** means the product of the number of Shares or other Relevant Securities to which the relevant Capital Securityholder would otherwise be entitled upon valid exercise of Exchange Rights and the VWAP of such Shares and/or other Relevant Securities calculated as the arithmetic average of the daily VWAP during the period of twenty consecutive Trading Days ending on the sixth Trading Day immediately preceding the Redemption Date as calculated by the Calculation Agent, converted into Euro (if necessary) at the average exchange rate during the VWAP observation period, as determined by the Calculation Agent by reference to the fixing rate quoted by the Hungarian National Bank (provided, that if the Hungarian National Bank does not provide a fixing rate and/or in the case of any conversion that does not involve Hungarian Forint, at the spot buying rate of an Approved Investment Bank) for each day during such period.

**“Redemption Price”** means in relation to a Capital Security to be redeemed, the principal amount of such Capital Security outstanding at the relevant time together with interest accrued thereon to, but excluding, the Redemption Date.

**“Reference Banks”** means five major banks in the Euro-zone interbank market;

“Reference Make-Whole Percentage” means percentage determined in accordance with the table below:

	Reference Make-Whole Percentage										
	From To	Date of Relevant Event									
		20/03/2006 19/03/2007	20/03/2007 19/03/2008	20/03/2008 19/03/2009	20/03/2009 19/03/2010	20/03/2010 19/03/2011	20/03/2011 19/03/2012	20/03/2012 19/03/2013	20/03/2013 19/03/2014	20/03/2014 19/03/2015	20/03/2015 19/03/2016
50%	—	—	—	—	—	—	—	—	—	—	
55%	—	—	—	—	—	—	—	—	—	—	
60%	—	—	—	—	—	—	—	—	—	—	
65%	—	—	—	—	—	—	—	—	—	—	
70%	—	—	—	—	—	—	—	—	—	—	
75%	0.592%	0.638%	0.642%	0.576%	0.463%	0.262%	0.027%	—	—	—	
80%	3.624%	3.613%	3.541%	3.377%	3.143%	2.786%	2.346%	1.695%	0.871%	—	
85%	6.786%	6.731%	6.600%	6.357%	6.023%	5.539%	4.927%	4.039%	2.845%	1.219%	
90%	10.064%	9.979%	9.804%	9.498%	9.085%	8.500%	7.752%	6.674%	5.182%	2.987%	
95%	13.447%	13.345%	13.140%	12.787%	12.313%	11.650%	10.799%	9.578%	7.864%	5.244%	
100%	16.925%	16.816%	16.594%	16.208%	15.690%	14.972%	14.047%	12.728%	10.864%	7.976%	
105%	15.487%	15.383%	15.156%	14.750%	14.202%	13.447%	12.476%	11.099%	9.153%	6.147%	
110%	14.125%	14.036%	13.815%	13.402%	12.837%	12.062%	11.067%	9.665%	7.696%	4.703%	
115%	12.832%	12.767%	12.562%	12.152%	11.583%	10.801%	9.801%	8.404%	6.460%	3.583%	
120%	11.602%	11.568%	11.388%	10.992%	10.429%	9.651%	8.664%	7.295%	5.414%	2.727%	
125%	10.427%	10.433%	10.288%	9.915%	9.366%	8.603%	7.641%	6.318%	4.529%	2.078%	
130%	9.304%	9.356%	9.253%	8.911%	8.387%	7.645%	6.719%	5.457%	3.779%	1.587%	
135%	8.226%	8.331%	8.278%	7.976%	7.483%	6.769%	5.887%	4.696%	3.143%	1.215%	
140%	7.191%	7.354%	7.357%	7.103%	6.648%	5.968%	5.135%	4.022%	2.601%	0.930%	
145%	6.193%	6.420%	6.486%	6.286%	5.877%	5.235%	4.456%	3.425%	2.138%	0.708%	
150%	5.229%	5.525%	5.659%	5.521%	5.165%	4.564%	3.841%	2.895%	1.740%	0.532%	
155%	4.297%	4.666%	4.874%	4.803%	4.506%	3.950%	3.285%	2.424%	1.398%	0.389%	
160%	3.393%	3.840%	4.126%	4.128%	3.898%	3.389%	2.783%	2.006%	1.102%	0.270%	
165%	2.516%	3.043%	3.412%	3.493%	3.335%	2.877%	2.329%	1.634%	0.846%	0.170%	
170%	1.661%	2.272%	2.729%	2.893%	2.815%	2.411%	1.921%	1.304%	0.625%	0.084%	
175%	0.829%	1.527%	2.075%	2.327%	2.334%	1.988%	1.554%	1.014%	0.435%	0.011%	
180%	0.016%	0.804%	1.446%	1.790%	1.888%	1.605%	1.225%	0.758%	0.272%	—	
185%	—	0.101%	0.840%	1.281%	1.476%	1.262%	0.934%	0.534%	0.133%	—	
190%	—	—	0.256%	0.797%	1.094%	0.955%	0.676%	0.341%	0.020%	—	
195%	—	—	—	0.335%	0.740%	0.683%	0.450%	0.176%	—	—	
200%	—	—	—	—	0.411%	0.444%	0.257%	0.047%	—	—	
205%	—	—	—	—	0.105%	0.240%	0.100%	—	—	—	
210%	—	—	—	—	—	0.077%	—	—	—	—	
215%	—	—	—	—	—	—	—	—	—	—	
220%	—	—	—	—	—	—	—	—	—	—	
225%	—	—	—	—	—	—	—	—	—	—	
230%	—	—	—	—	—	—	—	—	—	—	
235%	—	—	—	—	—	—	—	—	—	—	
240%	—	—	—	—	—	—	—	—	—	—	
245%	—	—	—	—	—	—	—	—	—	—	
250%	—	—	—	—	—	—	—	—	—	—	

For the purposes of determining the Reference Make-Whole Percentage, the value of the Exchange Property shall be determined:

- (i) in the case of a Change of Control under Condition 10.4, based on the VWAP of the Shares and/or Relevant Securities calculated as the arithmetic average of the daily VWAP during the period of five consecutive Trading Days ending on the Trading Day immediately prior to the date on which market rumour of any such Change of Control is first documented (such date to be determined by an Approved Investment Bank and notified to the Calculation Agent), multiplied by the relevant number of Shares and/or Relevant Securities comprised in the Exchange Property, plus the value of any cash comprised in the Exchange Property;
- (ii) in the case of a redemption under Condition 10.3, based on the VWAP of the Shares and/or Relevant Securities calculated as the arithmetic average of the daily VWAP during the period of five consecutive Trading Days ending on the second Trading Day immediately prior to the date of the relevant notice of redemption given by the Issuer in accordance with Condition 10.3, multiplied by the relevant number of Shares and/or Relevant Securities comprised in the Exchange Property, plus the value of any cash comprised in the Exchange Property; and
- (iii) by linear interpolation between the closest two percentage figures set out in the table above.

**“Register”** means the register of Capital Securityholders which the Issuer will procure to be kept by the Registrar;

**“Registrar”** means The Bank of New York in its capacity as registrar, which expression shall include any successor as registrar under the Agency Agreement;

**“Relevant Date”** means the date on which the payment first becomes due but, if the full amount of the money payable has not been received by the Agent or the Trustee on or before the due date, it means the date on which, the full amount of the money having been so received, notice to that effect has been duly given to the Capital Securityholders by the Issuer in accordance with Condition 16 (*Notices*);

**“Relevant Nominee”** means the nominee for the relevant clearing system;

**“Relevant Securities”** means the Shares and/or any other securities (including, without limitation, any options, warrants, rights or evidences of indebtedness) comprised in the Exchange Property from time to time, including such other securities as are received as consideration paid to the Issuer for the Shares (or any previously received Relevant Securities);

**“Rights Issue”** means an offer by way of rights to further Shares or other securities, or options, warrants or rights to subscribe or purchase further Shares or other securities; **“S&P”** means Standard & Poor’s Rating Services, a division of The McGraw Hill Companies, Inc. and its successors;

**“Selection Date”** means a day between the forty-second and the fiftieth calendar day (inclusive) immediately preceding the Redemption Date;

**“Senior Creditors”** means, in respect of the Issuer, all creditors of the Issuer other than creditors whose claims are in respect of Parity Securities or in respect of securities or obligations owed by the Issuer (including guarantees and indemnities given by the Issuer in respect of securities or obligations owed by other persons) and effectively ranking or expressed to rank junior to the Capital Securities;

**“Settlement Date”** means a date specified by the Issuer being not later than the fifteenth Trading Day after the relevant Exercise Date, provided that, if the Issuer delivers a Cash Settlement Notice, the Settlement Date shall be the fourteenth Trading Day following the relevant Exercise Date;

**“Settlement Disruption”** means a suspension or material limitation on transfers of Shares on the Budapest Stock Exchange and/or a suspension or material limitation on transfers of GDSs or other Relevant Securities on any stock exchange on which they are traded at the relevant time.

**“Share Deferred Swap Amount Satisfaction”** means the issuing of new Shares or transferring some of the existing Shares (treasury shares) to the Issuer in satisfaction of a Deferred Swap Amount under the Swap Agreement;

**“Share Purchase Agreement”** means the Share Purchase agreement between MOL and the Issuer dated 13 March 2006, pursuant to the terms of which the Issuer has purchased or will purchase the Shares comprising the initial Exchange Property;

**“Share Settlement Notice”** means a duly completed notice substantially in the form set out in the Agency Agreement;

**“Share Settlement Option”** means the option of the Issuer defined in Condition 10.9;

**“Share Swap Payment Satisfaction”** has the meaning given to it in Condition 6.2;

**“Share Trustee”** means Maurant & Co. Trustees Limited;

**“Shares”** means the Series A ordinary shares of MOL, having as of the date of the Trust Deed par value of the HUF 1,000 each, and any other shares of MOL (which are Listed Securities) resulting from any share split, share subdivision, share consolidation, bonus issue, share dividend, reclassification or rights offering, or successor shares, a proportion or entirety of which may be represented by GDSs;

**“Specified Date”** means, in relation to any Offer, the final date for acceptance of such Offer which, if such Offer is, prior to such final date, extended, shall be the final date for acceptance of the extended Offer;

**“Stock Exchange”** means the Budapest Stock Exchange, or any stock exchange deemed to be the main trading place for the Shares, GDSs or Relevant Securities;

**“Sub-division, Consolidation or Redenomination”** means the sub-division or consolidation or any other change made to the par value of the Relevant Securities of any series;

**“Swap Agreement”** means the 2002 ISDA Master Agreement, schedule and confirmation dated on or about 20 March 2006 between the Issuer and MOL, as the same may be amended and/or supplemented from time to time;

**“Swap Deferral Period”** has the meaning given to it in Condition 6.2;

**“Trading Day”** means (a) in relation to the Shares and any/or other Relevant Securities which are listed and/or traded on the Stock Exchange, a day (other than a Saturday or Sunday) on which banks are open for business in London and on which the Stock Exchange is open for trading, and (b) in relation to other Relevant Securities which are primarily listed or traded on another stock exchange, a day (other than a Saturday or Sunday) on which banks are open for business in the place of such exchange and on which the relevant exchange is open for trading;

**“Transaction Documents”** means the Trust Deed, the Agency Agreement, the Swap Agreement, the Share Purchase Agreement and the Escrow Agreement;

**“Trust Deed”** means a Trust Deed dated on or about 20 March 2006 made between the Issuer and the Trustee;

**“Trustee”** means The Bank of New York and all persons for the time being the trustee or trustees under the Trust Deed) as trustee for the holders of the Capital Securities;

**“Unlisted Securities”** means (i) shares that are not listed on a stock exchange and (ii) securities other than shares whether or not listed on a stock exchange;

**“VWAP”** means the volume weighted average price determined by the Calculation Agent based on the transactions on the Stock Exchange in the case of the Shares or, in the case of any other Relevant Securities which are traded on a stock exchange, determined by reference to such stock exchange on which such securities are principally traded and converted, in either case, (if necessary) into Euro at the fixing rate quoted by the Hungarian National Bank (provided, that if the Hungarian National Bank does not provide a fixing rate and/or in the case of any conversion that does not involve Hungarian Forint, at the spot buying rate of an Approved Investment Bank) for the relevant date; the Calculation Agent shall determine the VWAP (i) in the case of Shares by reference to the information displayed on Bloomberg page AQR (or such other page or service as may replace it for the purpose of displaying such information, as notified to it by an Approved Investment Bank and as acceptable to the Calculation Agent) and (ii) in the case of any other Relevant Securities by reference to a screen page on an information service acceptable to the Calculation Agent notified to it by an Approved Investment Bank, provided that an Approved Investment Bank shall further notify the Calculation Agent of any replacement screen page for the purpose of displaying such information, and provided further that, in each case, in the event that no screen page is available an Approved Investment Bank shall calculate the relevant VWAP and notify the Calculation Agent of such determination. Any such determination by an Approved Investment Bank shall be binding on the Calculation Agent, the Trustee, the Issuer and the Capital Securityholders.

## THE GLOBAL CERTIFICATE

*The following provisions, some of which modify the effect of the Conditions, apply to the Capital Securities whilst they are represented by the Global Certificate. Terms defined in the Conditions have the same meaning in paragraphs 1 to 8 below.*

### 1. ACCOUNTHOLDERS AND EXCHANGE TO DEFINITIVE SECURITIES

The Global Certificate is exchangeable in whole but not in part for Capital Securities in definitive form if (i) the Global Certificate is held by or on behalf of a clearing system and such clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so or (ii) if the Issuer would suffer material disadvantage in respect of the Capital Securities as a result of a change in the laws or regulations (taxation or otherwise) of Jersey or, as the case may be, Hungary which would not be suffered were the Capital Securities in definitive form, and a certificate to such effect signed by the directors of the Issuer is delivered to the Paying, Transfer and Exchange Agent (including the Paying, Transfer and Exchange Agent in Luxembourg) to be made available for review to the Capital Securityholders. Thereupon (in the case of (i)) above the Accountholder may give notice to the Trustee and the Issuer, and (in the case of (ii)) above the Issuer may give notice to the Trustee and the Capital Securityholders, of its intention to exchange the Capital Securities for Capital Securities in definitive form on or after the Definitive Exchange Date (as defined below) specified in the notice.

“**Definitive Exchange Date**” means a day falling not less than 60 days after that on which the notice requiring exchange is given and on which banks are open for business in the city in which the specified office of the Paying, Transfer and Exchange Agent (including the Paying, Transfer and Exchange Agent in Luxembourg) is located and, except in the case of exchange pursuant to (i) above, in the cities in which the relevant clearing system is located.

For so long as all of the Capital Securities are represented by the Global Certificate and the Global Certificate is held on behalf of a clearing system, each Accountholder (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg (as the case may be) as to the aggregate principal amount of such Capital Securities standing to the account of any person shall, in the absence of manifest error, be conclusive and binding for all purposes) shall be treated as the holder of such aggregate principal amount of such Capital Securities (and the expression “Capital Securityholders” and references to “holding of Capital Security” and to “holder of Capital Security” shall be construed accordingly) for all purposes other than with respect to payments on such Capital Securities, the right to which shall be vested, as against the Issuer and the Trustee, solely in the Relevant Nominee in accordance with and subject to the terms of the Global Certificates. Each Accountholder must look solely to Euroclear or Clearstream, Luxembourg, as the case may be, for its share of each payment made to the Relevant Nominee.

### 2. CANCELLATION

Cancellation of any Capital Security following its redemption or purchase by the Issuer or any of its subsidiaries or affiliates will be effected by reduction in the aggregate principal amount of the Capital Security in the register of Capital Securityholders and by the annotation of the appropriate schedule to the Global Certificate.

### 3. PAYMENTS

Payments of principal and interest in respect of Capital Securities represented by a Global Certificate will be made upon presentation or, if no further payment falls to be made in respect of the Capital Security, against presentation and surrender of such Global Certificate to or to the order of the Registrar or such other Agent as shall have been notified to the holder of the Global Certificate for such purpose.

Distributions of amounts with respect to book-entry interests in the Capital Securities held through Euroclear or Clearstream, Luxembourg will be credited, to the extent received by the Registrar, to the cash accounts of Euroclear or Clearstream, Luxembourg participants in accordance with the relevant system’s rules and procedures.

A record of each payment made, including, for the avoidance of doubt, any Exchange Property delivered prior to a redemption date in connection with the Issuer’s exercise of its Share Settlement Option, will be endorsed on the appropriate schedule to the Global Certificate by or on behalf of the Registrar and shall be *prima facie* evidence that payment has been made.



#### **4. NOTICES**

So long as all the Capital Securities are represented by the Global Certificate and the Global Certificate is held on behalf of a clearing system, notices to Capital Securityholders may be given by delivery of the relevant notice to that clearing system for communication by it to entitled Accountholders in substitution for notification as required by the Conditions except that, so long as the Capital Securities are listed on the Luxembourg Stock Exchange and the rules of that Exchange so require, notices shall also be published in accordance with the rules and regulations of the Luxembourg Stock Exchange (which includes publication in a daily newspaper published in Luxembourg and publication on the website of the Luxembourg Stock Exchange ([www.bourse.lu](http://www.bourse.lu))).

Whilst any of the Capital Securities held by a Capital Securityholder are represented by a Global Certificate, notices to be given by such Capital Securityholder may be given by such Capital Securityholder (where applicable) through Euroclear and/or Clearstream, Luxembourg and otherwise in such manner as the Trustee and Euroclear and Clearstream, Luxembourg may approve for this purpose.

#### **5. CALL OPTION**

In the event that less than all the Capital Securities are redeemed, the aggregate principal amount of the Capital Securities to be redeemed will be annotated in the appropriate schedule to the Global Certificate. Selection of such Capital Securities or portions thereof for redemption will be made only in accordance with the standard procedures of Euroclear and Clearstream, Luxembourg.

#### **6. REGISTRATION OF TITLE**

Registration of title to Capital Securities in a name other than that of the Relevant Nominee will not be permitted unless Euroclear or Clearstream, Luxembourg, as appropriate, notifies the Issuer that it is unwilling or unable to continue as a clearing system in connection with a Global Certificate and in each case a successor clearing system approved by the Trustee is not appointed by the Issuer within 90 days after receiving such notice from Euroclear or Clearstream, Luxembourg. In these circumstances title to a Capital Security may be transferred into the names of holders notified by the Relevant Nominee in accordance with the Conditions, except that Certificates in respect of Capital Securities so transferred may not be available until 21 days after the request for transfer is duly made.

The Registrar will not register title to the Capital Securities in a name other than that of the Relevant Nominee for a period of 15 calendar days preceding the due date for any payment of principal, in whole or in part, or interest in respect of the Capital Securities.

#### **7. TRANSFERS**

Transfers of book-entry interests in the Capital Securities will be effected through the records of Euroclear and Clearstream, Luxembourg and their respective participants in accordance with the rules and procedures of Euroclear and Clearstream, Luxembourg and their respective direct and indirect participants, as more fully described under “*Clearing and settlement arrangements*”.

#### **8. EXCHANGE**

Subject to the requirements of Euroclear and Clearstream, Luxembourg, the Exchange Right attaching to a Capital Security represented by a Global Capital Security may be exercised by the delivery on any Exchange Business Day during the Exchange Period to or to the order of a Paying and Exchange Agent (including the Paying, Transfer and Exchange Agent in Luxembourg), with a copy to Euroclear or Clearstream, Luxembourg, as appropriate, of an Exchange Notice duly completed by or on behalf of the relevant Accountholder. Deposit of the relevant Global Capital Security with a Paying, Transfer and Exchange Agent together with the relevant Exchange Notice shall not be required in such circumstances. The exercise of the Exchange Right shall be notified by the relevant Paying, Transfer and Exchange Agent to the Principal Paying, Transfer and Exchange Agent (where appropriate), the Relevant Nominee and the Registrar who will make arrangements for the writing down of the relevant Global Capital Security. The relevant Paying, Transfer and Exchange Agent shall deliver a copy of the Exchange Notice to the Trustee and the Escrow Agent as soon as practicable.

Copies of uncompleted Exchange Notices may be obtained from the specified office of any Paying and Exchange Agent (including the Paying and Exchange Agent in Luxembourg).

Each Exchange Notice must:

- (i) specify the name and address of the Capital Securityholder or Accountholder;
- (ii) specify the number of Capital Securities being exchanged;
- (iii) contain a representation and warranty from the relevant Capital Securityholder or, as applicable, Accountholder to the effect that the Capital Securities to which the Exchange Notice relates are free from all liens, charges, encumbrances and other third party rights;
- (iv) specify the securities account to be credited with the Shares and/or other Relevant Securities or other assets comprising or comprised in the relevant *pro rata* share of the Exchange Property, such account to be in such jurisdiction and with such securities broker and/or custodian so as to be capable of being credited with such Shares, other Relevant Securities or assets;
- (v) where applicable, specify the number(s) and account name(s) and relevant bank address(es) of the relevant currency account(s) to which any amounts payable in cash to such Capital Securityholder are to be credited, or the relevant details of the Capital Securityholder's or the relevant intermediary's Euroclear and/or Clearstream account capable of being credited with the relevant currency;
- (vi) authorise the production of the Exchange Notice in any applicable administrative or legal proceedings, all as provided in the Agency Agreement;
- (vii) include details of the relevant tax or other authorities to which the relevant Paying, Transfer and Exchange Agent must pay monies received in settlement of Exchange Expenses payable pursuant to Condition 7.4; and include a certification that the relevant Capital Securityholder is outside the United States and all certifications and other documents necessary to comply with the requirements of the Stock Exchange and any other applicable laws or regulations,

On the Settlement Date but with effect from the relevant Exercise Date, Euroclear or Clearstream, Luxembourg, as the case may be, shall debit such Capital Securityholder's account with the number of the Capital Security(ies) in respect of which he has exercised the Exchange Right(s) and the number of Capital Securities represented by the relevant Global Capital Security shall be written down accordingly.

An Exchange Notice, once delivered, shall be irrevocable and may not be withdrawn without the consent in writing of the Issuer. A Capital Securityholder may not transfer any Capital Security which is the subject of an Exchange Notice following delivery of such Exchange Notice to Euroclear, Clearstream, Luxembourg or, as the case may be, a Paying and Exchange Agent. An Exchange Notice shall only be valid to the extent that Euroclear, Clearstream, Luxembourg or, as the case may be, the relevant Paying and Exchange Agent has not received conflicting prior instructions in respect of the Capital Security(ies) which is/are the subject of the Exchange Notice.

## USE OF PROCEEDS

The net proceeds of the issue of the Capital Securities, after deduction of the Manager's commissions and expenses of the offering are expected to amount to €603,900,000. Approximately €6,900,000 of the net proceeds of the issue of the Capital Securities, representing the estimated expenses of the Issuer to 20 March 2016, together with a sum intended to provide comfort for the Trustee in connection with its indemnity under the Trust Deed (the "**Retention**"), will be retained by the Issuer in the Reserve Account (the "**Reserve Account**"). Funds held in the Reserve Account will be available to the Issuer for payment of certain charges, taxes and other amounts that are or may become payable by the Issuer. The Issuer will use the remaining net proceeds from the issue of the Capital Securities to purchase 6,007,479 Shares from MOL and to enter into the Swap Agreement with MOL.

## DESCRIPTION OF THE ISSUER

### A. INFORMATION ABOUT THE ISSUER

#### *General*

The Issuer was incorporated in Jersey (registered number 92692) as a public company with limited liability under the Companies (Jersey) Law 1991, as amended, on 6 March 2006 for a period of unlimited duration. The Issuer was incorporated for the purpose of issuing the Capital Securities.

The registered office of the Issuer is at 22 Grenville Street, St Helier, Jersey, Channel Islands (Tel: +44 (0)1534 609 000).

The authorised and issued share capital of the Issuer is £2 divided into two ordinary shares of £1 each.

The Issuer has no assets other than the assets to be acquired with the proceeds of issue of the Capital Securities, the benefit of any agreement relating to the Capital Securities, the sum of £2 representing the Issuer's issued and paid-up share capital, fees generated in connection with the issue of Capital Securities, the Retention, the Issuer's rights under the Sale and Purchase Agreement and the Swap Agreement.

The anticipated operating costs of the Issuer for the year commencing 20 March 2006 are approximately €140,000. It is estimated that the Issuer's operating costs will increase at a rate of one per cent. per annum and that the Issuer's total operating costs to 20 March 2016 will be in the region of €1,500,000. It is intended that the operating costs of the Issuer to 20 March 2016 be funded by way of the Retention and that the running costs of the Issuer after such date be funded from dividend or other income received by the Issuer in relation to the Exchange Property.

Each of Juris Limited (a company incorporated in Jersey with registered number 24294) ("**Juris**") and Lively Limited (a company incorporated in Jersey with registered number 3719) ("**Lively**") and together with Juris, the "**Nominees**") holds one ordinary share in the capital of the Issuer as nominee for and on behalf of Maurant & Co. Trustees Limited (the "**Share Trustee**"), as trustee of The Magnolia Trust, a Jersey law trust established for general charitable purposes.

### B. BUSINESS OPERATIONS OF THE ISSUER

#### *Principal Activities*

The Issuer has unlimited corporate capacity under Jersey law. The Issuer's principal activities will be the issue of the Capital Securities and the execution and the performance of the Transaction Documents and the Corporate Administration Agreement and its obligations in respect thereof, together with the exercise of related rights and powers and other activities reasonably incidental thereto.

The Issuer was established as a special purpose vehicle to issue the Capital Securities, to acquire the Shares and to enter into the Swap Agreement and the Call Option Agreement.

The Issuer has not engaged, since its formation, in any activities other than those incidental to its incorporation, the authorisation, execution and issue of the Capital Securities, and the documents and matters referred to or contemplated in this Prospectus to which it is or will be a party and matters which are incidental or ancillary to the foregoing. As such, as at the date of this Prospectus, no statutory accounts or other financial statements have been prepared by the Issuer.

The activities of the Issuer will be restricted by the Terms and Conditions of the Capital Securities. Furthermore, without the prior written consent of the Trustee and subject as provided in any of the Transaction Documents the Issuer will not:

- (a) create or permit to subsist any mortgage, pledge, lien (unless arising by operation of law) or charge upon the whole or any part of its assets, present and future (including any uncalled capital) or its undertaking;
- (b) transfer, sell, lend, part with or otherwise dispose of, or deal with, or grant any option or present or future right to acquire any of its assets or undertaking or any interest, estate, right, title or benefit therein (other than the grant of any call option in respect of Shares under a swap agreement entered into pursuant to Condition 4.2 (*Issues of Securities*) of the Conditions and as otherwise contemplated or permitted by the Conditions;

- (c) pay any dividend or make any other distribution to its shareholders other than the declaration and payment annually of a dividend up to £700;
- (d) issue any further shares;
- (e) incur any indebtedness in respect of money borrowed or raised whatsoever (other than the Capital Securities or by way of an issue of further securities as described in Conditions 4.2 (*Issues of Securities*) and 21(*Further Issues*) of the Conditions or under the terms of the Swap Agreement) or give any guarantee in respect of any obligation of any person;
- (f) consolidate or merge with any other person or convey or transfer its properties or assets substantially as an entirety to any other person (other than any transfer of assets pursuant to the Conditions or any conditions relating to any further securities issued pursuant to Conditions 4.2 (*Issues of Securities*) or 21(*Further Issues*) of the Conditions); or
- (g) subject to being entitled to amend the Swap Agreement to accommodate any optional increase in the principal amount of the Capital Securities after the issue date in accordance with Conditions 4.2 (*Issues of Securities*) and 21(*Further Issues*) of the Conditions, and subject as set out below, for so long as any of the Capital Securities remains outstanding the Issuer will not agree to any amendment to the terms of the Swap Agreement (other than such amendments/supplements as may be required pursuant to an issue effected pursuant to Conditions 4.2 (*Issues of Securities*) and 21(*Further Issues*) of the Conditions). However, the Issuer, having obtained the prior written approval of the Trustee, may agree to such amendments to the Swap Agreement (which, for the avoidance of doubt, shall include such amendments as may be necessary to comply with any changes to applicable law) that are, in the opinion of the Trustee [(acting on the advice of an Approved Investment Bank)], not materially prejudicial to the interests of the Capital Securityholders or are, in the opinion of the Trustee, of a formal, minor or technical nature or to correct a manifest error.

There is no intention to accumulate surpluses in the Issuer and the Issuer will only make such minimal profits as are described in the Swap Agreement.

Following the issue of the Capital Securities, the Issuer does not intend to provide post-issuance transaction information regarding the Capital Securities to be admitted to trading and the performance of the Shares on the Budapest Stock Exchange.

## C. ORGANISATIONAL STRUCTURE OF THE ISSUER'S GROUP

Pursuant to an Instrument of Trust dated 6 March 2006, the entire issued share capital of the Issuer is held upon Jersey law trust for charitable purposes by the Share Trustee. None of the Share Trustee, Juris or Lively will derive any benefit (other than administration fees) from its holding of shares in the Issuer.

The Issuer has no subsidiaries. MOL does not own directly or indirectly any of the share capital of the Issuer but benefits from the Call Option in relation to the entire issued share capital of the Issuer.

## D. MANAGEMENT OF THE ISSUER

The directors of the Issuer are:

<u>Name</u>	<u>Business Address</u>	<u>Nationality</u>	<u>Principal Occupation</u>
Daniel Le Blancq	22 Grenville Street, St. Helier, Jersey JE4 8PX	British	Director
Dean Godwin	22 Grenville Street, St. Helier, Jersey JE4 8PX	British	Director
Dr. József Zoltán Vörös	7627 Pécs, Bittner Alajos Utca 61, Hungary	Hungarian	Senior Vice-Rector, University of Pécs, Hungary

Daniel Le Blancq and Dean Godwin are employees of Mourant Limited.

Mourant & Co. Limited and Mourant & Co. Secretaries Limited are subsidiaries of Mourant Limited and provide certain services to the Issuer. Mourant & Co. Limited acts as a corporate administrator to the Issuer (the **Administrator**) and is remunerated in respect of services supplied.

Daniel Le Blancq and Dean Godwin receive no remuneration from the Issuer for their services and do not hold any direct, indirect, beneficial or economic interest in any of the shares of the Issuer. The directorship of Daniel Le Blancq and Dean Godwin is provided as part of the Administrator's overall corporate administration services provided to the Issuer pursuant to the Administration Agreement (as defined below).

József Vörös is entitled to remuneration from the Issuer of \$25,000 per annum, and to the reimbursement of his reasonable expenses pursuant to a letter of appointment between the Issuer and József Vörös. József Vörös does not hold any direct, indirect, beneficial or economic interest in any of the shares of the Issuer.

The directors of the Issuer may engage in other activities and have other interests which may conflict with the interests of the Issuer. As a matter of Jersey law, each director is under a duty to act honestly and in good faith with a view to the best interests of the Issuer, regardless of any other directorships he may hold.

The secretary of the Issuer is Mourant & Co. Secretaries Limited of 22 Grenville Street, St. Helier, Jersey, Channel Islands.

#### **E. AUDITORS OF THE ISSUER**

The auditors of the Issuer are Ernst & Young LLP of Unity Chambers, 28 Halkett Street, St. Helier, Jersey JE1 1EY. Ernst & Young LLP is authorised by the Jersey Financial Services Commission to be appointed as auditor of a Jersey-incorporated company under Article 109 of the Companies (Jersey) Law 1991.



## MATERIAL CONTRACTS OF THE ISSUER

The Issuer's ability to make payments of interest and principal on, and otherwise fulfil its obligations in relation to the Capital Securities will be dependent upon the satisfaction of the obligations owed to the Issuer by MOL under the material contracts described below. To the extent that MOL does not perform its obligations, the Issuer will have insufficient funds to make payments of interest and principal on the Capital Securities.

### *Share Purchase Agreement*

Under the Share Purchase Agreement, the Issuer will purchase from MOL, 6,007,479 Shares representing approximately [6] per cent. of the issued ordinary shares of MOL on or around the Closing Date. The acquisition price shall be equal to the volume weighted average price of each MOL share listed on the Budapest Stock Exchange during the full day's trading on 13 March 2006, multiplied by the number of Shares acquired. Under the Share Purchase Agreement, MOL will provide the Issuer with certain representations and warranties similar in scope and substance to the representations and warranties to be provided by MOL to the Manager under the Subscription Agreement.

### *Swap Agreement*

The Issuer has entered into the Swap Agreement with MOL under which MOL agrees, amongst other things, to make to the Issuer quarterly payments in respect of a notional amount equivalent to the principal amount of the Capital Securities outstanding from time to time at a rate reflecting interest payments from time to time under the Conditions (including any increased payments resulting from a Recommended Cash Change of Control or Non-Recommended Change of Control) and the Issuer agrees, amongst other things, to make an initial payment equal to the net proceeds of the issue of the Capital Securities less amounts retained by the Issuer to fund certain ongoing operating costs (together with a sum intended to provide comfort for the Trustee, the Calculation Agent and the Principal Paying, Transfer & Exchange Agents in connection with their respective fees, costs, expenses and indemnities under the Trust Deed and Agency Agreement) and less the purchase price payable under the Share Purchase Agreement. The Swap Agreement is documented as a confirmation subject to a 2002 ISDA Master Agreement that incorporates the 2000 ISDA Definitions. On a winding up of MOL, the claims of the Issuer against MOL under the Swap Agreement are, save for such exceptions as may be provided by applicable legislation, subordinated to the claims of MOL senior creditors and claims in respect of certain preferred amounts. In addition, under the Swap Agreement, the Issuer has granted to MOL a call option to acquire all or any of the listed securities included in the Exchange Property at its then current market value, at any time after 20 March 2016 and at any time before 20 March 2016 in certain limited circumstances after MOL has given notice of termination of the Swap Agreement, calculated in accordance with the terms of the Swap Agreement and otherwise on the terms of the Swap Agreement.

Under the Swap Agreement, if a recommended Change of Control occurs as a result of a tender for the acquisition of the Shares or other Relevant Securities for a consideration the value of which is constituted by at least 50 per cent. of cash, or upon a non-recommended Change of Control, or if, as a result of any change in the applicable laws or regulations, it becomes illegal for the swap transaction to continue in full force and effect or if the Swap Agreement becomes void or voidable, or the voting rights relating to the Shares are suspended, cancelled or otherwise become non-exercisable (any such event, an "**Illegality**"), or if at any time the Issuer is in breach of any other agreement to which MOL and the Issuer are parties (an "**Issuer Default**"), MOL will pay an additional payment to the Issuer which is expected to be equal to the Make-Whole Payment.

MOL may at its sole option elect to defer payment of interest under the Swap Agreement. Interest will accrue on the nominal amount of any Deferred Swap Payment (such deferred swap amount together with accrued interest a "**Deferred Swap Amount**"). MOL may at its option satisfy its obligations to pay the Deferred Swap Amounts in accordance with the Swap Agreement and must, other than on any swap termination date, so satisfy such obligation prior to MOL, subject to certain permitted exceptions: (i) declaring, paying or making any dividend, distribution or other payment in respect of its Shares; or (ii) redeeming, repurchasing or otherwise acquiring any of its Shares or Parity Securities or Junior Securities.

Under the Swap Agreement, MOL may satisfy any Deferred Swap Amounts in whole or in part (i) up to (and including) 20 March 2016, at any time from and including the day following the swap payment date on which such Deferred Swap Amount first occurs; or (ii) after 20 March 2016 on any swap payment date next following the swap payment date on which such Deferred Swap Amount occurs. MOL may satisfy its obligations to pay any Deferred Swap Amount at its option, by either of the following (or a combination thereof, each an "**Alternative Swap Payment Satisfaction Mechanism**"):

- (i) Issuing new shares or transferring existing shares and/or relevant securities to the issuer (a "**Share Deferred Swap Amount Satisfaction**"). If any deferred swap amount is to be satisfied in full or in part through the share deferred swap amount satisfaction method, the amount of the deferred swap amount

so satisfied shall be equal to the current market value of the shares and/or relevant securities delivered. MOL may only use the share deferred swap amount satisfaction up to a limit of (a) the product of (i) 0.5 per cent., (ii) the total number of shares and/or relevant securities, as the case may be, in issue on the date immediately prior to the date of settlement (in whole or in part) of such deferred swap amounts and (iii) the number of swap payments that have arisen in the period (the “**Swap Deferral Period**”) since the coming into existence of the first deferred swap amount (which has not previously been satisfied by MOL) to the date of settlement (in whole or in part) of such deferred swap amounts less (b) the number of any shares and/or relevant securities issued pursuant to any previous share deferred swap amount satisfaction during that Swap Deferral Period; and/or

- (ii) increasing the notional amount of the Swap Agreement (a “**Notional Increase Payment Satisfaction**”) by the Deferred Swap Amount. The Notional Amount of the Swap Agreement (as defined in the Swap Agreement) shall not at any time exceed 125 per cent. of the Initial Notional Amount of the Swap Agreement.

If in respect of any calculation period under the Swap Agreement, the cumulative limits set out in (i) and (ii) above are reached, all Deferred Swap Amounts then existing or arising during the remainder of the relevant calculation period under the Swap Agreement will be deemed automatically satisfied.

Under the terms of the Swap Agreement, and subject to certain exceptions identified in the Swap Agreement, if MOL shall, before all Deferred Swap Amounts have been satisfied and, in the case of the Payment in Kind Payment Satisfaction by the Issuer referred to in Condition 6.2 (*Satisfaction of Deferred Amounts*), for a period of 12 months following such satisfaction:

- (i) declare, pay or make any dividend, distribution or other payment on any of its Shares or
- (ii) redeem, repurchase or otherwise acquire any of its Shares or other securities which rank *pari passu* with or junior to MOL’s payment obligation under the Swap Agreement.

all Deferred Swap Amounts shall become immediately due and payable.

Under the terms of the Swap Agreement and, subject to certain exceptions identified in the Swap Agreement, if MOL shall, before any deferred amount relating to the Cash Proceeds Redemption and/or Make-Whole Payment arising pursuant to the provisions of Condition 10.4(ii) (*Redemption or Adjustment upon a Change of Control - Where more than 50 per cent. of the consideration consists of cash or unlisted securities*) have been satisfied:

- (i) declare, pay or make any dividend, distribution or other payment on any of its Shares or
- (ii) redeem, repurchase or otherwise acquire any of its Shares or other securities which rank *pari passu* with or junior to MOL’s payment obligations under the Swap Agreement,

all such deferred amounts shall become immediately due and payable.

#### ***Corporate Administration Agreement***

Pursuant to the Corporate Administration Agreement, the Administrator will provide certain administrative and secretarial services to the Issuer and will be remunerated in respect of services supplied. The Corporate Administration Agreement will be governed by the laws of Jersey.

#### ***Magnolia Trust Deed***

Pursuant to the Magnolia Trust Deed, the Share Trustee declared the Magnolia Trust, a trust for the benefit of charities and charitable purposes generally. Under the Magnolia Trust Deed the Share Trustee is required to apply the original trust property to subscribe for shares in the Issuer. The Magnolia Trust Deed is governed by the laws of Jersey.

#### ***Escrow Agreement***

Pursuant to the Escrow Agreement MOL and the Issuer will appoint the Escrow Agent as escrow agent in relation to the Exchange Property in accordance with the terms and conditions of the Escrow Agreement. The Escrow Agreement regulates certain payment flows and securities transfers between the Issuer and MOL pursuant to the Share Purchase Agreement, Swap Agreement and between the Issuer and the Capital Securityholders pursuant to the Conditions. Pursuant to the Escrow Agreement the Escrow Agent is required to exercise the voting rights in relation to the Exchange Property in accordance with the Issuer’s constitutional documents.

#### ***Trust Deed***

The Capital Securities will be constituted by a trust deed between the Issuer and the Trustee.

### ***Agency Agreement***

The Paying and Exchange Agency Agreement between the Issuer, the Trustee, the Registrar, the Paying, Transfer and Exchange Agents and the Calculation Agent to be entered on 20 March 2006 sets out, *inter alia*, the terms of appointment and duties of the Paying, Transfer and Exchange Agents, the Registrar and the Calculation Agent and the terms under which such commissions in respect of the services of the agents as shall be agreed between them and the Issuer are to be paid.

### ***Subscription Agreement***

Pursuant to the Subscription Agreement, subject to the satisfaction of certain conditions, the Issuer will sell to the Manager and the Manager will subscribe and pay or procure subscriptions and payment for the Capital Securities at 100% of their principal amount less a total combined management and underwriting commission of 1%. In addition, the Issuer will agree to reimburse the Manager for certain of its expenses in connection with the issue of the Capital Securities. The Subscription Agreement will entitle the Lead Manager to terminate the Subscription Agreement in certain circumstances prior to payment being made to the Issuer. Under the Subscription Agreement, the Issuer will provide the Manager with certain representations and warranties on the basis of representations and warranties received by the Issuer from MOL under the Sale and Purchase Agreement.

The Issuer has undertaken in the Subscription Agreement that, without the prior written consent of the Manager, it will not, during the period ending 90 days after the date of the Closing Date, (i) offer, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase, lend, or otherwise transfer or dispose of, directly or indirectly, any Shares or any securities convertible into or exercisable or exchangeable for Shares or (ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of the Shares, whether any such transaction described in clause (i) or (ii) above is to be settled by delivery of Shares or such other securities, in cash or otherwise. Save that such undertaking does not apply to (A) the sale of Shares by MOL to the Issuer pursuant to the terms of the Sale and Purchase Agreement, (B) the sale of the Capital Securities under the Subscription Agreement or (C) the issuance or sale by MOL of any Shares (i) pursuant to an option agreement dated 1 December 2005 between MOL and APV Rt. (State Privatisation and Holding Company) relating to 10,898,525 “A” Series shares of MOL as amended or supplemented from time to time; or (ii) pursuant to an option agreement dated 23 December 2005 between MOL and BNP Paribas SA relating to 7,552,874 “A” series shares of MOL as amended or supplemented from time to time; or (iii) upon the exercise of any other option or warrant or the conversion of a security outstanding on the date hereof of which the Manager has been advised in writing; or (iv) in the context of an M&A transaction to the extent that such M&A transaction is not inconsistent with the Conditions. For the avoidance of doubt, nothing in the Issuer’s undertaking shall prevent the acquisition by the Issuer of Shares.

### ***Shareholders’ Undertaking***

Pursuant to an agreement dated 6 March 2006 (the “**Shareholders’ Undertaking**”) between the Issuer, the Share Trustee the Nominees and MOL, the Share Trustee has covenanted to the Issuer and to MOL, *inter alia*, that it will not and will procure that the Nominees will not institute insolvency proceedings against the Issuer, or take any action in its capacity as shareholder of the Issuer to amend the provisions of the Memorandum of Association or Articles of Association of the Issuer in force at the date of the Shareholders’ Agreement. The Shareholders’ Agreement will restrict the ability of the Share Trustee and the Nominees to transfer the shares of the Issuer. An undertaking fee will be payable to the Share Trustee in respect of the undertakings given by the Share Trustee and by the Nominees under the Shareholders’ Agreement.

### ***Call Option Agreement***

Pursuant to a call option agreement between MOL, the Nominees and the Share Trustee dated 20 March 2006 (the “**Call Option Agreement**”), MOL will have the option to acquire from the Nominees, as the sellers, the entire issued share capital of the Issuer at any time during the period beginning on the due date for redemption of all the outstanding Capital Securities and ending on the date that falls 24 months thereafter. The Call Option Agreement is intended to allow MOL to access any amounts remaining in the Reserve Account following redemption in full of the Capital Securities by acquiring the Issuer, which, in turn, owns the Reserve Account.

### ***Deposit Agreement***

The Issuer will enter into a deposit agreement (the “**Deposit Agreement**”) with the Trustee, pursuant to which €5,000,000 of the Retention will be kept in a deposit account with the Trustee from which the Trustee may make deductions in certain specified circumstances.

## FINANCIAL INFORMATION ON THE ISSUER

### Capitalisation of the Issuer

The following table shows the capitalisation of the Issuer as at the date of this Prospectus.

	£
<i>Share Capital</i>	
<i>Authorised share capital</i> . . . . .	2
<i>Issued Share Capital</i> . . . . .	2
2 ordinary shares of £1 each . . . . .	

Since its incorporation, the Issuer has not commenced operations and no financial statements have been made up as at the date of this Prospectus. Furthermore, the Issuer has not entered into any loan capital, borrowings or material contingent liabilities (including guarantees), other than in relation to its obligations pursuant to the issue of Capital Securities as described in this Prospectus, and there has been no material adverse change in the financial position of the Issuer since its incorporation.

The Issuer has no assets other than the assets to be acquired with the proceeds of issue of the Capital Securities, the benefit of any agreement relating to the Capital Securities, the sum of £2 representing the Issuer's issued and paid-up share capital, fees generated in connection with the issue of Capital Securities and the Issuer's rights under the Sale and Purchase Agreement and the Swap Agreement.

## **TAXATION**

### **General**

Prospective investors in the Capital Securities should inform themselves as to the tax consequences within the countries of their residence and domicile of the acquisition, holding or disposal of the Capital Securities. The comments below are of a general nature based on law and practice as at the date of this Prospectus in each jurisdiction referred to and do not constitute a substitute for professional tax or legal advice. Any Capital Securityholders who are in doubt as to their personal tax position should consult their professional advisers.

### **Jersey Taxation**

The following summary of the anticipated tax treatment in Jersey of the Issuer is based on Jersey taxation law and practice in force at the date of this document and does not constitute legal or tax advice. Prospective investors should consult their professional advisors on the implications of investing in the Capital Securities under the laws of the jurisdictions in which they may be liable for taxation. Prospective investors should be aware that tax rules and practice and their interpretation may change.

The Issuer has “exempt company” status within the meaning of Article 123A of the Income Tax (Jersey) Law 1961, as amended, for the calendar year ended 31 December 2006. The Issuer will be required to pay an annual exempt company charge which is currently £600 in respect of each subsequent calendar year during which it wishes to continue to have “exempt company” status, for so long as such status is available. The retention of “exempt company” status is conditional on the Jersey Comptroller of Income Tax being satisfied that no Jersey resident has a beneficial interest in the Issuer, except as permitted by concessions granted by the Jersey Comptroller of Income Tax, and disclosure of beneficial ownership being made to the Jersey Financial Services Commission.

As an “exempt company”, the Issuer will not be liable to Jersey income tax other than on Jersey source income (except by concession bank deposit interest on Jersey bank accounts).

No stamp duty or similar taxes are payable in Jersey in connection with the issue, redemption or sale of the Capital Securities.

Capital Securityholders (other than residents of Jersey) are not subject to any tax in Jersey in respect of the holding, sale or other disposition of the Capital Securities. So long as the Issuer maintains its “exempt company” status, interest on the Capital Securities may be paid by the Issuer without withholding or deduction for or on account of Jersey income tax.

On 3 June 2003, the EU Council of Economic and Finance Ministers reached political agreement on the adoption of a Code of Conduct on Business Taxation. Jersey is not a member of the EU, however, the Policy & Resources Committee of the States of Jersey has announced that, in keeping with Jersey’s policy of constructive international engagement, it intends to propose legislation to replace the Jersey exempt company regime by the end of 2008 with a general zero rate of corporate tax.

It is intended that the new corporate tax will preserve tax neutrality (and so retain the existing benefits of the exempt company regime through a revised fiscal structure). Unlike the exempt company regime, it is anticipated that the new regime will not require an annual application/election or the payment of any sum by the relevant company.

Jersey introduced with effect from 1 July 2005 a retention tax system in respect of payments of interest, or other similar income, made to an individual beneficial owner resident in an EU Member State by a paying agent established in Jersey. The retention tax system applies for a transitional period prior to the implementation of a system of automatic communication to EU Member States of information regarding such payments. During this transitional period, such an individual beneficial owner resident in an EU Member State will be entitled to request a paying agent not to retain tax from such payments but instead to apply a system by which the details of such payments are communicated to the tax authorities of the EU Member State in which the beneficial owner is resident.

The retention tax system in Jersey is implemented by means of bilateral agreements with each of the EU Member States, the Taxation (Agreements with European Union Member States) (Jersey) Regulations 2005 and Guidance Notes issued by the Policy & Resources Committee of the States of Jersey. Based on these provisions and what is understood to be the current practice of the Jersey tax authorities, the Issuer would not be obliged to levy retention tax in Jersey under these provisions in respect of interest payments made by it to a paying agent established outside Jersey.

## **Luxembourg Taxation**

The following summary is of a general nature and is included herein solely for information purposes. It is based on the laws presently in force in Luxembourg, though it is not intended to be, nor should it be construed to be, legal or tax advice. Prospective investors in the Capital Securities should therefore consult their own professional advisers as to the effects of state, local or foreign laws, including Luxembourg tax law, to which they may be subject. The analysis of Luxembourg tax is based on the understanding that the Issuer is neither a resident of Luxembourg nor has a permanent establishment nor a fixed place of business within Luxembourg.

### *General*

Under Luxembourg tax law, there is currently no withholding tax on payments of principal, premium or interest, nor on accrued but unpaid interest, in respect of the Capital Securities, nor is Luxembourg withholding tax payable upon redemption or repurchase of the Capital Securities, except for interest payments made by a Luxembourg paying agent to individual beneficial owners who are tax resident of (i) Luxembourg, pursuant to the law of 23 December 2005, (ii) another EU Member State, pursuant to the Council Directive 2003/48/EC of 3 June, 2003 on taxation of savings income in the form of interest payments, or (iii) of certain non-EU countries and territories which have agreed to adopt measures similar to those provided for under the Council Directive 2003/48/EC, which are subject to withholding tax. Responsibility for the withholding of such tax will be assumed by the Luxembourg paying agent and not by the Issuer.

### *Income Taxation of holders of Capital Securities*

A Luxembourg holder of Capital Securities that is governed by the law of 31 July, 1929 on pure holding companies, as amended, or by the laws of 30 March, 1988 and 20 December, 2002 on undertakings for collective investment, as amended, is neither subject to Luxembourg income tax in respect of interest accrued or received, nor on gains realised on the sale or disposal of Capital Securities in any form whatsoever, the exchange of Capital Securities into Shares being deemed a disposal of Capital Securities.

A corporate holder of Capital Securities, who is resident of Luxembourg for tax purposes or who has a permanent establishment or a fixed place of business in Luxembourg to which the Capital Securities are attributable, must include any interest received or accrued, any redemption premium, as well as any gain realised on the sale or disposal of Capital Securities, in any form whatsoever, the exchange of Capital Securities into Shares being deemed a disposal of Capital Securities, in its taxable income for Luxembourg income tax assessment purposes. The same inclusion applies to an individual holder of Capital Securities, acting in the course of the management of a professional or business undertaking, who is resident of Luxembourg for tax purposes or who has a permanent establishment or a fixed place of business in Luxembourg, to which the Capital Securities are attributable. Under certain circumstances gains realised on the exchange of Capital Securities into Shares may not be disclosed for tax purposes, in which case any portion of such gains corresponding to accrued but unpaid interest would nevertheless be subject to taxation.

An individual holder of Capital Securities, acting in the course of the management of his/her private wealth, who is resident of Luxembourg for tax purposes, is subject to Luxembourg income tax in respect of interest and redemption premiums under the Capital Securities. A gain realised by an individual holder of Capital Securities, acting in the course of the management of his/her private wealth, who is resident of Luxembourg for tax purposes, upon the sale or disposal of Capital Securities, in any form whatsoever, the exchange of Capital Securities into Shares being deemed a disposal of Capital Securities, is not subject to Luxembourg income tax, provided this sale or disposal took place more than six months after the Capital Securities were acquired. However, any portion of such gain corresponding to accrued but unpaid interest income is subject to Luxembourg income tax. Interest Payments made by a Luxembourg paying agent to individual holders in respect of Capital Securities who are tax resident of Luxembourg are subject to a liberating interest withholding tax of 10 percent.

### *Net Wealth Taxation of holders of Capital Securities*

Any holder of Capital Securities whether he/she/it is resident of Luxembourg for tax purposes (except for individual holders) or, if not, he/she/it maintains a permanent establishment or a fixed place of business in Luxembourg to which the Capital Securities are attributable, is subject to Luxembourg wealth tax on such Capital Securities, except if the holder of Capital Securities is governed by the law of 31 July 1929 on pure holding companies, as amended, or by the laws of 30 March 1988 and 20 December 2002 on undertakings for collective investment, as amended, or is a securitisation company governed by the law of 22 March, 2004 on securitisation, or if a capital company governed by the law of 15 June 2004 on venture capital vehicles.



### *Other Taxes*

Neither the issuance nor the transfer of Capital Securities will give rise to any Luxembourg stamp duty, value added tax, issuance tax, registration tax, transfer tax or similar taxes or duties.

Where a holder of Capital Securities is a resident of Luxembourg for tax purposes at the time of this death, the Capital Securities are included in his taxable estate for inheritance tax assessment purposes.

Gift tax may be due on a gift or donation of Capital Securities if embodied in a Luxembourg deed or recorded in Luxembourg.

### **EU Savings Directive**

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

## SUBSCRIPTION AND SALE

Subject to the terms and conditions of a Subscription Agreement dated 13 March 2006 (the “**Subscription Agreement**”) the Manager has agreed with the Issuer, subject to the satisfaction of certain conditions, to subscribe for the Capital Securities at 100% of their principal amount less a total combined management and underwriting commission of 1% of the principal amount of the Capital Securities. In addition, the Issuer has agreed to reimburse the Manager for certain of its expenses in connection with the issue of the Capital Securities. The Subscription Agreement entitles the Manager to terminate the agreement in certain circumstances prior to payment being made to the Issuer.

The Issuer has undertaken in the Subscription Agreement that, without the prior written consent of the Manager, it will not, during the period ending 90 days after the date of the Final Prospectus, (i) offer, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase, lend, or otherwise transfer or dispose of, directly or indirectly, any Shares or any securities convertible into or exercisable or exchangeable for Shares or (ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of the Shares, whether any such transaction described in clause (i) or (ii) above is to be settled by delivery of Shares or such other securities, in cash or otherwise. Save that such undertaking does not apply to (A) the sale of Shares by MOL to the Issuer pursuant to the terms of the Sale and Purchase Agreement, (B) the sale of the Capital Securities under the Subscription Agreement or (C) the issuance or sale by MOL of any Shares (i) pursuant to an option agreement dated 1 December 2005 between MOL and APV Rt. (State Privatisation and Holding Company) relating to 10,898,525 “A” Series shares of MOL as amended or supplemented from time to time; or (ii) pursuant to an option agreement dated 23 December 2005 between MOL and BNP Paribas SA relating to 7,552,874 “A” series shares of MOL as amended or supplemented from time to time; or (iii) upon the exercise of any other option or warrant or the conversion of a security outstanding on the date hereof of which the Manager has been advised in writing; or (iv) in the context of an M&A transaction to the extent that such M&A transaction is not inconsistent with the Conditions. For the avoidance of doubt, nothing in the Issuer’s undertaking shall prevent the acquisition by the Issuer of Shares.

### United States

The Capital Securities and the Exchange Property have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

In this Prospectus, “**United States or U.S.**” means the United States of America, its territories and possessions, any state of the United States, and the District of Colombia.

In addition, until 40 days after the commencement of the offering, an offer or sale of Capital Securities within the United States by any dealer, whether or not such dealer is participating in the offering may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with an available exemption from registration under the Securities Act.

### United Kingdom

The Manager has represented to, and agreed with the Issuer that:

- (a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000 (“**FSMA**”)) received by it in connection with the issue or sale of the Capital Securities in circumstances in which section 21(1) of the FSMA does not apply to the Issuer; and
- (b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Capital Securities in, from or otherwise involving the United Kingdom.

### Jersey

The Manager has represented to, and agreed with, the Issuer that:

- (a) the Capital Securities may not be offered to, sold to or purchased or held by or for the account of persons (other than financial institutions in the normal course of business) resident for income tax purposes in Jersey;

- (b) it has not offered or sold and will not offer or sell Capital Securities in any jurisdiction in a manner that would cause the Issuer to be in breach of the consents granted to it by the Jersey Financial Services Commission; and
- (c) it will not take any action on behalf of the Issuer that would result in the Issuer being required to become registered under the Financial Services (Jersey) Law 1998, as amended.

A financial institution for these purposes includes, without limitation, a bank, finance house, insurance company, investment trust or fund, mutual fund or society, pension fund and other institution of a like nature.

## Japan

The Capital Securities have not been and will not be registered under the Securities and Exchange Law of Japan and the Manager has agreed that it will not offer or sell any Capital Securities, directly or indirectly in Japan or to, or for the benefit of any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organised under the laws of Japan), or to others for re-offering or resale, directly or indirectly, in Japan or to a resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Securities and Exchange Law of Japan and any other applicable laws, regulations and ministerial guidelines of Japan.

## Hungary

If the Capital Securities are offered in a private placement in Hungary, the Issuer must report such private placement to the Hungarian Financial Supervisory Authority within 15 days from the closing date of the private placement.

## The Grand Duchy of Luxembourg

In relation to the Grand Duchy of Luxembourg (“**Luxembourg**”), which has implemented the Prospectus Directive by the Luxembourg act dated 10 July 2005 relating to prospectuses for securities (the “**Prospectus Act 2005**”), the Manager has represented and agreed that it has not made and will not make an offer of Capital Securities to the public in Luxembourg, except that it may make an offer of Capital Securities to the public in Luxembourg:

- (a) in the period beginning on the date of publication of a prospectus in relation to those Capital Securities which has been approved by the CSSF, as competent authority in Luxembourg or, where appropriate, approved in another Member State of the European Economic Area which has implemented the Prospectus Directive and notified to the CSSF, all in accordance with the Prospectus Directive and ending on the date which is twelve months after the date of such publication;
- (b) at any, time, to legal entities which are authorised or regulated to operate in the financial markets (including, credit institutions, investment firms, other authorised or regulated financial institutions, insurance companies, undertakings for collective investment and their management companies, pension and retirement funds and their management companies, commodity dealers as well as entities not so authorised or regulated whose corporate purpose is solely to invest in securities);
- (c) at any time, to national and regional governments, central banks, international and supranational institutions (such as the International Monetary Fund, the European Central Bank, the European Investment Bank and other similar international organisations);
- (d) at any time, to any legal entities which have two or more of (i) an average number of employees during the financial year of at least 250, (ii) a total balance sheet of more than €43,000,000 and (iii) an annual net turnover of more than €50,000,000, as shown in their last annual or consolidated accounts;
- (e) at any time, to certain natural persons or small and medium-sized enterprises (as defined in the Prospectus Act 2005) recorded in the register of natural persons or small and medium-sized enterprises considered as qualified investors as held by the CSSF; and
- (f) at any time, in any other circumstances which do not require the publication by the Issuer of a prospectus pursuant to article 5 of the Prospectus Act 2005.

For the purposes of this provision, the expression an “offer of Capital Securities to the public” in relation to any Capital Securities in Luxembourg means the communication in any form by any means of sufficient information on the terms of the offer and the Capital Securities to be offered so as to enable an investor to decide to purchase or subscribe to such Capital Securities.

## France

The Manager has represented and agreed that it will only make an offer of Capital Securities to the public (*appel public à l'épargne*) in France:

- (h) in the period beginning on the date of publication of a prospectus in relation to those Capital Securities which has been approved by the *Autorité des Marchés Financiers* (“AMF”) in France or, where appropriate, when approved in another Member State of the European Economic Area which has implemented the EU Prospectus Directive 2003/71/EC on the date of notification to the AMF in France, all in accordance with articles L.412-1 and L.621-8 of the French *Code Monétaire et Financier* and the *Règlement qualifi* of the AMF and ending at the latest on the date which is 12 months after the date of such publication; or
- (i) in circumstances which do not require the publication by the Issuer of a prospectus pursuant to articles L.411-2 and L.412-1 of the French *Code Monétaire et Financier*; and

otherwise, the Manager represents and agrees that it has not offered or sold and will not offer or sell, directly or indirectly, Capital Securities to the public in France, and has not distributed or caused to be distributed and will not distribute or cause to be distributed to the public in France, the Prospectus or any other offering material relating to the Capital Securities, and that such offers, sales and distributions have been and shall only be made in France to (i) providers of investment services relating to portfolio management for the account of third parties, and/or (ii) qualified investors (*investisseurs qualifiés*) all as defined in, and in accordance with, articles L.411-1, L.411-2 and D.411-1 of the French *Code Monétaire et Financier*.

## General

The Manager acknowledges that with the exception of the application to CSSF for its approval of this Prospectus and for the admission of the Capital Securities for listing and trading on the Luxembourg Stock Exchange's regulated market, no representation is made by the Issuer that any action has been or will be taken in any jurisdiction that would permit a public distribution of the Prospectus or any other material relating to the Capital Securities, or offering of the Capital Securities, in any country or jurisdiction where action for that purpose is required. The Manager agrees that it will, to the best of its knowledge and belief, comply with all applicable laws and regulations in each jurisdiction in which it acquires, offers, sells or delivers Global Certificates or has in its possession or distributes the Prospectus or any such other material, in all cases at its own expense.

## GENERAL INFORMATION

### Authorisation

The issue of Capital Securities has been duly authorised by a resolution of the Board of Directors of the Issuer passed on 8th March, 2006.

### Listing of the Capital Securities

Application will be made to the CSSF in its capacity as competent authority under the Luxembourg act dated 10 July 2005 relating to prospectuses (*loi relative aux prospectus pour valeurs mobilières*) for its approval of this Prospectus and an application will be made to the Luxembourg Stock Exchange for the Capital Securities to be admitted to trading on the Luxembourg Stock Exchange's regulated market and to be listed on the Luxembourg Stock Exchange.

### Information relating to the Shares

The Shares delivered on exchange of the Capital Securities will rank *pari passu* in all respects with all fully paid Shares of MOL in issue on the relevant Exchange Date, save as provided in Condition 7 (*Exchange*).

The Shares are traded on the Budapest Stock Exchange (under ISIN number HU0000068952) and as at 13 March 2006, the closing price of the Shares on the Budapest Stock Exchange was HUF 20,440 per Ordinary Share. The historic dividend yield on the Shares in the five years to 1 December 2005 averaged 1.01 per cent. per annum.

The Budapest Stock Exchange ("**BSE**") is the official trading platform for publicly listed securities in Hungary which updates share prices every 15 minutes. The BSE was established in June 1990 after the Hungarian Securities Act provided the legal framework for the exchange in March 1990 and it is regulated by the Hungarian Financial Supervisory Authority.

The range of products available on BSE are broadly divisible into equities, debt securities and derivatives. The equities section has been operating since the beginning of the BSE and includes the trading of investment fund units and compensation notes. The debt securities section is dominated by government bonds, although mortgage bonds and corporate bonds are also traded. The derivatives market is the most rapidly developing section of the exchange and trades in equity futures and options, as well as currency and interest rate futures.

The data for each company that trades on the exchange is produced in graphic form. The daily timeline is shown on the horizontal axis and the price on the vertical axis. Daily summaries are available from the exchange and turnover in the equities market has been averaging at approximately 18,000 trades per day in 2005, and turnover in the debt securities market has been averaging at approximately 1,000 trades per day in 2005.

### Documents Available

Copies of the following documents will be available (in the case of (d) below, for inspection only) from the registered office of the Issuer and from the specified office of the Paying Agent for the time being in Luxembourg:

- (a) the memorandum of association and articles of association of the Issuer;
- (b) the consolidated audited financial statements of MOL in respect of the financial years ended 31 December, 2004 and 2003 (with an English translation thereof), together with the audit reports prepared in connection therewith;
- (c) the unaudited consolidated stock exchange report of MOL for the period ended 31 December, 2005;
- (d) the MOL Eurobond Prospectus dated 30 September 2005;
- (e) the Share Purchase Agreement, the Swap Agreement, the Subscription Agreement, the Agency Agreement, the Trust Deed and the forms of the Global Certificate and, the Capital Securities in definitive form;
- (f) a copy of this Prospectus; and
- (g) any supplements to this Prospectus and any other documents incorporated herein or therein by reference.

**Clearing Systems**

The Capital Securities have been accepted for clearance through Euroclear and Clearstream, Luxembourg (which are the entities in charge of keeping the records). The appropriate Common Code and ISIN for the Capital Securities allocated by Euroclear and Clearstream, Luxembourg are 024776182 and XS0247761827 respectively.

The address of Euroclear is 1 Boulevard Du Roi Albert II, 1210 Brussels, Belgium and the address of Clearstream, Luxembourg is 42 Avenue J.F. Kennedy, 1855 Luxembourg, Luxembourg.

**Significant or Material Change**

There has been no significant change in the financial or trading position of the Issuer since its incorporation, otherwise than as described in this Prospectus.

**Litigation**

The Issuer has not been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware) in the 12 months preceding the date of this document which may have or have had in such period a significant effect on the financial position or profitability of the Issuer.

**Trust Deed**

The Trust Deed provides that the Trustee may rely on certificates or reports of any experts in accordance with the provisions of the Trust Deed whether or not any such certificate or report or any engagement letter or other document entered into by the Issuer and/or the Trustee and such expert in connection therewith contains any limit on liability (monetary or otherwise) of such expert.



## APPENDIX A

### INFORMATION ON MOL

The information contained in this Appendix A is for information purposes only. The definitions contained in this section have been extracted from the Eurobond Prospectus, which was not prepared in connection with the offering of Capital Securities, the Issuer was not involved in the preparation of the Eurobond Prospectus and, as such, is not in a position to independently verify the contents thereof in connection with the issue of the Capital Securities.

### DEFINITIONS AND GLOSSARY

**Average production cost** – total cost of lifting, gathering and processing of crude oil and natural gas.

**Boe** – barrel of crude oil equivalent – the volume equivalent obtained after conversion of the heating value of gas to crude oil on the basis of its thermal quantity. 1 Boe is, in general, 6,000 cubic feet (about 170 normal m<sup>3</sup>) of gas.

**Barrel** – barrel is the key imperial measure used in the oil industry, one tonne is equivalent to approximately 7.3 barrels of crude oil.

**bbl** – see barrel.

**Black Products** – products (fuel oil, bitumen, petrol coke) that can be extracted from crude oil and which have a high level of viscosity (in general, lower value products).

**block** – a section of the surface of the earth demarcated in accordance with applicable regulations.

**Brent type crude oil** – mix of North Sea crude oils whose quoted price is considered as a benchmark in the international crude oil market.

**Brent-Urals spread** – the difference between the price of the commonly traded North Sea crude oil (Brent) and price of oil shipped from Russia (Ural).

**Captive consumer** – a consumer who purchases natural gas at a regulated price.

**Condensates** – general term for a group of liquid phase hydrocarbons in which light components dominate and which are extracted at the surface by natural gas separation.

**Co-generation plant** – coal or natural gas fuelled power station that is suitable for the simultaneous generation of electric and thermal energy.

**Cracker** – a device used in the refining process to break large molecules into smaller molecules.

**Distillation capacity utilisation** – the utilisation of the primary distillation capacity of a refinery.

**Downstream** – Refining and Marketing Segment of the MOL Group's business activities.

**Dry well** – an investigated borehole which does not confirm the existence of a hydrocarbon site or is not able to profitably produce crude oil or natural gas.

**Enhanced oil recovery** – processes/technologies that can be used to recover more oil relative to the primary and secondary methods.

**Field development** – process of implementing underground and above ground facilities necessary for the recovery of hydrocarbon reserves.

**Gas Act** – Act XLII of 2003 on Natural Gas Supply (*2003. évi XLII. törvény a földgázellátásról*).

**Gross production** – total quantity of crude oil and natural gas from hydrocarbon fields prior to the deduction of royalties.

**Horizontal drilling** – drilling at which horizontal or near horizontal range is created in the target layer following the vertical section in order to expand the inflow cross-section.

**Hungarian Petroleum Association (MÁSZ)** – association of the most important Hungarian crude oil product trading companies.

**KKKSz** – Association of Crude Oil and Crude Oil Products Stockpiling Association responsible for the strategic stockpiling of crude oil and crude oil products in Hungary.

**LPG** – liquefied petroleum gas.

**MCF** – Million cubic feet. The key imperial measure used in the natural gas industry. One cubic metre is equivalent to 35.314 cubic feet.

**Mining Act** – Act XLVIII of 1993 on Mining (a bányászatról szóló 1993. évi XLVIII. törvény).

**Moe** – million barrels of crude equivalent.

**MOL filling station operated in franchise** – a filling station displaying the MOL logo and offering MOL's product range, but not owned by MOL.

**Monomers** – the monomers, ethylene and propylene, are the primary products of cracking one or more of the following: naphtha, gasoil, ethane, propane and butane. They are the largest volume petrochemicals, and effectively the building blocks of the petrochemical industry. Their most attractive feature is the double bond between two carbon atoms, which makes them highly chemically reactive.

**Mtn** – million tonnes.

**Natural gas liquids** – liquefied hydrocarbons separated from natural gas, ranging from propanes to gasolines and also containing heavier components.

**Nelson Complexity Index** – an indicator of the complexity of a refinery and the range of products it can produce.

**Net dry natural gas production** – total gas recovered, reduced by the quantity of produced or separated carbon dioxide and/or the condensates.

**Net production** – total crude oil and natural gas quantity from the hydrocarbon fields following the deduction of mining royalties.

**nTPA** – Negotiable Third Party Access – access to transmission and storage services on free market is negotiable.

**Polyethylene** – this is a type of polyolefin. The high pressure process of ethylene produces a low density polyethylene (LDPE) and the medium pressure polymerisation of ethylene produces a high density polyethylene (HDPE). LDPE is more flexible and has better clarity; HDPE has greater strength and less creep (the continuous yield of material under stress) and less permeable to gases.

**Polyolefins** – this is the collective name given to those polymers that are made from the olefins (ethylene, propylene). Polyolefins are high molecular weight compounds made by joining together hundreds or thousands of molecules, which consist of monomers. Molecular weight, structure and composition affect a number of the properties of polymers.

**Polypropylene (PP)** – this is a type of polyolefin, the product of a propylene polymerisation reaction. Polypropylene is the lowest density polymer. It has fair-to-good impact strength (the ability of a material to withstand shock loading) and excellent colourability. PP has good resistance to heat and low water absorption.

**Platts** – statistical platform containing information about different energy markets.

**PPM** – a measure of the concentration of a substance in a liquid, used where low levels of concentration are significant. The ppm value is equivalent to the absolute fractional amount multiplied by one million. For example, 10 ppm equals 10 kilograms of a substance for a million kilograms (one kiloton) of a liquid.

**Proved developed non-producing reserve** – reserves that can be extracted from existing wells during the period of time available, but where, due to a lack of pipeline connections or lack of other mechanical elements or contractual obligations, the production and marketing of hydrocarbons has not yet started.

**Proved developed producing reserve** – the reserve that can be extracted from existing wells during the period of time available for production.

**Proven reserve** – estimated quantity of crude oil, natural gas and liquefied gas products that can commercially be extracted from already known reservoirs with a high degree of certainty (over 90%) under the prevailing economic and operating conditions.

**Proven undeveloped reserve** – reserve that can be extracted from new wells located in areas where no drilling has been made yet or from existing wells in which relatively significant expenditure is required for development.

**Production Sharing Agreement (PSA)** – agreement for sharing the production of an oil field or a gas field between the State and the investors.

**Refining cover** – total refining capacity divided by total volumes of product sold.

**Reserve** – estimated volume of crude oil, condensate, natural gas and other components that it is assumed can be extracted in commercial quantities by using known recovery methods from a known accumulation following a given point in time under the actual economic circumstances and relevant government regulation.

**Residue upgrading** – transforming residues (heavy fuel oil) into more valuable white products.

**Royalty** – by virtue of prevailing international practice and the Mining Act, the Government of Hungary stipulates the payment of a royalty on most of the crude oil and natural gas extracted. The royalty rate is currently 12% (since 1 January, 1998), except the supplementary royalty paid on gas production from fields put into production before 1998.

**Russian export blend** – a mix of Russian crude oils whose quoted price is considered as a benchmark in the international crude oil markets.

**SAPPO** – Slovak Association of Petroleum Industry and Trade.

**Sedimentary sub-basin** – a geographic area representing part or all of a surface drainage area or a combination of drainage areas.

**Sweet crude oil** – crude oil with a low sulphur content.

**Tariff consumer** – see captive consumer.

**Toe** – tonne of crude oil equivalent – mass equivalent received from the heating value of gas following conversion to crude oil on the basis of heat unit. As a rule, 1,200 Nm<sup>3</sup> gas is equivalent to 1 Toe.

**Upstream** – Exploration and Production Segment of the MOL Group business activities.

**Ural blend** – benchmark crude oil that is the basis for export price positioning of West Siberian oil.

**White products** – products (for example, LPG, gasolines, and gas oils) that can be extracted from crude oil, having lower viscosity (in general, higher value products).

**White Pumpers** – smaller and midsize independent participants in the retail market.

## DESCRIPTION OF MOL\*

### A. INFORMATION ABOUT MOL

The legal name of MOL is MOL Hungarian Oil and Gas Public Limited Company (“**MOL**”)(in Hungarian *MOL Magyar Olaj- és Gázipari Részvénytársaság*), in its abbreviated form: MOL (*MOL Rt.*). MOL also operates under the commercial name MOL. MOL’s registered seat is at Október huszonharmadika u. 18. Budapest, H-1117, Hungary, telephone number +36 1 209 0000. MOL incorporated in Hungary being registered as a company limited by shares on 1 October, 1991 under the registration number Cg. 01-10-041683 by the Metropolitan Court in Budapest acting as Court of Registration and was founded for an indefinite period.

In 2003 and 2004 MOL’s auditors were Ernst & Young Könyvvizsgáló Korlátolt Felelősségű Társaság (registered seat: Váci út 20. H-1132 Budapest, Hungary).

### B. ORGANISATIONAL STRUCTURE OF THE MOL GROUP

#### *Principal activities*

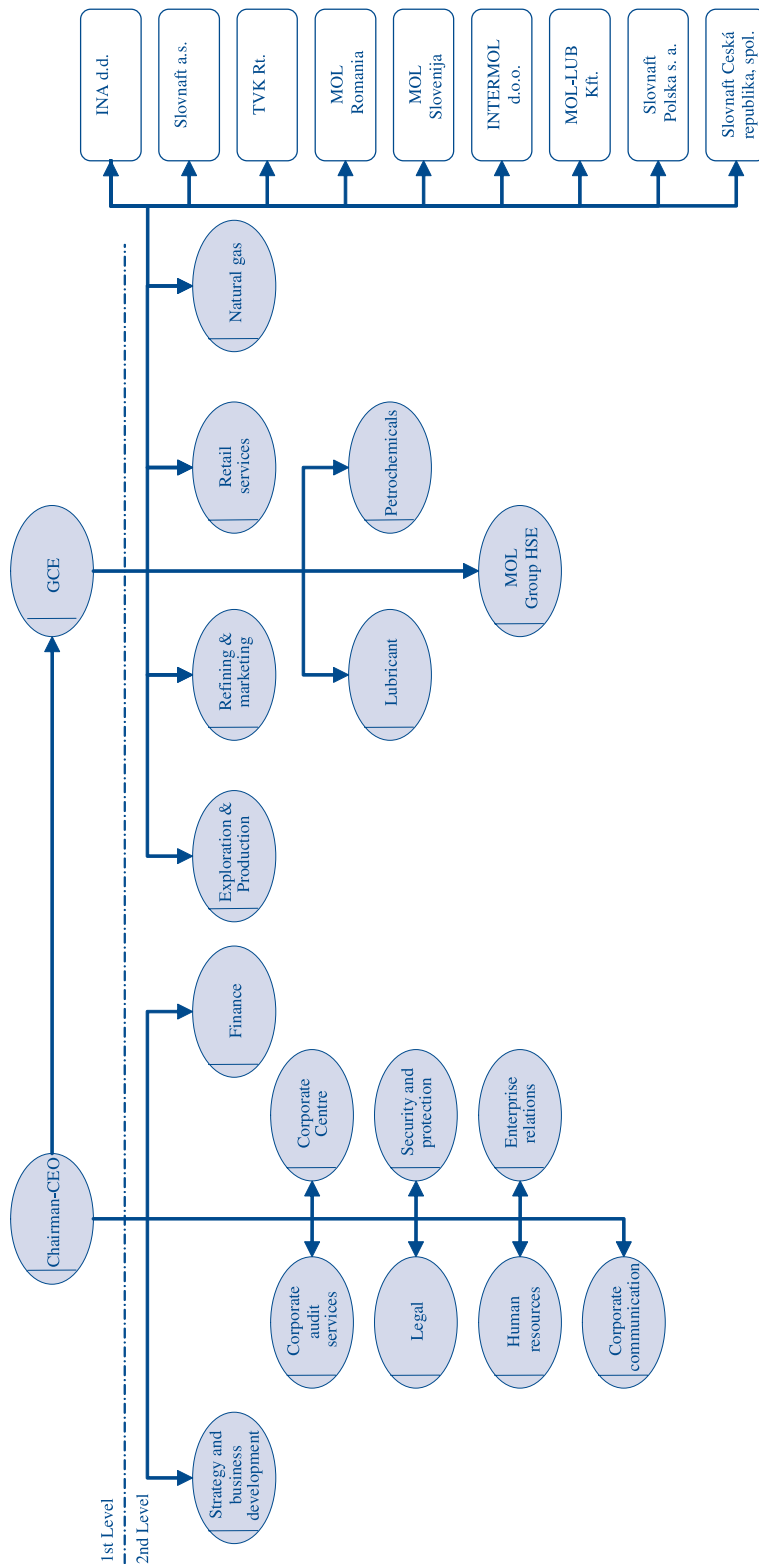
The MOL Group (the “**MOL Group**” or the “**Group**”) is a leading integrated oil and gas group in Central Europe and MOL is the largest company in Hungary by sales revenues. MOL is primarily engaged in the exploration and production of crude oil and natural gas, refining of crude oil, wholesale and retail sales of refined petroleum products as well as production and sales of olefins and polyolefins. The Gas Subsidiaries (as defined below) are also active in natural gas wholesale, transmission and storage within Hungary. In addition to its own production, MOL purchases natural gas and crude oil from foreign sources. The Group operates through a number of direct and indirect wholly or majority owned subsidiaries. Its operations are broadly divided among the following businesses:

- **the Exploration and Production business** is responsible for domestic and international oil and gas exploration, development and production activities;
- **the Refining and Marketing business** processes crude oil and other feedstock from domestic and imported sources, and is responsible for the wholesale marketing of refined products; the Retail Marketing business is part of Refining and Marketing business and operates the network of retail filling stations and manages retail sales of petroleum products, as well as non-fuel (shop) products and services;
- **the Natural Gas business** operating through MOL Natural Gas Supply Plc., MOL Natural Gas Storage Plc. and MOL Natural Gas Transmission Plc. (together, the “**Gas Subsidiaries**”), is responsible for the purchasing, transmission, wholesale supply and underground storage of natural gas; and
- **the Petrochemicals business** is responsible for the production and marketing of olefin and polyolefin products.

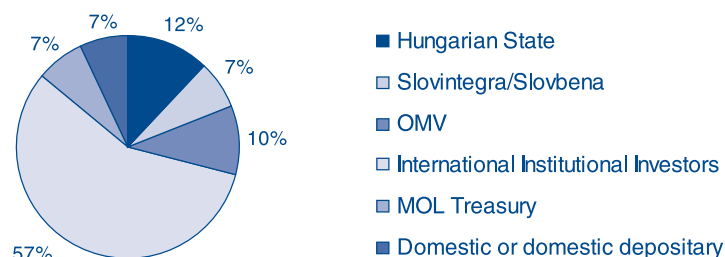
MOL is the largest company in Hungary by group level net sales revenues of HUF 1,955.8 billion and group level net income of HUF 209.3 billion in 2004.

\* Source: MOL Eurobond Prospectus dated 30 September 2005

The following diagram gives an overview of the corporate functions within the MOL Group:



### Shareholding structure (approximate) (30.06.2005)



As at 30 June, 2005 MOL's shares were held by a mixture of Hungarian and non-Hungarian investors. To the best of its knowledge, MOL is not owned or controlled by any one entity.

MOL is the first national oil and gas company in Central Europe to be privatised. Its shares are listed on the Budapest, Warsaw and Luxembourg Stock Exchanges and are traded on the International Order Book of the London Stock Exchange.

In recent years MOL has proved to be the driving force of the Central and Eastern European (CEE) oil market consolidation on a regional basis. MOL managed to enter new markets whilst protecting its existing market positions through the expansionary acquisitions detailed below. MOL is in the process of selling-off its gas business to E.ON Ruhrgas International, a subsidiary of E.ON AG, allowing MOL to concentrate on its core oil business. It is expected that this transaction will be completed towards the end of 2005.

MOL heads the MOL Group. The following table sets out the structure of the MOL Group with shareholdings of MOL in each subsidiary entity:

*Investments in consolidated companies and joint ventures (as at 30 June, 2005):*

<u>Company name</u>	<u>Country</u>	<u>Range of activity</u>	<u>Stake</u>
<i>Exploration and Production</i>			
GES Kft.	Hungary	Geophysical surveying and data processing	100%
Geoinform Kft.	Hungary	Well service provider	100%
MOL CIS	Cyprus	Upstream investment management	100%
ZMB Ltd (joint venture)*	Russia	Exploration and production of foreign natural oil and gas fields	50%
MOL Greece Ltd	Cyprus	Exploration and production of foreign natural oil and gas fields	100%
RUSI Ltd	Cyprus	Production financing	100%
MOL Caspian	Cyprus	Exploration and production of foreign natural oil and gas fields	100%
Ural Group Ltd (joint venture)*	Kazakhstan	Exploration and production of foreign natural oil and gas fields	28%
MOL Pakistan Ltd	Netherlands	Exploration and production of foreign natural oil and gas fields	100%
MOL BHM OIL-Invest Ltd	Cyprus	Upstream investment management	100%
MOL Syria Ltd	Netherlands	Exploration and production of foreign natural oil and gas fields	100%
MOL Tunisia Ltd	Cyprus	Exploration and production of foreign natural oil and gas fields	100%
MOL Yemen Ltd	Cyprus	Exploration and production of foreign natural oil and gas fields	100%
UBA Services Ltd	Cyprus	Upstream investment management	100%
<i>Natural Gas</i>			
MOL Földgázellátó Rt.	Hungary	Natural gas supply and trading	100%
MOL Földgázszállító Rt.	Hungary	Natural gas transmission	100%
MOL Földgáztároló Rt.	Hungary	Natural gas storage	100%
Balatongáz Kft.	Hungary	Gas-utility development and management	77%



<u>Company name</u>	<u>Country</u>	<u>Range of activity</u>	<u>Stake</u>
<i>Refining and Marketing</i>			
InterMOL	Serbia	Retail trade of fuels and lubricants	100%
Mineralkontor GmbH	Germany	Trade of oil products	74%
MOL-LUB Kft.	Hungary	Production and trade of lubricants	100%
MOL Austria GmbH	Austria	Wholesale trade of lubricants and oil products	100%
MOL Romania PP s.r.l.	Romania	Retail trade of fuels and lubricants	100%
MOL Ro Comert	Romania	Retail trade of fuels and lubricants	100%
MOL Slovenija d.o.o.	Slovenia	Retail trade of fuels and lubricants	100%
MOLtrans Kft.	Hungary	Transportation	100%
MOLTRADE Mineralimpex Rt.	Hungary	Importing and exporting energy products	100%
Terméktároló Rt.	Hungary	Oil product storage	74%
Petrolszolg Kft.	Hungary	Maintenance services	100%
Roth Heizöle GmbH	Austria	Trading of oil products	75%
Alpenkohle Mineralölhandels GmbH*	Austria	Trading of oil products	75%
Egon von Lenz GmbH*	Austria	Trading of oil products	75%
Heizöl Blitz Stadler GmbH (joint venture)*	Austria	Trading of oil products	15%
Rumpold Energie & Brennstoffhandels GmbH*	Austria	Trading of oil products	75%
Slovnaft a.s.	Slovakia	Refinery and marketing of oil and petrochemical products	98%
Apollo Oil and Rohstoffhandels GmbH*	Austria	Trading of crude oil	66%
MOL Slovensko s.r.o.*	Slovakia	Wholesale trade	98%
Slovnaft Ceska Republika s.r.o.*	Czech Republic	Wholesale and retail	98%
Slovnaft Montáže a opravy a.s.*	Slovakia	Repairs and maintenance	98%
Slovnaft Polska S.A.*	Poland	Wholesale and retail	98%
Slovnaft Trans a.s.*	Slovakia	Transportation	98%
Slovnaft VÚRUP a.s.*	Slovakia	Research & development	98%
Slovnaft Ukrajina s.r.o.*	Ukraine	Wholesale trade	88%
Ukrslovnaft*	Ukraine	Retail trade	83%
SWS s.r.o.*	Slovakia	Transport support services	50%
<i>Petrochemicals</i>			
TVK Rt.	Hungary	Petrochemical production and trading	52%
TVK Austria GmbH*	Austria	Wholesale and retail trade	27%
TVK Inter-Chemol GmbH*	Germany	Wholesale and retail trade	52%
TVK Italia Srl.*	Italy	Wholesale and retail trade	52%
TVK France S.a.r.l. (former TVK-MOL-Chem S.a.r.l.)*	France	Wholesale and retail trade	52%
TVK UK Ltd*	England	Wholesale and retail trade	52%
<i>Corporate and other</i>			
EMS Management Services Ltd.	Cyprus	Management services	100%
Explant Kft. (former Kunpetrol Kft.)	Hungary	Maintenance services	100%
Hermész Kft.	Hungary	Consultancy	100%
MOL Reinsurance Ltd	Cyprus	Captive insurance	100%
Slovnaft Rekreacentrum a.s.*	Slovakia	Operation of recreation facilities	98%
TVK Ingatlankezelő Kft.*	Hungary	Real estate management	52%
TVK Erőmű Kft. (joint venture)*	Hungary	Power plant	14%

*Investments in major associated and other companies (as at 30 June, 2005):*

<u>Company name</u>	<u>Country</u>	<u>Range of activity</u>	<u>Stake</u>
<i>Associated companies</i>			
INA Group	Croatia	Integrated oil and gas company	25%
Panrusgáz Rt.	Hungary	Natural gas trading	50%
Messer Slovnaft s.r.o	Slovakia	Production of technical gases	48%
Chémia Bratislava a.s.	Slovakia	Services	48%
Villas Hungária Kft.	Hungary	Bitumen production	40%
IN-ER Erőmű Kft.	Hungary	Planning power plants	30%
Tűzoltó és Műszaki Mentő Kft.	Hungary	Fire and technical rescue services	46%
Messer MOL Gáz Kft.	Hungary	Production of technical gases	25%
VIBA-TVK Kft.	Hungary	Petrochemical production	21%
<i>Other investments</i>			
Aka Holding Rt.	Hungary	Motorway construction and operation	1.5%
MOL Agram	Croatia	Trading of oil products	100%

\* – denotes indirect subsidiaries.

With the exception of the ongoing sale of naphtha to TVK (described in the section entitled “*Petrochemical feedstock (naphtha and petrochemical grade gas oil)*” on page 54 of this Prospectus), MOL is not dependent on any member of the MOL Group.

### ***Slovnaft***

MOL currently owns 98.4% of the shares of its consolidated subsidiary Slovnaft, the principal oil refining, wholesale and retail marketing enterprise in the Slovak Republic and one of the largest industrial enterprises in the country, based on sales. Slovnaft is engaged in processing of crude oil into a broad range of petroleum products and petrochemicals and marketing, transportation and distribution of those products. As a result of MOL’s acquisition of a controlling stake in Slovnaft, which are listed on the Bratislava Stock Exchange, MOL was required to make a public tender offer for the remaining Slovnaft shares. The tender was successfully closed in January 2004. MOL and Slovnaft have already integrated their operations since 1 January, 2004. Slovnaft’s Bratislava refinery and wholesale network have been integrated into MOL’s Refining and Marketing segment. Slovnaft’s retail filling stations have also been integrated into MOL’s retail marketing business. In addition, Slovnaft’s petrochemical assets (steam cracker and polymerisation units) and its polymer sales and marketing activity are integrated with TVK’s operations (see below).

As part of the overall integration of Slovnaft, 40 senior group managers, selected from both MOL and Slovnaft, have responsibility for MOL’s and Slovnaft’s operations. The Slovnaft transaction was the first major cross-border acquisition in the oil industry in Central Europe. MOL believes that this integration will enable the partners to exploit further synergies and realise other benefits from closer co-operation between the two companies. MOL and Slovnaft have jointly addressed the issue of meeting European Union 2005 fuel quality standards and benefited from the joint implementation of the fuel quality improvement project. Slovnaft has the ability to deliver its products to the Czech Republic and Austria. Accordingly, MOL believes that Slovnaft also serves as a platform for further regional expansion, which may include additional investments in southern Poland and the Czech Republic.

### ***TVK***

TVK, the principal Hungarian petrochemicals company and the only olefin and polyolefin producer in Hungary, was the first significant chemical company in Central Europe to be privatised. In 1999 and 2000, MOL acquired 32.9% of TVK’s shares and, in November 2001, MOL increased its stake through a public tender offer to 34.5%. MOL also held options to purchase an additional 17.9% of TVK’s shares from two financial investors. After exercising its option on 9.8% of the shares in TVK, in November 2003, MOL held legal title to 44.3% of TVK. In addition, in March 2004 the wholly-owned subsidiary of MOL, Hermész Kft. has exercised the call option of MOL of 8.0%, as a result of which MOL’s direct and indirect ownership ratio in TVK is 52.3%. In the fourth quarter of 2004, Hermész Kft. sold its 8.0% stake in TVK to Slovnaft a.s.

TVK's petrochemical production, sales and marketing of polymers are also part of MOL's petrochemicals segment. From 1 July, 2004, MOL integrated TVK's functional units into the MOL Group. MOL's strategic investment in TVK has helped to create a secure petrochemical feedstock customer as well as a platform for further petrochemicals growth.

MOL expects petrochemical sales to increase in the future as a result of tightening environmental quality requirements which make a larger proportion of petroleum products suitable only for petrochemical feedstock but not for motor fuels. Accordingly, MOL believes that it will benefit from the integration of its refining capacity with TVK's petrochemical capacity.

#### ***Zapadno-Malobalyk Joint Venture ("ZMB")***

On 19 December, 2002, MOL signed a joint venture agreement with OAO NK Yukos ("Yukos") providing for the joint development and production of the Zapadno-Malobalyk field in Russia. The transaction was completed on 17 March, 2003. MOL now has new partners in the joint venture: Aleria Management, Inc., Clermon Systems, Inc., Bremon Solutions, Ltd. and SW Solution, Inc. The former joint venture partner Yukos has fully exited from ZMB. OAO Russneft has stated its intention to purchase this stake from the other joint venture partners in the near future. To date MOL's investment in ZMB (including the acquisition price and the amount of capital expenditure financing) has been HUF 28.0 billion.

#### ***INA***

MOL currently owns 25.0% plus one share of the share capital of INA. d.d. ("INA"), the principal oil and gas company in Croatia. INA is engaged in exploration and production of crude oil and natural gas, import and wholesale of natural gas, as well as the refining of crude oil and wholesale and retail marketing of petroleum products. INA also has a retail network of 432 filling stations through which it sells gasoline, gas oil and other refined petroleum products. MOL acquired its interest in INA pursuant to two agreements with the government of Croatia dated 17 July, 2003: a share sale and purchase agreement and a shareholders' agreement and one agreement with INA (a co-operation agreement). The transaction was completed on 10 November, 2003. The total consideration paid by MOL for the shares of INA was HUF 110 billion. Following the transaction, a new supervisory board and management board was established at INA. MOL has the right to appoint two members out of seven to the supervisory board and two members out of seven to the management board, including the chief financial officer and corporate service director of INA.

The shareholders' agreement provides MOL with veto rights on certain key matters. In addition, the shareholders' agreement and the co-operation agreement contain undertakings by MOL, including the maintenance of INA's business and presence in Croatia and provide for co-operation between INA and MOL in wholesale and retail marketing in Bosnia, Montenegro, Kosovo, Albania and Serbia. Since the completion of the acquisition of the stake in INA, MOL has been considering various ways to better co-ordinate INA's operations with MOL's business.

MOL believes that INA is well positioned in the Central European oil product markets as it is located in the strategic Baltic-Adriatic corridor. INA also has a strong market position in Croatia, Bosnia, Slovenia and Albania. However, MOL's managers do not expect to fully integrate INA's businesses at present, as INA is to a large extent controlled by its majority shareholder, the Croatian government. MOL is subject to limitations and restrictions on its ability to disclose all of the information regarding INA which may be considered material by investors.

The Croatian government has made a public commitment to continue the privatisation process of INA. Although the privatisation law indicates a public offering of 15% of its holding and the transfer of a 7% stake to war veteran funds and a 7% distribution to employees, the Croatian government has not decided on the next steps.

#### **Information on any agreements known to MOL which could result in a future change in the current shareholding structure of MOL**

##### ***Shares***

In November 2002, MOL signed an agreement with the Slovak companies Slovvena a.s. and Slovintegra a.s. for the purchase of all of their shares representing 31.6% of Slovnaft's registered capital. Pursuant to this agreement, MOL acquired 6,520,691 Slovnaft shares for USD 85 million in cash, 984,000

“A” series ordinary shares and 9,817,578 newly-issued “C” series ordinary shares. The nominal value of each series “C” ordinary share is HUF 1,001. The “C” series shares entitle their holders to 1.001 (one and one thousandth) vote per share. The completion of the transaction, which required the approval of the Slovak and Hungarian competition offices, took place in the second quarter of 2003.

The issue price was to be paid by Slovintegra a.s. and Slovvena a.s. in the form of an in kind contribution by transferring their shareholdings in Slovnaft to MOL.

The “C” series shares were issued upon completion of the transaction by way of private placement at an issue price of HUF 6,000 per share, while the “A” shares were transferred from the treasury share stock of MOL. Both the “C” series and the “A” series shares have call and put options attached to them entitling MOL to buy back and Slovintegra a.s. and Slovvena a.s. to sell back the shares to MOL after a 3 year partial lock-in period.

Based on a resolution of MOL’s Extraordinary General Meeting held on 1 September, 2003, the conversion of 9,817,000 “C” series ordinary shares into “A” series ordinary shares was started on 19 March, 2004 and was completed successfully by 15 April, 2004. The ratio of the conversion of the shares corresponded to their par values, i.e. 1,000 “C” series shares were converted into 1,001 “A” series shares. These arrangements did not result in a change of control of MOL.

On 23 December 2003, MOL repurchased 1,179,369 “C” series shares from Slovintegra and Slovvena and sold “A” series shares with the same total nominal value. In March, 2004, MOL repurchased 1,180,548 “A” series shares from Slovintegra and Slovvena at prevailing market prices.

The number of “A” series treasury shares held by MOL at the end of the period increased by 540,000 as a result of a purchasing shares from Slovintegra and Slovvena in the first half of 2005.

#### *Convertible Bond Programme*

The extraordinary Annual General Meeting of the shareholders of MOL held on 1 September, 2003 approved a long-term incentive scheme for members of the Board of Directors and selected senior management of the Group through a convertible bond issuance programme. Through a private placement on 9 October, 2003 the directors and managers participating in the incentive scheme subscribed for bonds convertible into ordinary series “A” shares, financed by bank loans. In the framework of the programme a total of 1,200 convertible bonds were issued, having a nominal value of HUF 10 million and being convertible into 1,779 series “A” shares each, to be converted in equal instalments over five years. The members of the Board of Directors are entitled to subscribe for a total of 25 bonds each, the chairmen of committees to 30 bonds each, the chairman of Board of Directors to 35 bonds (or vice-chairman if the chairman is an executive), while the remaining bonds can be subscribed by selected senior management of the MOL Group. For members joining subsequent to the scheme’s introduction, a pool of 280 bonds is available.

In June 2004, a further three non-executive members of Board of Directors and three managers joined the programme and subscribed for 180 bonds from those held in the pool. In September 2004, 80 bonds were repurchased from two departing senior managers and, following the approval of the Chairman-CEO MOL, an additional 24 bonds were sold to two senior managers who were already participants in the programme. Owners of the bonds decided to convert their 220 bonds into shares during the 2004 conversion period, which took place in November 2004. The holders of the bonds have an option to convert them into equity in September 2005.

As a general matter, the Articles of Association of MOL state that no shareholder or shareholder group may exercise more than 10% of the voting rights of MOL, with the exception of the Hungarian government the Hungarian Privatisation and Asset Holding Company, any of its legal successors, any entity exercising ownership rights on behalf of the Hungarian government, and any organisation acting at MOL’s request as depository or custodian for MOL’s shares or securities representing MOL’s shares (the latter being exempt only insofar as the ultimate person or persons exercising the shareholder’s rights represented by the shares and securities deposited with them do not fall within the limitations specified).

### **C. BUSINESS OPERATIONS OF THE MOL GROUP**

The MOL Group operates through a number of direct and indirect wholly, or majority, owned subsidiaries. Its operations are broadly divided among the following businesses:

- the **Exploration and Production business** is responsible for domestic and international oil and gas exploration, development and production activities;

- the **Refining and Marketing business** processes crude oil and other feedstock from domestic and import sources, and is responsible for the wholesale marketing of refined products; the Retail Marketing business is part of the Refining and Marketing business and operates the network of retail filling stations and manages retail sales of petroleum products, as well as non-fuel (shop) products and services;
- the **Natural Gas business** (through the Gas Subsidiaries) is responsible for the purchasing, transmission, wholesale supply and underground storage of natural gas; and
- the **Petrochemicals business** is responsible for the production and marketing of olefin and polyolefin products.

## 1. Exploration and Production

MOL and its predecessors have been engaged in the exploration for natural gas and crude oil since the 1930s. In Hungary, the MOL Group pursues its exploration activities only through MOL. MOL's reserves are primarily located in Hungary. However, through joint ventures, the MOL Group also has an interest in reserves in Russia and Pakistan. As at 31 December, 2004, the MOL Group had the right to explore hydrocarbons in 33 blocks in Hungary, comprising a total area of approximately 36,450 square kilometres. In addition, through its subsidiaries, the MOL Group participates in the exploration of four international exploration blocks in Pakistan, Yemen and Kazakhstan.

In 2004, the MOL Group produced 40% of the crude oil and all of the natural gas in Hungary. Its production activities are carried out within 3 regions (6 domestic operational units, each containing geographically proximate oil and gas fields) on 59 oil and 71 gas fields. Alongside its production activity, MOL's exploration and production business and MOL Natural Gas Storage Plc. operate five underground gas storage facilities. Three gas processing plants are operated by MOL Natural Gas Storage Plc.

In 2004, the MOL Group produced approximately 2.7 million tonnes of crude oil (including condensate and natural gas liquids, and including ZMB's production of 1,148,000 tonnes), representing an average production of 7,325 tonnes per day (approximately 54,200 barrels per day) and 3.0 billion cubic metres of natural gas, representing average daily production of 8.9 million cubic metres per day. In 2003, the Group produced approximately 2.2 million tonnes of crude oil (including condensate and natural gas liquids, and including ZMB's production of 621,000 tonnes), representing an average production of 5,962 tonnes per day (approximately 44,400 barrels per day) and 2.9 billion cubic metres of natural gas, representing average daily production of 8.8 million cubic metres per day. In 2004, INA produced 1.21 million tonnes (25,600 barrels per day) of crude oil and condensate and 1.847 billion cubic metres of natural gas, as compared to 2003 figures of 1.25 million tonnes (26,400 barrels per day) of crude oil and condensate and 1.758 billion cubic metres of natural gas.

In addition to its own production, the MOL Group also imports natural gas into Hungary and crude oil into Hungary and the Slovak Republic, primarily from Russia.

In 2004, INA had average daily production of approximately 55,500 tonnes of crude oil equivalent.

### *Natural gas and crude oil reserves*

According to the 2004 reserve review of MOL, total net proven developed and undeveloped reserves of the MOL Group at 31 December, 2004 were 19.9 billion cubic metres of natural gas and 15.2 million tonnes of crude oil (including condensate and gas liquids). As at 31 December, 2003, reserves were 26.2 billion cubic metres of natural gas and 14.8 million tonnes of crude oil. A new external audit is to be completed during 2005.

The MOL Group's Hungarian reserves have generally been declining due to extraction and the maturity of Hungarian exploration areas. However, the MOL Group's net proven reserves increased by 2.4 million tonnes of crude oil equivalent in 2000 and 2001, when the evaluation of the Mezősas-Nyugat field was finished and the Hosszúpályi and Tóalmás fields were discovered.

The following two tables show MOL's net proven / developed and undeveloped reserves of natural gas and crude oil (including condensate and natural gas liquids) in Hungary in the periods presented.

As at December 31, 2004 (unaudited)	Natural gas <sup>(1)</sup> (bn. cubic meters)	Crude oil (including condensate and natural gas liquids) (thousand tonnes)	Combined <sup>(2)</sup> (ktoe) <sup>(3)</sup>	Percentage of combined net reserves proven- developed (%)
Hungarian fields – Net proven reserves: <sup>(4)</sup>				
Algyő . . . . .	6,798	3,539	9,722	53%
Kiskundorozsma . . . . .	58	415	464	100%
Üllés . . . . .	1,211	207	1,159	58%
Mezősas . . . . .	2,390	1,264	3,295	29%
Sávoly . . . . .	126	2,162	2,233	12%
Other Hungarian fields . . . . .	9,272	3,514	10,973	49%
ZMB . . . . .	0	4,060	4,060	100%
Total . . . . .	19,856	15,160	31,955	53%

(1) Includes both hydrocarbon and non-hydrocarbon gas components.

(2) Crude oil equivalent data is based on the caloric value data of each field.

(3) Thousand tonnes of crude oil equivalent.

(4) For a description of how net proven reserves are calculated, see the description under the table below.

Year ended December 31,	2004	2003	2002
Net proven reserves: <sup>(1)</sup>			
Natural gas (million cubic meters) .....	19,856	26,199	28,343
Crude oil – including condensate and natural gas liquids (thousand tonnes) .....	15,160	14,815	14,064
Total (thousand tonnes of crude oil equivalent) .....	31,955	35,704	36,408
Net proven developed and producing reserves: <sup>(2)</sup>			
Natural gas (million cubic meters) .....	8,623	12,048	13,488
Crude oil (thousand tonnes) .....	10,169	8,898	6,609
Total (thousand tonnes of crude oil equivalent) .....	16,933	18,157	17,165

(1) “Proven reserves” are limited to those quantities of natural gas and crude oil which can be expected, with little doubt, to be recoverable commercially at current prices and costs, under existing regulatory practices and with existing conventional equipment and operating methods. Net proven reserves are calculated after deductions in respect of government royalties. Proven reserve estimates are based on constant prices and costs. Prices used are the year-end world market (Brent) price received by MOL, in the case of crude oil, adjusted by the quality parameters of the field. Costs used are the per field average wellhead value, production and transportation costs held constant throughout the life of the field.

(2) “Proven developed and producing reserves” are those reserves which are expected to be produced from existing completion intervals now open for production in existing wells. Proven developed non-producing reserves are: (i) those reserves expected to be produced from existing completion intervals in existing wells, but due to pending pipeline connections or other mechanical or contractual requirements hydrocarbon sales have not yet commenced; and (ii) other non-producing reserves which exist behind the casing of existing wells, or at minor depths below the present bottom of such wells, which are expected to be produced through these wells in the predictable future, where the cost of making such natural gas and crude oil available for production should be relatively small compared to the cost of a new well.

Source: MOL

As at 31 December, 2004, approximately 53% of the MOL Group's reserves consisted of natural gas (excluding condensate and natural gas liquids).

There are numerous uncertainties inherent in estimating quantities of proven reserves and in projecting future rates of production and the timing of development expenditures, including many factors beyond the MOL Group's control. The reserve data set forth in this Prospectus represent estimates and should not be construed as exact quantities.

Based on its 2003 year-end oil and gas reserves, MOL is not a small market participant, but one of top 60 firms with reserves below 1 billion boe. OMV excluding Petrom is ranked 15 and MOL (without INA) is ranked 19.



In addition to the MOL Group's exploration and production business, INA had proven reserves as at 31 December, 2004 of approximately 253 million barrels of crude oil equivalent in Croatia, Angola and Egypt. INA believes that one of its blocks in Syria may prove to be productive and it is investigating additional blocks in Egypt and Syria.

### ***Exploration***

#### ***Domestic exploration***

In the last 65 years MOL and its predecessors have discovered more than 300 oil and gas fields in Hungary. MOL conducted an exploration programme according to a three-year business plan with the objective of discovering economically recoverable hydrocarbons. MOL's exploration strategy focuses on the evaluation of prospects in the "traditional" exploration areas adjacent to existing fields. MOL seeks to reduce the risks associated with wildcat drilling through the use of 3-D seismic surveys and data processing and interpretation techniques. Beginning in the late 1990s, the Group commenced exploration of the unexplored areas of sedimentary sub-basins that have demonstrated potential according to previous geophysical investigations. These exploration efforts are particularly focused on exploring for reservoirs in basement formations and Pliocene sediments around the currently producing fields and in unexplored areas. Based on more detailed geological models and new discoveries, MOL believes that these areas will provide the greatest opportunities for discovering further reserves in Hungary.

Domestic exploration activities of the MOL Group are conducted through MOL. Currently, in Hungary, the MOL Group's exploration activity is focused on three core regions:

- *The Derecske Trough.* The Derecske Trough, in East Hungary, represents an important domestic exploration area for MOL. Following the discovery of the Hosszúpályi-D gas field in this region in 2001, MOL drilled two appraisal wells in 2002 and 2003 which have added 1.7 billion cubic metres of commercial gas reserves to MOL's initial reserve estimates for 2001. In 2004, a successful new exploratory well was drilled to improve the proven reserves with 217 million cubic metres. The proven reserves were estimated to be more than 4 billion cubic metres as at 31 December, 2004. In 2004, the MOL Group conducted 3-D seismic tests to the north-east of the field to identify further promising accumulations. The drilling programme of the area is currently ongoing.
- *Paleogene Basin.* Based on the results of the MOL Group's 3-D seismic surveys in the Paleogene Basin of Central Hungary, MOL discovered the Tóalmás-D and the Nagykáta oilfields in 2001 and the Gomba oilfield in 2003. The proven reserves of these fields were 1.43 million tonnes as at 31 December, 2004. The MOL Group is drilling appraisal and wildcat wells in 2005 in the exploration area.
- *Western Transdanubia.* In the third major region, Western Transdanubia, MOL has detected hydrocarbon at several wells during the last three years. Based on the well test which was done during the drilling phase, the Vétym-I well has discovered commercial gas reserves. MOL is planning to drill several wells during the next three years.

MOL is focused upon cost-efficient domestic production and has managed to achieve the following: (i) a headcount reduction of 48% in the last 5 years, (ii) the restructuring of the maintenance subsidiary network, (iii) the integration of the domestic / international organisation, (iv) the reduction of the number of operational units from 14 (in 2001) to 6 (in 2004), (v) the further automation of production technologies, (vi) a reduction of exploration expenditure in the last 2 years, and (vii) the introduction of new key performance indicators to improve cost-effective operations.

In its domestic exploration areas MOL continued efforts to moderate the decline rates of its core Hungarian oil and gas producing assets by maximising the value of its portfolio by new development projects such as the Hosszúpályi gas field development, the development of gas caps at the Algyő field and the Mórahalom gas field development. Furthermore, in this period MOL focused on exploring lower-risk prospects in the Pannonian Basin exploration concessions. As a result, MOL discovered five additional gas reservoirs through successful exploration drilling activities around the Hosszúpályi-Dél gas field, where development is already in progress.

#### ***International exploration***

Beginning in 1992, MOL began to seek opportunities to internationally expand its exploration and production activities. This strategy involved expanding its international portfolio on a project-by-project basis working with partners in order to reduce costs, share risk and increase the execution speed of the projects. In

1999, MOL decided to focus its efforts primarily on the acquisition of producing fields and participation in upside exploration.

In December 2002, MOL signed a joint venture agreement with Yukos providing for the joint development and production of the Zapadno-Malobalyk oil field in Western Siberia, which MOL's managers believe is one of the first such projects under the standard Russian licensing regime with a foreign partner. Due to certain administrative requirements concerning the registration of MOL's participation, the Russian joint venture agreement was signed on 19 December, 2002 and the transaction completed on 17 March, 2003. Pursuant to the joint venture agreement, MOL holds a 50% interest in the joint venture entity, ZMB. Through ZMB, MOL participates in the development and production of an oil field with estimated recoverable reserves of 20 million tonnes (145 million barrels) as at 31 December, 2002. In 2004, a reserve audit of the ZMB field was carried out according to international standards. The audit reported that the total gross proved recoverable reserves of the field are 12.922 Mt (93.9 Mboe) as at 1 January, 2004. MOL's proportion from the end-of-the year closing gross reserves is 5.313 Mt (38.6 Mboe).

Total ZMB field production at the end of 2004 was approximately 54,500 barrels per day, and the actual production was approximately 54,200 barrel oil per day in average. The development plan of the ZMB field, with total planned development capital expenditure of around USD 300 million, envisages up to 55,000 barrels per day peak production rate by year end 2005. Currently, ZMB's production assets include a water injection system for reservoir pressure maintenance, approximately 80 kilometres of infield access roads and a central crude processing facility with a capacity of approximately three million tonnes of oil per year. Since March, 2004, the transportation of crude has been direct through the Transneft pipeline system. MOL's 50% share in ZMB's planned production would be in excess of MOL's total current Hungarian oil production.

The joint venture with Yukos represented a shift in MOL's international exploration strategy towards acquisitions of reserves and Russia was chosen as one of the primary areas for expansion. Simultaneously, MOL reduced its other active projects to four non-Russian international exploration blocks, which are summarised in the table below (source: MOL). MOL now has new partners in the ZMB joint venture: Aleria Management, Inc., Clermon Systems, Inc., Bremon Solutions, Ltd. and SW Solution, Inc. The former joint venture partner, OAO NK Yukos, has exited fully from ZMB. OAO RussNeft has declared its intention to purchase the above-mentioned interest in ZMB from the new partners of MOL in the near future.

Year of MOL's entry	Country	Block	Area (km <sup>2</sup> )	Operator	Partners	MOL Share
1997	Yemen	Block 48	3,764	MOL	The Yemen Company Ltd.	87.5%
1998	Yemen	Block 49	2,088	MOL	The Yemen Company Ltd.	85.0%
1999	Pakistan	Tal	4,643	MOL	OGDCL <sup>(1)</sup> (30%), PPL <sup>(2)</sup> (30%), POL <sup>(3)</sup> (25%), GOP <sup>(4)</sup> (5%) <sup>(5)</sup>	10.0% <sup>(5)</sup>
2004	Kazakhstan	Federovsky	2,400	MOL	EVL (50%), FIOC (22.5%)	27.5%

(1) Oil and Gas Development Company Limited

(2) Pakistan Petroleum Limited

(3) Pakistan Oilfield Ltd.

(4) Government of Pakistan

(5) MOL's interest may be reduced to 8.42% if the Pakistani government elects to exercise its option to increase its interest in the consortium. The Pakistani government may increase its interest up to 20%.

In Yemen an exploration well was drilled in block 48 during 2003 which resulted in a good condensate and gas flow. Although it was not a commercial discovery, it is believed that these results are encouraging. The decision was made to continue the exploration of block 48. In block 49 MOL has completed the seismic acquisition and the drilling of second exploratory well as the work programme of the second exploration phase.

In line with the MOL Group's strategy, in 2004 MOL has signed a contract for the acquisition of a 22.5% share in the Federovsky block, located in North-West Kazakhstan next to the Russian border and the Karachaganak field. The 2,400 square kilometre block is close to existing infrastructure. The three-party consortium included MOL and American First International Oil Company ("FIOC") each with 22.5% of the shares and Avery Worldwide Limited with the remaining stake. The consortium performed upside exploration with Avery Worldwide Limited ("Avery") acting as operator. At the end of 2004, Exploration Venture Limited ("EVL") purchased Avery's 55% stake. In February 2005, MOL increased its interest in the project to 27.5% (by purchasing a 5% stake from EVL) and became the operator of the block. The consortium at present is in the second exploration phase. The work commitment covers the drilling of two wells and 150 square kilometres, 3D

seismic acquisition and processing. The consortium expects to complete the second exploration phase in 2006. The management of MOL estimates that the block possesses significant oil, condensate and natural gas potential.

In addition to MOL's exploration, INA conducts its own exploration programme. As at 31 December, 2004, INA held onshore and offshore exploration blocks in Croatia and it was also exploring blocks in Albania, Syria and Egypt, as well as offshore blocks in Angola. Of these, Syria yielded successful test wells and INA is continuing to investigate this block. INA has also entered into a joint venture with ENI to develop offshore gas fields in the Northern Adriatic and to construct a sub-sea pipeline and other facilities to transport this gas to the Croatian mainland.

### ***Production***

MOL's upstream operations in 2004 were characterised by intensified production at existing fields and test production at new fields. MOL has also seen the positive impact of the ZMB joint venture in Western Siberia, which is already cash flow positive. Production in 2004 surpassed targets at 1,148,000 tonnes (representing almost 73% of the Hungarian crude production), and is expected to grow in the future, further developing MOL's status as an integrated participant.

Most of the MOL Group's larger fields have been in production for a number of years and therefore, MOL's total production has decreased by an annual average rate of 5% from 1999 through 2003. Since a peak in 1985, the rate of production from these fields has been steadily declining.

In order to slow the decline in production, MOL is attempting to quickly bring undeveloped reserves into production and to maximise production from its currently operating reservoirs. It is also using enhanced oil recovery ("EOR") methods to maximise recoveries from existing fields. It is also seeking to maximise recoveries through the use of horizontal drilling, fracturing and acid stimulation techniques as well as chemical treatment and water flooding. Because EOR production is generally more expensive than non-EOR production, its use is highly dependent upon long-term oil prices being sufficiently high to make use of EOR techniques economically feasible. In 2004 14.9% of MOL's crude oil production was realised by EOR techniques. Currently MOL employs EOR techniques in 13 reservoirs in seven fields, primarily by the injection of carbon dioxide and hydrocarbon gas.

In accordance with international practice, the Hungarian government levies a tax on most crude oil and natural gas produced in Hungary. Generally, pursuant to the Mining Act, the natural gas and crude oil tax on revenue derived from the MOL Group's fields is 12.0%. As of 9 August, 2003, a higher royalty applies to gas revenue generated from fields put into production prior to 1 January, 1998. From 15 October, 2003, the tax in respect of revenue derived from gas fields was increased to 70.7% and has since been lowered to its current level of 65.0% (in 2005, an average of 59%). However, assuming stable or decreasing import gas prices, this royalty should effectively decline as the MOL Group's regulated return on its natural gas assets is scheduled to increase over time under the Gas Act. From 9 August, 2003 to the end of 2003, MOL's managers estimated that the MOL Group's production from fields which are subject to this higher royalty represented more than 85.0% of Group's total production of natural gas and condensates during this period.

Holders of exploration permits can apply to conduct production activities upon demonstrating to the Mining Bureau of Hungary that the reserves are economically recoverable. The production permit runs until the completion of production and abandonment of the site. MOL has the right to produce oil and natural gas at these sites for the entire production life of the fields.

MOL also manages and operates three gas processing plants located near the Algyő, Ortaháza and Hajdúszoboszló gas fields. In these plants, natural gas is processed in order to ensure its quality by separating the natural gas and condensates from extraneous solids, liquids and other gases. The Algyő plant has a processing capacity of 7.2 million cubic metres per day, working at 50% of its capacity, producing 450 tonnes of liquefied petroleum gas, 150 tonnes of pentane gas and 120 to 140 tonnes of condensate gas per day. The Ortaháza plant has a processing capacity of 300,000 cubic metres per day, working at 75% to 100% of its capacity, producing 30 to 40 tonnes of Propane-butane and 50 tonnes of condensate per day. The Hajdúszoboszló plant has a capacity of two million cubic metres per day, working at 35% to 40% of its full capacity, depending on its incoming actual rich gas qualities and sources. It is producing approximately 70 tonnes of liquefied petroleum gas and 80 to 85 tonnes of condensate gas per day.

## **2. Refining and Marketing**

The MOL Group's refining and marketing business segment is responsible for the purchasing, processing, refining of crude oil and distribution, including wholesale distribution and retail of petroleum products. The MOL Group pursues its refining and marketing operations through MOL and its domestic and international subsidiaries including Slovnaft and its subsidiaries.

### ***Refining segment – Introduction***

The MOL Group is the only refiner of petroleum products in Hungary and the Slovak Republic. MOL owns three refineries in Hungary – Duna, Tisza and Zala. However, it currently conducts crude distillation only at the Duna Refinery which has a distillation capacity of approximately 8.1 million tonnes per year. In 2004, the total throughput of MOL's refineries was 7.7 million tonnes of crude oil and other feedstock as compared to 7.6 million tonnes in 2003. Total throughput in the first quarter of 2005 amounted to 2.2 million tonnes. In addition, Slovnaft has one refinery in the Slovak Republic with a total nominal crude distillation capacity of approximately 5.4 million tonnes per year. The throughput of the MOL Group's Slovak refinery in Bratislava was 6.5 million tonnes in 2004 and 6.2 million tonnes of crude oil and other feedstock in 2003. Total throughput in the first quarter of 2005 amounted to 1.6 million tonnes. INA, the sole refiner in Croatia, operates two crude oil refineries in Croatia with a total nominal crude oil distillation capacity of approximately 6.7 million tonnes per annum. INA's two Croatian refineries processed 5.3 million tonnes in 2004 as compared to 5.1 million tonnes of crude oil and other feedstock in 2003. In 2004 the MOL Group processed 14.2 million tonnes of crude oil and other feedstock while in the first quarter of 2005 it processed 3.8 million tonnes.

### ***Characteristics of the main markets***

#### ***Hungary***

MOL is the only company carrying out refining activity in Hungary, although its refineries compete with products supplied by other refineries in neighbouring countries. Competition among these refineries is strong due to overcapacity. The most important competitors are OMV Aktiengesellschaft (Austria), Česká Rafinérská a.s. (Czech Republic), Polski Koncern Naftowy Orlen SA (Poland) and refineries located in Romania and Germany.

The Hungarian wholesale and retail petroleum product market was liberalised in 1991 with the elimination of price controls and the lifting of import quotas and tariffs resulting in an open and highly competitive market. The wholesale market has moderately but continuously increased during the last couple of years. According to MOL's estimate in 2004, Hungarian motor gasoline demand was 1,419,000 tonnes and gas oil demand was 2,077,000 tonnes; in the first quarter of 2005, demand was 310,000 tonnes and 443,000 tonnes respectively. Part of this demand has been satisfied with imported products from Austria (OMV's Schwechat Refinery), Slovakia (Slovnaft's Bratislava Refinery), the Czech Republic, Poland, Belarus and Romania, although Hungary is a net exporter of motor fuels. Whilst MOL continues to maintain a strong market position in Hungary reaching a wholesale market share (refinery coverage) of 77.7% in relation to gasoline and 81.0% in relation to gas oil in 2004 (MOL's share together with that of Slovnaft was 81.6% and 83.3%, respectively). In the first quarter of 2005, this share was 71.7% in relation to gasoline and 73.8% in relation to gas oil (together with the sales of Slovnaft, its share was 78.6% and 77.4% respectively)(Source: MOL). OMV, Shell, Esso, Agip and Jet-Conoco are the most important international oil companies active in the wholesale and import market. Mabanaft, Lukoil and some smaller, independent companies have also been carrying out significant import and wholesale activity lately.

After 1991, several privatisation measures were adopted to diversify ownership of Hungary's retail filling station network. As at 31 December, 2004, there were approximately 1,500 retail filling stations in Hungary, of which approximately 1,000 were branded stations and the others were non-branded stations typically owned by independent operators.

According to the Hungarian Petroleum Association, MOL is a market leader in the Hungarian retail market, having the most filling stations and widest coverage in the country. MOL's market share reached 36.6% in 2004 and 36.8% in the first quarter of 2005. After MOL, Shell was the second largest petroleum product retailer in Hungary with an estimated market share in 2004 of approximately 20% and in the first quarter of 2005, 20.7%, based on volumes sold. OMV was in third place significantly strengthening its position in 2003 following its purchase of Aral's filling stations (15% in 2004 and 18.4% in the first quarter of 2005). Other major participants include Agip, Jet and Esso. In MOL's estimation, each of these had less than 10% of the retail market in 2004 and in the first quarter of 2005. Unlike other markets in Europe, the Hungarian retail petroleum

product market is characterised by a large number of independent operators. At the beginning of 2004, two hypermarket chains also appeared as discount retailers of fuel and opened 14 hyperstations by the end of the first quarter of 2005. In 2004, the market for gasolines slightly decreased due to the significantly higher prices. However the market for diesel increased due to the growth in GDP and infrastructural investments. The improvement in diesel sales also increased the total market for fuels slightly in 2004.

LPG sales also increased in 2004. However, the market is characterised by strong competition and price pressure. In the case of lubricants, MOL has succeeded in acquiring a growing share of a shrinking market, while its shop sales are increasing steadily.

### *The Slovak Republic*

According to MOL's estimate, Slovakian wholesale motor gasoline demand in 2004 was 644,000 tonnes, gas oil demand was 988,000 tonnes (without state purchase for fuel reserves). In the first quarter of 2005, demand amounted to 137,000 tonnes and 207,000 tonnes respectively. Part of this demand has been satisfied with import products from Austria, the Czech Republic, Poland and Hungary, although the Slovak Republic is a net exporter of motor fuels. Slovnaft is the only domestic company carrying out refining activity. Since Slovnaft's capacity is higher than the domestic demand, strong market position in the Slovak Republic is important for decreasing the dependence on Slovnaft's export activity. Slovnaft reached a wholesale market share (refinery coverage) of 71.1% in relation to gasoline and 69.2% in relation to gas oil in 2004 (its share together with that of MOL was 72.2% and 69.5% respectively) (Source: MOL). In the first quarter of 2005, this share was 67.4% in relation to gasoline and 64.2% in relation to gas oil (together with the sales of MOL, its share was 68.6% and 64.8% respectively). There are only a few international oil companies (OMV, Shell, Esso, Agip, Jet-Conoco) active in the market having wholesale and import activity. Other competitors are independent reseller companies like Spectrum, Octane and Real-HM.

The Slovak retail market for fuel is competitive and includes international competitors. MOL estimates that, as at 31 March, 2005, there were approximately 800 filling stations in the Slovak Republic, of which 539 were branded. Slovnaft is a market leader in terms of sales volumes with an estimated market share of 44.5% in 2004 and 41.5% in the first quarter of 2005, while total market share (together with independent white pumpers) was 37.8% in 2004 and 32.6% in the first quarter of 2005. The significant decrease in market share started in the fourth quarter of 2004 as a result of higher prices compared to competitors and a negative media campaign, but a new pricing strategy (lowered prices) was implemented in mid-March. Slovnaft is facing heavy competition from OMV, Shell, Jet, Esso and the Jurki private filling stations network. In 2003, OMV purchased Aral's stations and Shell and OMV purchased Avanti's stations. The hypermarkets also established their retail networks in 2003, but at the end of 2004 the number of their filling stations was only approximately 10. The market is experiencing a consolidation process, during which multinational companies are integrating the smaller chains into their networks through acquisitions.

### *Croatia*

According to MOL's estimates, Croatian wholesale motor gasoline demand in 2004 was approximately 810,000 tonnes and gas and heating oil demand was 1,725,000 tonnes. INA is the only company carrying out refining activity within Croatia.

The Croatian retail market for fuel has been liberalised and is competitive, but with the exception of OMV does not include major international competitors. MOL estimates that, as of 31 March, 2005, there were approximately 700 filling stations in Croatia of which approximately 526 were branded. Others were non-branded stations typically owned by independent operators.

INA's retail fuel market share in terms of sales volumes reached 62% in 2004 and in the first quarter of 2005. OMV was the second largest petroleum product retailer with approximately 37 retail stations and an estimated market share in 2004 and the first quarter of 2005 of approximately 8% based on volumes sold. The large number of independent operators in the first quarter of 2005 represented 174 stations of the retail sites, which amounts to approximately 25% of the operating filling stations (Source: INA).

### *Retail markets in other Central European countries*

- **Romania:** Petrom, the Romanian national oil company, is the retail market leader both in terms of number of stations and fuel volumes. Other significant multinational networks include Lukoil, OMV and Shell, but the domestic entity Rompetrol also has a major presence in the market. MOL has



its presence through its 100% owned subsidiary, MOL Romania. MOL Romania strengthened its position in the Romanian retail market after acquiring 22 filling stations from Shell and thereby achieving national coverage. However, it faces increasing competition in the growing market. Both fuel and shop sales have growth potential due to the growth in consumption. The MOL Group purchased Shell Romania with its 59 filling stations, which is fully consolidated as of 1 April, 2005. In total MOL now operates 81 former Shell filling stations in Romania.

- **Czech Republic:** The major players are OMV, Benzina and Shell (each with more than a 10% market share of sales), but Cepro (Euro Oil), ARAL, the local Papoil and white pumpers are also significant players with a market share of at least 5%. Slovnaft has an approximately 2% market share and covers mainly the eastern part of the country.
- **Poland:** Despite the presence of international companies and increased competition, the domestic oil companies still have a leading position. With respect to market shares PKN Orlen holds around 30% of total market share, while Lotos has 9%, international companies have 35%, and private stations still have around a 20% market share of sales.
- **Slovenia:** Slovenia has a relatively mature motor fuel market. The number of cars per thousand inhabitants is similar to that in Austria. The leading market player is the national oil company, Petrol with almost 70% market share in terms of volume sold. The only significant competitor of Petrol is OMV with a market share of almost 25% in terms of volume sold.
- **Austria:** Austria has a mature motor fuel market, which is characterised by high penetration of diesel engine cars (49% of all passenger cars). There is strong competition in the retail market: OMV, BP and Shell are the most significant market participants. In July 2004, MOL acquired 75% of Roth Heizöle GmbH, which operates 20 filling stations and has logistic facilities in the Linz and Graz regions. This acquisition enables MOL to become a retail market participant in Austria.

### *Crude Supply*

The MOL Group imports crude oil through the Refining and Marketing segment of its business which primarily involves the purchase of Russian crude oil. The total volume of imported crude oil constitutes more than 90% of the MOL Group's total supplies.

The following table describes MOL Group's sources of crude oil (by volume) in periods indicated.

	<u>Q1</u>	<u>Year ended December 31,</u>		
	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
<b>Sources of crude oil (million tonnes)</b>				
Purchases to Duna Refinery <sup>(1)</sup> .....	1.7	5.5	5.2	4.9
From own production to Duna Refinery <sup>(2)</sup> .....	0.2	1.0	1.1	1.0
Purchases to Bratislava Refinery .....	1.2	5.8	5.5	5.5

(1) Includes purchases from Yukos, Surgutneftegas, TNK, Tatneft and Polar Lights, but not from Slovnaft.

(2) Without condensate and gas liquids.

Source: MOL

From June 2003, the crude oil purchasing requirements of MOL and Slovnaft have been jointly managed. Until the end of 2004, Yukos was the biggest supplier of crude oil for the MOL Group. In 2003, the MOL Group entered into a 10 year agreement with Yukos to purchase crude oil. Under this agreement the Group purchased crude oil at a discount to the Urals Blend spot market price for similar quality crude oil, as a result of the cost advantages to Russian suppliers of transporting oil via pipelines. Given the events surrounding Yukos during 2004, MOL has initiated negotiations with Lukoil in order to secure a stable supply. As a result of several negotiations a long-term crude oil supply contract was signed in January 2005 with Lukoil. The MOL Group also purchases crude oil pursuant to short-term agreements from TNK and Sibneft. Russian supplies of crude oil to MOL have historically been stable with no significant interruptions in recent years. In the event of any interruption in this supply, the Adria pipeline is currently available as an alternative means of supply, however, typically at higher cost. In the event of any disruption, the MOL Group may also rely on its strategic reserves. MOL Group operates with a crude oil stock of about 2 days. In addition, in Hungary the Association of Crude Oil and Oil Products Stockpiling (KKKSz) has a strategic crude oil stock of about 450 kt, enabling MOL to process crude oil continuously in the event of supply disruption.

INA obtains its crude supply from the Mediterranean Sea and from Russia through the Friendship and Adria pipeline networks. In addition, INA obtains oil from its domestic production. In 2004 and 2003, INA imported



3.8 million and 4.2 million tonnes of crude oil, respectively. The MOL Group has started to coordinate INA's crude supply with its own and Slovnaft's supply.

### ***Crude supply logistics***

As at 31 December, 2004, MOL owned and operated approximately 850 kilometres of crude oil transportation pipelines, with a throughput capacity of approximately 24.0 million tonnes per year comprised of Friendship I and II, Adria and local pipelines. MOL utilises the following pipelines to transport crude oil:

- *Friendship I and II pipelines.* MOL owns and operates the Hungarian sections of the two crude oil pipelines that connect Hungary to the Friendship pipeline system (Friendship I and II). Ural Blend crude oil is imported from Russia into Hungary through the Friendship pipeline via Ukraine. The Friendship pipeline system has a total annual throughput capacity of approximately 11.4 million tonnes, comprised of approximately 3.5 million tonnes through the Friendship I pipeline, which enters Hungary from the Slovak Republic, and approximately 7.9 million tonnes through the Friendship II pipeline, which enters Hungary from the Ukraine.
- *Adria pipeline.* MOL owns and operates the Hungarian part of the Adria pipeline, which is capable of transporting a variety of crude oils through Croatia from the Omisalj terminal in the Adriatic Sea. The Adria pipeline has an annual throughput capacity of 10 million tonnes.

Each of the Friendship pipeline system and the Adria pipeline has sufficient capacity to satisfy the entire current Hungarian annual demand for crude oil.

As at 31 December, 2003, INA held a 16.0% interest in JANAF, d.d., the company which owns and operates the Adria pipeline system. There are ongoing discussions regarding the creation of a new export route to transport Russian crude oil to the Mediterranean using existing pipeline infrastructure by reversing the crude flow through the Adria pipeline.

Management of MOL currently foresees utilising the Friendship pipeline system as its principal source of supply for the foreseeable future, as it is generally less expensive as compared with the Adria pipeline. However, MOL believes that the Adria pipeline is an important strategic source of imported crude oil for the Group because it lowers the risk of supply disruptions and creates price competition for the supply of crude oil to Hungary. In addition, the import of crude oil through the Adria pipeline allows the MOL Group to lighten its crude oil product mix by bringing lighter, sweeter (i.e. lower sulphur content) Middle Eastern and African crude oils from the Mediterranean.

### ***Crude transit***

In June 2002 MOL signed an inter-company agreement and in December 2002 an inter-state agreement, relating to the integration of the Friendship and Adria crude oil pipeline systems. If the first stage of the investment is completed, MOL will be able to transfer up to five million tonnes of Russian crude oil per year to the Mediterranean through the integrated system. MOL believes that this may enable the MOL Group to increase revenues it receives for transit of crude oil for third parties. Although the pipeline is already technically able to transport crude oil to the Adriatic Sea, it is unlikely that transfers will commence in the near future.

To maximise the utilisation of its fixed assets, MOL provides third parties with transit of crude oil through its pipelines to the extent that MOL has spare capacity. This primarily involves the flow of crude oil through the Hungarian section of the Friendship and Adria pipeline systems that MOL owns and operates to Croatia and Serbia. The MOL Group charges transit fees based on the volume and distance of crude transported.

Although there are only a few crude oil transit customers, this entails little risk since the revenue from this activity is marginal compared to the MOL Group's main activities.

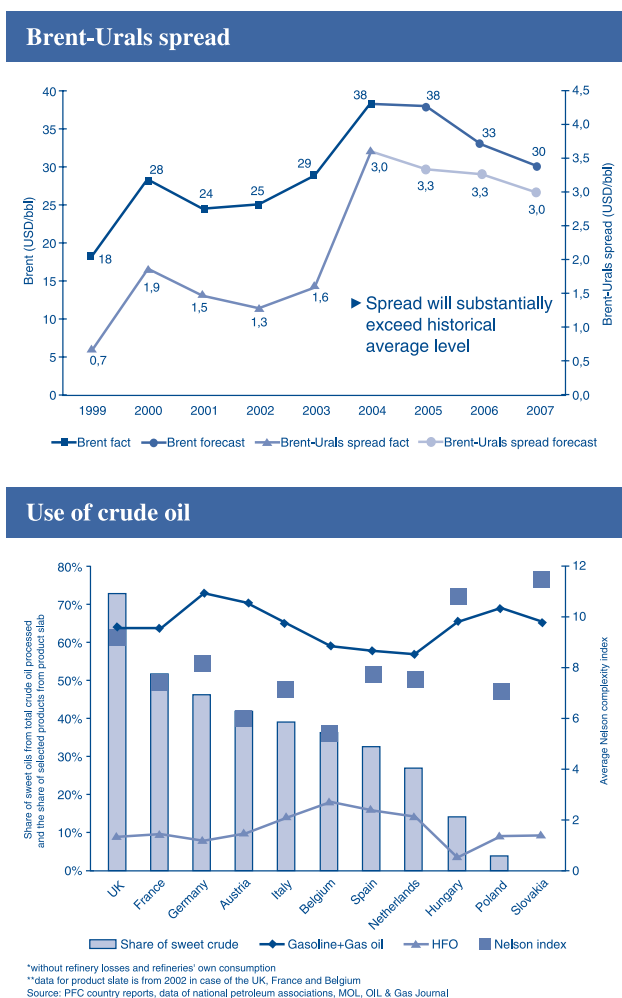
### ***Crude trading***

In addition to its crude purchasing, the MOL Group is also engaged in limited back-to-back crude oil trading with a customer in the United Kingdom. These trades involve the purchase and sale of Middle Eastern crude oil. The MOL Group seeks to limit its exposure with respect to these trades by using purchase and sale contracts containing identical terms, except for a price differential which allows it to earn a margin on the oil traded. As in 2003 and 2004, the MOL Group's average margin in the first quarter of 2005 was equivalent to USD 20,000 per million barrels of crude traded.

## Refining

As shown in the left chart below, the Brent-Ural spread is expected to surpass its historical average level providing a further earning upside. The factors having upward pressure on Brent-Ural spread are as follows: (i) higher crude oil price, (ii) Russian pipeline capacities are focused on European destinations; (iii) long distance crude freight rates remain high; (iv) additional crude oil on the market is mostly heavy; (v) demand growth of crude oil will remain high; and (vi) depressed fuel oil price. In the first quarter of 2005, the average Brent-Urals spread amounted to 4.4 USD/bbl, in comparison with 3.0 USD/bbl in the first quarter of 2004. (source: Platts).

The chart on the right below provides an overview on the use of sweet crude oil, the product slate and the average Nelson Complexity Index in selected European countries (2003) (source: Petroleum Finance Company country reports, data of national petroleum associations, MOL, Oil & Gas Journal).



The MOL Group's primary crude oil refineries are the MOL-operated Duna Refinery in Hungary and the Slovnaft-operated refinery in Bratislava in the Slovak Republic. MOL also owns the Tisza plant and a specialised bitumen plant (the Zala plant) in Hungary. All of these plants operate under common management and, with respect to acquisition of feedstock and end-product, they operate as a single integrated unit. Through its subsidiary, MOL-LUB Ltd., the MOL Group operates the Almásfűzítő lubricant plant. In addition, INA owns two refineries in Croatia.

In 2004, the MOL Group processed 14.2 million tonnes of crude oil and other feedstock. If Slovnaft had been consolidated from the beginning of 2003, the MOL Group would have processed 13.8 million tonnes of crude oil and other feedstock, including condensate in 2003, however due to the consolidation of Slovnaft from the second quarter of 2003 the Group's consolidated crude oil and other feedstock processing amounted to 12.0 million tonnes. In 2004 there was a slight shift in crude supply towards imported crude oil, so domestic crude oil represented only 15.5% (1.0 million tonnes) of refinery processing at the Duna Refinery. Slovnaft processed 5.7 million tonnes of imported crude oil in 2004, 47% of the total annual crude oil processed by the

Group. During 2003 the import of crude oil was integrated with Slovnaft. In the first quarter of 2005, the MOL Group processed 3.8 million tonnes of crude oil and other feedstock, compared to 3.5 million tonnes in the first quarter of 2004. In the same period, the share of domestic crude oil processed in the Duna Refinery decreased from 14.2% to 11.6%. In the first quarter of 2005, Slovnaft processed 1.4 million tonnes of imported crude oil which amounts to 43% of the total crude oil quantity processed by the Group.

The following table (source: MOL) sets out the description of the MOL Group's major refineries with their total throughput in the periods indicated.

<u>(thousand tonnes)</u>	<u>Q1 2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>
Duna Refinery .....	2,223	7,703	7,614	7,474	6,898
Tisza Refinery .....	—	—	—	—	999
Bratislava Refinery .....	1,602	6,495	6,236	6,114	5,976
Sisak Refinery .....	—	1,918	1,740	2,177	1,684
Rijeka Refinery .....	—	3,162	3,391	2,826	3,342

Set out below is additional information about MOL's refineries, as well as INA's two refineries.

- Duna Refinery.* The Duna Refinery is located on the Danube, 30 kilometres south of Budapest. The crude oil processed at the Duna Refinery comes from the MOL Group's own production and Russian imports. In addition to motor fuels, heating and fuel oils, the Duna Refinery produces liquid gas products, aromatics, special solvents, naphtha, bitumen, waxes and other products in minor volumes (sulphur, maleic acid-anhydride and fumaric acid). It also produces base oils for the Almásfüzitő lubricant plant and feedstock for the production of specialised bitumen to be processed at MOL's Zala plant. Furthermore, it also supplies power plant grade gas oil to and, in addition to the electricity produced there, purchases steam from the neighbouring power station, Dunamenti Erőmű Rt. This refinery has received an ISO 9002 quality certification.

The Duna Refinery began operations in 1965, and has been upgraded and expanded with modern process technology making the refinery a complex, relatively modern refinery with a Nelson Complexity Index of 11.0, which enables the Duna Refinery to produce petroleum products, which satisfy all the current quality standards set by the European Union. The Duna Refinery's complexity was significantly increased by the residue upgrading project to improve the proportion of lighter and higher value products produced at the refinery. As part of this project, MOL completed two additional facilities at the refinery, the Linde hydrogen plant and the Claus sulphur recovery plant, and MOL began production at the delayed coker plant in late 2001. The goal of the residue project was to enhance the refinery's conversion level and competitiveness, as well as to improve compliance with environmental standards.

In June 2005, a significant investment was completed in the Duna Refinery – a gasoil and a gasoline desulphuriser with annual capacities of 2.2 million tonnes and 0.8 million tonnes respectively, a new hydrogen plant and the reconstruction of the existing gasoil blender and storage units – aimed at the production of gasoline and diesel fuel with a maximum of 10 ppm sulphur content. It is worth noting that in accordance with EU requirements, this quality will only become obligatory from 2009.

- Tisza plant.* In addition to its main refineries, MOL also owns two plants, formerly used as refineries, that now have more limited functions and have no operating crude distillation capacity. The Tisza plant is located near the city of Tiszaújváros in North-East Hungary. It began operations in 1979. In July 2001 MOL ceased crude distillation at Tisza as part of a refinery optimisation plan, and it has no upgrading units. It does, however, have a Methyl Tertiary Butyl Ether (MTBE) unit with a capacity of 31,000 tonnes per year and a hydrotreater with desulphurization capacity of 700,000 tonnes per year. The MTBE unit and hydrotreater have high utilisation rates and are important in MOL's overall refining system. Reformate gasoline, fluid catalytic cracking gasoline and alkylate are transported by pipeline from the Duna Refinery to the Tisza plant for blending into gasoline. MOL currently imports 0.2% sulphur content diesel from Belarus for desulphurisation at the Tisza plant.

The following table sets forth certain information for MOL's Duna and Tisza refineries for the periods indicated.

	Q1	Year Ended December 31,			
	2005	2004	2003	2002	2001
<b>Refinery utilisation<sup>(1)</sup></b>					
Duna Refinery .....	93.3%	86%	88.7%	83.3%	83.9%
Tisza plant .....	—	—	—	—	42.2%
<b>Throughput (thousand tonnes)</b>					
Crude oil .....	1,805	6,318	6,343	5,991	6,670
Condensate .....	58	226	219	223	259
Other .....	361	1,159	1,052	1,260	968
<b>Total throughput</b> .....	<b>2,223</b>	<b>7,703</b>	<b>7,614</b>	<b>7,474</b>	<b>7,897</b>
<b>Production volumes (thousand tonnes)</b>					
Liquefied petroleum gas .....	43	168	158	163	141
Gasoline .....	338	1,454	1,470	1,543	1,598
Naphtha .....	303	868	834	786	839
Jet fuel .....	61	239	202	183	179
Gas and heating oil .....	863	3,016	3,109	3,039	2,652
Fuel oil .....	40	258	317	324	1,194
Bitumen .....	24	322	305	331	229
Petrolcoke .....	74	241	246	247	27
Others .....	135	498	459	485	500
<b>Total</b> .....	<b>1,881</b>	<b>7,064</b>	<b>7,100</b>	<b>7,101</b>	<b>7,359</b>

(1) Represents capacity utilisation of distillation units.

Source: MOL

As a result of the addition of the delayed coker plant at the Duna Refinery in 2001, the product base of the refinery was improved significantly as the MOL Group became able to upgrade refinery residue, which, prior to the commissioning of the delayed coker plant, could only be sold at a low price as heavy fuel oil. Now, the proportion of lighter, higher value products has increased. The percentage of motor gasoline output increased, as a result of the delayed coker plant, from 22% to 25%, gas oil output increased from 38% to 41% whilst heavy fuel oil output decreased from 15% to 2%. The margins of the refinery have increased as a result of this product shift. In addition, petrolcoke produced during the residue upgrading process is sold.

- *Zala plant and Almásfüzitő lubricant plant.* Both the Zala plant and the Almásfüzitő lubricant plant have specialised functions and small capacities. In November 2001 MOL ceased crude distillation at the Zala plant, which is located near the city of Zalaegerszeg in Western Hungary. The plant primarily produces specialised bitumen products. The Zala plant has the capacity to produce 180,000 tonnes of bitumen per year. The Almásfüzitő lubricant plant is an integrated lubricants blending and packaging plant.
- *Slovnaft's Bratislava Refinery.* This refinery is located on the outskirts of Bratislava in the Slovak Republic. The refinery produces a range of transport fuels, fuel oils and petrochemical products. It processes Russian export blend crude oil, which is purchased from Russia, and transported via the Transpetrol crude oil pipeline which is currently owned by the government of the Slovak Republic and Yukos. The Bratislava Refinery has a Nelson Complexity Index of 11.5. Recently completed investments, including the construction of a desulphurisation unit with a capacity of 1.9 million tonnes per year, enable Slovnaft to produce the total fuel quantity of 10 ppm quality which will be obligatory in the European Union from 2009.
- *INA's Refineries and plants.* The Rijeka Refinery is located in Rijeka, on the Adriatic coast of Croatia. The refinery generally processes between 3.0 million and 3.5 million tonnes of imported crude oil per year, refining both sweet and sour crudes supplied from the Mediterranean Sea, mainly from Russian and Middle-Eastern sources. Production at this refinery is focused on white product yield, including gasoline, kerosene and gas and heating oils. The Sisak Refinery is located in Sisak, 50 kilometres from Zagreb. The Sisak Refinery generally processes between 1.7 million and 2.2 million tonnes of Russian and domestic crude oil per year. This refinery also has the capability to receive crude supplied from the Mediterranean through the Adria pipeline. INA also owns the Rijeka and Zagreb lubricant plants. The Rijeka and Sisak Refineries have been ISO 9001, ISO 14001 and OHSAS 18001 certified. In 2004, INA's refineries processed a total of 5.1 million tonnes of crude oil and other feedstock and, together with its Maziva Rijeka lubricant plant, it processed a total volume of 5.5 million tonnes during that period.

During 2003 the Sisak Refinery increased the yield of high quality white products (includes amongst others gasoline, naphtha, jet fuel, gas oil) to 71%, while the fuel oils production decreased to 9%. In order to improve the yield of white products, the Rijeka Refinery suspended deliveries of atmospheric residue to the INA's Rijeka lubricant plant, which now imports almost its entire atmospheric residue feedstock. As a result of these changes, the Rijeka Refinery has decreased its yield of black products.

MOL and INA have recently considered numerous alternatives for INA's refinery developments. The approved large scale investment programme has two major objectives: (i) to meet EU product quality specifications and (ii) to improve the product slate of both refineries, thereby improving overall profitability.

In order to further improve efficiency, the MOL Group continued its programme of joint and integrated outsourcing of its industrial services, including maintenance, energy and utility supply. In line with this strategy, in 2003 the MOL Group outsourced the provision of waste water treatment and waste incineration services at the Duna Refinery. Accordingly, the MOL Group entered into an agreement with Earth Tech Engineering Ltd., the Hungarian subsidiary of Earth Tech, Inc. (a US company), which has recently completed a new waste water treatment plant at the Duna Refinery. Under the terms of this agreement the MOL Group reimburses the service provider for the construction costs upon completion of the plant.

### *Logistics*

The MOL Group's distribution and logistics operations provide petroleum product storage facilities and logistics support to its wholesale and retail petroleum businesses, as well as to its lubricants and bitumen operations. The facilities and operations are currently being fully integrated to maximise the operational and financial synergies of joint operation. In Hungary, the MOL Group owns and operates a 1,200 km product pipeline network, which transports the majority of its petroleum products. The product pipeline network has a throughput capacity of 7.5 million tonnes per year. The pipeline network is connected directly into the Ukraine's product pipeline system (maximum import capacity amounts to 1.5 million tonnes annually) and to the MOL Group's two main refineries, its product distribution depots and two barge loading/unloading facilities. This pipeline network extends to West, South and East Hungary. The Slovakian product pipeline network is 484 kilometres long and has a throughput capacity of 2.5 million tonnes per annum.

The MOL Group maintains a road tanker fleet of 153 vehicles, including 111 owned or leased by a subsidiary of MOL and 42 leased by a subsidiary of Slovnaft. All of these vehicles have, among other features, bottom loading and vapour recovery capabilities.

Key features of MOL's logistical network are (i) its integration with the Slovnaft network into a unified, efficient and cost-effective regional system, (ii) the depot system in Hungary and Slovakia which has been rationalised, (iii) MOL's acquisition of depots in Austria to serve the end-users' market:

To improve efficiency, the MOL Group has been rationalising its logistic functions since 1996, and has closed a number of distribution depots that were not connected to its pipeline network. It now operates 19 product distribution depots in Hungary and the Slovak Republic, three of which are located in the Group's refineries. The Group has enhanced its primary and secondary logistics operations to include computerised supervision, accounting and environmental compliance functions. Daily logistics activities are performed with the help of information technology systems that facilitate optimisation process and on-line intervention where necessary. The Group's logistics operations and those of Slovnaft have been integrated and are under centralised management. Although the MOL Group does not currently plan to connect its pipeline networks with those of Slovnaft, it is seeking ways of optimising utilisation of these networks.

In 2004 MOL transported approximately 45.4% of its petroleum products through pipelines, 18.4% by rail, 31.2% by road and 5.0% by barge. The same breakdown in case of Slovnaft was the following: 30.2% through pipelines, 35.7% by rail, 18.2% by road and 15.9% by barge.

In addition, INA has crude oil pipeline connections to road, rail and barge-loading facilities at each of its two Croatian refineries. The crude oil pipeline network in Croatia is operated by JANAF, in which INA has a 16.0% stake. INA also had 13 operating and 3 wholesale depots, as well as a road tanker fleet of 84 vehicles. In 2004, INA transported from Rijeka 7% of its petroleum products by pipeline, 16% by rail, 56% by road and 21% by barge; and from Sisak 20% of its petroleum products by rail, 73% by road and 7% by barge.



## ***Marketing business segment***

### ***Wholesale marketing***

The MOL Group is the leading (based on volumes) wholesaler of petroleum products in Hungary and the Slovak Republic, and its wholesale products include a wide range of goods, including motor gasoline, diesel, heating and fuel oils, liquefied petroleum gas (“LPG”), lubricants, naphtha and bitumen. In 2003, MOL and Slovnaft produced approximately 12.8 million tonnes of refined petroleum products. In 2004, the consolidated sales volume of the MOL Group’s wholesale marketing operations was 11.1 million tonnes of refined petroleum products, excluding LPG and inter-group sales of petrochemical feedstocks. Its sales were directed to various wholesale customers, including third-party petroleum product wholesalers and retailers, particularly multinational oil companies, and directly to end-users, including power stations, the Hungarian national airline (MALÉV), the Hungarian railway (MÁV), Shell, OMV and Slovak railways. The MOL Group also conducts regional wholesale marketing activities through its subsidiaries and joint ventures. MOL’s wholesale operations and those of Slovnaft were fully integrated in January 2004. As at 31 December, 2004, the MOL Group’s wholesale and retail distribution network included 19 product distribution depots in Hungary and Slovakia.

In September 2003, MOL acquired and re-opened a fuel storage depot in one of its most important export markets, Austria, in Korneuburg near Vienna. This made it possible to supply local filling station networks and end-users directly. The fuel sold from Korneuburg is transported by barge from the MOL Group’s main refineries in Százhalombatta (Duna Refinery) and Bratislava. In July 2004, the MOL Group acquired a majority ownership interest in Roth Heizöle GmbH, an Austrian oil product trading company (also operating 3 major storage depots, 20 major service stations and 5 diesel filling stations) which will facilitate further penetration to the end-user market.

The MOL Group’s supply, refining, logistics and wholesale marketing activities are operated within an integrated supply chain management system in which a dedicated department plans and coordinates its supply chain based on standardised policies. The work of this department is aided by custom-built software (PIMS) preparing optimisation alternatives and selecting the best option. MOL believes that this co-ordinated approach helps the Group more quickly respond to internal and external changes and increases the efficiency of its downstream activities. In addition, MOL believes that this system helps to reduce inventories and operational costs.

The MOL Group estimates that it has a sale volume weighted average market share of approximately 80% of all wholesale petroleum products in Hungary, and Slovnaft’s weighted average market share is slightly above 70% of all wholesale petroleum products in the Slovak Republic.

### ***MOL***

MOL supplies petroleum products to third-party petroleum retailers, wholesalers and end-customers in Hungary mainly under annual and two-year contracts that stipulate the scope and volume of products and applicable discounts. MOL estimates that more than 90% of its annual Hungarian sales and more than 80% of its other annual sales are pursuant to annual term contracts with volume commitments. The principal petroleum products supplied under such annual and two-year contracts are motor gasoline and gas oil. MOL offers its customers product-related services and packages of several of its products. Customers purchasing petroleum products under these contracts are also offered spot sales at competitive prices.

MOL exports a variety of refined petroleum products. In 2004, MOL exported approximately 2.5 million tonnes of refined petroleum products, of which approximately 1.3 million tonnes was gas oil. Currently its most significant export market is Austria, where MOL and Slovnaft have strengthened their position through the acquisition of the Korneuburg depot and of Roth Heizöle GmbH, a local oil product trading company.

### ***Slovnaft***

Slovnaft maintained its leadership (based on volumes) in the domestic fuel market during the year 2004 and in particular due to continuation of sales policy, which is based on annual term contracts. Motor gasoline sales and motor diesel sales slightly decreased compared to the previous year and market share decreased in gasolines but did not change in diesel. Slovnaft remains a company relying mostly on exports. The Czech Republic is Slovnaft’s most important export market because of the good logistics connection by pipeline. Slovnaft’s total sales to the Czech market decreased compared to the previous year in volume terms but for motor fuels the sales stayed on the same level.



Slovnaft kept its import leadership (based on volumes) in motor fuels sales in the Polish market through activities of Slovnaft Polska, its local subsidiary. Total sales in the Polish market increased compared to the previous year in volume terms despite declining overall consumption.

### **INA**

INA is engaged in the wholesale marketing of refined petroleum products. In both 2003 and 2004, INA had total wholesale volumes of refined petroleum products of 3.8 million tonnes per annum. INA supplies petroleum products to third-party petroleum retailers and wholesalers in Croatia mainly under spot contracts that stipulate volumes, volume commitments and applicable discounts. The principal petroleum products supplied under these contracts are motor gasoline, diesel and domestic and industrial heating oils.

### ***Refined petroleum products characteristics***

#### ***Petrol, diesel and heating gas oil***

In addition to its sales through its own retail network, MOL sells motor fuels in Hungary to international oil companies, non-branded filling stations and end-users of different segments, such as transportation, agriculture and industry. Domestically sold heating gas oil is marketed primarily to power plants. The majority of MOL's motor fuel and heating oil export is through bulk sales, which means sales to foreign wholesalers or international oil companies by barge or railway tankers, without providing any services. MOL's strategic aim is to increase the share of export captive markets through higher value added sales with services to end users. MOL's most important export market is Austria, which is also an important destination of Slovnaft's export sales. Through the utilisation of its depot in Korneuburg near Vienna, the MOL Group will be able to become a local market participant in Austria supplying end users. In addition, in July 2004, the MOL Group acquired a majority interest in Roth Heizöle GmbH, an Austrian oil product trading company (also operating 3 major storage depots, 20 major service stations and 52 diesel filling stations) which will facilitate further penetration to the end-user market.

#### ***Fuel oil***

The fuel oil consumption of Hungary has dropped for the last few years due to stricter regulation concerning emission limits and permitted sulphur content of fuel oil. The alternative products to fuel oil in Hungary are natural gas, power plant grade gas oil, petroleum coke and to a lesser extent, coke. Since completion of the residue upgrading project at the Duna Refinery, MOL does not produce enough fuel oil for supply to its domestic customers. MOL therefore imports it from neighbouring countries. The MOL Group principally supplies power stations with fuel oil, power plant grade gas oil and natural gas pursuant to annual contracts with each power station. In Hungary, MOL also supplies cement factories with fuel oil.

#### ***Petrochemical feedstock (naphtha and petrochemical grade gas oil)***

TVK is MOL's largest customer for petrochemical raw materials. MOL currently supplies TVK with naphtha and petrochemical grade gas oil pursuant to a contract which runs until 2013. As a result, naphtha produced and, to a lesser extent, imported by MOL and sold to TVK amounted to 854,100, 832,700, 794,900 and 836,200 tonnes in 2004, 2003, 2002 and 2001 respectively. In the first quarter of 2005, sales amounted to 269,100 tonnes. MOL also purchases products from TVK for use in refining, including pyrolysis gasoline and isobutylene. This contract covers the additional feedstock requirements for the ongoing petrochemical development programme at TVK. The purchase of naphtha from MOL by TVK is of ongoing importance to MOL's business due to the relatively small market for naphtha.

#### ***Jet fuel***

MOL supplies Malév Hungarian Airlines at the Ferihegy Airport in Budapest with jet fuel through a special pipeline pursuant to fixed-volume annual contracts. Other customers receive jet fuel delivered by road tankers. MOL's Hungarian market share in jet fuel supply in 2004 was about 98% (Source: MOL). Jet fuel export volumes are significantly smaller than the domestic ones. MOL exports jet fuel mainly to Bosnia-Herzegovina, Croatia and Slovenia.

#### ***Liquefied Petroleum Gas (LPG)***

MOL is the sole producer and, based on volumes, a leading wholesale supplier of LPG in Hungary. In 2004, MOL supplied 533,867 tonnes of liquefied petroleum gas, of which 27,799 tonnes were used by MOL. MOL

estimates that it obtains more than 51% of its supply volume from its own exploration and production activities, 25% from its refining operations and approximately 24% from import sources. In the first quarter of 2005, external sales amounted to 123,300 tonnes.

MOL seeks to continuously improve its sales and distribution network for LPG, as a result of which the number of MOL's official intermediaries and end-users amounted to 2,300 as at the end of 2004. The number of MOL's own and franchised auto gas sales points increased from 112 in 2003 to 118 in 2004. In 2004 Slovnaft continued in distribution of LPG purchased from MOL in Slovakia through its filling station network and its market share started to gradually increase.

Due to term-contract agreements with the most important LPG retail companies and the stable production and logistic background, the volume of LPG exports to Slovenia has increased since 2002. Exports of autogas (wholesale) and of propane (retail) to Romania through subsidiaries have been growing gradually. The development of exports to Serbia and Montenegro in 2004 was due to the shortage of competitors' production unable to meet the increase of autogas consumption.

In addition, INA is the sole producer and leading wholesale supplier of LPG in Croatia. In 2003 and in 2004, INA supplied approximately 141,000 tonnes and 153,000 tonnes of LPG to Croatia, respectively.

#### *Bitumen*

MOL's Duna Refinery produces the majority of its bitumen products, and has a total nominal bitumen production capacity of 360,000 tonnes per year. MOL also has bitumen production at its Zala plant, which is a specialised production plant producing bitumen for use in the construction industry. The Zala Refinery was founded to process the crude oil produced at nearby fields, but no longer conducts crude distillation. However, it continues to produce bitumen for domestic and foreign markets. The nominal capacity of industrial bitumen production at the Zala plant is 180,000 tonnes per year.

MOL estimates that in 2004 it had approximately 80% of the domestic market sales volume for bitumen and bitumen products. In the first quarter of 2005, 17,500 tonnes of bitumen were sold, down from 20,200 tonnes in the first quarter of 2004.

MOL exported approximately 49% of its bitumen production in 2004, mainly to Croatia, Slovenia, Austria and Romania. The remaining 51% of its bitumen production was sold in the domestic market. In the first quarter of 2005, 59% of bitumen was sold in export markets.

Slovnaft concentrated on the Slovak market, selling 60% of its bitumen production in the domestic market in 2004. Exports were divided between Austria and the Czech Republic in 2004, with 27% and 7% market shares by sales volume respectively. In the first quarter of 2005, Slovnaft sold 3,500 tonnes, 95% of which was sold in the domestic market.

#### *Lubricants*

MOL's lubricants operations are carried out by the Lubricants Division (the lubricant operations of MOL and Slovnaft have been fully integrated since 1 January, 2004), which consists of the wholly-owned subsidiary, MOL-LUB Ltd which is responsible for integrated production (blending, packaging, toll blending and the manufacturing and sale of additives) and also the marketing of lubricants in Hungary. Other integrated parts of the division are the lubricants sales operations of Slovnaft and the daughter companies of MOL. In 2004, the Lubricants Division sold 653,000 tonnes of finished lubricant products and additives. In the first quarter of 2005, sales amounted to 13,100 tonnes.

MOL produces almost all of the principal types of lubricants, including automotive motor and gear oils, industrial oils, specialty lubricants and greases. In addition to sales through its own retail outlets, MOL sells lubricants to transportation, agricultural and industrial customers and, to a lesser extent, filling stations and car owners. MOL's lubricants base stock is produced at its Duna Refinery and transported by barge and rail for blending at its Almásfüzitő blending facility located in northern Hungary. Some of the lubricant additives are produced locally and main parts are imported mainly from European and U.S. suppliers. The Almásfüzitő facility is the main specialised lubricants plant in Hungary, and has a blending capacity of approximately 100,000 tonnes per year. MOL also manufactures the majority of its lubricants packaging at the Almásfüzitő facility. According to the Hungarian Petroleum Association, MOL is a market leader in the lubricants market in Hungary with an overall market share of approximately 36% in 2004. The Group is also a market leader (based on volumes) in the

Slovakian lubricants market with an estimated overall market share by sales volume of approximately 40% in 2004. MOL's market share in the first quarter of 2005 was 40% in Hungary and 33% in Slovakia (Source: MOL). There are currently approximately 30 competitors in the Hungarian and Slovakian lubricants markets, the most important of which are multinational oil companies, including Agip, Shell, ExxonMobil and BP/Castrol. MOL believes that, as compared with similar quality products of its competitors, its lubricants have a price advantage resulting partly from its access to high paraffin crude oil (produced at the Algyő field in south-eastern Hungary) and logistical advantages.

MOL has been seeking to extend its lubricants activities into neighbouring countries where, it believes, its high-quality lubricants at competitive prices will give a competitive advantage over multinational oil companies.

INA also produces almost all of the principal types of lubricants and sells these primarily to transportation, agricultural and industrial customers.

#### *Petrolcoke*

Petrolcoke is the only solid fuel produced by the Duna Refinery. Petrolcoke is a by-product of the residue upgrading process. MOL delivers petrolcoke to coke and cement plants and brick factories making additional profit for its Refining and Marketing operations. MOL has long-term agreements with its customers.

The geographical split of the MOL Group's petrolcoke sales tended to increase in the domestic market throughout the period with a proportional drop in exports. In 2004, the main recipient countries were Austria and Slovakia along with Serbia-Montenegro, Macedonia, Slovenia and Bulgaria.

#### *Retail marketing*

The MOL Group also supplies refined petroleum (motor gasoline, diesel, LPG and lubricants) products to its network of 808 filling stations. At the end of the first quarter of 2005, MOL had 446 filling stations of which 358 were MOL-branded retail filling stations in Hungary and 88 in neighbouring countries (77 in Romania, 10 in Slovenia, 1 not fully consolidated in Croatia). In 2004, the MOL Group acquired 22 of Shell's petrol stations in Romania, and after consolidation of the remaining 59 ex-Shell stations, MOL will have 133 filling stations in Romania. In those countries where Slovnaft operates, the number of MOL Group (Slovnaft) filling stations is 341, of which 276 are in Slovakia, 42 in the Czech Republic and 23 in Poland. In addition, on 1 October, 2004, the MOL Group purchased 75% of Roth Heizöle GmbH, meaning the addition of 21 filling stations at the end of the first quarter of 2005, bringing the number of filling stations to 808 at the end of the first quarter 2005.

The MOL Group is the retail sales market leader in Hungary and in the Slovak Republic, and INA is a market leader in Croatia (Source: INA). In the first quarter of 2005, MOL (Hungary, Romania and Slovenia) sold 0.24 million tonnes (1.16 million tonnes in 2004) and Slovnaft sold 0.11 million tonnes (0.52 million tonnes in 2004) of fuel (including LPG) through retail filling stations. The average sale volumes of fuel for MOL-branded filling stations (in Hungary, Romania and Slovenia) in the first quarter of 2005 were approximately 0.75 million litres per station (3.4 million litres per station in 2004) and for Slovnaft-branded own stations 0.4 million litres per station (1.85 million litres per station in 2004).

In 2004, the MOL Group continued its filling station efficiency programme in Hungary. As a result of this, several low-turnover filling stations were closed. Due to the efficiency improvement programme, in spite of a slight fall in sales volume, the sales volume per MOL Group filling station in Hungary grew in 2004 year-on-year. According to data from the Hungarian Petroleum Association ("MÁSZ"), in the first quarter of 2005, MOL's retail market share by sales volume in motor gasoline was 39.2% (40.2% in 2004), and in gas oil 45% (46.8% in 2004).

In addition, as at 31 March, 2005 INA operated 479 filling stations primarily in Croatia (432 stations, including 12 stations owned by Energopetrol d.d. ("**Energopetrol**") but operated by INA under a standard filling station lease), 41 stations in Bosnia-Herzegovina and 6 stations in Slovenia.

The MOL Group's stations are primarily supplied with petroleum products from its Duna and Bratislava refineries. However, stations in eastern Romania receive fuel from Romanian refineries.

In addition to expanding the number of retail filling stations, the MOL Group intends to focus on the improvement of its filling stations in order to increase revenue per site and network efficiency. In particular, the Group is seeking to improve the appearance of its MOL and Slovnaft stations and broaden the range of products

and services on offer. At its retail stations, MOL has also focused on non-fuel sales through forecourt shops as part of 'Shop 24' concept. MOL's Shop 24 stations have a retail shop with the average size of 80 square metres. MOL has sought to optimise the selection of goods in the forecourt shops by cutting the number of items offered and introducing a uniform assortment at all of its shops. Interfruct, one of the leading Hungarian food wholesalers, supplies approximately 20% of the goods carried in MOL's Hungarian shop network. The agreement has resulted in a significant reduction in the number of shop suppliers and increased efficiency.

From the first quarter of 2004 to the first quarter of 2005, MOL's shop margin revenue in the Hungarian market increased by 6.9%, while non-fuel margin revenue per litre grew by 9.1%. Fuel card sales increased by 3.4% in the first quarter of 2005 compared to the first quarter of 2004 (7.6% in 2004 compared to 2003).

MOL completed the upgrade of 8 additional Hungarian filling stations in 2004, whilst the first quarter of 2005 saw 6 upgrades. In countries in which Slovnaft operates, the focus of investment has been changed, which meant in Slovakia a change from reconstructions to rationalisation, filling station closings being more dominant. In the Czech Republic, a revised strategy saw the focus move from filling station expansion to a face lift of the core network. Due to the halt in network development and the start of the divestment process in Poland, capital was expended in the first quarter of 2005 (in 2004 it was at the same level as in 2003). On 28 September, 2005 MOL announced that Slovnaft Polska S.A., a subsidiary of Slovnaft, signed a Preliminary Sale and Purchase Agreement with Lotos Paliwa, a member of the Lotos Group, for the divestiture of the MOL Group's retail business in Poland. The deal includes a network of 12 retail service stations, 2 undeveloped sites and potentially the transfer of 10 dealer-owned franchise operated stations located in Southern and Central Poland, representing approximately a 0.5% market share. Completion of the transaction is subject to anti-monopoly approval and is expected in the first quarter of 2006. As a result of this transaction, the MOL Group will cease retail operations in Poland due to a lack of economies of scale.

The MOL Group believes that the growth of its retail network, including the integration of Slovnaft's and the former Shell stations, has created certain synergies. The Group's increased purchasing power resulting from this growth has enabled it to reduce non-fuel purchasing expenses. The MOL Group has also achieved economies of scale with respect to its fuel card programme.

During 2002 the MOL Group implemented a number of marketing initiatives to build the MOL and Slovnaft brands. These included new product launches (such as premium fuel), design changes, and new service innovations. In particular, the MOL Group initiated a fuel card programme that allows holders to pay with MOL Group fuel cards at MOL and Slovnaft stations across the region. As at 31 March, 2005 the MOL Group had more than 1,200,000 card holders (including approximately 498,172 loyalty cardholders and approximately 301,664 "Multipoint" cardholders in Hungary). Points collected by the MOL loyalty card can be redeemed at MOL Group filling stations. Multipoint is a co-branded loyalty card for the MOL Group developed by OTP Bank, MATÁV and MOL. FOTEX joined the scheme in 2003. Multipoint cardholders in this system receive points based on the amount of their purchases, and these points may be redeemed for MOL and Slovnaft products and services, as well as for a range of consumer products offered by retailers participating in the loyalty programme. Multipoint cardholders also receive points based on their purchases from the other participants in the programme. The overall programme is administered by OTP Bank. The MOL Group maintains a provision on its accounts for the value of awarded points under the loyalty programme, which takes into account historical rates of point redemption.

In addition, in 2002, the MOL Group launched its first premium quality gasoline, Tempo 99 Evo, which has a high octane number, contains no sulphur and meets the strict requirements of both the International Association of Vehicle Manufacturers and the European Union specifications for 2008. MOL's managers believe that greater consumer acceptance of premium fuels will enable the Group to increase retail margins.

### **3. Gas Business**

As part of the liberalisation of the Hungarian natural gas business in 2004, MOL unbundled its gas business into wholly-owned subsidiaries to provide regulated access to its natural gas storage and transmission assets at regulated rate to the public service market, and to provide access on a negotiated basis to the free market sector. From January 2004, the natural gas market was liberalised in Hungary and all non-household consumers were permitted to opt out of the public utility (regulated) system. With respect to the wholesale natural gas business, MOL's gas subsidiaries are currently the only companies that satisfy the licensing requirements for the storage and transmission of natural gas, and it has a leading position in natural gas wholesale.

The Gas Subsidiaries were founded in October 2000 and were initially dormant companies. During 2002–2003, the Group was analysing possible solutions and timing of outsourcing the different segments of the gas

business. As the Gas Act was adopted in June 2003, requiring the unbundling of the MOL Group's natural gas business in accordance with EU legislation, the Group separated its gas storage, gas transmission and wholesale public supply and trading businesses into the Gas Subsidiaries.

Pursuant to the Gas Act, the Gas Subsidiaries, applied for licences for pursuing their respective activities in October 2003. In late 2003 the MOL Group made the necessary amendments to the corporate structure and documents of the Gas Subsidiaries and transferred the relevant assets, either by capital increase or sale and purchase contracts. The Hungarian Energy Office granted the Gas Subsidiaries their respective licences on 31 December, 2003 and they started operation on 1 January, 2004. Currently the Group runs its gas operations through the following entities:

- **MOL Natural Gas Transmission Plc.** commenced business on 1 January, 2004 as the legal successor of MOL in the field of natural gas transmission activity. It owns and operates the gas delivery stations, the compressor stations and the high-pressure natural gas transmission pipeline network in Hungary. Its main functions are the operation of the Hungarian gas network, transportation of natural gas through the transmission pipelines, transit of natural gas to markets outside of Hungary and the marketing of the transmission pipeline capacity. In order to perform its activities, MOL Natural Gas Transmission Plc. has the following operational licences at its disposal: a natural gas transmission licence, a system operational licence and a licence for access to the cross-border natural gas transmission pipeline.
- **MOL Natural Gas Storage Plc.** commenced business on 1 January, 2004 as the legal successor to MOL's natural gas storage activity. MOL Natural Gas Storage Plc. has a licence for Underground Gas Storage ("UGS"). Its activity is performed within the territory of Hungary with the use of 5 UGS sites. The scope of the activity includes the satisfaction of Hungarian storage demands and toll storage in connection with gas transit.
- **MOL Natural Gas Supply Plc.** commenced business on 1 January, 2004 as the legal successor to MOL's natural gas supply activity. The company owns 3 main licences: a public utility gas wholesale licence, a gas trading licence and an access to cross border pipeline licence. Its main functions are the public utility wholesale and competitive trading of natural gas. It is the sole public utility wholesaler of natural gas in Hungary.

Under Hungarian regulations the MOL Group has historically been limited as to the maximum price it could charge Hungarian customers for its natural gas. These prices have typically been below MOL's costs associated with gas sales, resulting in continuing significant losses for the MOL Group's natural gas business in the past. However, the Gas Act resulted in partial liberalisation of the Hungarian gas market, while an import parity-based pricing mechanism was introduced in the public utility market.

As a result, the Group is now able to charge market prices for its wholesale natural gas sales to certain "eligible" natural gas customers that elect to purchase natural gas from the MOL Group on the liberalised market. Eligible customers are all non-household customers. Some consumers have already initiated a step out of the public utility system into the competitive market. MOL expects to supply more than half of this demand, including that of certain members of the MOL Group who have entered this market. One of the key challenges for a supply company in the new market environment is to maximise the retention of existing customers.

In 2004 MOL sold 2.7 billion cubic metres of domestically produced natural gas and 10.9 billion cubic metres of imported natural gas.

During 2002 and 2003, the MOL Group analysed possible solutions and timing of outsourcing the different segments of the gas business. The Board of Directors has authorised its management to evaluate various strategic options relating to each segment of the natural gas business. Such options include the sale of all or a part of the Gas Subsidiaries, subject to the approval of the General Meeting of the shareholders of MOL and the supporting vote of the holder of the Special Share (i.e. the State Privatisation Agency) if, as a result of the sale of MOL's stake in Gas Subsidiaries conducting transmission and system operation business would fall below 25% plus one vote. The management of MOL had invited parties to submit their proposals for the acquisition of or possible co-operation regarding the selected Gas Subsidiaries. Following the pre-acquisition review of the Gas Subsidiaries in the data room by the invited parties, MOL had received a sufficient number of offers. After reviewing and evaluating the offers, MOL decided to start parallel negotiations with several investors with the objective of reaching an agreement latest by the end of this year.

In November 2004 MOL concluded an agreement on the partial sale of the gas businesses and on the partnership with one of the largest gas and energy companies in Europe, E.ON Ruhrgas International, following



the introduction of an EU gas business regulation. Under the €775 million transaction announced in November 2004, the German investor may purchase a 75%-minus-one-share stake in MOL Foldgazellato, MOL's wholesale, marketing and trading division, and a same-sized stake in MOL Foldgazarolo, MOL's storage division and MOL's 50% stake in Panrusgáz subject to approval of appropriate domestic and EU regulatory authorities.

MOL is entitled to exercise two put options. The first option covers the sale of the stake representing the remaining 25%-plus-1-share in MOL Foldgazellato (*MOL Natural Gas Supply Plc.*) and MOL Foldgazarolo (*MOL Natural Gas Storage Plc.*) within 5 years. The second put option applies to the sale of a stake representing a minimum 25%-plus-1-share and a maximum 75%-minus-1-share in MOL Natural Gas Transmission Plc. within 2 years.

MOL expects to close the first stage of the partnership transaction by the end of 2005.

### ***Natural gas purchasing***

In addition to its domestic production the MOL Group obtains supplies of natural gas from a number of sources under long-term contracts. In 2004 and 2003 approximately 80.0% and 81.5% respectively of the total natural gas sold by the MOL Group was from imported sources. As a result of declining natural gas production of the Group and anticipated continuing increases in Hungarian demand, MOL expects to become increasingly reliant on imported natural gas in order to meet its obligation under the gas licence to supply the Hungarian market with natural gas.

The MOL Group purchases approximately 83% of its imported natural gas from Russian sources. This natural gas is produced and transported by Gazprom pursuant to agreements with Panrusgáz Rt. In addition MOL Group imports natural gas from Ruhrgas AG and Gaz de France.

In February 1994 and in 1996, MOL signed two agreements with OMV Erdgas GmbH (**OMV**) that allocate 3.0 billion cubic metres of the pipeline's annual capacity to MOL and the remainder to OMV until 2016. MOL had two additional long-term gas import contracts with two other international gas trading companies (Eurobridge and O&G) and other low volume short-term agreements for the supply of natural gas. MOL terminated the contracts with Eurobridge and O&G in the first quarter of 2005.

MOL Natural Gas Supply Plc. has concluded a purchase contract with Bothli Trade AG, a Swiss firm for the period commencing in 2004 and ending in 2010. MOL terminated these contracts in the second quarter of 2005.

The unbundling of the gas activities into the three subsidiaries requires MOL Natural Gas Supply Plc. to take over of all the import and other contracts from MOL. In the case of contracts governed by Hungarian law it has been done by legal succession. In the case of the other contracts the process is still not complete. The contract with Gaz de France has been assigned to MOL Natural Gas Plc. and the contracts with Ruhrgas and OMV are in the process of assignment.

### ***Natural gas transmission***

Through MOL Natural Gas Transmission Plc., the MOL Group owns and operates 374 gas delivery stations, 5 compressor stations and the high-pressure natural gas transmission pipeline network that transports both domestically produced and imported natural gas to gas distribution companies for ultimate supply to end-users, natural gas fired power stations and certain other large industrial users. Gas distributors deliver natural gas to households and to local businesses, including natural gas fired power stations that are not connected to the MOL Group's high-pressure transmission system and some industrial customers throughout Hungary. The high-pressure natural gas pipeline network extends some 5,226 kilometres across Hungary and has an annual throughput capacity of approximately 18 to 21 billion cubic metres, depending on the average pressure maintained in the pipeline, and a daily peak capacity of 96.2 million cubic metres.

Approximately 31.2% of the Group's pipeline network is more than 15 years old, a further 14.2% is more than 25 years old and 31.1% is more than 30 years old. Its five compressor stations are in Városföld (built 1976), Beregdaróc (built 1979), Nemesbikk (built 1982), Mosonmagyaróvár (built 2000) and Hajdúszoboszló (built 2001). However, based on an estimation by PII Group Limited, a company affiliated with General Electric, MOL's gas transportation network is among the top third of the 15 European transmission networks surveyed in terms of pipeline integrity.

In 2003 the MOL Group continued to impose strict controls on natural gas capital expenditures due to the relatively low returns its gas business achieved under the 2003 Hungarian regulations. However, the MOL Group



continues to fund projects related to the maintenance and safety of its pipeline system. In 2002, the MOL Group completed an upgrade project at the Beregdaróc compressor station, which connects with the Brotherhood pipeline on the Ukrainian border, and the reconstruction of the control system at its Nemesbikk compressor station. The MOL Group also reconstructed several gas delivery stations and selected sections of pipeline were checked and reconstructed in order to comply with the relevant environmental regulations. In 2004, MOL Natural Gas Transmission Plc. issued an international tender for buying new compressor units to change the old compressor unit and to reduce environmental pollution on the older compressor stations. Mosonmagyaróvár, and Hajdúszoboszló stations have already met the required regulations. In 2003, there were also a number of maintenance projects in order to keep gas transmission at a safe and reliable level.

The Hungary-Austria Gasleitung pipeline is 120 kilometres long, of which the MOL Group owns a 70 kilometre long Hungarian section.

In addition to transporting natural gas for domestic consumption, MOL also transports gas for third parties (a service that it is required to provide under Hungarian law to the extent of its excess capacity), a business it will seek to expand in the future. In 1998, the MOL Group entered into a 20-year transmission agreement with NIS, the national oil company of the former Yugoslavia (now Serbia) and in 1998 it also entered into an agreement with BH-Gas, the national gas company of Bosnia-Herzegovina. The annual transit volumes under these agreements in 2004 were 2.25 billion cubic metres and 0.32 billion cubic metres of natural gas, respectively. In 2004, 2003 and 2002 MOL transported approximately 2.57 billion cubic metres, 2.1 billion cubic metres and 1.9 billion cubic metres of natural gas, respectively, for third parties. In previous years, the MOL Group experienced some problems with collecting transit fees from NIS. In 2001, the Group amended its agreement with NIS to provide for a bank guarantee to secure payment by NIS of its transit fees. As a result, the MOL Group is not currently experiencing any collection difficulties with respect to this agreement.

The MOL Group has also signed a letter of intent with Romanian gas companies to explore the feasibility of transmitting gas through Hungary. MOL also participates in a workgroup, which was formed to assess the potential for construction and operation of a new major transit route from the Caspian region to Western Europe through Turkey and Central-Eastern Europe (Nabucco Project).

MOL Natural Gas Transmission Plc. is currently the only company with a licence to operate a high-pressure gas transmission pipeline network in Hungary and the sole licensee for the system operation activities. However, under the Gas Act, third parties may apply for licences to transmit natural gas, regarding the transmission network which the applicant either owns or uses under a contract with the network's owner.

Additionally, as interconnection of the natural gas grids of Hungary and Croatia is possible due to the geographical connections of the two countries, MOL Natural Gas Transmission Plc. has been pursuing investigations regarding the financial and other terms of such project, however no decision has been made so far. MOL Natural Gas Transmission Plc. considers such a venture as a business opportunity.

MOL is currently negotiating with INA terms of co-operation concerning transiting natural gas through Hungary to Croatia, which would, if implemented, require capital expenditure to connect its pipelines with Croatian pipelines.

The high-pressure gas transportation system in Croatia is operated by Plinacro, which is currently wholly-owned by the Croatian Government. This system was wholly owned by INA prior to INA's disposal of its interest in the system in February 2001 as part of the liberalisation of the Croatian natural gas market. Currently, approximately 60% of Croatian demand for natural gas is satisfied through domestic production, and the rest through the import of natural gas from Russia through the Slovak Republic, Austria and Slovenia. INA and MOL continue to investigate the possibility of connecting the natural gas pipeline systems of Croatia and Hungary.

### *Natural gas storage*

MOL Natural Gas Storage Plc. is the only provider of underground natural gas storage in Hungary. It owns five underground gas storage facilities with a storage capacity of approximately 3.4 billion cubic metres and relevant peak capacity of 44.4 million cubic metres per day. The MOL Group's exploration and production business is responsible for the day-to-day operation of two small storage facilities (Maros-1, Pusztaszőlő), and provides services on a contractual basis with MOL Natural Gas Storage Plc. operating the other three big underground gas storages (Hajdúszoboszló, Zsana, Pusztaderics).

In Croatia, INA operates the Okoli underground gas storage facility, which has a total storage capacity of 550 million cubic metres.

Natural gas storage has been an important element in the MOL Group's competitive position in Hungary as it was a critical factor in complying with the requirements set out in the existing gas trading licence, which requires the MOL Group to maintain capacity sufficient to satisfy seasonal peak demand in Hungary. Under the Gas Act, as of January 2004, the MOL Group is no longer subject to this minimum storage requirement.

MOL's management believes that the demand for natural gas in Hungary will continue to grow as a result of continuing Hungarian industrial development and economic growth, as well as greater reliance on natural gas among power generators resulting from stricter environmental regulations. To meet this anticipated additional demand, the MOL Group intends to expand its underground gas storage capacity. Accordingly, in 2002 it commenced the reconstruction of the surface technology at the Hajdúszoboszló facility and started reconstruction of the underground and surface technology at the Pusztaderics facility. This project is now completed. In addition, MOL is continuing to refurbish its Kardoskút underground gas storage facility which was damaged in a gas blow-out in 2001. The refurbishment is expected to be completed in next two years.

### *Natural gas sales*

MOL Natural Gas Supply Plc. is the sole public wholesaler of natural gas in Hungary responsible for wholesale marketing and trading. Its public wholesale natural gas customers include the gas distribution companies, gas fired power stations, companies engaged in the chemical industry and other large industrial users. It also operates as a gas trading company, supplying natural gas to eligible customers on the liberalised market.

In 2003 the MOL Group realised an operating profit on gas sales. Higher than average sales prices were able to compensate for the considerable increase in the average import price compared to the previous year. In 2004 the regulatory accepted import price level was higher than real import cost. MOL Gas Supply Plc. has paid a HUF 22.2 billion revenue surplus into a state-administered compensation fund.

The MOL Group has contracts with six major gas distribution companies and four smaller natural gas distributors based on long-term framework agreements. Most of its current larger framework agreements were concluded between 1996 and 1998. These agreements expire between 2006 and 2017. Each year the MOL Group enters into annual agreements with these gas distribution companies specifying the terms of sales for the relevant year.

Sales to the power plant segment grew in 2001-2003, but the growth slowed in 2004. It is expected to be further development in this segment concerning new greenfield and brownfield investments.

Most of the MOL Group non-gas distributor sales are to large industrial consumers, including power plants. Most power plant customers purchase their gas from the MOL Group pursuant to annual agreements, mainly on an interruptible basis; although one large power plant (Tiszai Erőmű Rt) purchases on a heat-quantity basis. In addition, the MOL Group supplies natural gas, mainly on a non-interruptible basis, to a variety of other industrial users that are connected by pipeline directly to its natural gas transmission network. MOL believes that Hungarian demand for natural gas will increase in the power sector, mainly due to the increasing number of large- and small-capacity power plants. Demand from other industrial users is not expected to show any material increase of current levels, due to efficiency improvements which largely offset any underlying increase in industrial demand.

The MOL Group has initiated a number of measures in preparation for the liberalisation of the Hungarian natural gas market. It is also focusing on the development of risk management instruments. Specifically, MOL offers fixed-price contracts to certain key accounts. The MOL Group has also implemented trading courses and sales training for its key account managers to enable them to better assess and respond to its customers' needs, particularly with respect to risk management.

According to the Croatian Energy Law, INA supplies natural gas to captive or tariff, consumers and eligible consumers. Captive consumers are mainly local distribution companies and industrial consumers connected directly to the Croatian high pressure pipeline network. The definition of eligible customers includes a customer that has annual natural gas consumption which is higher than the level set forth in the law and has elected to purchase natural gas outside the regulated market. In addition, according to the Croatian Law on the Gas Market, eligible customers include:

- gas-fired power generators, irrespective of their annual consumption level;
- co-generators producing electricity and heat, irrespective of their annual consumption level; and
- final customers buying gas exclusively for their own needs, whose annual consumption exceeds 100 million cubic metres.

In addition, INA expects that demand for natural gas in Croatia will continue to grow with the economic development of the country. INA, as an authorised gas wholesaler, is planning to supply the expected increase in demand with its production, which may include the future gas produced from newly discovered Adriatic offshore gas fields.

#### *Natural gas pricing*

Natural gas prices and the MOL Group's natural gas operations used to be fully regulated by the Hungarian government. Since 2000, prices for natural gas have been set by the Ministry of Economy and Transportation, and these prices have typically been below the MOL Group's natural gas import costs. However, on 1 October, 2003, in preparation for liberalisation of the Hungarian natural gas market under the Gas Act, the Hungarian government announced a New Gas Decree which increased the maximum natural gas prices to approximate a market price for natural gas. When the Gas Act entered into force on 1 January, 2004, both the gas storage (only for public supply) and gas transmission businesses charge regulated tariffs are set by the Minister of Economy and Transportation according to the proposal of regulatory authorities based on the cost of activity and an allowable return on their assets. The MOL Group unbundled public supply wholesale and trading services (as other shippers) pay these regulated tariffs for the services provided to it by the gas storage and gas transmission businesses. The access to the storage service on the free market is negotiable (nTPA).

The MOL Group is able to charge market prices for wholesale natural gas sales to eligible customers who elect to purchase natural gas from MOL Natural Gas Supply Plc. on the liberalised market. Until 1 July, 2007, eligible customers are all non-household customers. After 1 July, 2007, pursuant to EU law, household customers will also become eligible customers.

#### *Natural gas retail trading*

In 2003 the MOL Group completed the sale of the majority of its gas distribution companies. This was followed in January 2004 by the sale of MOL's minority interests in gas distributors ÉGÁZ Rt. and DÉGÁZ Rt, in which MOL sold stakes of 35.46 % and 27.18 % respectively.

MOL still retains a majority stake in Balatongáz Kft. However, it is currently considering the sale of this interest.

### **4. Petrochemicals**

The MOL Group's Petrochemicals segment, including TVK and Slovnaft's petrochemical businesses, is one of the most significant participants in the fast growing Central European polyethylene and polypropylene markets. The segment utilises its integrated production to produce monomers and polyolefins, including high-density polyethylene ("HDPE"), low-density polyethylene ("LDPE"), and polypropylene, homo- and copolymers ("PP"), from a variety of hydrocarbon raw materials produced primarily by the MOL Group's refineries. The polymers produced are delivered via integrated sales channels primarily to end-users mainly in the domestic and European export markets.

Through TVK, the MOL Group operates two steam crackers, with a capacity of 620,000 tonnes of ethylene per annum, as well as two LDPE and two HDPE plants with total LDPE capacity of 120,000 tonnes per annum and HDPE capacity of 400,000 tonnes per annum. TVK also produces various grades of PP in its two PP plants with an aggregate capacity of 280,000 tonnes per annum.

In TVK, the "Petrochemical Development Programme" was completed at the end of 2004. A new steam cracker with a capacity of 250,000 tonnes per annum and a new HDPE plant with 200,000 tonnes per annum capacity were constructed.

In addition, through Slovnaft, the MOL Group operates an olefin plant with a capacity of 219,000 tonnes of ethylene per annum. Slovnaft also operates three LDPE plants with the total capacity of 185,000 tonnes per annum and two PP plants with the total capacity of 82,000 tonnes per annum.

Slovnaft has commenced the construction of a new PP plant with 255,000 tonnes per annum capacity. The new PP plant was completed in the first quarter of 2005, and testing is currently in progress.

In 2004 the more favourable industry environment at the end of the year, the weakening dollar against the €, the successful strategy to increase polymer sales and increased efficiency enabled MOL to significantly improve results. The timely introduction of new capacities, as part of the strategic petrochemical development project, should lead to further significant improvement in operational figures.

In 2004, the operating profit of the Petrochemical segment increased significantly, as a result of the more favourable external environment at the end of the year, the efficiency improvement programme and the better utilisation of available capacities. The profit improvement was driven by a 13% increase in the integrated petrochemical margin, while decreasing polymer prices and the weakening dollar against the € were counterbalanced by the negative effect of increasing naphtha prices. MOL also achieved further improvement in efficiency resulting from the integration of TVK and Slovnaft related business lines.

### *Main markets characteristics*

The increase in the use of plastics is in strong correlation with the growth rate of GDP. The expected growth of real GDP in Hungary and Slovakia is higher than the average Western European GDP growth rate.

#### *Domestic Markets*

##### *Hungary*

The Hungarian market for all products is characterised by its attractiveness (in terms of high demand) and strong competition. The market is not as big as the Italian or German markets but still very lucrative. The most important segment is the market of the packaging (foils, bottles, etc.) goods. The MOL Group is a market leader in the Hungarian polyolefin market, its main competitors being regional and multinational companies.

##### *The Slovak Republic*

All of the market segments in Slovakia are considered attractive and favourable. The market for packaging materials such as foils and bags is the most significant besides other injection moulded products. In the LDPE and PP sectors, the MOL Group is a market leader in terms of sales volumes in the Slovak Republic, and with Slovnaft's new PP plant put into operation in the second quarter of 2005, market share is expected to increase further. Competition is much stronger in the HDPE market, but Slovnaft does not have a HDPE plant. Its main competitors are regional and multinational companies.

#### *Export Markets*

In the Central and Eastern European markets, the MOL Group is a preferred supplier with a strong market position. In Western Europe, the MOL Group is a niche player.

The strategy of the MOL Group is to achieve further increases in market share in Eastern European markets, keeping in mind that main Western European export markets take up very considerable quantities.

The most important export countries for the MOL Group are Germany, Poland and Italy. Despite high sales volume, the MOL Group supplies only a small share of German and Italian markets and a somewhat bigger share of the Polish market.

Austria and the Czech Republic are nearby countries with important domestic polymer producers (Borealis in Austria and Chemopetrol in the Czech Republic). As these countries have relatively low polymer demand (which domestic producers are able to supply for the most part) then compared to other European countries, the MOL Group has only small market shares in these countries.

Eastern European countries are subject to a homogeneous strategy for the Group's Petrochemicals Division with similar indicators of economic, infrastructure, demographic and geopolitical factors. The situation in the polyolefin market in these countries could be classified as progressively developing. The consumption of polyolefins per capita is much lower than in Western Europe, the polyolefin producers are undergoing reorganisation and reconstruction, the packaging segments are developing very fast and the annual growth rate in some countries has in recent years exceeded 20%. The Group's market share of the Petrochemicals Division is quite low, but expected to increase in the near future.

The economic situation of South-Eastern Europe has stabilised although consumption of polyolefins per capita in the region remains relatively low and the downstream processing industry remains fragmented. The markets continued to develop and the annual growth rate in the past years averaged between 7% and 8%. The current market share of the MOL Group is quite low.

Among those export markets more distant from the MOL Group's main operating sites, the French and British markets are not so important but remain necessary.

## Business overview

TVK is a leading petrochemical company (and the sole producer of olefin and polyolefins) in Hungary and is one of the major regional producers of olefins and polyolefins.

TVK's Olefin-1 plant, which was built in 1975 using Linde technology, processes naphtha and chemical gas oil into ethylene and propylene. For ethylene it has initial capacity of 250,000 tonnes per year. After a cracker overhaul between 1995 and 1998, intensification in 1999 and implementation of a computerised process control system (DCS and APC) in 2001, the plant currently has a capacity of 370,000 tonnes per annum. The Olefin-2 unit, which also utilises Linde technology and came on-line in December 2004, has a capacity of 250,000 tonnes per annum. In addition to the production of ethylene and propylene for use in polyolefin production, TVK also supplies ethylene to BorsodChem, the sole Hungarian PVC producer. By the end of 2004, TVK sold more than 80,000 tonnes of ethylene to BorsodChem annually. However, according to a new long-term agreement, annual quantities will rise to between 140,000 and 155,000 tonnes per annum.

TVK's polymer business unit produces various grades of HDPE, LDPE and PP for both the domestic and international markets. The HDPE-1 unit, constructed in 1986 with an initial capacity of 140,000 tonnes, at present has a capacity of 200,000 tonnes per annum as a result of rationalisation in 1991 and the implementation of a process control system in 1999. The new HDPE-2 plant came on-line in 2004. The aggregate HDPE capacity of the two plants is 400,000 tonnes per annum. TVK operates two LDPE plants with total capacity of 120,000 tonnes per annum. TVK also operates two PP plants with a total capacity of 280,000 tonnes per annum. The smaller plant was commissioned in 1989, and the most modern plant, using state-of-the-art technology, has been in use since 2000 and was intensified in 2002. The PP products include homopolymers as well as heterogeneous and random copolymers.

In 2002 TVK began a €430 million Petrochemical Development Project to upgrade its production facilities. This project was intended to expand TVK's capacity to produce 620,000 tonnes of ethylene per annum and 400,000 tonnes of HDPE. PP capacity also grew following a plant upgrade. As a result, the total polymer production increased to 800,000 tonnes per annum. By the end of 2004, TVK had completed this project in record time, even by international standards, and also within budget.

Slovnaft operates an olefin plant at its integrated refinery-petrochemical site in Bratislava. The steam cracker, built in 1975, has an actual capacity of 219,000 tonnes per year. All of the units, including the steam cracker, have been upgraded to allow Slovnaft to operate these units in excess of their nominal capacities. The steam cracker supplies other petrochemical units with olefin feeds, including LDPE (185,000 tonnes per annum capacity), PP (82,000 tonnes per annum capacity) and other units such as cumene/phenol, ethyl-benzene and ethylene-oxide, which belong to downstream production.

Slovnaft has commenced construction of a new PP plant, with a nominal capacity of 255,000 tonnes per annum, as the first stage of a programme to modernise its petrochemical business. The aim of this project is to increase the PP market share by better utilising the excess in the MOL Group's propylene production and to improve both product quality and product range. The implementation of the project is on schedule and within the €143 million budget. As part of this construction programme, Slovnaft is planning to close its two existing outdated PP plants (PP-1 was closed on 2 May, 2005). In the future, MOL will consider the options for strategic development of Slovnaft's steam cracker and other polymerisation plants.

Most of the feedstock used in TVK's and Slovnaft's petrochemical production is supplied by the MOL Group's refineries.

	<u>Q1</u>	<u>Year ended December 31,</u>			
	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>
<b>MOL Group Petrochemicals Division</b>					
Annual plant capacity					
<b>Total ethylene capacity</b> .....	<b>839</b>	<b>839</b>	<b>589</b>	<b>589</b>	<b>589</b>
<b>Total polymer capacity (of which)</b> .....	<b>1067</b>	<b>1067</b>	<b>867</b>	<b>867</b>	<b>867</b>
LDPE .....	305	305	305	305	305
HDPE .....	400	400	200	200	200
PP .....	362	362	362	362	362
Annual production					
<b>Total ethylene production</b> .....	<b>194</b>	<b>595</b>	<b>545</b>	<b>575</b>	<b>557</b>
<b>Total polymer production (of which)</b> .....	<b>243</b>	<b>859</b>	<b>797</b>	<b>835</b>	<b>788</b>
LDPE .....	73	294	261	281	269
HDPE .....	78	195	188	194	184
PP .....	91	370	348	360	335



Polymer production reached higher production volumes and a higher rate of effective capacity utilisation in 2004. Total annual polymer output was 859,000 tonnes.

TVK and Slovnaft sell their products through the TVK sales office network primarily to end-users of petrochemicals in Germany, Italy, France, Poland, Austria and the United Kingdom as well as in their domestic markets. The sales of the two companies have been integrated so that polymer products are sold through the MOL Group's integrated sales channels mainly to small and medium size companies.

Despite weak polymer demand in 2003, polymer sales volumes remained approximately at the same level as in the previous years, helped by the positive impact of the successfully implemented single sales channel management system. In 2003 olefin and polymer product sales grew by 27% to 1,037,000 tonnes, mainly due to the consolidation of 260,000 tonnes of Slovnaft sales. The MOL Group sold 84,000 tonnes of ethylene directly to BorsodChem, the sole Hungarian PVC producer, in 2003. Polymer sales were 806,000 tonnes, of which 33% was LDPE, 23% HDPE, and 44% PP sales.

The external circumstances which changed constantly in 2004, had a positive overall effect in contrast with 2003. Polymer sales volumes increased by 14% to 872 kt, due to higher polymer production and the consolidation of Slovnaft's petrochemical sales in 2004, but only with effect from the second quarter of 2003. Polymer sales by product group in 2004 were: 33% LDPE, 24% HDPE and 43% PP. Ethylene sales to BorsodChem amounted to 89,000 tonnes.

	<u>Q1</u>	<u>Year ended December 31,</u>			
	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>
MOL Group polymer sales: <sup>(1)</sup> (thousand tonnes)					
LDPE .....	67	292	233	111	107
HDPE .....	68	210	187	197	187
PP .....	89	370	342	288	262
<b>Total polymer sales .....</b>	<b>224</b>	<b>872</b>	<b>806</b>	<b>596</b>	<b>556</b>

- (1) Figures for TVK and Slovnaft are only included in the amounts shown in this table from the dates on which their accounts were consolidated into those of the MOL Group: for TVK since 31 January, 2001 and for Slovnaft since the second quarter of 2003.

#### *Integration of Petrochemical operations*

In 2003 the MOL Group made the necessary preparations to create an integrated petrochemical segment combining the operation of TVK and Slovnaft. The production and marketing activities have been integrated as of 1 January, 2004, while the integrated operation of functional units started as of 1 July, 2004. This move contributes to the improvement of supply optimisation and the creation of a better product base, through which each MOL Group company can benefit from significant synergy and efficiency improvements.

## **D. RECENT DEVELOPMENTS**

### **MOL's Recent Business Activities in 2004-2005**

#### *Exploration project in Kazakhstan*

MOL has acquired a 22.5% share in the prolific Fedorovsky Block, located in North West Kazakhstan next to the Russian border and the giant Karachaganak field. The block is located close to the existing infrastructure. The original three party consortium included MOL and First International Oil Corporation, each with a 22.5% share. Avery Worldwide Limited held the remaining stake. The consortium is performing upstream exploration. MOL expects to spend in total up to USD 28 million by the end of the exploration phase. MOL believes that the block possesses significant oil, condensate and natural gas potential. In February 2005, MOL increased its interest in the project to 27.5%. MOL purchased an additional 5% share from EVL, which had earlier taken over the full 55% stake of former operator Avery Worldwide Limited. The third partner in the consortium remained FIOC with an unchanged stake of 22.5%.

#### *Second Pakistan discovery in Tal Block*

In January 2005, MOL made a second discovery of oil and gas in the Tal Block, located in the north western frontier province of Pakistan. Hydrocarbon exploration has been carried out in this block since 1999 by a consortium of companies including Oil and Gas Development Co. Ltd., Pakistan Petroleum Limited, Pakistan



Oilfields Ltd. and Government Holdings (Pvt.) Ltd. with MOL as an operator of this joint venture. MOL has a 10% interest in the consortium. The exploration activity has already resulted in the discovery of the Manzalai-1 well in December 2002. Following this first discovery in 2002, the consortium decided to continue exploration in the block. As seismic measurements performed in 2003 produced positive geological results, the consortium decided to drill a new exploratory well (Makori-1) in 2004. Drilling was started in March 2004 and reached its target depth in December 2004. Well tests are in progress and the well has already produced significant quantities of oil and gas. Testing of the remaining potential zones is also in progress. The consortium will subsequently conduct further tests to evaluate the size and economic potential of the reserves.

#### ***Long-term oil supply agreement with Lukoil, replacing Yukos***

In January 2005, MOL concluded a five-year agreement with Lukoil International Trading and Supply (**Lukoil**) to deliver 5 million tonnes of crude oil per year to Hungary and Slovakia. The MOL Group also has existing short-term crude oil supply agreements with Lukoil. Prior to this, MOL had signed a ten-year crude oil supply agreement with Russia's Yukos in July 2003 for the delivery of 7.2 million tonnes of oil annually, supplying nearly 60% of the MOL Group's requirements. However, due to its financial difficulties, Yukos stopped supplying crude oil under the agreement.

#### ***Partnership in the gas business with E.ON Ruhrgas International***

On 4 November, 2004, MOL and E.ON Ruhrgas International signed a partnership agreement in relation to the joint operation of MOL's gas business in the future. MOL sold to E.ON Ruhrgas International a 75%-minus-1-share stake in MOL Natural Gas Supply Plc. and MOL Natural Gas Storage Plc. and a 50% stake in Panrusgáz. The Panrusgáz sale, however, depends on the approval of the other shareholder in Panrusgáz, the Russian oil and gas company Gazprom.

MOL is entitled to exercise two put options. The first option covers the sale of the stake representing the remaining 25%-plus-1-share in MOL Natural Gas Supply Plc. and MOL Natural Gas Storage Plc. within 5 years. The second put option applies to the sale of the stake representing a minimum 25%-plus-1-share and a maximum 75%-minus-1-share in MOL Natural Gas Transmission Plc. within 2 years.

In January 2005, MOL requested regulatory approval for the deal from the Hungarian Energy Office (**MEH**) and subsequently from the relevant EU regulatory authorities. Approval from MEH was received in the second quarter of 2005. MOL expects to close the transaction by the end of 2005 subject to the approval of the EU competition commission.

#### ***Acquisition of majority ownership in Roth Heizöle GmbH***

On 26 July, 2004 the MOL Group signed a purchase agreement to acquire a majority ownership interest in Roth Heizöle GmbH (**Roth Heizöle**) and established an option structure for the remaining stake.

Roth Heizöle is the largest family-owned and managed enterprise in the Austrian mineral oil sector operating in the Graz and Linz region. It currently sells 400,000 tonnes of petroleum products and operates 20 major service stations and 52 diesel filling stations, which will continue to operate in the future under the Roth Heizöle brand. Roth Heizöle also owns 3 major storage depots (in Linz, Graz and Trofaiach) and possesses the required assets for the logistics of transporting petroleum products. As MOL Group has been the key supplier of Roth Heizöle for a significant period of time and as MOL Group wishes to maintain its strong position on the Austrian wholesale market, the acquisition of Roth Heizöle will result in further penetration of the end-user market.

The market position and assets of Roth Heizöle serve to complement the Korneuburg storage depot of MOL, whilst strengthening MOL's presence in three of the four main Austrian regions.

Roth Heizöle and MOL Group have together identified the potential for securing and increasing the sale of petroleum products (diesel fuel, heating oil and gasoline) and improving upon the existing business through co-operation.

#### ***Acquisition of 100% of the shares in Shell Romania***

On 23 November, 2004, MOL acquired the complete network of Shell Romania. The deal includes a network of 59 retail service stations geographically spread across Romania as well as the lubricant, aviation and commercial businesses. As a result of this transaction, the total number of MOL-operated filling stations in Romania exceeds 130 stations.

### ***Acquisition of full ownership in MOL Austria GmbH***

MOL increased its stake in MOL Austria GmbH to 100% on 31 December, 2004. MOL Austria GmbH carries out wholesale crude oil product trading on the Austrian market for the MOL Group.

### ***Disposal of non-core operations***

By 2004, the main aims of the sales strategy aimed at divesting non-core activities, had more or less been achieved. The majority of the non-core portfolio elements were successfully sold. The remaining elements represent mostly minority equity interests or majority interests in smaller companies. However, further possibilities for sale may be identified in the future.

In 2004 each of TVK and Slovnaft began (or in some cases, continued) the sale of its non-core subsidiaries.

### ***Energopetrol bid***

On 11 April, 2005 MOL submitted a binding offer together with INA for the acquisition of a controlling stake in Bosnian Energopetrol. Energopetrol has a 15% market share and operates 65 filling stations in Bosnia-Herzegovina. In 2003, Energopetrol sold 124,000 tonnes of oil products, with an annual turnover of €84 million. Expansion in the south-eastern European markets is a strategic objective for both MOL and INA. The potential acquisition of Energopetrol fits well into this strategy. Rights and liabilities would be shared on a 50-50 basis within the consortium formed by MOL and INA.

The bid of MOL and INA has been highly rated by the commission responsible for the privatisation of Energopetrol. Although MOL and INA have conducted several discussions with the Government of the Federation of Bosnia & Herzegovina in order to clarify the content of the bid and reach an agreement on the outstanding issues, the parties have not come to a common understanding to date.

## RECENT CHANGES IN MOL'S REGULATORY ENVIRONMENT

### *Supplementary royalty in the exploration and production business*

In accordance with international practice, the Hungarian government levies a royalty on most crude oil and natural gas produced in Hungary. Generally, the natural gas and crude oil royalty on revenue derived from MOL's fields is 12.0% pursuant to the Mining Act. As from 9 August, 2003, a higher royalty has applied to gas revenue generated from fields put into production prior to 1 January, 1998. The royalty with respect to these natural gas fields between 9 August, 2003 and 15 October, 2003 was 66.0%. From 15 October, 2003, it increased to 70.7% and has since been lowered to its current level of 65.0% (in 2005, average 59%). However, assuming a stable or decreasing price for imported gas, this royalty should effectively decrease in accordance with a predefined formula set out in the Gas Act.

### *Partial liberalisation of the Hungarian gas market*

With respect to wholesale marketing and trading, a new price regulation came into force on 1 January, 2004 enabling the MOL Group to charge market prices for its wholesale natural gas sales to certain eligible customers who elect to purchase natural gas on the liberalised market. In addition, the new regulation for customers in the public utility system accepts all gas resources at the average import price level. (The Public Utility Wholesale Company has a supply obligation at a regulated price level). The approved import price is calculated on the basis of the preceding half year's actual import price and the forecasted price for the upcoming half year respectively. As the actual import purchase price in 2004 was more favourable, due to the strengthening of the HUF against the USD, MOL realised higher sales revenues than prescribed by the regulation and HUF 22.2 billion in excess revenue was paid to the Target Allocation for Energy Management, the fund which is the source of the household consumption price compensation. If there is a negative difference between the accepted and actual import prices in the 2005 calendar year, then this has to be taken into account at the time the next price is set on 1 July, 2006.

Each of the gas storage business for the public supply of gas and the gas transmission business charges a regulated tariff which is set by the Hungarian Minister of Economy and Transportation pursuant to the proposal of the regulator based on the cost of activity, and should allow for a return on assets which is necessary for permanent operation of these businesses. MOL's public supply wholesale and trading services also pay regulated tariffs for services provided to it by the gas storage and gas transmission businesses.

## E. LITIGATION

MOL Group entities are party to a number of civil actions arising in the ordinary course of business. Currently, save as described below, there exists no litigation that could have a material adverse affect on the financial condition, assets, results or business of the MOL Group.

### *MB Kőolajkutató Rt.*

The Court of Arbitration recognised MOL's claim for damages against MB Kőolajkutató Rt., the party responsible for the gas explosion in 2000 at the underground storage facility in Pusztaszőlős.

### *Decree of the Minister of Economy establishing gas prices*

MOL's constitutional court claim, filed at the Constitutional Court of the Republic of Hungary in December 2001, requesting the Constitutional Court to declare the provisions of the Decree of the Minister of the Economy establishing the gas prices in 2000 and the relevant Governmental Decree unconstitutional and inapplicable as a matter of civil law is still pending.

### *Balatongáz Ltd.*

The minority owners of Balatongáz Ltd. (holding approximately a 23% ownership interest) initiated court proceedings against MOL (as the majority shareholder) to determine that MOL purchase their interests in Balatongáz Ltd. for a total purchase price of HUF 83 million and for damages of HUF 3 billion. In its interim ruling the court of first instance rejected the claim. The minority owners filed an appeal against this decision, and the Court of Appeal has ruled that a pre-contract agreement had been concluded between MOL and the plaintiffs, while it upheld the other findings of the first instance decision. The proceedings are still pending before the Metropolitan Court.

*Petrol Projekting Budapest Ltd.*

MOL initiated court proceedings against Petrol Projekting Budapest Ltd. (“PPB”) for the reimbursement of advance payments, rental and brokerage fees paid by MOL to PPB in connection with the establishment of petrol stations, in a total amount of HUF 490 million. PPB acknowledged the legal basis and amount of the claims but filed a counter-claim against MOL for damages of HUF 3.2 billion. The court of first instance granted MOL’s claim, ordering PPB to pay HUF 488 million and rejecting PPB’s counter-claim.

*Hungarian Automotive Association*

In 2000, the Hungarian Automotive Association brought an action against MOL with the Hungarian Competition Office, alleging that MOL was in breach of applicable competition laws by charging excessively high prices for petrol and diesel. In January 2001, the Competition Office terminated the proceedings finding that MOL’s pricing method did not constitute an abuse of market position. However, the Hungarian Automotive Association requested a judicial review of the proceedings. During the judicial review, the court found that the Competition Office’s decision was unfounded and therefore unlawful in respect of the competition law implications of MOL’s wholesale pricing, and ordered the Competition Office to hold new hearings. The Competition Office appealed against the court’s ruling in the Supreme Court. The Supreme Court rejected the appeal and required the Competition Office to repeat its proceedings and re-examine MOL’s wholesale pricing method, which the Competition Office started with its resolution on 23 February, 2004. The Competition Office found in the repeat proceedings that MOL’s pricing method – according to the results of the cost examining method ordered by the court – did not constitute an abuse of market position during the period under review. The Competition Office terminated the repeat proceedings on 12 October, 2004, due to absence of any violation. The Hungarian Automotive Association began an action against the Competition Office for its termination of the proceedings.

The Metropolitan Court started new proceedings at the court of first instance, with the first hearing held on 17 June, 2005. MOL will exercise its intervention right in favour of the Competition Office. The next hearing will be held in January 2006.

*Slovnaft – Russian proceedings*

The Russian court of arbitration imposed a USD 25 million fine on Slovnaft for failing to meet consideration for crude oil supplies in its resolution of April 1996 in the course of the proceedings initiated by plaintiff “Mende-Rossi”, Menendelejevsk at the International Commercial Arbitration Tribunal at the Chamber of Commerce and Industry of the Russian Federation. The Supreme Court of the Slovak Republic refused to enforce the decision of the Russian court of arbitration, on the grounds that the Russian arbitration proceedings had violated the right to impartial proceedings and the right of Slovnaft to be represented, and also its conclusion that the decision was not supported by adequate evidence.

Mende-Rossi also asked for the enforcement of the decision of the court of arbitration in Austria in 1997, concurrent with the attempted Slovak enforcement. Slovnaft filed an appeal against this request. The Austrian proceedings are still ongoing, but given the decision of the Supreme Court of the Slovak Republic on 11 March, 2004 which found the decision of the court of arbitration illegal and therefore not enforceable, Slovnaft does not consider a failure of its appeal in front of the Austrian court to be likely.

*Slovnaft – Slovak Ministry of Finance action*

In November 2004, the Ministry of Finance of the Slovak Republic (the “**Slovak Ministry of Finance**”) initiated a price audit procedure at Slovnaft on its fuel prices for the period between 2002 and 2004. The price audit procedure was closed in December with a Protocol stating that in the opinion of the audit team, Slovnaft’s prices included SKK 1.35 billion (approximately HUF 8.6 billion) of unjustified expenses and disproportionate profits. Based on the findings of the price audit the Slovak Ministry of Finance began an administrative procedure against Slovnaft, as a result of which the Slovak Ministry of Finance imposed a fine on Slovnaft in its first instance decision.

Slovnaft disagreed with the findings of the audit team, and has challenged the decision. Slovnaft is entitled to file an appeal against the administrative decision of the second instance. In Slovnaft’s opinion, besides the procedural irregularities and deficiencies, especially due to the lack of the ministerial instruction on legal expenses and measures of profit, as well as the Slovak Ministry of Finance’s arbitrary and economically unfounded calculations concerning the measures of “proportionate profit”, a result favourable to Slovnaft is expected.

In February 2005, the Slovak Ministry of Finance initiated a second price audit procedure focusing on the adherence to the Act of Prices and other generally binding legal regulations for the period after 30 September, 2004. This price audit procedure has not been finished as at the date of this Prospectus and management is not able to estimate the possible outcome.

On 6 July, 2005 the Slovak Ministry of Finance, Public Internal Financial Control Section (as the first instance administrative authority) issued its decision by which it imposed a fine of SKK 1,341,573,135 on Slovnaft due to a breach of the price discipline contemplated in Section 17 Subsection 1 (c) and (d), and Section 17 Subsection 4 (b) of the Price Act. The decision was delivered to Slovnaft and its legal counsel on 7 July, 2005. On 21 July, 2005 Slovnaft filed its administrative appeal against this decision. On 27 September, 2005 it was announced that Slovnaft would be fined SKK 1.34 billion after a final decision by the Slovak Minister of Finance. MOL and Slovnaft are of the firm opinion that the decision is not in line with either Slovak law or international practice and therefore they propose to challenge the decision both in Slovakia and before international fora.

#### *Eurobridge contract*

MOL as buyer and Eurobridge Kft. (“Eurobridge”) as seller concluded a long-term supply contract for a period between 1998 and 2010. The contract had been amended and supplemented a number of times. MOL Natural Gas Supply Plc. as the successor of MOL under the subparagraph (4) of paragraph 85 of the Gas Act became the buyer under the contract.

Eurobridge has failed to fulfil its obligations for supply under the contract despite MOL Natural Gas Supply Plc.’s request and therefore MOL Natural Gas Supply Plc. terminated the contract on 27 January, 2005 and claimed a penalty from Eurobridge because of its failure to supply the minimum quantity specified under the contract. On 28 April, 2005, Eurobridge initiated a law suit against MOL Natural Gas Supply Plc. claiming damages of HUF 921 million. On 30 June, 2005 MOL Natural Gas Supply Plc. submitted its counterclaim for the penalty. The first hearing at the arbitral tribunal is scheduled for 6 October, 2005.

## **F. MANAGEMENT OF THE GROUP**

### **Management Board of Directors and Supervisory Board**

The members of MOL’s Board of Directors are as follows:

<u>Name, appointment</u>	<u>Position</u>	<u>Year of appointment</u>	<u>Date of expiry of the term of office</u>
Zsolt Hernádi <sup>(2)</sup> . . . . .	Chairman-Chief Executive Officer	1999	February 2009
László Akar <sup>(1)</sup> . . . . .	Director	2002	October 2007
Dr Sándor Csányi <sup>(2)</sup> . . . . .	Vice Chairman	2000	April 2009
Michel-Marc Delcommune . . . . .	Group Chief Strategy Officer	1999	April 2009
Dr Miklós Dobák <sup>(1)</sup> . . . . .	Director	1996	April 2009
Dr Gábor Horváth <sup>(2)</sup> . . . . .	Director	1999	February 2009
Miklós Kamarás <sup>(2)</sup> . . . . .	Director	2002	October 2007
Dr Ernő Kemenes <sup>(1)</sup> . . . . .	Director	2002	October 2007
György Mosonyi . . . . .	Group Chief Executive Officer	1999	February 2009
Iain Paterson <sup>(1)</sup> . . . . .	Director	1999	February 2009
Mrs Kálmán Simóka Ph.D. <sup>(1)</sup> . . . . .	Director	2002	October 2007

(1) Members of the Audit Committee

(2) Members of the Corporate Governance and Remuneration Committee.

The members of MOL’s Supervisory Board are listed below:

<u>Name, appointment</u>	<u>Year of appointment</u>	<u>Date of expiry of the term of office</u>
Dr. Mihály Kupa, Chairman . . . . .	2002	October 2007
Ms. Piroska Bognár, Employee representative . . . . .	2002	October 2007
John I. Charody M.B.E. . . . .	2002	October 2007
Dr. Attila Chikán . . . . .	2004	October 2007
Slavomir Hatina . . . . .	2002	October 2007
József Kudela, Employee Representative . . . . .	1994	October 2007
Dr. Alexandre Lámfallussy . . . . .	1999	October 2007
János Major, Employee Representative . . . . .	1994	October 2007
István Vásárhelyi . . . . .	2005	April 2010

The members of MOL Group's Executive Board are as follows:

<u>Name</u>	<u>Current Title</u>	<u>Year of appointment</u>
Zsolt Hernádi .....	Chairman-Chief Executive Officer	2001
György Mosonyi .....	Group Chief Executive Officer	1999
Michel-Marc Delcommune .....	Group Chief Strategy Officer	1999 <sup>(1)</sup>
József Molnár .....	Group Chief Financial Officer	2004

- (1) Michel-Marc Delcommune had been Group Chief Financial Officer until 2004 when he was appointed as Group Chief Strategy Officer.

The MOL Group's senior management is as follows:

<u>Name</u>	<u>Position</u>
Zsolt Hernádi .....	Chairman-Chief Executive Officer
György Mosonyi .....	Group Chief Executive Officer
Michel-Marc Delcommune .....	Group Chief Strategy Officer
József Molnár .....	Group Chief Financial Officer
Zoltán Áldott .....	Exploration and Production, Managing Director
Sándor Fasimon .....	Natural Gas, Managing Director
Ferenc Horváth .....	Refining and Wholesale Marketing Managing Director
Slavomir Jankovic .....	Retail Services, Managing Director
Vratko Kaššovic .....	Petrochemical Managing Director, Chief Executive Officer of Slovnaft

The business addresses of the members of the Board of Directors, the Supervisory Board, the Executive Board and the senior management are the address of the registered seat of MOL.

### ***Functions in MOL and principal activities outside MOL***

#### **Zsolt Hernádi (45)**

*Chairman of the Board of Directors since 7 July, 2000, Chairman-CEO since 11 June, 2001, member of the Board since 24 February, 1999.*

Mr.Hernádi graduated from the Faculty of Industrial Planning-Analysis at the Budapest University of Economic Sciences in 1986. Between 1989 and 1994 he occupied various posts at the Kereskedelmi és Hitelbank Rt.; between 1992 and 1994 he was the deputy general manager of the financial institution. He was CEO of the Central Bank of Hungarian Savings Co-operatives between 1994 and 2001 and a member of its Board of Directors between 1994 and 2002. Between 1995 and 2001 Mr Hernádi was a member of the Board of Directors of the Hungarian Banking Association. Since 2001 he has been a member of the European Round Table of Industrials. He is member of the Board of Directors of Panrusgas Co.

#### **Dr. Sándor Csányi (52)**

*Member of the Board of Directors as of 20 October, 2000, Vice Chairman since 2001.*

Dr. Csányi graduated from the College of Finance and Accounting in 1974, and from the Budapest University of Economic Sciences in 1980 where he obtained his doctoral degree in 1983. From 1986 (in the same year that he became a chartered accountant) he worked as Senior Head of Department at the Magyar Hitel Bank, and between 1989 and 1992 as Deputy General Manager of Kereskedelmi és Hitelbank Rt. Since 1992 he has been the Chairman and CEO of OTP Bank Ltd. and Chairman of the Mastercard Europe East European Regional Board. He is a member of Mastercard Europe and the European Savings Bank Group, Chairman of the Supervisory Board of OTP Garancia Insurance Co. Ltd. Dr. Csányi is also a member of the Board of Directors of the Hungarian Banking Association, of the Advisory Council of the Hungarian Financial Supervisory Authority, of the Board of Administration of the World Savings Banks Institute, of the International Association of Business Leaders and of the Board of the Hungarian Telecommunications Authority. Co-Chairman of the Hungarian Association of Industrialists and Employers. He is the Chairman of the Supervisory Board of DSK, Bulgaria's largest retail bank.



**László Akar (52)**

*Member of the Board of Directors since 11 October, 2002.*

Mr. Akar graduated in 1977 from the Budapest University of Economic Sciences. Between 1977 and 1990 he held various positions in the National Planning Office and Ministry of Finance. Between 1994 and 1998 he was political state secretary in the Hungarian Ministry of Finance, secretary of the cabinet to the Government's Economic Committee, and deputy governor of IMF representing Hungary. Since 1998 he has been General Manager of GKI Economic Research Co. From 2002 he has been the Chairman of the Supervisory Board of the National Bank of Hungary.

**Michel-Marc Delcommune (57)**

*Group Chief Strategic Officer, member of the Board of Directors since 28 April, 2000. Group Chief Financial Officer between 11 October, 1999 and 1 September, 2004.*

Mr Delcommune earned a degree in Chemical Engineering from the University of Liege, Belgium and holds an MBA from Cornell University, New York. Mr Delcommune joined the PetroFina Group in 1972 and was elected to the Board of Directors of PetroFina S.A. in 1992. From 1990 he was primarily responsible for Corporate Finance and Insurance as senior vice-president and Chief Financial Officer. From 1999 he also served as Human Resources Director and handled the successful merger of PetroFina and Total. Mr Delcommune is a member of the International Advisory Board of Cornell University Business School and also a member of the Board of Directors of TVK Rt. and ZMB. He is a Belgian citizen.

**József Molnár (49)**

*Group Chief Financial Officer since 3 September, 2004.*

Mr. Molnár graduated from the Budapest University of Economic Sciences in 1978. From 1978 to 2001, he held various management positions at Borsodchem Plc., including as head of the Pricing Department from 1982 to 1987 and head of the Economic Department from 1987 to 1991. Between 1991 and 2001, as CFO and first deputy to the CEO, he contributed to the crisis management and reorganisation of MOL, and later to the development of its vision and its privatisation. He played a key role in the stock exchange listing of Borsodchem shares. He was CEO of TVK between 2001 and 2003, and MOL Group Planning and Controlling Director until his appointment as Group CFO in September 2004. Since April 2001 he has been a member of the Board of Directors of TVK, and since January 2004 he has been a member of the Board of Directors of Slovnaft a.s.

**Dr. Miklós Dobák (50)**

*Member of the Board of Directors since 29 May, 1996 at the recommendation of international institutional investors.*

Dr. Dobák graduated from the Budapest University of Economic Sciences in 1979. His scholarships abroad included Cologne University (1983-84), Stanford University (1990), Harvard Business school PMD (1992) and Wharton Business School (1993). Professor Dobák has a PhD in economic sciences. He is the director of the Institute of Management and head of the Department of Management and Organisation at the Corvinus University. He is the managing director of IFUA Horváth & Partners Management Consulting Kft.

**Dr. Gábor Horváth (49)**

*Member of the Board of Directors since 24 February, 1999.*

Dr. Horváth graduated from the Faculty of Law of the Eötvös Loránd University of Sciences in 1979. He has been heading an independent attorney office since 1990. His main activities relate to corporate law, corporate financial law and company organisation law. He is the Chairman of the Supervisory Board of the Pizza Express Rt. and member of the Supervisory Board of OTP Bank Rt. and CD Hungary Rt. Member of the Board of Directors of Antenna-Torony Rt.

**Miklós Kamarás (60)**

*Member of the Board of Directors since 11 October, 2002.*

Mr Kamarás graduated from the Technical College of Machinery, then from the Budapest University of Economic Sciences. He is a registered auditor and tax adviser. Between 1972 and 1990 he held various senior

positions at ÉPGÉP Co., finishing as CEO. Between 1995 and 1998 deputy general manager of ÁPV Rt. (Hungarian Privatisation and State Holding Co.). From 1998, he was a partner in Deloitte & Touche Hungary and headed other audit firms. Between 2002 and 2004 he was CEO of ÁPV Rt., a member of the Board of Directors of ÁPV Rt. and Chairman of the Supervisory Board of BAUGÉP Kft. Mr. Kamarás is Chairman of the Board of Directors of Budapest Airport Rt.

**Dr. Ernő Kemenes (65)**

*Member of the Board of Directors since 11 October, 2002.*

Mr Kemenes graduated from the Budapest University of Economic Sciences in 1962, then earned his Ph.D. in Economics in 1965. He was a lecturer, then head of department at the Budapest University of Economic Sciences from 1963. Held various senior positions in the National Planning Office, Ministry of Education and Culture, and with the Office of the Prime Minister between 1968 and 1997. He served as Head of the National Planning Office between 1987 and 1990 and as Head of Deloitte & Touche Hungary and was one of the leading managers in the Central/Eastern European Region between 1992 and 2001. Mr Kemenes was a Member of the Council of the Hungarian National Bank between 1992 and 1998. He is a retired university professor at the Budapest University of Economic Sciences and Public Administration. Mr Kemenes participates in preparing country reports for the OECD, EU and IMF. He is a member of the Supervisory Board at B.I.L. Kft.

**György Mosonyi (56)**

*Group Chief Executive Officer and member of the Board of Directors since 19 July, 1999.*

Mr. Mosonyi graduated from the Faculty of Chemical Engineering of Veszprém University in 1972. From 1974 he worked for the Hungarian Agency of Shell International Petroleum Co. and from 1986 he held the position of Commercial Director. In 1991 he worked at the Shell headquarters in London. Between 1992-93 he was managing director of Shell-Interag Kft., and between 1994 and 1999 Chairman and Chief Executive Officer of Shell Hungary Rt. During this period he became the Chairman of Shell's Central and Eastern European Region, and also, in 1998, the Chief Executive Officer of Shell Czech Republic. He is the Chairman of TVK Rt. and Chairman of the Board of Directors at AEGON Hungary Általános Biztosító Rt. Mr Mosonyi is a member of the Supervisory Board of INA d.d. President of the Association of Joint Ventures and member of the Board of the American Chamber of Commerce.

**Iain Paterson (58)**

*Member of the Board of Directors since 24 February, 1999.*

Mr Paterson earned his MA in Natural Sciences at Cambridge University, his MSc in Geophysics from Durham and a PMD from the Harvard Business School. From 1970, he held various positions with British Petroleum plc. in Great Britain, USA and the Middle East. Between 1984 and 1998, he was with Enterprise Oil plc, serving from 1991 as a member of the Main Board of Directors with responsibility for international activities. He is currently also Chairman of ITE Group plc, Chairman of Sondex plc and a non-executive director of Paladin Resources plc, of Hunting plc, and of ArmourGroup International plc. He is a British citizen.

**Mrs. Kálmán Simóka PhD. (59)**

*Member of the Board of Directors since 11 October, 2002.*

Mrs Simóka graduated from the Budapest University of Economic Sciences in 1973, then earned her Ph.D. in Economics in 1978. She held various senior positions in the Ministry of Finance between 1975-1985. She was Director General of the State Treasury between 1995 and 1998, and since 2000 she has been Chief Executive Officer and member of the Board of Directors of the Budapest Funeral Company. She is also a member of the Supervisory Board of Civis Hotels Co., of Guest Co. and of the Hungarian Development Bank (MFB).

**Dr. Mihály Kupa (64)**

*Chairman of the Supervisory Board since 11 October, 2002.*

Mr Kupa graduated in 1969 from the Budapest University of Economic Sciences, and earned his PhD in 1975. Between 1969 and 1975 he held various senior positions in the Statistical Office, between 1975 and 1984 in the Financial Research Institute and between 1984 and 1990 in the Ministry of Finance. Between 1990 and

1993 he served as Minister of Finance, and between 1992 and 1993 as vice president of the Council of Governors in the World Bank and IMF in Hungary. In 1991 and again in 1998, Mr Kupa was elected as a Member of Parliament (independent). At present he is Chairman of the Supervisory Board of Excellence Financial Consulting and Organisation Development Co. and member of the Supervisory Board of the National Theatre Co.

**Piroska Bognár (47)**

*Member of the Supervisory Board since 11 October, 2002.*

Mr Bognár graduated from the Pécs University of Sciences, Faculty of Human Organisation. He has been President of the MOL Trade Union of Chemical Workers since 2001 and Managing Director of Fókusz Kom Komáromi Training and Cultural Kht. since August 2003.

**John I. Charody (78)**

*Member of the Supervisory Board since 11 October, 2002*

Economist (M.B.E., J.P.) Mr Charody worked in the Geophysical Institute of the Oil Exploration and Development Company between 1953 and 1956. He was then a director in Australia of various companies including Bridge Oil Ltd., Aurora Minerals, Project Mining. CEO of Winton Enterprises Pty. Ltd. and Galina Investment international consulting company. He has been a fellow of the Institute of Australian Directors since 1971, fellow of the Australian Institute of Management since 1967 and a Justice of Peace since 1972. He was awarded an M.B.E. by Her Majesty the Queen for services to Australia in 1973. In 1990 he was appointed Minister of Commerce in Budapest by the Federal Government of Australia with regional responsibilities in 12 countries. In 1997 the President of the Republic of Hungary awarded him the Officer Cross of the Republic of Hungary for his services, improving the Australian-Hungarian financial and commercial relationship. He has been a Board Member at QBE Atlasz Insurance Co. since 1997 and is chairman of the Supervisory Board of Nemzeti Lakásberuházó and Ingatlanforgalmazó Ltd.

**Dr. Attila Chikán (61)**

*Member of the Supervisory Board since 30 April, 2004.*

Mr Chikán graduated in 1967 from Budapest University of Economic Sciences, and earned his PhD in 1969. Since 1968 he has been working for the Budapest University of Economic Sciences. Between 1989 and 1998 he was the head of the Business Economics Department. He acted as Minister of Economic Affairs between 1998 and 1999. He was Rector of the Budapest University of Economic Sciences and Public Administration between 2000 and 2003. He is a Doctor of the Hungarian Academy of Sciences. At present he holds several positions in Hungarian and international professional organisations, and membership in the editorial board of several international journals on economics and management. He is the Chairman of the Supervisory Board of Richter Gedeon Rt.

**Slavomir Hatina (58)**

*Member of the Supervisory Board from 11 October, 2002*

Mr Hatina has a masters degree in chemical engineering. He joined Slovnaft in 1970 and worked in various positions. From 1994 to December 2001 he held the position of Chief Executive Officer of Slovnaft a.s., Bratislava. From 1994 to 2005 Mr Hatina was Chairman of the Board of Directors of Slovnaft a.s. The title Doctor Honoris Causa (Honorary Doctor) was bestowed on Mr Hatina by the Slovak University of Technology in 2001. He is Chairman of the Board of Directors at the Slovintegra a.s. and Slovvena a.s. Mr Hatina is a citizen of Slovakia.

**József Kudela (58)**

*Employee Representative, member of the Supervisory Board since 30 November, 1994.*

Mr Kudela has an advanced degree in Trade Union Affairs and in Personnel Management. He has been Chairman of the MOL Miners Trade Union since 1989.

**Dr. Alexandre Lámfalussy (76)**

*Member of the Supervisory Board since 24 February, 1999.*

Dr. Lámfalussy graduated from the University of Louvain and earned a D.Phil at Nuffield College, Oxford. He was a guest professor at Yale University between 1961 and 1962. For a time he was Director General of the Bank of Brussels, then between 1976 and 1993 a member of the management of the Bank for International Settlements, and for the last nine years the Chief Executive Officer of the bank. From 1994 to July 1997, he was President of the European Monetary Institute (EMI), the forerunner of the European Central Bank, and he is a university professor at the Catholic University of Louvain in Belgium. During 2000-2001 he was the Chairman of the Committee of Wise Men on the Regulation of the European Securities Markets. The recommendations of the Committee were accepted by the European Council and are now being implemented. At present he is member of the Supervisory Board at the CNP Assurance France. He is a Belgian citizen.

**János Major (53)**

*Member of the Supervisory Board delegated by employees since 30 November, 1994.*

Mr Major earned a diploma in 2003 at the University of Pécs, Faculty of Human Resources Organisation. He has been the Secretary of MOL Trade Union of Chemical Workers since 1994, and Co-ordination secretary of MOL Trade Union of the Chemical Segment since 2003. He has been a member of the Legal, Administration and Employment Committee of the Municipality of Százhalombatta since 2002 and of the Supervisory Board of Fókusz Kom Komáromi Training and Cultural Kht. since 2003.

**István Vásárhelyi (54)**

*Member of the Supervisory Board since 27 April, 2005.*

Mr. Vásárhelyi graduated from the University of Agricultural Sciences in 1975. Between 1978 and 1989, he held various managerial positions at Budapest Rozmaring MGTSZ. Between 1992 and 1995 he was CEO of Budapest Capital Holding Management Rt. Since 1996 he has been an investment adviser at the Control Centers. Between 1994 and 2000, he was a member of the Board of Directors of Helia Hotels Rt. Between 1995 and 2002 he was a member of the Supervisory Board of ÁPV Rt., and between 2002 and 2004 a member of the Board of Directors of Dunafer Rt. Since 2002 he has been the Vice Chairman of the Board of Directors of ÁPV Rt. He is a member of the Advisory Board of Szalmaszál Endowment for the Homeless.

**G. CONFLICTS OF INTEREST FOR MOL'S MANAGEMENT**

As detailed below, there may be potential conflicts of interest between the private interests or duties of the members of the board or senior management of MOL and their duty to MOL and its group of companies:

- A. *Ferenc Horváth*: Mr Horváth's brother, Dr. István Horváth is the CEO of Vértés Volán Rt. There is a transportation contract between MOL and Vértés Volán Rt. valid for the period between 1 July, 2004 and 31 December, 2005. The value of the contract in this period is HUF 2.5 billion.
- B. *Piroska Bognár*: MOL provided a loan of HUF 280 million to a Fókusz Public Company established by the trade union. Piroska Bognár (Member of the Supervisory Board of MOL) is a Managing Director of Fókusz-Kom Plc.
- C. *Dr. Gábor Horváth*: Dr Gábor Horváth's law firm has an engagement letter with MOL, advising MOL on certain corporate matters.
- D. *Mr Hatina*: a member of the supervisory board of MOL holds shares in Slovvena a.s. and Slovintegra a.s., which entered into a sale and purchase agreement with MOL in November 2002 regarding their 31.6% interest in Slovnaft and who also subscribed for shares in the related closed capital increase of MOL.

**APPENDIX B**  
**FINANCIAL INFORMATION ON MOL**

The information provided in this Appendix B is for information purposes only and has been extracted from the Eurobond Prospectus. The financial information provided was not prepared in connection with the offering of Capital Securities and the Issuer was not involved in the preparation of the Eurobond Prospectus, as such, the Issuer is not in a position to independently verify the contents of the Eurobond Prospectus in connection with the issue or the Capital Securities.

Unaudited Consolidated Balance Sheets of MOL prepared in accordance with International Financial Reporting Standards (IFRS) as at 30 June, 2005 and 30 June, 2004

	30 June, 2005 HUF millions	30 June, 2004 restated* HUF millions
<b>ASSETS</b>		
<b>Non-current assets</b>		
Intangible assets	33,173	-3,994
Property, plant and equipment, net	974,241	878,780
Investments	123,382	121,180
Deferred tax assets	34,175	44,520
Other non-current assets	15,286	17,603
<b>Total non-current assets</b>	<b>1,180,257</b>	<b>1,058,089</b>
<b>Current assets</b>		
Inventories	204,648	166,925
Trade receivables, net	203,448	155,640
Marketable securities	361	2,341
Other current assets	58,463	51,427
Cash and cash equivalents	56,780	72,369
<b>Total current assets</b>	<b>523,700</b>	<b>448,702</b>
<b>TOTAL ASSETS</b>	<b>1,703,957</b>	<b>1,506,791</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Shareholders' equity</b>		
Share capital	93,315	94,238
Reserves	640,371	439,662
Net income for the period	133,916	80,965
<b>Equity attributable to shareholders</b>	<b>867,602</b>	<b>614,865</b>
Minority interest	73,284	65,915
<b>Total equity</b>	<b>940,886</b>	<b>680,780</b>
<b>Non-current liabilities</b>		
Long-term debt, net of current portion	246,405	209,990
Provisions for liabilities and charges	59,270	50,504
Deferred tax liability	14,722	14,327
Other non-current liabilities	5,540	51,402
<b>Total non-current liabilities</b>	<b>325,937</b>	<b>326,223</b>
<b>Current liabilities</b>		
Trade and other payables	372,462	296,732
Provisions for liabilities and charges	16,769	24,533
Short-term debt	6,286	121,959
Current portion of long-term debt	41,617	56,564
<b>Total current liabilities</b>	<b>437,134</b>	<b>499,788</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>1,703,957</b>	<b>1,506,791</b>

\* Changes in IFRS effective from 1 January, 2005 were adopted by the MOL Group and prior periods have been restated as required by the standards.

Source: MOL Eurobond Prospectus dated 30 September 2005

**Audited Consolidated Balance Sheets of MOL prepared in accordance with International Financial Reporting Standards (IFRS) as at 31 December, 2004 and 31 December, 2003**

	31 December, 2004	31 December, 2003
	HUF millions	HUF millions
<b>ASSETS</b>		
<b>Non-current assets</b>		
Intangible assets . . . . .	5,401	29,160
Property, plant and equipment, net . . . . .	925,069	855,951
Investments in associated companies . . . . .	115,105	128,960
Other investments . . . . .	3,062	5,475
Deferred tax assets . . . . .	36,210	52,895
Other non-current assets . . . . .	16,538	19,333
<b>Total non-current assets . . . . .</b>	<b><u>1,101,385</u></b>	<b><u>1,091,774</u></b>
<b>Current assets</b>		
Inventories . . . . .	172,450	155,926
Trade receivables, net . . . . .	218,950	165,057
Investments . . . . .	—	9,228
Other current assets . . . . .	53,969	47,909
Cash and cash equivalents . . . . .	88,126	62,841
<b>Total current assets . . . . .</b>	<b><u>533,495</u></b>	<b><u>440,961</u></b>
<b>TOTAL ASSETS . . . . .</b>	<b><u>1,634,880</u></b>	<b><u>1,532,735</u></b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Shareholders' equity</b>		
Share capital . . . . .	94,634	93,128
Reserves . . . . .	430,858	330,760
Net income for the year . . . . .	209,325	99,981
<b>Total shareholders' equity . . . . .</b>	<b><u>734,817</u></b>	<b><u>523,869</u></b>
<b>Minority interest . . . . .</b>	<b><u>68,020</u></b>	<b><u>155,752</u></b>
<b>Non-current liabilities</b>		
Long-term debt, net of current portion . . . . .	199,893	289,070
Provisions for liabilities and charges . . . . .	53,647	55,781
Deferred tax liabilities . . . . .	12,995	14,213
Other non-current liabilities . . . . .	53,181	71,931
<b>Total non-current liabilities . . . . .</b>	<b><u>319,716</u></b>	<b><u>430,995</u></b>
<b>Current liabilities</b>		
Trade and other payables . . . . .	318,918	260,420
Provisions for liabilities and charges . . . . .	46,038	26,172
Short-term debt . . . . .	54,384	70,756
Current portion of long-term debt . . . . .	92,987	64,771
<b>Total current liabilities . . . . .</b>	<b><u>512,327</u></b>	<b><u>422,119</u></b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY . . . . .</b>	<b><u>1,634,880</u></b>	<b><u>1,532,735</u></b>

Source: MOL Eurobond Prospectus dated 30 September 2005



**Unaudited Consolidated Statements of MOL Operations prepared in accordance with International Financial Reporting Standards (IFRS) for the periods ended 30 June, 2005 and 30 June, 2004**

	<b>30 June, 2005</b>	<b>30 June, 2004 restated*</b>
Net sales .....	1,116,283	896,834
Other operating income .....	9,520	6,288
<b>Total operating revenues .....</b>	<b>1,125,803</b>	<b>903,122</b>
Raw material costs .....	438,189	334,593
Value of material-type services used .....	56,701	51,197
Cost of goods purchased for resale .....	306,382	252,434
<i>Raw material and consumables used .....</i>	<i>801,272</i>	<i>638,224</i>
Personnel expenses .....	53,020	51,128
Depreciation, depletion, amortisation and impairment .....	56,083	49,772
Other operating expenses .....	95,798	93,655
Change in inventory of finished goods and work in progress .....	-39,039	-26,951
Work performed by the enterprise and capitalised .....	-8,955	-12,211
<b>Total operating expenses .....</b>	<b>958,179</b>	<b>793,617</b>
<b>Operating profit .....</b>	<b>167,624</b>	<b>109,505</b>
Interest received .....	1,681	2,120
Dividends received .....	5	170
Exchange gains and other financial income .....	1,935	5,804
<i>Total financial income .....</i>	<i>3,621</i>	<i>8,094</i>
Interest on borrowings .....	6,093	9,136
Interest on provisions .....	2,460	2,597
Write-off of financial investments .....	18	149
Exchange losses and other financial expenses .....	9,858	2,893
<i>Total financial expense .....</i>	<i>18,429</i>	<i>14,775</i>
<b>Financial expense/(gain), net .....</b>	<b>14,808</b>	<b>6,681</b>
Income from associates .....	-1,553	-2,346
<b>Profit before tax .....</b>	<b>154,369</b>	<b>105,170</b>
Income tax expense .....	16,740	21,014
<b>Profit after tax .....</b>	<b>137,629</b>	<b>84,156</b>
Minority interests .....	-3,713	-3,191
<b>Net income .....</b>	<b>133,916</b>	<b>80,965</b>
<b>Basic earnings per share (HUF) .....</b>	<b>1,305</b>	<b>784</b>
<b>Diluted earnings per share (HUF) .....</b>	<b>1,291</b>	<b>777</b>

\* Changes in IFRS effective from 1 January, 2005 were adopted by the MOL Group and prior periods have been restated as required by the standards.

Source: MOL Eurobond Prospectus dated 30 September 2005

**Audited Consolidated Statements of Operations of MOL prepared in accordance with International Financial Reporting Standards (IFRS) for the years ended 31 December, 2004 and 31 December, 2003**

	31 December, 2004	31 December, 2003
	HUF millions	HUF millions
Net sales . . . . .	1,955,830	1,504,038
Other operating income . . . . .	16,126	20,001
<b>Total operating revenues . . . . .</b>	<b>1,971,956</b>	<b>1,524,039</b>
Raw materials and consumables used . . . . .	1,345,931	1,179,812
Personnel expenses . . . . .	122,404	83,717
Depreciation, depletion, amortisation and impairment . . . . .	108,559	95,450
Other operating expenses . . . . .	191,748	118,412
Change in inventories of finished goods and work in progress . . . . .	-18,994	-25,014
Work performed by the enterprise and capitalised . . . . .	-27,283	-11,409
<b>Total operating expenses . . . . .</b>	<b>1,722,365</b>	<b>1,440,968</b>
<b>Profit from operations . . . . .</b>	<b>249,591</b>	<b>83,071</b>
Financial (income)/expense, net . . . . .	-5,155	16,075
Income from associates . . . . .	-7,985	-5,405
<b>Profit before tax . . . . .</b>	<b>262,731</b>	<b>72,401</b>
Income tax expense/(benefit) . . . . .	47,817	-32,476
<b>Profit after tax . . . . .</b>	<b>214,914</b>	<b>104,877</b>
Minority interest . . . . .	-5,589	-4,896
<b>Net income . . . . .</b>	<b>209,325</b>	<b>99,981</b>
<b>Basic earnings per share (HUF) . . . . .</b>	<b>2,030</b>	<b>987</b>
<b>Diluted earnings per share (HUF) . . . . .</b>	<b>2,005</b>	<b>986</b>

Source: MOL Eurobond Prospectus dated 30 September 2005

**Unaudited Consolidated Statements of Changes in Shareholders' Equity of MOL for the periods ended 30 June, 2005 and 30 June, 2004**

(HUF millions)	Share capital	Share premium	Fair valuation reserve	Translation reserve	Equity component of compound debt instruments	Retained earnings	Total reserves	Net income	Total	Minority interest
<b>Opening balance 1 January, 2004</b>	<b>93,128</b>	<b>145,157</b>	<b>7,832</b>	<b>8,606</b>	<b>2,857</b>	<b>166,308</b>	<b>330,760</b>	<b>99,981</b>	<b>523,869</b>	<b>155,752</b>
Effect of IFRS 2—Cost of share-based payment	—	—	—	—	234	—	234	-234	—	—
<b>Restated opening balance 1 January, 2004</b>	<b>93,128</b>	<b>145,157</b>	<b>7,832</b>	<b>8,606</b>	<b>3,091</b>	<b>166,308</b>	<b>330,994</b>	<b>99,747</b>	<b>523,869</b>	<b>155,752</b>
Transfer to reserves of retained profit for the previous year	—	—	—	—	—	99,747	99,747	-99,747	—	—
Dividends	—	—	—	—	—	-5,952	-5,952	—	-5,952	-787
Net change in balance of treasury shares held	126	651	—	—	—	—	651	—	777	—
Cash flow hedges	—	—	-1,581	—	—	—	-1,581	—	-1,581	—
Currency translation differences	—	—	—	677	—	—	677	—	677	81
Cost of share-based payment	—	—	—	—	350	—	350	—	350	—
Slovnaft acquisition	984	4,124	—	—	10,652	—	14,776	—	15,760	—
Business combinations	—	—	—	—	—	—	—	—	—	-92,322
Retained profit for the period	—	—	—	—	—	—	—	80,965	80,965	3,191
<b>Closing balance 30 June, 2004</b>	<b>94,238</b>	<b>149,932</b>	<b>6,251</b>	<b>9,283</b>	<b>14,093</b>	<b>260,103</b>	<b>439,662</b>	<b>80,965</b>	<b>614,865</b>	<b>65,915</b>
<b>Opening balance 1 January, 2005</b>	<b>94,634</b>	<b>151,764</b>	<b>8,387</b>	<b>-3,184</b>	<b>14,679</b>	<b>260,103</b>	<b>431,749</b>	<b>208,434</b>	<b>734,817</b>	<b>68,020</b>
Effect of IFRS 3—Transfer of previously recorded negative goodwill to retained earnings	—	—	—	—	—	27,634	27,634	—	27,634	—
Effect of IFRS 3—Associates	—	—	—	—	—	352	352	—	352	—
<b>Restated opening balance 1 January, 2005</b>	<b>94,634</b>	<b>151,764</b>	<b>8,387</b>	<b>-3,184</b>	<b>14,679</b>	<b>288,089</b>	<b>459,735</b>	<b>208,434</b>	<b>762,803</b>	<b>68,020</b>
Transfer to reserves of retained profit for the previous year	—	—	—	—	—	208,434	208,434	-208,434	—	—
Dividends	—	—	—	—	—	-16,998	-16,998	—	-16,998	-1,036
Net change in balance of treasury shares held	-1,319	-19,553	—	—	—	—	-19,553	—	-20,873	—
Cash flow hedges	—	—	-3,295	—	—	—	-3,295	—	-3,295	—
Fair value changes of financial instruments—Associates	—	—	-855	—	—	—	-855	—	-855	—
Currency translation reserve	—	—	—	17,165	—	—	17,165	—	17,165	139
Cost of share-based payment	—	—	—	—	564	—	564	—	564	—
Slovnaft acquisition	—	—	—	—	-4,826	—	-4,826	—	-4,826	—
Business combinations	—	—	—	—	—	—	—	—	—	2,448
Retained profit for the period	—	—	—	—	—	—	—	133,916	133,916	3,713
<b>Closing balance 30 June, 2005</b>	<b>93,315</b>	<b>132,211</b>	<b>4,237</b>	<b>13,981</b>	<b>10,417</b>	<b>479,525</b>	<b>640,371</b>	<b>133,916</b>	<b>867,602</b>	<b>73,284</b>

Source: MOL Eurobond Prospectus dated 30 September 2005

**Audited Consolidated Statements of Changes in Shareholders' Equity of MOL for the years ended  
31 December, 2004 and 31 December, 2003**

<u>(HUF millions)</u>	<u>Share capital</u>	<u>Hedging reserve</u>	<u>Translation reserve</u>	<u>Treasury shares</u>	<u>Equity component of compound debt instruments</u>	<u>Retained earnings</u>	<u>Total reserves</u>	<u>Net income</u>	<u>Total</u>
<b>Balance 1 January, 2003 as previously reported</b>	<b>93,245</b>	<b>2,081</b>	<b>-7,038</b>	<b>-20,926</b>	<b>—</b>	<b>272,817</b>	<b>246,934</b>	<b>65,262</b>	<b>405,441</b>
Effect of early adoption of IAS 21	—	—	4	—	—	-4	—	—	—
<b>Balance 1 January, 2003 as restated</b>	<b>93,245</b>	<b>2,081</b>	<b>-7,034</b>	<b>-20,926</b>	<b>—</b>	<b>272,813</b>	<b>246,934</b>	<b>65,262</b>	<b>405,441</b>
Appropriation of 2002 net income	—	—	—	—	—	65,262	65,262	-65,262	—
Dividends	—	—	—	—	—	-5,183	-5,183	—	-5,183
Net purchase of treasury shares	-117	—	—	-501	—	—	-501	—	-618
Cash-flow hedges, net of deferred tax	—	5,751	—	—	—	—	5,751	—	5,751
Currency translation differences	—	—	15,640	—	—	—	15,640	—	15,640
Slovnaft acquisition	—	—	—	—	2,857	—	2,857	—	2,857
Net income	—	—	—	—	—	—	—	99,981	99,981
<b>Balance 31 December, 2003</b>	<b>93,128</b>	<b>7,832</b>	<b>8,606</b>	<b>-21,427</b>	<b>2,857</b>	<b>332,892</b>	<b>330,760</b>	<b>99,981</b>	<b>523,869</b>
Appropriation of 2003 net income	—	—	—	—	—	99,981	99,981	-99,981	—
Dividends	—	—	—	—	—	-5,952	-5,952	—	-5,952
Net sale of treasury shares	131	—	—	674	—	—	674	—	805
Cash-flow hedges, net of deferred tax	—	555	—	—	—	—	555	—	555
Currency translation differences	—	—	-11,790	—	—	—	-11,790	—	-11,790
Slovnaft acquisition, net of deferred tax	984	—	—	—	14,261	—	14,261	—	15,245
Redemption of convertible bonds	391	—	—	—	—	1,809	1,809	—	2,200
Issuance of convertible bonds	—	—	—	—	560	—	560	—	560
Net income	—	—	—	—	—	—	—	209,325	209,325
<b>Balance 31 December, 2004</b>	<b>94,634</b>	<b>8,387</b>	<b>-3,184</b>	<b>-20,753</b>	<b>17,678</b>	<b>428,730</b>	<b>430,858</b>	<b>209,325</b>	<b>734,817</b>

Source: MOL Eurobond Prospectus dated 30 September 2005

**Unaudited Consolidated Statements of Cash-Flows of MOL for the periods ended 30 June, 2005 and 30 June, 2004**

	<b>30 June, 2005</b>	<b>30 June, 2004</b>
	<b>HUF millions</b>	<b>restated*</b>
	<b>HUF millions</b>	<b>HUF millions</b>
<b>Profit from operations</b>	<b>167,624</b>	<b>109,505</b>
<i>Adjustments to reconcile operating profit to net cash provided by operating activities</i>		
Depreciation, depletion, amortisation and impairment	56,083	49,165
Net unrealised loss recorded on financial instruments	1,277	152
Write-off of inventories	303	73
Damages and reversal of impairment losses on PP&E	-588	639
Decrease in provisions	-31,662	-9,709
Net gain on sale of fixed assets	-593	-562
Write-off / (reversal of write-off) of receivables	-3,054	541
Unrealised foreign exchange gain on receivables and payables	-540	-604
Exploration and development costs expensed during the year	5,164	6,314
Cost of share-based payment	564	350
Other non cash items	-449	-281
<b>Operating cash flow before changes in working capital</b>	<b>194,129</b>	<b>155,583</b>
Increase in inventories	-30,760	-11,783
Decrease in accounts receivable	22,416	8,642
Increase in other receivables	-1,645	-10,847
Decrease in accounts payable	-686	-6,236
Increase in other current liabilities	14,857	37,786
Corporate taxes paid	-18,191	-1,947
<b>Net cash provided by operating activities</b>	<b>180,120</b>	<b>171,198</b>
Capital expenditures, exploration and development costs	-65,023	-73,110
Proceeds from disposals of fixed assets	1,873	1,832
Acquisition of subsidiaries, net cash	-28,279	-67,767
Acquisition of joint ventures, net cash	-712	—
Acquisition of other investments	—	—
Proceeds from disposal of investments	58	11,661
Changes in loans given and long-term bank deposits	-4,234	1,273
Changes in short-term investments	-1	7,709
Interest received and other financial income	2,271	3,807
Dividends received	178	492
<b>Net cash used in investing activities</b>	<b>-93,869</b>	<b>-114,103</b>
Issuance of long-term notes	—	—
Repayment of zero coupon notes	-15,000	-33,000
Long-term debt drawn down	228,538	43,113
Repayments of long-term debt	-232,479	-128,279
Changes in other long-term liabilities	-604	435
Changes in short-term debt	-51,924	84,630
Interest paid and other financial costs	-9,732	-10,019
Dividends paid to shareholders	-15,628	-5,870
Dividends paid to minority interest	-1,252	-606
Sale of treasury shares	38	906
Repurchase of treasury shares	-21,866	-166
<b>Net cash provided by financing activities</b>	<b>-119,909</b>	<b>-48,856</b>
<b>(Decrease) / increase in cash and cash equivalents</b>	<b>-33,658</b>	<b>8,239</b>
Cash at the beginning of the period	88,126	62,841
Cash effect of consolidation of subsidiaries previously accounted for as other investment	1,131	1,185
Exchange differences on the consolidation of foreign subsidiaries	1,181	104
<b>Cash at the end of the period</b>	<b>56,780</b>	<b>72,369</b>

\* Changes in IFRS effective from 1 January, 2005 were adopted by the MOL Group and prior periods have been restated as required by the standards.

Source: MOL Eurobond Prospectus dated 30 September 2005

**Audited Consolidated Statements of Cash-Flows of MOL for the years ended 31 December, 2004 and 31 December, 2003**

	31 December, 2004	31 December, 2003
	HUF millions	HUF millions
<b>Profit from operations</b>	<b>249,591</b>	<b>83,071</b>
<i>Adjustments to reconcile operating profit to net cash provided by operating activities</i>		
Depreciation, depletion, amortisation and impairment	107,244	95,137
Net unrealised loss / (gain) recorded on financial instruments	400	-1,377
Write-off of inventories	1,062	985
Impairment losses recognized due to damages	502	710
Reversal of impairment losses on property, plant and equipment	-363	-106
Increase in provisions	12,445	5,367
Net gain on sale of fixed assets	-875	-1,119
Net gain on sale of subsidiaries	—	-9,877
Exploration and development costs expensed during the year	8,547	9,389
Other non cash items	-559	-1,775
<b>Operating cash flow before changes in working capital</b>	<b>377,994</b>	<b>180,405</b>
Increase in inventories	-16,281	-21,051
Increase in accounts receivable	-47,930	-5,344
(Increase)/decrease in other receivables	-5,284	786
Increase in accounts payable	19,736	39,455
Increase in other current liabilities	14,433	15,046
Corporate taxes paid	-18,287	-6,139
<b>Net cash provided by operating activities</b>	<b>324,381</b>	<b>203,158</b>
Capital expenditures, exploration and development costs	-185,336	-186,875
Proceeds from disposals of fixed assets	2,947	3,069
Acquisition of subsidiaries, net cash	-71,701	-11,811
Acquisition of joint ventures, net cash	-507	-22,517
Net cash inflow on sales of subsidiary undertakings	—	21,573
Acquisition of associated companies	—	-113,729
Acquisition of other investments	-1,987	-241
Proceeds from disposal of investments	13,956	2,894
Changes in loans given and long-term bank deposits	586	307
Changes in short-term investments	9,111	-1,750
Interest received and other financial income	6,283	6,711
Dividends received	1,837	3,840
<b>Net cash used in investing activities</b>	<b>-224,811</b>	<b>-298,529</b>
Issuance of long term notes	1,800	9,200
Repayment of zero coupon notes	-33,000	—
Issuance of long-term debt	195,476	397,087
Repayments of long-term debt	-238,272	-255,716
Changes in other long term liabilities	71	485
Changes in short-term debt	23,845	-9,232
Interest paid and other financial costs	-19,577	-20,810
Dividends paid to shareholders	-5,954	-5,210
Dividends paid to minority interest	-814	-547
Sale of treasury shares	936	25,965
Repurchase of treasury shares	-168	-26,583
<b>Net cash provided by financing activities</b>	<b>-75,657</b>	<b>114,639</b>
<b>Increase in cash and cash equivalents</b>	<b>23,913</b>	<b>19,268</b>
Cash at the beginning of the year	62,841	42,251
Cash effect of consolidation of subsidiaries previously accounted for as other investment	1,185	221
Exchange differences on the consolidation of foreign subsidiaries	187	1,101
<b>Cash at the end of the year</b>	<b>88,126</b>	<b>62,841</b>

Source: MOL Eurobond Prospectus dated 30 September 2005



## *APPENDIX C*

### *RECENT DEVELOPMENTS*

The information contained in this Appendix C has been extracted from announcements made by MOL to the Budapest Stock Exchange and is provided for information purposes only, it was not prepared in connection with the offering of the Capital Securities, the Issuer was not involved in its preparation and has not verified its accuracy or completeness.

#### **1. THE FOLLOWING TEXT IS TAKEN FROM AN ANNOUNCEMENT MADE TO THE BUDAPEST STOCK EXCHANGE ON 16TH FEBRUARY, 2006**

##### **Personnel change at MOL Group**

MOL Hungarian Oil and Gas Company hereby announces that MOL and Slovnaft Board of Directors today acknowledged Mr. Kaššovic, the Slovnaft CEO and MOL Group's integrated Petrochemical Division manager's request of retirement as of 6th of March 2006.

Mr. Kaššovic retires after more than 37 years of successful work in Slovnaft, out of which over 13 years in key managerial positions (vice-CEO, vice-president and CEO). During his CEO-ship Slovnaft successfully completed several key strategic investments, through which Slovnaft refinery is one of the most complex refinery in Europe, already meeting EU-2009 fuel quality requirements.

To the position of the head of integrated Petrochemical Division of the MOL Group the Board of Directors of MOL elected as of 6th of March 2006. Mr. Árpád Olvasó, CEO and deputy chairman of the Board of Directors of TVK and the former head of Chemical Division and director of Chemical Portfolio Management of the MOL Group. Mr Olvasó currently does not own securities issued by MOL.

Slovnaft Board of Directors appointed Mr. Oszkár Világi as the new CEO of Slovnaft as of 6th of March 2006.

#### **2. THE FOLLOWING TEXT IS TAKEN FROM AN ANNOUNCEMENT MADE TO THE BUDAPEST STOCK EXCHANGE ON 14 FEBRUARY, 2006**

##### **MOL GROUP 2005 FOURTH QUARTER AND FULL YEAR PRELIMINARY RESULTS**

##### **EXCEEDING STRATEGIC TARGETS SET FOR 2005**

MOL Hungarian Oil and Gas plc. (Reuters: MOLB.BU, MOLBq.L, Bloomberg: MOL HB, MOL LI; homepage: [www.mol.hu](http://www.mol.hu)), today announced its 2005 fourth quarter and full year preliminary results. This report contains consolidated financial statements for the period ended 31 December 2005 as prepared by management in accordance with International Financial Reporting Standards (IFRS).

##### **Financial highlights**

<b>MOL Group financial results (IFRS)</b>	<b>Q4 2004</b>		<b>Q4 2005</b>		<b>Change %</b>		<b>FY 2004</b>		<b>FY 2005</b>		<b>Change %</b>	
	<b>HUF bn</b>	<b>USD m<sup>1</sup></b>	<b>HUF bn</b>	<b>USD m<sup>1</sup></b>	<b>HUF</b>	<b>USD</b>	<b>HUF bn</b>	<b>USD m<sup>1</sup></b>	<b>HUF bn</b>	<b>USD m<sup>1</sup></b>	<b>HUF</b>	<b>USD</b>
Net sales revenues .....	606.6	3,194.3	744.9	3,517.0	23	10	1,955.8	9,653.5	2,446.9	12,252.9	25	27
EBITDA .....	91.8	483.4	105.6	498.6	15	3	357.5	1,764.6	426.0	2,133.2	19	21
<b>Operating profit</b>	<b>57.8</b>	<b>304.4</b>	<b>67.7</b>	<b>319.6</b>	<b>17</b>	<b>5</b>	<b>248.9</b>	<b>1,228.5</b>	<b>305.5</b>	<b>1,529.8</b>	<b>23</b>	<b>25</b>
Net financial expenses/(gain) .....	(7.9)	(41.6)	8.9	42.0	n.a.	n.a.	(5.2)	(25.7)	31.7	158.7	n.a.	n.a.
<b>Net income attributable to equity holders of the parent .....</b>	<b>53.6</b>	<b>282.3</b>	<b>54.8</b>	<b>258.7</b>	<b>2</b>	<b>(8)</b>	<b>208.6</b>	<b>1,029.6</b>	<b>245.4</b>	<b>1,228.8</b>	<b>18</b>	<b>19</b>
Operating cash flow .....	129.6	682.5	89.8	424.0	(31)	(38)	324.4	1,601.2	281.2	1,408.1	(13)	(12)

(1) In converting HUF financial data into US Dollars, the following average NBH middle rates were used: for Q4 2004: 189.9 HUF/USD, for 2004: 202.6 HUF/USD, for Q4 2005: 211.8 HUF/USD, for 2005: 199.7 HUF/USD.

**In 2005, EBITDA reached HUF 426.0 bn (USD 2.1 bn), which was more than double the USD 1 bn strategic target set in 2002. Operating profit increased by HUF 56.6 bn, to HUF 305.5 bn (USD 1,529.8 mn), supported by previous years' investments in quality downstream assets, resulting in favourable product slate and higher product sales volumes, strong commodity prices and increased international oil production. ROACE calculated on EBIT basis was 27.7%, which also exceeded significantly the 17%**

strategic target. Net income attributable to equity holders of the parent grew by HUF 36.8 bn to HUF 245.4 bn (USD 1,228.8 mn), primarily reflecting the strong operating performance, which was partially compensated by higher financial expenses, due to a loss on foreign currency denominated debt in 2005, compared to a foreign exchange gain in 2004.

- **Exploration and Production** operating profit in 2005 increased by HUF 51.1 bn, to HUF 105.3 bn (USD 527.3 mn), as a strong increase in international crude production and higher transfer prices compensated for the lower domestic hydrocarbon production, increasing royalty charges on Hungarian and Russian operations and the impairment on certain domestic fields.
- **Refining and Marketing** contributed operating profit of HUF 178.4 bn (USD 893.3 mn), an increase of 12% (in USD terms 14%) over 2004, supported by higher sales volumes, higher fuel crack spreads, benefits from integrated Group operations and the positive effect of inventory holding.
- **Natural Gas** operating profit decreased by HUF 14.7 bn to HUF 50.1 bn (USD 250.9 mn) in 2005, as regulatory price increases did not compensate for a steep rise in import gas prices.
- The **Petrochemical** segment's operating profit increased to HUF 19.1 bn (USD 95.6 mn) in 2005, compared to a HUF 18.9 bn (USD 93.3 mn) profit in 2004. Operational result was positively influenced by the higher sales from the new capacities and the efficiency improvement measures. However, these effects were negatively impacted by the unfavourable changes in the business environment in the second half of 2005.
- We continued our **efficiency improvement** programs and achieved a USD 305 mn benefit by the end of 2005, which exceeds the USD 260 mn combined efficiency target set for 2005. Group **closing headcount** decreased by 5.2% y-o-y, from 15,465 to 14,660.
- **Capital expenditure** and investments decreased to HUF 236.3 bn (USD 1.2 bn) in 2005, compared to HUF 254.5 bn (USD 1.3 bn) in 2004, partly due to lower acquisition costs and lower spending in petrochemical segment. Capital expenditures in 2005 included the acquisition of Shell's operation in Romania and cash spent for the ownership of cushion gas in 2005. MOL's gearing ratio on December 31, 2005 was 23.4% (the gearing ratio was 24.4% on December 31, 2004). Net debt at the end of December 2005 was HUF 322.3 bn.
- **Operating cash flow** before changes in working capital grew by 3% to HUF 395.6 bn (USD 1,980.9 mn). Including working capital changes and corporate tax paid, operating cash flow decreased by 13%, to HUF 281.2 bn (USD 1,408.0 mn), mainly due to higher commodity prices and stockpiling of petrochemical products.

**Mr Zsolt Hernádi, Executive Chairman of MOL commented:**

"2005 was an important year for MOL: we have not only achieved our strategic goals set in 2002, but our results significantly exceeded them. In downstream, thanks to increased sales volumes and a favourable product slate, we were able to utilise the advantageous external factors. Our production in the ZMB field in Russia reached peak levels last year, which combined with the increased crude oil price contributed to the robust results of our Upstream segment. Outstanding results were supported by our Group efficiency improvement program, implemented in the last three years.

During the last ten years, MOL has successfully completed its transformation from a state owned monopoly into the leading Central European integrated oil company. As an important step, in line with our announced strategy, we agreed with E.ON Ruhrgas International on the closing of the sale of MOL's gas wholesale and storage businesses following the approval of the European Commission. Our aim is to reallocate the capital released from this business into our core upstream and downstream business segments, through value creative investments to support further growth of the company.

At the end of November, we announced our new strategic targets for the next five years. Based on our current capabilities and proven track record, our strategy is to maximise the potential from growth in "New Europe" and its Eastern frontiers, while providing superior returns and increasing dividend."

***Overview of the environment***

Global economic growth continued to slow in Q4 2005 after its decline in the 1<sup>st</sup> half of 2005. Nevertheless, it remained over 3%. As high oil prices started to feed into the core inflation, US monetary policy responded with interest rate rises. Stock markets were nervous due to increasing interest rates in the US and concerns about the

effect of the oil shock. Current account imbalances are at record levels with the US deficits financed by surpluses from Asia, the Middle East and Europe. Despite this, the dollar appreciated measurably against the euro and the yen.

There is some equalization in the geographical composition of growth. The US growth rate fell sharply to 1.1% in Q4 from above 3%. Forward looking indicators show a mixed picture, hinting at a rebound in early 2006, but with downward risks. In China, an investment boom continues and growth remains close to double digits. Growth also fell in Russia, in spite of high oil prices. The Japanese economy seems to be on the track for sustainable growth again, while the Eurozone continued to disappoint, though the growth rate may improve slightly this year.

According to IEA data, Q4 2005 oil demand is up by 1% to an average 84.8 mn barrels per day, a sharp deceleration of growth compared to over 3% in 2004. Demand growth is slowing in every region, most markedly in the US and China.

On the supply side, the speed of recovery of crude production after the hurricanes exceeded expectations. This and other new capacities like the Baku-Ceyhan pipeline added substantial additional crude supply. Together with the slowing growth in demand, this has created a relative oversupply of crude oil, which is reflected in increasing stocks of crude. Prices were also in a downward trend until mid November. The 2<sup>nd</sup> half of the fourth quarter was increasingly characterised by the increasing risk premium and concerns over the developments in Nigeria, and especially in Iran.

As global energy efficiency is incomparably better than in the 70s and as crude oil's share in primary energy is lower, the negative effect of high oil prices is measurable but limited.

OPEC did not change its quotas in the 4<sup>th</sup> quarter. Most OPEC countries operate at almost full capacity, and further quota increases would not have resulted in additional supplies. Most of OPEC spare capacity, in fact most of global spare capacity is Saudi Arabian heavy sour crude for which demand is limited by refinery capacity constraints. Iran's current oil exports are double of all available spare crude capacity. Consequently, any political event causing a disruption in Iranian oil exports would lead to an extremely severe price spike. This raises risk premiums and the willingness of market participants to keep large stocks. As a result, markets witnessed a sharp increase of prices at the end of the year despite of the adequate crude supply-demand balance.

As crude oil demand is driven by motor fuels, refinery capacity reached its limit. As a result, refinery margins were well above the historical average.

In Hungary, growth is below the Central European average but its structure remains healthy. The economy is still driven mainly by exports and investment. Growth of domestic consumption slowed to a sustainable level. However, strong investment demand, increasing but still low household savings and an excessive budget deficit led to a high current account deficit. Domestic fuel prices have followed the international markets. Lower net prices and the lower VAT on fuels have generated an upswing in fuel demand.

Slovakia recorded faster than expected dynamics of economic growth in the last quarter 2005. This resulted from the household final consumption development and rising productivity of production factors thanks to direct foreign investments. High household consumption has been fueled by surging real wages, which was subsequently mirrored in double digit retail sales figures. The attractive tax system, low unit labor costs, the liberal labor code and the reduced public deficit set Slovakia apart from the rest of the region. Slovak authorities show clear commitment to adopt € as the home currency from 2009.

The average CIF Med quoted price of Ural Blend increased by 47% in USD terms and 40% in HUF terms, compared to 2004. Brent-Ural differential decreased to 3.6 USD/bbl in 2005 from 3.8 USD/bbl in 2004. Average USD denominated crack spreads of FOB Rotterdam gasoline and gas oil increased by 10% and 34%, compared to 2004. The US dollar depreciated by an average of 2% against the Hungarian Forint, while € depreciated by an average 1% against Forint in 2005. € appreciated by 3% from year-end 2004 to 31 December 2005 (from 245.9 to 252.7), while USD appreciated by 18% from year-end 2004 to 31 December 2005 (from 180.3 to 213.6). The USD depreciated by an average of 4% against the Slovak Crown in 2005, while € depreciated by an average 4% against the Slovak Crown year on year.

## Exploration and Production

### Segment IFRS results

Exploration & Production	Q4 2004		Q4 2005		Change %		FY 2004		FY 2005		Change %	
	HUF bn	USD m	HUF bn	USD m	HUF	USD	HUF bn	USD m	HUF bn	USD m	HUF	USD
EBITDA .....	15.8	83.2	43.6	205.9	176	147	76.7	378.6	135.7	679.5	77	79
<b>Operating profit/(loss) .....</b>	<b>10.4</b>	<b>54.8</b>	<b>31.5</b>	<b>148.7</b>	<b>203</b>	<b>172</b>	<b>54.2</b>	<b>267.5</b>	<b>105.3</b>	<b>527.3</b>	<b>94</b>	<b>97</b>
CAPEX and investments <sup>1</sup> .....	10.8	56.9	10.6	50.1	(2)	(12)	31.1	153.5	34.4	172.3	11	12

<sup>1</sup> The consolidated CAPEX figures exclude capitalised finance costs, but include financial investments and both capitalised and expensed exploration cost.

### Key segmental operating data

HYDROCARBON PRODUCTION (gross figures before royalty)		Q4 2004	Q4 2005	Change %	FY 2004	FY 2005	Change %
<b>Crude oil production (kt) .....</b>		<b>591</b>	<b>594</b>	<b>0</b>	<b>2,225</b>	<b>2,316</b>	<b>4</b>
Hungary .....		260	235	(10)	1,077	947	(12)
International .....		331	359	8	1,148	1,369	19
<b>Natural gas production (million m<sup>3</sup>, net dry)* .....</b>		<b>731</b>	<b>760</b>	<b>4</b>	<b>2,928</b>	<b>2,843</b>	<b>(3)</b>
<b>Group average hydrocarbon prod. (kboe/d)** .....</b>		<b>103.0</b>	<b>103.7</b>	<b>1</b>	<b>101.3</b>	<b>100.6</b>	<b>(1)</b>

\* Domestic production, excluding original cushion gas production from gas storage.

\*\* Calculation method has changed in 2005. Daily production figures of 2004 have been restated accordingly.

In 2005, segmental operating profit increased by HUF 51.1 bn compared to 2004, mainly due to a strong increase in international crude production and the favourable industry environment. The USD denominated average Brent crude oil price increased by 42.7% compared to 2004, while it was 40.5% higher in HUF terms, due to the strengthening of the Forint against the USD by 1.6%. Domestic gas transfer price increased by 42.8%. The Group has performed an impairment test on the recoverability of increased asset values and recorded an impairment of HUF 6.8 bn on suspended and certain maturing fields in Q4 2005.

Segmental operating revenues increased by HUF 84.6 bn, due to an increase in international crude oil sales volumes and prices. Operating expenses grew by HUF 33.5 bn, mainly due to the increased production at the ZMB project and the increased royalty charges. ZMB's operating profit increased by HUF 21.9 bn, as a result of high crude oil prices and increasing production volume. The royalty related to the domestic production increased by HUF 12.6 bn to HUF 71.9 bn in 2005 compared to HUF 59.3 bn in 2004, of which supplementary gas royalty was HUF 50.5 bn, HUF 8.7 bn higher than in 2004.

Group average hydrocarbon production remained nearly flat in 2005 compared to the 2004 level, out of which our domestic crude oil production decreased by 12.0%, due to both the natural decline and the increase in water production of the fields. This was compensated by a strong 19.2 % increase in international crude production. The domestic natural gas production decreased by 2.9 % due to the drop of the reservoir pressure caused by the exploitation, but these negative factors were partly compensated by the Hosszúpályi gas field development. Beside domestic gas production, in 2005 MOL started the sale of the early production of the Pakistani Tal block.

Despite the positive effect of international crude oil production, MOL Group's unit cost of hydrocarbon production (including gasoline production) increased to 3.4 USD/boe in 2005, from the 3.1 USD/boe in 2004, primarily due to the decreasing domestic production and the strong HUF against USD.

Total capital expenditure increased by HUF 3.3 bn compared to 2004. International project expenditure increased by HUF 4.5 bn, mainly in Kazakhstan and Russia. Exploration costs at the Fedorovsky block in Kazakhstan have been included from Q3 2004, which caused higher international exploration expenditures compared to 2004.

In December 2005, MOL signed an agreement with the Minister of Economy and Transport on the extension of production licences for 12 mining sites until 2010. According to the agreement, MOL will pay between 1.02 and 1.05 times the present royalty rate for all hydrocarbon produced at the current mining sites until 2020. The rate of mining royalty for natural gas put into development before 1998 will continue to decline gradually. Given that the multiple applied in the agreement is less than the maximum 1.2 multiple set in the Mining Act, MOL made a one-off payment of HUF 20 billion in 2005.

## Refining and Marketing

### Segment IFRS results

	Q4 2004		Q4 2005		Change %		FY 2004		FY 2005		Change %	
	HUF bn	USD m	HUF bn	USD m	HUF	USD	HUF bn	USD m	HUF bn	USD m	HUF	USD
<b>Refining &amp; Marketing</b>												
EBITDA .....	63.5	334.4	58.9	278.1	(7)	(17)	215.1	1,061.7	238.1	1,192.3	11	12
<b>Operating profit/(loss) .....</b>	<b>44.0</b>	<b>231.7</b>	<b>40.4</b>	<b>190.7</b>	<b>(8)</b>	<b>(18)</b>	<b>158.9</b>	<b>784.3</b>	<b>178.4</b>	<b>893.3</b>	<b>12</b>	<b>14</b>
CAPEX and investments <sup>1</sup> .....	28.0	147.4	26.4	124.8	(6)	(15)	79.0	389.9	92.3	462.4	17	19

1 The consolidated CAPEX figures exclude capitalised finance costs, but include financial investments and both capitalised and expensed exploration cost.

	Q4 2004 HUF bn	Q4 2005 HUF bn	Change %	FY 2004 HUF bn	FY 2005 HUF bn	Change %
<b>Reported EBIT .....</b>	<b>44.0</b>	<b>40.4</b>	<b>(8)</b>	<b>158.9</b>	<b>178.4</b>	<b>12</b>
One-off items .....	0.0	0.0	—	0.0	8.6	—
Replacement modification .....	5.4	2.2	(59)	(8.9)	(39.1)	(339)
<b>Estimated clean CCS .....</b>	<b>49.4</b>	<b>42.6</b>	<b>(14)</b>	<b>150.0</b>	<b>147.9</b>	<b>(1)</b>

### Key segmental operating data

REFINED PRODUCT SALES Kt	Q4 2004	Q4 2005	Change %	FY 2004	FY 2005	Change %
Hungary .....	1,159	1,221	5	4,082	4,256	4
Slovakia .....	357	373	5	1,411	1,385	-2
Other markets .....	1,612	1,526	(5)	6,000	6,113	2
<b>TOTAL CRUDE OIL PRODUCT SALES .....</b>	<b>3,128</b>	<b>3,120</b>	<b>0</b>	<b>11,493</b>	<b>11,754</b>	<b>2</b>

Segmental operating profit increased by HUF 19.5 bn in 2005, compared to the previous year. Higher annual operating profit was supported by higher sales volumes and higher fuel crack spreads. MOL's realised refining margin exceeded the reference margin, due to the more favourable product slate, which is in turn the result of the significant quality improvement due to investments made in recent years. These favourable factors were partially offset by the strength of local currencies against USD, and a HUF 8.6 bn fuel pricing fine imposed by Slovakian Finance Minister on Slovnaft in 2005. Operating profit in Q4 2005 decreased as a result of the fall in the Brent-Ural differential and crack spreads of main products (except gasoline).

Consolidated Group sales volumes in 2005 increased by 2% (261 kt). The reason for this growth was the higher sales in Hungary (174 kt) and in export markets (113 kt). In Hungary, shift within motor fuels product slate, from motor gasoline to diesel resulted in 184 kt higher diesel sales with very favourable crack spreads and the increased capacity of our petrochemical business provided flexibility for our refineries regarding petrochemical feedstock supply. Kerosene sales also surpassed the volume of the previous year, while fuel oil sales decreased by 27%. Total sales in Slovakia decreased by 2% in 2005, as a result of higher consumer prices, but in Q4 2005 sales started to increase, which resulted in nearly 5% y-o-y volume growth.

According to our market assessment, in Hungary demand for motor gasoline remained flat, due to high market prices and a continuing dieselisation. Our sales decreased by 1.0%, resulting in a slightly lower, but still significant market share. At the same time, the Hungarian consumption of motor diesel, which is more directly influenced by general economic development than price changes, increased significantly by 12%, due to the increasing demand of transportation industry, which is a consequence of the intensive Hungarian investments. Import competition strengthened due to the high crack spreads. Nevertheless, our motor diesel sales increased by nearly 11%.

Total product sales in Slovakia fell, due to lower sales of motor gasoline and kerosene. In a stagnating market our gasoline sales, and therefore our market share, decreased by 10% and 8%, respectively, mainly due to lower sales in our retail station network. Demand for gasoil increased by more than 11% as a result of factors similar to those affecting overall Hungarian demand, as well. Our diesel sales also increased to a lesser extent, by 5%, due to the strengthening competition. Both markets were characterised by the increasing import pressure, because regional refineries increased their production and export as a result of the high crack spreads of the motor fuels. At the same time, we kept our market share in the end-user market in Hungary and slightly increased the same in Slovakia.



Total sales outside of Hungary and Slovakia increased by 113 kt, from 6000 kt in 2004 to 6113 kt in 2005, due to optimisation of refinery production and Group level supply chain management, resulting in greater regional competitiveness.

As a result of completion of our EU 2005 refinery development project, from July 2005, our total gasoline and diesel production has max.10 ppm sulphur content, strengthening our quality leader position. Also from July, we satisfy biofuel blending regulation according to the different legal requirements in the region.

We significantly increased the volume of petrochemical feedstock (naphtha and chemical gasoil) supplied to the Petrochemical segment, in line with the recent cracking capacity increase completed last year as part of Group level optimisation.

In 2005, MOL's Hungarian retail fuel sales volumes decreased by 3.6% compared to 2004. The main reason for this was the significant increase in prices, which made motor gasoline demand more sensitive and encouraged a small part of the customer base to turn to discount retailers. The 9.8% fall in gasoline sales was partially compensated by a 3.3% rise in diesel sales, primarily due to strengthened card sales. Our motor fuel market share according to MÁSZ (Hungarian Petroleum Association) fell from 43.0% to 40.6% in 2005.

Slovnaft's retail market share in Slovakia, according to SAPPO data, fell from 44.5% to 41.6%. Our gasoline sales decreased by 7.8% y-o-y in Slovakia, as a result of a shift in demand similar to that experienced in Hungary. Our diesel sales increased by 5.9% compared to 2004. Motor gasoline sales were lower than in the previous year, also due to the lower number of the filling stations, as a result of the execution of the filling station network rationalisation program.

In Romania, our fuels sales more than doubled (increased by 104.9%) in 2005, as a result of both network expansion (mainly the Shell Romania acquisition) and increased sales volume per site. MOL's retail market share in Romania increased significantly to 13% in 2005.

As of December 31 2005, the MOL Group had 834 filling stations, of which 355 were operated in Hungary, 253 in Slovakia, 137 in Romania, and 30 in the Czech Republic. In 2005, we continued the implementation of our Slovakian retail network efficiency improvement program, which resulted in the closure of 31 lower turnover stations in 2005. In the Czech Republic, within the framework of a similar programme, we sold 11 filling stations in Q3 2005.

In Hungary, our shop sales increased by 0.7% in 2005, which represented a 4.7% increase in shop sales per litre year-on-year. Our fuel card sales rose further (by 6.2%) compared to the previous year. In the Slovakian market, our shop sales increased by 22.9% in 2005 compared to 2004, in large part due to higher sales of tobacco and motorway stickers and the opening of restaurants at two filling stations. Our shop sales in Romania increased by 45.1% in 2005 y-o-y, due to both the above mentioned network growth and the fact that from January 1, 2005, the Romanian government introduced the use of motorway stickers.

## Petrochemicals

### Segment IFRS results

	Q4 2004		Q4 2005		Change %		FY 2004		FY 2005		Change %	
	HUF bn	USD m	HUF bn	USD m	HUF	USD	HUF bn	USD m	HUF bn	USD m	HUF	USD
<b>Petrochemicals</b>												
EBITDA .....	11.4	60.0	8.6	40.6	(25)	(32)	31.2	154.0	33.1	165.7	6	8
<b>Operating profit/(loss) .....</b>	<b>7.9</b>	<b>41.6</b>	<b>5.6</b>	<b>26.4</b>	<b>(29)</b>	<b>(36)</b>	<b>18.9</b>	<b>93.3</b>	<b>19.1</b>	<b>95.6</b>	<b>1</b>	<b>3</b>
CAPEX and investments <sup>1</sup> .....	10.8	56.9	4.7	22.2	(56)	(61)	57.5	283.8	11.1	55.6	(81)	(80)

<sup>1</sup> The consolidated CAPEX figures exclude capitalised finance costs, but include financial investments and both capitalised and expensed exploration cost.

### Key segmental operating data

<b>PETROCHEMICAL SALES BY PRODUCT GROUP Kt</b>	<b>Q4 2004</b>	<b>Q4 2005</b>	<b>Change %</b>	<b>FY 2004</b>	<b>FY 2005</b>	<b>Change %</b>
Olefin products .....	50	60	20	185	230	24
Polymer products .....	219	294	34	872	1,065	22
<b>PETROCHEMICAL SALES (external) Kt</b>	<b>Q4 2004</b>	<b>Q4 2005</b>	<b>Change %</b>	<b>FY 2004</b>	<b>FY 2005</b>	<b>Change %</b>
Hungary .....	111	119	7	430	468	9
Slovakia .....	21	14	(33)	77	69	(10)
Other markets .....	137	221	61	550	758	38
<b>TOTAL PETROCHEMICAL PRODUCT SALES ...</b>	<b>269</b>	<b>354</b>	<b>32</b>	<b>1,057</b>	<b>1,295</b>	<b>23</b>



In 2005, the operating profit of the Petrochemical segment was HUF 19.1 billion, which was broadly the same as in 2004. Operating profit was favourably influenced by increasing sales volumes from new capacities and improving internal efficiency, while the unfavourable changes in market tendencies that appeared in the second half, had a negative effect on the operating profit. Although the petrochemical integrated margin increased slightly y-o-y, in H2 2005 it decreased by 14.6% compared to the same period of the previous year. The EBITDA increased by 6% compared to 2004 in spite of growing raw material prices, indicating the improving cash-generating ability of the segment. Segmental profit was favourably influenced by the consolidation of the TVK Erömi Kft in 2005.

Following a favourable trend in the first half, in Q4 2005, the integrated petrochemical margin decreased by 14.6% compared to Q4 2004, due to the 20% increase in naphtha quoted price denominated in USD, which was only partly compensated by the increase in polymer quotations. Although the integrated petrochemical margin increased by 2% on a yearly basis, the segment's profit was negatively influenced by the strengthening of HUF and SKK against €, which is the currency of the polymer markets. The quoted prices of naphtha and chemical gasoil increased by 27-42% compared to 2004 in USD.

In 2005, polymer sales volumes were 1,065 kt, which represents a 22% increase compared to the same period last year. The most significant growth was in HDPE and PP products, mainly as a result of the start up of the new HDPE plant in TVK, and the new PP plant in Slovnaft. The composition of polymer sales changed, the portion of HDPE sales rose to 33%, beside LDPE (26%) and PP (41%) products. In the last quarter, after the completion of operational tests and the guarantee test at the new PP plant of Slovnaft and the filling up of commercial inventory level, the sales of polypropylene increased significantly compared to basis period.

The Hungarian polymer sales decreased by 4 kt compared to the previous year, but sales of olefin products increased by 24% y-o-y due to the start-up of a new olefin plant at TVK. Slovakian polymer sales decreased by 9 kt. The weight of export sales increased in our sales portfolio due to new capacities and the improving commercial efficiency as a result of single channel sales activity, resulting in increased sales mainly in the Italian, French and German markets.

Capital expenditures decreased compared to 2004, as the construction work of new plants was completed. The HDPE 2 plant in TVK was put into operation at the end of last year, while the test run of the Olefin 2 plant was closed on 30 September, 2005. At Slovnaft, the new PP plant was mechanically completed in the first quarter, and the guarantee test was closed in the 4<sup>th</sup> quarter. Through these projects MOL Group's ethylene capacity has increased by 42% to 839 kt per annum, while total polymer capacity has increased by 41% to 1,281 kt per annum.

## Natural Gas

### Gas subsidiary unconsolidated HAS results

	Q4 2004		Q4 2005		Change%		2004		2005		Change %	
	HUF bn	USD m	HUF bn	USD m	HUF	USD	HUF bn	USD m	HUF bn	USD m	HUF	USD
<b>Wholesale</b>												
EBITDA .....	3.9	20.5	(15.4)	(72.7)	n.a.	n.a.	15.9	78.5	(5.1)	(25.5)	n.a.	n.a.
Operating profit/(loss) .....	<b>3.9</b>	<b>20.5</b>	<b>(15.4)</b>	<b>(72.7)</b>	<b>n.a.</b>	<b>n.a.</b>	<b>15.9</b>	<b>78.5</b>	<b>(5.1)</b>	<b>(25.5)</b>	<b>n.a.</b>	<b>n.a.</b>
CAPEX and investments .....	0.0	0.0	0	0.0	0	0	0.0	0.0	0.0	0.0	0	0
<b>Transmission</b>												
EBITDA .....	9.4	49.5	10.0	47.2	6	(5)	37.1	183.1	40.5	202.8	9	11
Operating profit/(loss) .....	<b>5.3</b>	<b>27.9</b>	<b>5.5</b>	<b>26.0</b>	<b>4</b>	<b>(7)</b>	<b>24.3</b>	<b>119.9</b>	<b>27.3</b>	<b>136.7</b>	<b>12</b>	<b>14</b>
CAPEX and investments .....	4.0	21.1	7.2	34.0	80	61	5.7	28.1	11.4	57.1	100	103
<b>Storage</b>												
EBITDA .....	6.8	35.8	3.9	18.4	(43)	(49)	20.7	102.2	22.8	114.2	10	12
Operating profit/(loss) .....	<b>5.1</b>	<b>26.9</b>	<b>2.0</b>	<b>9.4</b>	<b>(61)</b>	<b>(65)</b>	<b>14.8</b>	<b>73.1</b>	<b>16.2</b>	<b>81.1</b>	<b>9</b>	<b>11</b>
CAPEX and investments .....	7.1	37.4	65.3	308.3	820	724	8.9	43.9	75.2	376.6	745	758

### Key operating data\*

<b>NATURAL GAS BALANCE Million m<sup>3</sup></b>	<b>Q4 2004</b>	<b>Q4 2005</b>	<b>Change%</b>	<b>FY 2004</b>	<b>FY 2005</b>	<b>Change %</b>
Sales from production .....	887	884	0	2,656	2,627	(1)
Sales from import .....	3,412	3,538	4	10,635	10,866	2
<b>TOTAL SOURCES .....</b>	<b>4,299</b>	<b>4,422</b>	<b>3</b>	<b>13,291</b>	<b>13,493</b>	<b>2</b>
Sales to Gas Distribution Companies (GDCs) .....	3,580	3,730	4	10,535	10,791	2
Sales to power sector .....	588	497	(15)	2,256	2,095	(7)
Sales to industrial and other consumers .....	131	195	49	500	607	21
<b>TOTAL THIRD PARTY SALES .....</b>	<b>4,299</b>	<b>4,422</b>	<b>3</b>	<b>13,291</b>	<b>13,493</b>	<b>2</b>
Loss and own consumption ** .....	205	231	13	696	824	18
<b>TOTAL SALES, OWN CONSUMPTIONS AND LOSSES</b>	<b>4,504</b>	<b>4,653</b>	<b>3</b>	<b>13,987</b>	<b>14,317</b>	<b>2</b>
Natural gas transit .....	838	904	8	2,526	2,570	2

<b>MOBILE NATURAL GAS INVENTORIES Million m<sup>3</sup></b>	<b>31 Dec 2004</b>	<b>31 Dec 2005</b>	<b>Change %</b>
From domestic sources (MOL Supply Plc.) .....	512.3	506.9	(1)
From import sources (MOL Supply Plc.) .....	1,889.7	1,925.7	2
From import sources (Third parties) .....	12.4	30.8	148
<b>TOTAL CLOSING INVENTORIES</b>	<b>2,414.4</b>	<b>2,463.4</b>	<b>2</b>

<b>NATURAL GAS PRICES HUF/m<sup>3</sup></b>	<b>Q4 2004</b>	<b>Q4 2005</b>	<b>Change%</b>	<b>FY 2004</b>	<b>FY 2005</b>	<b>Change %</b>
Average import price .....	31.2	52.4	68	30.5	42.9	41
Average MOL selling price .....	38.4	50.1	30	39.1	46.5	19
Public utility wholesale price to GDCs .....	38.9	50.3	29	40.0	47.5	19
Public utility wholesale price to industry/power .....	36.0	49.5	38	35.4	42.5	20

\* MOL Group level

\*\* includes the natural gas used by TVK and MOL units

Considering the announced agreement with E.ON on the sale of MOL Natural Gas Supply Plc. (WMT) and MOL Natural Gas Storage Plc. (Storage), two of the three gas subsidiaries, we report the results and operational data separately, as in the Q1-Q3 flash report.

On 12 January 2006, following the approval of the European Commission, MOL and E.ON agreed, that the closing of the partial sale of MOL's midstream gas business will take place on 31 March 2006. Based on the forecast 31 March 2006 balance sheet, the purchase price is €450 million for the 100% ownership stakes in WMT and Storage, which, due to potential future price adjustments, may range between €300 million and €740 million. The settlement of these price adjustments will take place semi-annually until the end of 2009. In addition to this E.ON will make a payment of €600 million to assume 100% of the debt of Storage and WMT (also based on a forecast 31 March 2006 balance sheet).

Unconsolidated operating profit of MOL Natural Gas Supply Plc. decreased by HUF 21 bn, resulting in an operating loss of HUF 5.1 bn in 2005, as regulated price increases could not compensate for the sharp increase in the import purchase price. In 2004, HUF 22.2 bn was paid to the compensation fund, which is the source of the residential gas-price compensation system, since the actual import price was lower than the import price acknowledged in regulation.

In 2005, the import purchase price expressed in HUF increased by 40.7%, while the USD based import prices increased by 40.5%. Public utility sales price increased by 19.2% on average compared to 2004 as a consequence of the regulatory price increases. The natural gas wholesale price increased by 13% from January 15th 2005 and by 7% from August 1st. From November 1st 2005, gas price increased by 19% to non-household consumers. Competitive trade prices on the open market increased by 22.4% compared to 2004.

In 2005, 10.9 bcm natural gas was sold from import and 2.6 bcm from domestic production. Total sales increased by 1.5% mainly as a consequence of the 2.4% higher natural gas demand of gas suppliers. At the same time, sales to power plants decreased by 7.1%, due to both the lower electricity production of domestic power plants as a consequence of cheaper electricity import, and the fact that the consumption of TVK Power Plant was transferred to the own consumption category. Industrial and other gas sales increased by 21.4% as a consequence of our successful competitive marketing activity.

Mobile natural gas closing inventory volume was 2% higher at the end of December compared to the closing volume in December 2004.

According to the new gas business regulation of January 1st 2004, all non-residential consumers are entitled to leave public utility supply. Several consumers took advantage of this opportunity and entered the competitive market. Competitive trade sales represented 3.1% of the total natural gas sales realized outside of MOL Group in 2005 compared to the 2.2% in 2004.

Unconsolidated operating profit of MOL Natural Gas Transmission Plc. increased by HUF 3.0 bn to HUF 27.3 bn in 2005. Unconsolidated revenues increased significantly, mainly due to an increase in gas transmission tariffs, but also due to higher transmitted volumes. The non-regulated transit natural gas transmission revenue increased by 17% (to HUF 11.7 bn) compared to 2004, due to an increase in transit fees, while transit volumes also increased by 1.7%. However, these positive factors were partly compensated by a 1.2% increase in operating costs.

Investments doubled from HUF 5.7 bn in 2004 to HUF 11.4 bn in 2005, as a consequence of the increased reconstruction works.

Unconsolidated operating profit of MOL Natural Gas Storage Plc. increased by HUF 1.4 bn to HUF 16.2 bn in 2005 compared to 2004, mainly due to an increase in natural gas production of Zsana-North field belonging to the Zsana underground gas storage. Revenues increased by HUF 2.6 bn, of which fee revenues of storage increased from HUF 26.1 bn of 2004 to HUF 26.9 bn in 2005. The mobile closing inventory was 2.46 bcm at the end of 2005, 2.0% higher than the closing volume in 2004, due to milder winter weather. In addition to mobile natural gas stored for MOL Natural Gas Supply Plc., in 2005 storage was also provided to other traders.

Storage investments grew significantly in 2005, due to HUF 60 bn spent for the ownership of 3 bcm of cushion gas. In December 2005, MOL Natural Gas Storage Plc. ("**MOL Storage**") signed an agreement with the Ministry of Economy and Transport on the transfer of ownership of approximately three billion cubic meters of cushion gas for a HUF 60 billion royalty payment. MOL Storage Plc. guarantees to the Hungarian State that it will not produce the cushion gas obtained during the transaction for 16 years. In return, the Hungarian State guarantees a return to MOL equivalent to its Group return target.

## **Financial overview**

MOL has applied IFRS / IAS since the first stage of its privatisation in 1995.

### ***Changes in accounting policies and estimates***

Changes in IFRS effective from 1 January 2005 were adopted by the Group and their impact is reflected in the full year Flash Report. Apart from some minor modifications in the current policies and disclosures, major changes are summarized as follows.

IFRS 2 – Share-based Payment requires an expense to be recognised where the Group buys goods or services in exchange for shares or rights over shares, or in exchange for other assets equivalent in value to a given number of shares or rights over shares. The main impact of IFRS 2 on the Group is the expensing of directors' share conversion rights included in the convertible bond program, being a long-term incentive (qualifying as an equity-settled transaction). Additionally, long-term share-based incentive for top and medium level management is also expensed during its vesting period. The negative effect of the adoption of IFRS 2 on the current year net profit of the Group is HUF 1.5 bn. Prior periods have been restated as required by the standard, with a negative impact of HUF 1.2 bn on the comparative net profit of 2004. In relation with the introduction of IFRS 2 the Group has revised its accounting policy on short-term (cash based) management incentives. From 2005 it is being expensed during the year of performance, as opposed to the previous practice (expensing in the year of approval). The revision had a positive HUF 1.6 bn impact on the current year net profit. Comparative periods have been restated accordingly, causing a decrease of HUF 1.4 bn in opening retained earnings and an increase of HUF 0.8 bn in the net profit of 2004.

In accordance with the transitional requirements of IFRS 3 – Business Combinations, previously recorded negative goodwill on acquisitions made prior to 31 March 2004 have been reclassified into opening retained earnings as of 1 January 2005. Moreover, amortization of goodwill of entities acquired before 31 March 2004 ceased as of 1 January 2005, being replaced by annual impairment tests performed at year-end on the carrying amount of goodwill, based on the value-in-use of the cash generating units the goodwill belongs to or is allocated to, in accordance with the revised IAS 36 – Impairment of Assets.

In accordance with the amendments of IAS 39 – Financial Instruments: Recognition and Measurement, fair value changes of financial instruments available for sale are recorded directly in equity, except for those financial instruments which are specifically designed at inception by the Group to be fair valued through profit and loss.

The amendments required by the IAS 16 – Property, Plant and Equipment have a positive HUF 6.0 bn impact on 2005 reported Group net income, primarily due to the capitalization of periodic maintenance costs which previously have been expensed. Additionally, the revision of useful lives of major assets has been performed at year-end with respect to 2005, increasing the profit of the year by approximately HUF 4.6 bn. The implementation of these changes is prospective, as required by the revised standard.

In 2005 the Group performed a complex review of domestic field abandonment liabilities and the related provision increased to HUF 81.1 bn. As required by IAS 16 – Property, Plant and Equipment, the qualifying portion of the provision has been capitalized as a component of the respective fields and will be expensed as unit-of-production depreciation in the future. The Group has performed an impairment test on the recoverability of increased asset values and recorded an impairment of HUF 6.9 bn on suspended and certain maturing fields.

### ***Operations***

In 2005, Group net sales revenues increased by 25% to HUF 2,447.0 bn, primarily reflecting increased average selling prices and sales volumes of refining products and natural gas. Group sales to customers outside Hungary reached HUF 1,167.5 bn, representing 48% of total sales. The value of raw materials and consumables used increased by 33%, above the growth rate of sales. Within this, raw material costs increased by 43%, primarily as a result of the sharp increase in crude oil import prices and the increased quantity of import crude oil processed. Cost of goods sold increased by 26%, mainly as a consequence of the higher import HUF prices and higher volume of gas sold from import, representing HUF 109.6 bn and HUF 7.1 bn, respectively. The value of material-type services used increased by 4% to HUF 111.4 bn. Other operating expenses increased by 14% to HUF 219.2 bn, mainly due to the HUF 8.6 bn Slovnaft fine in Q3 2005 and an increase in royalty payment. Personnel expenses for the period decreased by 12%, reflecting the comparative effect of HUF 25.0 bn severance payment redemption provision recognised in Q4 2004 and a more than 5% decrease in MOL Group average headcount, compensated by an additional HUF 2.5 bn severance payment redemption charge in 2005, and the average salary increase of 7%. Of the production costs incurred in the current period, HUF 55.8 bn is attributable to the increase in the level of finished goods inventory and work in progress, as opposed to the HUF 19.0 bn in 2004.

A net financial expense of HUF 31.7 bn was recorded in 2005 compared to a net financial gain of HUF 5.2 bn in 2004, due to the combined effect of interest payable, which amounted to HUF 12.8 bn, and a foreign exchange loss of HUF 21.7 bn incurred in the period compared to the interest payable of HUF 16.8 bn and foreign exchange gain of HUF 28.8 bn recognised in 2004. Income from associates was HUF 5.3 bn, including INA's 2005 contribution of HUF 4.8 bn.

Corporate tax expense decreased by HUF 17.0 bn to HUF 30.8 bn in 2005, primarily as a result of a 100% tax holiday of MOL Rt. and TVK Rt. in 2005. Current tax expense is the result of the contribution of Slovnaft (at 19%) and the gas companies (at 16%), of HUF 12.5 bn and HUF 2.5 bn respectively, as well as the corporate tax payable on the profit of the ZMB joint venture (HUF 5.9 bn).

### ***Balance sheet***

Total assets amounted to HUF 2,030.9 bn at the end of December 2005, representing an increase of 24%, compared to 31 December 2004. Within this, Property, plant and equipment increased by 21%, reflecting petrochemical capital expenditure at TVK and Slovnaft, EU-2005 quality investment in refining, the amount of purchased cushion gas from the Hungarian State and the field abandonment provision recorded against fixed assets. Intangible assets include goodwill of HUF 10.9 bn primarily arising from the acquisitions of Roth Group (HUF 6.0 bn) and the Romanian operation of Shell (HUF 4.4 bn). As a consequence of the transitional requirements of IFRS 3 (see above), HUF 27.6 bn negative goodwill has been reclassified into Reserves, recognised on the acquisition of remaining Slovnaft shares, following the completion of the public offer in early 2004. Other non-current assets include HUF 20.0 bn prepayment to the State for the prolongation of exploration rights at certain Hungarian upstream concessions and the related fixation of the level mining royalty payable in the future. The amount is going to be amortized to profit and loss during the 15-year period of the underlying contract starting in January 2006. Inventories increased by 54% to HUF 265.1 bn due to the higher purchase price of crude oil at the refineries and natural gas in storage.

Trade and other payables increased by 39% to HUF 445.5 bn, reflecting primarily our increasing working capital needs. Additionally, under the option structure connected to the "A" shares transferred as a consideration for the Slovnaft shares in Q2 2003 BNP Paribas was appointed to exercise MOL's right to purchase the shares in December 2005, and a similar option structure has been contracted with the bank with an exercise price of HUF

7,645 per share, expiring in December 2006. Consequently the relevant liability has been reclassified from Other non-current liabilities to Trade and other payables. The total amount of provisions at the end of 2005 was HUF 120.7 bn representing an increase compared to 2004 year-end combining the result of revision of field abandonment liability, the release of provisions for the redemption of extra severance payments and payments due by MOL Natural Gas Supply Plc to Eurobridge Kft. under the arbitration award granting both parties claim. Long-term debt, including current portion, increased by 31% to HUF 384.6 bn, reflecting the financing needs of our intensive capital expenditure program. Short-term debt (excluding the current portion of long-term debt) was HUF 2.5 bn, a decrease of 95% over the year, reflecting our improved liquidity. As at 31 December 2005, 72% of the MOL Group's total debt was denominated in Euro, 25% in USD and 3% in HUF. The composition of debt is determined considering both the operating currency exposure of the Group and the expected cash income at the closing of the gas partnership transaction. At the end of December 2005, MOL's gearing (net debt to net debt plus shareholders' equity plus minority interests) was 23.4% compared to 24.4% at the end of 2004.

#### *Changes in contingencies and commitments*

The capital contractual commitments of the Group were HUF 32.0 bn compared with HUF 32.4 bn at the end of 2004. Our other contingencies and commitments (guarantees, operating lease liabilities, obligations resulting from litigation in which the Group acts as defendant) did not change significantly in 2005 compared to the amounts reported in the 2004 Annual Report of MOL Group. The counterclaim submitted by Petrol Projektung Budapest Ltd. against MOL was finally rejected by the court and also the claim submitted by the Hungarian Automotive Association against the Competition Office decision terminating the procedure against MOL on alleged excessive pricing has been revoked by the plaintiff. Those cases in which MOL Group has filed suits were decreased by HUF 7.5 bn. The court of arbitration has recognized MOL's claim for damages against MB Köolajkutató Rt. the party responsible for the gas explosion at Pusztaszölös underground storage facility in 2000.

As a consequence of the second instance decision of the Slovak Ministry of Finance in the procedure against Slovnaft in respect of the fuel price audit performed last year, Slovnaft recognized the corresponding liability against other operating expenses in Q3 2005 (which was subsequently paid in October, 2005). The Group continues its appeal at all available forums.

#### *Cash flow*

Operating cash flow in 2005 was HUF 281.2 bn, a 13% decrease compared to the 2004 figure. Operating cash flow before movements in working capital increased by 3%. The change in the working capital position decreased funds by HUF 84.5 bn, arising from an increase in inventories (particularly due to the higher purchase price of crude oil at the refineries), accounts receivable, other receivables and accounts payable (of HUF 95.4 bn, HUF 62.5 bn, HUF 3.9 and HUF 78.2 bn, respectively) and a decrease in other current liabilities (of HUF 1.0 bn). Corporate taxes paid amounted to HUF 29.9 bn related to cash outflow of Slovnaft's corporate tax liabilities arising in 2004 and prepayments for 2005.

Net cash used in investing activities was HUF 258.9 bn compared with HUF 224.8 bn in 2004, from which organic CAPEX increased compared to 2004 due to the payment for the ownership of 3 bcm cushion gas. The 2005 cash spent also includes the consideration paid for Shell Romania, while the comparative figure of 2004 contains our further acquisition of shares in Slovnaft and TVK. Acquisition of other investments in Q4 2005 reflects the payment for the extension of production licences for 12 mining sites and agreement on future royalty obligations. Net financing cash outflows amounted to HUF 49.1 bn, being mainly the result of the issuance of the Eurobond, the net repayment of short-term debt and the HUF 21.9 bn buyback of treasury shares on the Budapest Stock Exchange. The share buyback from Slovintegra-Slovbena is shown in the item of Acquisition of subsidiaries.



# APPENDIX I

## CONSOLIDATED STATEMENTS OF OPERATIONS FOR THE MOL GROUP PREPARED IN ACCORDANCE WITH IFRS FOR THE PERIOD ENDED 31 DECEMBER 2005 Unaudited figures (in HUF millions)

	Q4 2004 restated	Q4 2005	Change %	FY 2004 restated	FY 2005	Change %
Net sales	606,645	744,908	23	1,955,830	2,446,950	25
Other operating income	7,371	5,144	(30)	16,126	18,344	14
<b>Total operating revenues</b>	<b>614,016</b>	<b>750,052</b>	<b>22</b>	<b>1,971,956</b>	<b>2,465,294</b>	<b>25</b>
Raw material costs	201,644	303,695	51	734,969	1,048,253	43
Value of material-type services used	31,899	25,864	(19)	107,538	111,405	4
Cost of goods purchased for resale	173,078	214,970	24	503,424	633,263	26
<i>Raw material and consumables used</i>	<i>406,621</i>	<i>544,529</i>	<i>34</i>	<i>1,345,931</i>	<i>1,792,921</i>	<i>33</i>
Personnel expenses	49,109	26,589	(46)	123,085	108,353	(12)
Depreciation, depletion, amortisation and impairment	34,049	37,888	11	108,559	120,472	11
Other operating expenses	63,081	65,093	3	191,748	219,176	14
Change in inventory of finished goods and work in progress	12,503	10,889	(13)	(18,994)	(55,841)	194
Work performed by the enterprise and capitalised	(9,109)	(2,662)	(71)	(27,283)	(25,281)	(7)
<b>Total operating expenses</b>	<b>556,254</b>	<b>682,325</b>	<b>23</b>	<b>1,723,046</b>	<b>2,159,800</b>	<b>25</b>
<b>Operating profit</b>	<b>57,762</b>	<b>67,727</b>	<b>17</b>	<b>248,910</b>	<b>305,494</b>	<b>23</b>
Interest received	1,137	1,945	71	4,147	4,249	2
Dividends received	(22)	3	n.a.	260	28	(89)
Exchange gains and other financial income	16,171	1,658	(90)	32,078	4,188	(87)
<i>Total financial income</i>	<i>17,286</i>	<i>3,606</i>	<i>(79)</i>	<i>36,485</i>	<i>8,465</i>	<i>(77)</i>
Interest on borrowings	3,644	3,473	(5)	16,784	12,756	(24)
Interest on provisions	1,187	1,128	(5)	4,988	4,802	(4)
Write-off of financial investments	253	25	(90)	403	7	(98)
Exchange losses and other financial expenses	4,255	7,849	84	9,155	22,571	147
<i>Total financial expense</i>	<i>9,339</i>	<i>12,475</i>	<i>34</i>	<i>31,330</i>	<i>40,136</i>	<i>28</i>
<b>Financial expense/(gain), net</b>	<b>(7,947)</b>	<b>8,869</b>	<b>n.a.</b>	<b>(5,155)</b>	<b>31,671</b>	<b>n.a.</b>
Income from associates	(2,254)	(1,501)	(33)	(7,985)	(5,305)	(34)
<b>Profit before tax</b>	<b>67,963</b>	<b>60,359</b>	<b>(11)</b>	<b>262,050</b>	<b>279,128</b>	<b>7</b>
Income tax expense	13,279	4,531	(66)	47,817	30,780	(36)
<b>Net income for the year <sup>1</sup></b>	<b>54,684</b>	<b>55,828</b>	<b>2</b>	<b>214,233</b>	<b>248,348</b>	<b>16</b>
Attributable to:	<b>53,617</b>	<b>54,768</b>	<b>2</b>	<b>208,644</b>	<b>245,406</b>	<b>18</b>
Equity holders of the parent						
<sup>2</sup>	1,067	1,060	(1)	5,589	2,942	(47)
<b>Basic earnings per share (HUF)</b>	<b>520</b>	<b>539</b>	<b>4</b>	<b>2,023</b>	<b>2,406</b>	<b>19</b>
<b>Diluted earnings per share (HUF)</b>	<b>514</b>	<b>535</b>	<b>4</b>	<b>1,999</b>	<b>2,382</b>	<b>19</b>

1 As required by IAS 1 'Presentation of Financial Statements' (revised in 2005), the profit or loss attributable to minority interest and profit or loss attributable to equity holders of the parent should be disclosed on the face of the income statement as the allocation of the profit or loss for the period. 'Net income attributable to equity holders of the parent' has the same accounting content as the previously reported 'Net income'.

2 MOL's share in TVK's profits was calculated observing the 44.3% shareholding in the first quarter of 2004. Following the exercise of an option for a further 8.0% stake in TVK at the end of March 2004, MOL's shareholding in TVK increased to 52.3%. MOL's share in TVK's profits is calculated observing a 52.3% shareholding from the second quarter of 2004. Minority interest at Slovnaft was calculated at 30.0% until the end of January 2004 and at 1.6% thereafter, when public bid for remaining Slovnaft shares was successfully completed.



**APPENDIX II**  
**CONSOLIDATED BALANCE SHEETS FOR THE MOL GROUP**  
**PREPARED IN ACCORDANCE WITH IFRS**  
**AS AT 31 DECEMBER 2005**  
**Unaudited figures (in HUF millions)**

	<u>31 December 2004</u> <u>restated</u>	<u>31 December</u> <u>2005</u>	<u>Change %</u>
<b>Assets</b>			
<b>Non-current assets</b>			
Intangible assets . . . . .	5,401	40,620	652
Property, plant and equipment . . . . .	925,069	1,115,335	21
Investments . . . . .	118,167	127,230	8
Deferred tax asset . . . . .	36,210	33,143	(8)
Other non-current assets . . . . .	16,538	30,377	84
<b>Total non-current assets . . . . .</b>	<b>1,101,385</b>	<b>1,346,705</b>	<b>22</b>
<b>Current assets</b>			
Inventories . . . . .	172,450	265,136	54
Trade receivables, net . . . . .	218,950	289,413	32
Marketable securities . . . . .	—	519	n.a.
Other current assets . . . . .	53,969	64,914	20
Cash and cash equivalents . . . . .	88,126	64,166	(27)
<b>Total current assets . . . . .</b>	<b>533,495</b>	<b>684,148</b>	<b>28</b>
<b>Total assets . . . . .</b>	<b>1,634,880</b>	<b>2,030,853</b>	<b>24</b>
<b>Equity and Liabilities</b>			
<b>Equity attributable to equity holders of the parent</b>			
Share capital <sup>1</sup> . . . . .	94,634	94,020	(1)
Reserves . . . . .	430,966	644,096	49
Net income attributable to equity holders of the parent . . . . .	208,644	245,406	18
<b>Equity attributable to equity holders of the parent . . . . .</b>	<b>734,244</b>	<b>983,522</b>	<b>34</b>
Minority interest . . . . .	68,020	70,271	3
<b>Total equity . . . . .</b>	<b>802,264</b>	<b>1,053,793</b>	<b>31</b>
<b>Non-current liabilities</b>			
Long-term debt, net of current portion . . . . .	199,893	296,835	48
Provisions for liabilities and charges . . . . .	53,647	109,424	104
Deferred tax liability . . . . .	12,995	18,612	43
Other non-current liabilities . . . . .	53,181	5,178	(90)
<b>Total non-current liabilities . . . . .</b>	<b>319,716</b>	<b>430,049</b>	<b>35</b>
<b>Current liabilities</b>			
Trade and other payables . . . . .	319,491	445,478	39
Provisions for liabilities and charges . . . . .	46,038	11,244	(76)
Short-term debt . . . . .	54,384	2,486	(95)
Current portion of long-term debt . . . . .	92,987	87,803	(6)
<b>Total current liabilities . . . . .</b>	<b>512,900</b>	<b>547,011</b>	<b>7</b>
<b>Total equity and liabilities . . . . .</b>	<b>1,634,880</b>	<b>2,030,853</b>	<b>24</b>

<sup>1</sup> Compared to HAS, registered share capital in IFRS does not include issued MOL shares owned by BNP Paribas (treated as liability due to the connecting option structure) and is decreased by the face value of treasury shares.

# APPENDIX III

## MOVEMENTS IN SHAREHOLDERS' EQUITY FOR THE MOL GROUP FOR THE PERIOD ENDED 31 DECEMBER 2005 Unaudited figures (in HUF millions)

	Share capital	Share premium	Fair valuation reserve	Translation reserve	Equity component of compound debt instruments	Retained earnings	Total reserves	Net income	Total equity attributable to equity holders of the parent	Minority interest	Total equity
<b>Opening balance 1 January 2004</b>	<b>93,128</b>	<b>145,157</b>	<b>7,832</b>	<b>8,606</b>	<b>2,857</b>	<b>166,308</b>	<b>330,760</b>	<b>99,981</b>	<b>523,869</b>	<b>155,752</b>	<b>679,621</b>
Effect of IFRS 2 - Cost of share-based payment	—	—	—	—	—	(738)	(738)	(452)	(1,190)	—	(1,190)
<b>Restated opening balance 1 January 2004</b>	<b>93,128</b>	<b>145,157</b>	<b>7,832</b>	<b>8,606</b>	<b>2,857</b>	<b>165,570</b>	<b>330,022</b>	<b>99,529</b>	<b>522,679</b>	<b>155,752</b>	<b>678,431</b>
Transfer to reserves of retained profit for the previous year	—	—	—	—	—	99,529	99,529	(99,529)	—	—	—
Dividends	—	—	—	—	—	(5,952)	(5,952)	—	(5,952)	(787)	(6,739)
Net change in balance of treasury shares held	131	674	—	—	—	—	674	—	805	—	805
Cash flow hedges	—	—	555	—	—	—	555	—	555	—	555
Currency translation differences	—	—	—	(11,790)	—	—	(11,790)	—	(11,790)	(155)	(11,945)
Cost of share-based payment	—	—	—	—	—	1,298	1,298	—	1,298	—	1,298
Slovnaft acquisition	984	4,124	—	—	10,137	—	14,261	—	15,245	—	15,245
Redemption of convertible bonds	391	1,809	—	—	—	—	1,809	—	2,200	—	2,200
Issuance of convertible bonds	—	—	—	—	560	—	560	—	560	—	560
Business combinations	—	—	—	—	—	—	—	—	—	(92,379)	(92,379)
Retained profit for the period	—	—	—	—	—	—	—	208,644	208,644	5,589	214,233
<b>Closing balance 31 December 2004</b>	<b>94,634</b>	<b>151,764</b>	<b>8,387</b>	<b>(3,184)</b>	<b>13,554</b>	<b>260,445</b>	<b>430,966</b>	<b>208,644</b>	<b>734,244</b>	<b>68,020</b>	<b>802,264</b>
<b>Opening balance 1 January 2005</b>	<b>94,634</b>	<b>151,764</b>	<b>8,387</b>	<b>(3,184)</b>	<b>13,554</b>	<b>260,445</b>	<b>430,966</b>	<b>208,644</b>	<b>734,244</b>	<b>68,020</b>	<b>802,264</b>
Effect of IFRS 3 - Transfer of previously recorded negative goodwill to retained earnings	—	—	—	—	—	27,634	27,634	—	27,634	—	27,634
Effect of IFRS 3 - Associates	—	—	—	—	—	352	352	—	352	—	352
<b>Restated opening balance 1 January 2005</b>	<b>94,634</b>	<b>151,764</b>	<b>8,387</b>	<b>(3,184)</b>	<b>13,554</b>	<b>288,431</b>	<b>458,952</b>	<b>208,644</b>	<b>762,230</b>	<b>68,020</b>	<b>830,250</b>
Transfer to reserves of retained profit for the previous year	—	—	—	—	—	208,644	208,644	(208,644)	—	—	—
Dividends	—	—	—	—	—	(16,998)	(16,998)	—	(16,998)	(1,038)	(18,036)
Net change in balance of treasury shares held	(1,319)	(19,538)	—	—	—	—	(19,538)	—	(20,857)	—	(20,857)
Cash flow hedges	—	—	(4,709)	—	—	—	(4,709)	—	(4,709)	—	(4,709)
Fair value changes of financial instruments - Associates	—	—	(2,016)	—	—	—	(2,016)	—	(2,016)	—	(2,016)
Currency translation reserve	—	—	—	34,570	—	—	34,570	—	34,570	347	34,917
Cost of share-based payment	—	—	—	—	—	1,577	1,577	—	1,577	—	1,577
Slovnaft acquisition	338	1,622	—	—	(7,134)	—	(5,512)	—	(5,174)	—	(5,174)
Shares under repurchase obligation, net of deferred tax	—	—	—	—	(11,876)	—	(11,876)	—	(11,876)	—	(11,876)
Call option on treasury shares	—	(692)	—	—	—	—	(692)	—	(692)	—	(692)
Redemption of convertible bonds	367	1,694	—	—	—	—	1,694	—	2,061	—	2,061
Retained profit for the period	—	—	—	—	—	—	—	245,406	245,406	2,942	248,348
<b>Closing balance 31 December 2005</b>	<b>94,020</b>	<b>134,850</b>	<b>1,662</b>	<b>31,386</b>	<b>(5,456)</b>	<b>481,654</b>	<b>644,096</b>	<b>245,406</b>	<b>983,522</b>	<b>70,271</b>	<b>1,053,793</b>

# APPENDIX IV

## CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE MOL GROUP PREPARED IN ACCORDANCE WITH IFRS FOR THE PERIOD ENDED 31 DECEMBER 2005 Unaudited figures (in HUF millions)

	Q4 2004 restated	Q4 2005	Ch. %	FY 2004 restated	FY 2005	Ch. %
<b>Profit from operations</b>	<b>57,762</b>	<b>67,727</b>	<b>17</b>	<b>248,910</b>	<b>305,494</b>	<b>23</b>
<i>Adjustments to reconcile operating profit to net cash provided by operating activities</i>						
Depreciation, depletion, amortisation and impairment	33,692	37,888	12	107,244	120,472	12
Net unrealised loss recorded on financial instruments	85	86	1	400	1,435	259
Write-off of inventories	898	466	(48)	1,062	894	(16)
Damages and reversal of impairment losses on PP&E	473	(1,323)	n.a.	139	(2,100)	n.a.
Increase / (decrease) in provisions	22,254	(8,720)	n.a.	12,445	(39,477)	n.a.
Net (gain) / loss on sale of fixed assets	(225)	540	n.a.	(875)	656	n.a.
Write-off / (reversal of write-off) of receivables	9,604	1,113	(88)	10,118	(3,660)	n.a.
Unrealised foreign exchange gain on receivables and payables	(1,197)	(1,392)	16	(2,289)	(93)	(96)
Exploration and development costs expensed during the year	(65)	3,698	n.a.	8,547	11,754	38
Cost of share-based payment	72	177	146	681	964	42
Other non cash items	(43)	(80)	86	(559)	(747)	34
<b>Operating cash flow before changes in working capital</b>	<b>123,310</b>	<b>100,180</b>	<b>(19)</b>	<b>385,823</b>	<b>395,592</b>	<b>3</b>
(Increase) / decrease in inventories	43,258	36,262	(16)	(16,281)	(95,395)	486
Increase in accounts receivable	(45,079)	(67,021)	49	(57,758)	(62,493)	8
(Increase) / decrease in other receivables	6,989	13,566	94	(5,284)	(3,885)	(26)
Increase in accounts payable	33,731	53,531	59	21,735	78,246	260
Increase / (decrease) in other current liabilities	(17,604)	(40,055)	128	14,433	(974)	n.a.
Corporate taxes paid	(15,009)	(6,693)	(55)	(18,287)	(29,909)	64
<b>Net cash provided by operating activities</b>	<b>129,596</b>	<b>89,770</b>	<b>(31)</b>	<b>324,381</b>	<b>281,182</b>	<b>(13)</b>
Capital expenditures, exploration and development costs	(66,285)	(119,268)	80	(185,336)	(213,608)	15
Proceeds from disposals of fixed assets	1,016	1,303	28	2,947	3,820	30
Acquisition of subsidiaries, net cash	1,611	(38)	n.a.	(71,701)	(31,430)	(56)
Acquisition of joint ventures, net cash	120	—	n.a.	(507)	(712)	40
Acquisition of other investments	(1,497)	(20,000)	1,236	(1,987)	(20,000)	907
Proceeds from disposal of investments	1,316	28	(98)	13,956	86	(99)
Changes in loans given and long-term bank deposits	(865)	528	n.a.	586	(3,670)	n.a.
Changes in short-term investments	1,400	3	(100)	9,111	—	n.a.
Interest received and other financial income	719	2,904	304	6,283	5,823	(7)
Dividends received	1,086	62	(94)	1,837	829	(55)
<b>Net cash used in investing activities</b>	<b>(61,379)</b>	<b>(134,478)</b>	<b>119</b>	<b>(224,811)</b>	<b>(258,862)</b>	<b>15</b>
Issuance of long-term notes	350	185,933	53,024	2,600	185,933	7,051
Repayment of long-term notes	—	—	n.a.	(800)	(360)	(55)
Repayment of zero coupon notes	—	—	n.a.	(33,000)	(15,000)	(55)
Long-term debt drawn down	104,137	115,379	11	195,476	450,278	130
Repayments of long-term debt	(79,184)	(264,741)	234	(238,272)	(556,073)	133
Changes in other long-term liabilities	(312)	21	n.a.	71	(828)	n.a.
Changes in short-term debt	(61,304)	(6,087)	(90)	23,845	(56,599)	n.a.
Interest paid and other financial costs	(2,560)	(3,111)	22	(19,577)	(16,365)	(16)
Dividends paid to shareholders	(16)	(88)	450	(5,954)	(16,991)	185
Dividends paid to minority interest	(208)	(6)	(97)	(814)	(1,245)	53
Sale of treasury shares	—	—	n.a.	936	38	(96)
Repurchase of treasury shares	(1)	14	n.a.	(168)	(21,852)	12,907
<b>Net cash provided by financing activities</b>	<b>(39,098)</b>	<b>27,314</b>	<b>n.a.</b>	<b>(75,657)</b>	<b>(49,064)</b>	<b>(35)</b>
<b>Increase / (decrease) in cash and cash equivalents</b>	<b>29,119</b>	<b>(17,394)</b>	<b>n.a.</b>	<b>23,913</b>	<b>(26,744)</b>	<b>n.a.</b>
Cash at the beginning of the period	58,544	81,251	39	62,841	88,126	40
Cash effect of consolidation of subsidiaries previously accounted for as other investment	—	—	n.a.	1,185	1,131	(5)
Exchange differences on the consolidation of foreign subsidiaries	463	309	(33)	187	1,653	784
<b>Cash at the end of the period</b>	<b>88,126</b>	<b>64,166</b>	<b>(27)</b>	<b>88,126</b>	<b>64,166</b>	<b>(27)</b>

## APPENDIX V

### KEY IFRS FINANCIAL DATA BY BUSINESS SEGMENT (in HUF millions)

<b>NET EXTERNAL SALES REVENUES<sup>1</sup></b>	<b>Q4 2004 restated</b>	<b>Q4 2005</b>	<b>Ch. %</b>	<b>FY 2004 restated</b>	<b>FY 2005</b>	<b>Ch. %</b>
Exploration and Production .....	12,124	9,585	(21)	40,328	30,562	(24)
Refining and Marketing .....	367,492	421,846	15	1,183,106	1,492,442	26
Natural Gas .....	168,409	227,067	35	530,344	641,331	21
Petrochemicals .....	57,074	84,334	48	197,539	276,081	40
Corporate and other .....	1,546	2,076	34	4,513	6,534	45
<b>TOTAL .....</b>	<b>606,645</b>	<b>744,908</b>	<b>23</b>	<b>1,955,830</b>	<b>2,446,950</b>	<b>25</b>

<b>OPERATING PROFIT<sup>1</sup></b>	<b>Q4 2004 restated</b>	<b>Q4 2005</b>	<b>Ch. %</b>	<b>FY 2004 restated</b>	<b>FY 2005</b>	<b>Ch. %</b>
Exploration and Production .....	10,442	31,508	202	54,167	105,323	94
Refining and Marketing .....	44,041	40,354	(8)	158,902	178,426	12
Natural Gas * .....	17,954	(2,148)	n.a.	64,841	50,086	(23)
Petrochemicals .....	7,880	5,637	(28)	18,911	19,120	1
Corporate and other .....	(27,428)	(7,241)	(74)	(51,948)	(41,844)	(19)
Intersegment transfers <sup>2</sup> .....	4,873	(383)	n.a.	4,037	(5,617)	n.a.
<b>TOTAL .....</b>	<b>57,762</b>	<b>67,727</b>	<b>17</b>	<b>248,910</b>	<b>305,494</b>	<b>23</b>

\* Gas segment operating profit, in addition to subsidiary results, includes segment level consolidation effects.

<b>PROPERTY, PLANT, EQUIPMENT AND INTANGIBLES ACQUIRED</b>	<b>Q4 2004 restated</b>	<b>Q4 2005</b>	<b>Ch. %</b>	<b>FY 2004 restated</b>	<b>FY 2005</b>	<b>Ch. %</b>
Exploration and Production .....	10,796	2,282	(79)	22,820	20,303	(11)
Refining and Marketing .....	27,022	36,248	34	71,729	77,077	7
Natural Gas .....	10,555	73,360	595	13,982	86,800	521
Petrochemicals .....	10,428	5,787	(45)	57,834	11,060	(81)
Corporate and other .....	6,009	7,647	27	9,676	13,794	43
<b>TOTAL .....</b>	<b>64,810</b>	<b>125,324</b>	<b>93</b>	<b>176,041</b>	<b>209,034</b>	<b>19</b>

<b>DEPRECIATION</b>	<b>Q4 2004 restated</b>	<b>Q4 2005</b>	<b>Ch. %</b>	<b>FY 2004 restated</b>	<b>FY 2005</b>	<b>Ch. %</b>
Exploration and Production .....	5,343	12,054	126	22,581	30,389	35
Refining and Marketing .....	19,458	18,580	(5)	56,173	59,699	6
Natural Gas .....	2,333	2,096	(10)	6,594	6,845	4
Petrochemicals .....	3,564	2,958	(17)	12,292	14,005	14
Corporate and other .....	3,351	2,200	(34)	10,919	9,534	(13)
<b>TOTAL .....</b>	<b>34,049</b>	<b>37,888</b>	<b>11</b>	<b>108,559</b>	<b>120,472</b>	<b>11</b>

<b>TANGIBLE ASSETS</b>	<b>31/12/2004</b>	<b>31/12/2005</b>	<b>Ch. %</b>
Exploration and Production .....	92,917	147,128	58
Refining and Marketing .....	465,134	516,258	11
Natural Gas .....	112,095	192,327	72
Petrochemicals .....	193,538	202,193	4
Corporate and other .....	61,385	57,429	(6)
<b>TOTAL .....</b>	<b>925,069</b>	<b>1,115,335</b>	<b>21</b>

1 Net external sales revenues include only sales to third parties outside the MOL Group; operating profit includes the profit arising both from sales to third parties and transfers to the other business segments. Exploration and Production transfers domestically produced crude oil, condensates and LPG to Refining and Marketing and natural gas to the Natural Gas segment. Refining and Marketing transfers chemical feedstock, propylene and isobutane to Petrochemicals and Petrochemicals transfers various by-products to Refining and Marketing. The internal transfer prices used are based on prevailing market prices. The gas transfer price equals the average import price. Divisional figures contain the results of the fully consolidated subsidiaries engaged in the respective divisions.

2 This line shows the effect on operating profit of the change in the amount of unrealised profit deferred in respect of transfers between segments. Unrealised profits arise where the item transferred is held in inventory by the receiving segment and a third party sale takes place only in a subsequent quarter. For segmental reporting purposes the transferor segment records a profit immediately at the point of transfer. However, at the company level profit is only reported when the related third party sale has taken place. In previous years this unrealised profit effect was not shown separately, but was included in the reported segmental result of the receiving segment. Unrealised profits arise principally in respect of transfers from Exploration & Production to Natural Gas and from Refining & Marketing to Petrochemicals.

**APPENDIX VI**  
**MAIN EXTERNAL PARAMETERS**

	<u>Q4 2004</u>	<u>Q4 2005</u>	<u>Change %</u>	<u>FY 2004</u>	<u>FY 2005</u>	<u>Change %</u>
Brent dated (USD/bbl) .....	43.9	56.9	30	38.3	54.5	42
Ural Blend (USD/bbl) .....	38.8	54.1	39	34.5	50.9	47
Premium unleaded gasoline 50 ppm (USD/t)* .....	414.4	536.4	29	394.3	529.8	34
Gas oil—ULSD (USD/t)* .....	480.7	559.3	16	382.7	537.8	41
Naphtha (USD/t)* .....	424.2	503.4	19	373.4	472.3	26
Ethylene (€/t) .....	700	825	18	631	739	17
Integrated petrochemical margin (€/t) .....	540	459	(15)	408	418	2
HUF/USD average .....	189.9	211.8	12	202.6	199.7	(2)
SKK/USD average .....	30.5	32.4	6	32.2	31.1	(4)
3m USD LIBOR (%) .....	2.23	4.28	92	1.54	3.5	127
3m EURIBOR (%) .....	2.16	2.34	8	2.11	2.18	3
3m BUBOR (%) .....	10.02	6.23	(38)	11.31	7.06	(38)
	<u>Q3 2005</u>	<u>Q4 2005</u>	<u>Change %</u>	<u>Q4 2004</u>	<u>Q4 2005</u>	<u>Change %</u>
HUF/USD closing .....	207.6	213.6	3	180.3	213.6	18
HUF/€ closing .....	249.6	252.7	1	245.9	252.7	3

\* FOB Rotterdam parity

## APPENDIX VII

### EXTRAORDINARY ANNOUNCEMENTS IN 2005

<u>Announcement date</u>	
4 January	MOL signed a purchase agreement to increase its ownership to 100% in MOL Austria Handels GmbH
6 January	Mr Ray Leonard has joined MOL to lead its international upstream activities
10 January	New oil and gas discovery in Pakistan
18 January	Alliance Capital Management L.P. change in influence
20 January	MOL has concluded a long-term supply agreement with Lukoil
31 January	Material factors affecting MOL Group earnings
23 February	MOL increased stake in Kazakh exploration block and takes over operations for the exploration phase
24 and 25 February	Treasury share transactions
3 March	Organisational changes in MOL Exploration and Production Division
17 March	Order to purchase treasury shares
17,21,22,23,29,30 and 31 March	Purchase of treasury shares
29 March	Personnel change at MOL
1 April	Redemption of MOL 2005/A notes at maturity
6,8,12,14,15,18,22,28 and 29 April	Purchase of treasury shares
11 April	MOL and INA submitted binding bid for the acquisition of Energopetrol
28 April	Personnel changes at Slovnaft
29 April	MOL has new partners in the ZMB project
2,4,5,6,9,10,11,12,13, 19,23 and 25 May	Purchase of treasury shares
13 May	MOL's Board of Directors has decided on the dividend payment date
17 and 18 May	Share transactions of MOL managers
23 May	MOL signs a €700 million revolving facility agreement, the largest bank facility to date in Hungary
25 May	Share distribution for the MOL management
27 May	Dividend announcement of the Board of Directors of MOL Plc. dividend for the 2004 financial year
21 and 27 June	Share transactions of MOL managers
28 June	Purchase of treasury shares
28 June	The Hungarian Energy Office approved the partial sale of MOL's gas business
1 and 14 July	Share transactions of MOL managers
12 July	Purchase of treasury shares
28 July	MOL mandate for Eurobond transaction
25 August	MOL plc. announcement channels
31 August	Current status of exploration in Federovskoye Block
1 September	The Board of Directors of MOL decided on the capital increase of the company
2 September	MOL submitted a binding bid for the 51 per cent stake in Tüpras
14 September	MOL has new partner in the ZMB project
15 September	The Court of Registration has registered the capital increase of MOL
16 September	Credit rating publication



<u>Announcement date</u>	
26 September	Change in the share ownership of senior executives
27 September	Slovnaft received fine from the Slovak Finance Minister
27 September	MOL issues Eurobond
28 September	MOL divests its Polish retail network
29 September	Confirmation of the acting managing director of the Retail Services division of MOL Group
3 October	MOL signed agreements for its €750 million Eurobond
3 October	Gas price increase
19 October	Share sale of a MOL manager
28 November	Setting the pace from “New Europe”
1 December	MOL signed call option agreement with APV Rt. on treasury shares
21 December	Change in the regulation of the gas business
21 December	Conditional EU Commission approval for gas business transaction between MOL and E.ON-Ruhrgas
23 December	Agreement on the extension of production licences for 12 mining sites and future royalty obligations
23 December	Agreement with the Ministry of Economy and Transport on the transfer of ownership of cushion gas
27 December	Public bid for “C” series shares
27 December	Agreement regarding option rights on treasury shares
27 December	Announcement on the change in the influence
28 December	Closing of the public bid for “C” series shares and change in the number of treasury shares
29 December	MOL Treasury share transaction

## APPENDIX VIII

### SHAREHOLDER STRUCTURE (%) AND TREASURY SHARES

Shareholder groups	31 Dec 2003	31 Dec 2004	31 March 2005	30 June 2005	30 Sept 2005	31 Dec 2005
Foreign investors (mainly institutional) .....	36.4	56.0	56.6	56.6	58.3	58.2
OMV .....	9.1	10.0	10.0	10.0	10.0	10.0
Slovbena, Slovintegra .....	9.8	8.0	7.7	7.3	6.9	0.0
BNP Paribas .....	0.0	0.0	0.0	0.0	0.0	6.9
ÁPV Rt. (Hungarian State Privatisation and Holding Company) .....	22.7	11.8	11.8	11.8	11.7	11.7
Hungarian institutional and private investors .....	9.5	4.2	4.0	3.3	2.7	5.8
Depositories .....	8.4	5.1	4.6	4.4	3.6	0.6
MOL Rt. (treasury shares) .....	4.0	4.9	5.3	6.6	6.8	6.8
Unregistered shares .....	0.1	0.0	0.0	0.0	0.0	0.0

On 1 September 2005, the Board of Directors passed a resolution on the increase of the share capital of the company from HUF 108,618,776,578 to HUF 108,985,250,578 as part of the convertible bond programme approved by the EGM held on 1 September 2003. On 15 September 2005, the Court of Registration registered the capital increase.

According to the Share Register, beside ÁPV Rt. with 12.7%, only 3 shareholders had more than 5% influence over MOL Rt. At 30 September 2005: JP Morgan Chase Bank, the depository bank for MOL's GDR programme, which had 14.0%, BNP Paribas having 7.5 %, and OMV having 10 % influence over MOL. Please note that influence is calculated as the number of shares held to total shares less treasury stock. Furthermore, according to the Articles of Association, influence is limited at 10% for any single shareholder group, with the exception of ÁPV Rt., as the representative of the Hungarian State. JP Morgan Chase Bank, as the depository bank for MOL's GDR programme does not qualify as a shareholder group for the purpose of influence.

Slovintegra-Slovbena ("SISB") shareholder group, BNP Paribas SA ("BNP") and MOL Plc. signed an agreement on 23 December 2005 regarding option rights on MOL's treasury shares. According to this agreement, MOL has appointed BNP to exercise its call option on shares held by SISB. On 23 December 2005 BNP Paribas exercised its option to purchase 7,552,874 "A" series MOL shares from SISB and as a result its influence increased to 7.45%. Following completion of the transaction, MOL received an American call option on 7,552,874 "A" series MOL shares from BNP, in addition to BNP received a European put option on the same number of MOL shares from MOL. For both options the expiration date is 18 December 2006 and the exercise price is HUF 7,645 per share. After the transaction the influence of Slovintegra-Slovbena decreased from 7.45% to 0%.

In December 2005, MOL signed call option agreement with APV Rt. (State Privatisation and Holding Company). According to the agreement, MOL is entitled to purchase 10,898,525 "A" Series MOL shares (representing 10% of MOL's registered capital) owned by APV Rt. between 1 May and 27 October 2006. If the option is exercised, the purchase price to be paid is the higher of the weighted average price of MOL shares for 90 trading days on the Budapest Stock Exchange prior to the signing or the exercise of the option. If MOL exercises the call option, it undertakes selling restrictions on the shares purchased until 31 December 2015.

On 13 September 2004 "The Capital Group Companies, Inc." announced that it owned 5,713,830 ordinary shares. On 16 December 2004 FMR Corporation ("Fidelity") announced that its influence increased to 5.06%, on 18 January 2006 Fidelity announced that its influence decreased to 4.76%. On 18 January 2005 "Alliance Capital Management L.P." announced that its ownership decreased from 7,143,180 to 4,211,208 shares. These changes have not been registered in the share register.

The number of "C" series treasury shares held by MOL increased from 369 to 578 as a result of 209 shares acquired during the public bid from Slovintegra-Slovbena. There was no change in the number of "A" series Treasury shares held by MOL (7,411,696).

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

#### Changes in organisation and senior management:

From 1 March 2005, MOL's Exploration and Production Division operates under a new organisational structure. The aim of the new organisational and operational concept is to provide a solid base for the future

success in the area of international growth. The change includes the creation of four major sectors under the direct control of the Exploration and Production Managing Director: Upstream Portfolio Development, International Exploration and Production, Central European E&P and Technology and Operations Centre. Upstream Portfolio Development, following the closing of the transaction of the gas business partnership, will supervise MOL's midstream natural gas portfolio.

From 1 April 2005, Dr. József Szórád relinquished his position as Managing Director of the Retail Services division. Dr Szórád continues his work at MOL as a chief advisor to the Chairman-CEO. Mr. Slavomir Jankovic, previously the manager of MOL's retail business in the Southern Region, was appointed to the position of acting Managing Director of the Retail Services division from 1 April, 2005. In September 2005, the Board of Directors confirmed the appointment of Mr Slavomir Jankovic as Managing Director of the Retail Division as of 3rd of October 2005.

### **3. THE FOLLOWING TEXT IS TAKEN FROM AN ANNOUNCEMENT MADE TO THE BUDAPEST STOCK EXCHANGE ON 7 FEBRUARY, 2006**

#### **MOL announced an invitation to bid for the purchase of biodiesel component**

**It is not a newfangled idea that oil reserves of our planet are rather limited. At this stage there is reason to worry about, but it makes good sense to think it over how we can substitute diminishing resources of mineral origin. In this process, MOL acts as a pacesetter: actions taken include the announcement of an invitation to bid for the supply of biodiesel component or its feedstock, straight vegetable oil. To discuss the relevant issues and possible answers, MOL organised not a conventional press conference, but an interactive press forum.**

The new diesel engine of Rudolf Diesel exhibited at the Y1900 World Fair ran on vegetable oil, however, later on, this diesel engine fuel was replaced by gasoil produced from crude oil of increasingly abundant reserves. 5-10 years ago, primarily it was Brazil to launch programs focused on the replacement of gasoline—they used their domestic sugarcane production to produce bio-alcohol as a motor fuel of agricultural origin. However, in recent years EU developed its own biofuel directive that sets the expected ratio of bio components to be blended into conventional motor fuels. In this area, the United States made more significant progress and it clearly shows that the spread of biofuels is a global process.

#### **Running out and difficult to access**

We all know that oil is a mineral resource of diminishing reserves that will potentially dry up in the next 25-30 years. Namely, based on the estimates made in 1980 based on the oil volumes consumed up to that date, reserves were expected to run out in 1991; but according to the latest technology, we are aware of additional volumes that equal to what was known to be available 25 years ago. In spite of the increasing number of exploratory wells, this reserve increase gradually flattens and only reserves of limited accessibility and minor reserves will remain.

It will really be difficult to access these resources, as the reserves of stable market economies are running out, while other countries exposed to armed conflicts and terrorist attacks may increase their oil production volumes by as much as 85% by Y2015. Oil supply is exposed to increased risks, including the nuclear power debate between Western countries and Iran.

#### **Required by transportation only**

The two oil price booms substantially realigned the oil consumption patterns. While the world consumption decreases due to reasons like the transformation of plants to use gas instead of oil-powered solutions, transportation uses the same or even increased fuel volumes. Road and air transport covers 70% of the total oil consumption. And within this segments, the ratio of motor oil consumption is 93%. It plays a significant role in the heavy increase of carbon-dioxide emission; Asia and North-America increase their annual pollution level by the total emission volume of Central-Eastern Europe. There is no doubt that the oil consumption of transportation must first be reduced, as other sectors of the economy consume limited volumes only.

Various alternative sources of energy experience favourable development: safe power plants and windmill farms are built, and by using advanced technologies, even coal became a more environment- friendly source of energy. However, these are about generating electric energy that could not be effectively carried by vehicles. Gasoline-electric hybrid cars cannot fully eliminate this problem and are rather expensive.

#### **Producing motor fuel from rapeseed oil**

Biofuel is a promising solution that could substantially reduce the present level of carbon-dioxide emission. Processing of annually reproduced agricultural materials qualified as renewable sources of energy may bring

favourable results. By pressing, biodiesel with characteristics similar to that of gasoil can be produced from sugarcane, corn, sunflower-seed oil, palm oil or the locally more widespread rapeseed oil. It is important to note that in addition to the useful biodiesel component content of rapeseed oil that represents more than 33%, two thirds of this oil type is middling-forage and some glycerine that can and should be used.

On the basis of the relevant EU directive, from January 2008, a lower excise duty is payable after gasoil products with a sulphur content of 10 ppm, if their bio component content reaches 4.4%. MOL believes it is essential to offer motor fuels with bio components, and for this reason, started producing an octane enhancer component of bio-ethanol content for its motor fuels in June 2005—70% of which already qualifies as bio component. On January 19, MOL announced an invitation to bid for the supply of 150-200 kt/year of biodiesel component for biodiesel produced by petrochemical technology or straight vegetable oil that is the feedstock of the same.

#### **What is possible vs. impossible?**

As part of the tendering procedure, a press forum was held and chaired by Sándor Kántor, Strategy and Business Communication Director, where Artúr Thernesz, Development Director and László Varró, Chief Economist answered the questions raised by journalists. During this dialogue, it was discussed that due to precipitation, it is not possible to blend ethanol with gasoline and due to gum-formation, used cooking oil is not suitable for diesel engines. It was also stated that MOL expects intense competition during the tender, as areas associated with biofuel production already experience rapid growth.

#### **4. THE FOLLOWING TEXT IS TAKEN FROM AN ANNOUNCEMENT MADE TO THE BUDAPEST STOCK EXCHANGE ON 13 JANUARY 2006**

##### **“MOL and E.ON-Ruhrigas International have agreed on the closing of the gas partnership transaction**

On 12 January 2006, following the approval of the European Commission, MOL Hungarian Oil and Gas Rt. (MOL) and E.ON Ruhrgas International AG (ERI) agreed, that the closing of the partial sale of MOL's midstream gas business will take place on 31 March 2006. MOL and ERI signed an agreement in November 2004 on the sale of a 75% stake less one share in MOL Földgázátroló Rt. (wholesale, marketing and trading, “WMT”) and in MOL Földgázátroló Rt. (“Storage”) and 50% stake in Panrusgaz Magyar-Orosz Gázipari Rt (“Panrusgaz”). The Panrusgaz sale requires the consent of the other Panrusgaz shareholders.

Considering also the requirement set by the European Commission to fully divest WMT and Storage, MOL decided to sell 100% stake in WMT and Storage to ERI. The sale of the additional 25% plus one share stakes is still subject to the approval of the Hungarian Energy Office.

Due to the requirements set by the European Commission and changes in the industrial and regulatory environment, the parties have modified the original sale and purchase agreement. The final purchase price is dependent on the actual level of debt and working capital on the date of the closing and is subject to a number of price adjustment items. Based on the forecast 31 March 2006 balance sheet, the purchase price adjusted by the maximum amount of all potential future financial liabilities of MOL related to this transaction is €300 million for the 100% ownership stakes in WMT and Storage. In addition to this ERI will make a payment of €600 million to assume 100% of the debt of Storage and WMT (also based on a forecast 31 March 2006 balance sheet). Through the adjustment mechanism, the purchase price can potentially be increased by a maximum amount of €290 million. The settlement of these price adjustments will take place semi-annually until the end of 2009.

In line with the announced 2006-2010 strategy MOL intends to utilise the capital released from the gas midstream businesses, in its key upstream and downstream business segments, on value creating investments to support the continued growth of the Group.”

#### **5. THE FOLLOWING TEXT IS TAKEN FROM AN ANNOUNCEMENT MADE TO THE BUDAPEST STOCK EXCHANGE ON 9 JANUARY 2006**

##### **“MOL appoints the Bank of New York as successor depositary bank for GDR programme**

MOL Hungarian Oil and Gas Plc., announced today that it appointed the Bank of New York as successor depositary bank for its Global Depositary Receipt (GDR) programme effective 9 January, 2006. MOL's global depositary receipts are listed on Luxembourg Stock Exchange (symbol MOL LX), traded on International Order Book (IOB) London (Reg S/GDR market under the ticker symbol MOLD) and on the PORTAL in the US 144A market (under the ticker symbol MOLMYP).

Each MOL depositary receipt (CUSIP 608464202 for the GDR programme and 608464103 for the 144A programme) represents one registered share traded on the Budapest Stock Exchange.”

**6. THE FOLLOWING TEXT IS TAKEN FROM AN ANNOUNCEMENT MADE TO THE BUDAPEST STOCK EXCHANGE ON 29 DECEMBER 2005**

**“MOL Treasury share transaction**

MOL Hungarian Oil and Gas Plc. announces that on 29 December 2005 it sold and at the same time repurchased 7,411,696 “A” series MOL shares at a price of HUF 19,750 through ING Bank Ltd. on the Budapest Stock Exchange.”

**7. THE FOLLOWING TEXT IS TAKEN FROM AN ANNOUNCEMENT MADE TO THE BUDAPEST STOCK EXCHANGE ON 28 DECEMBER 2005**

**“Closing of the public bid for “C” series shares and change in the number of treasury shares**

MOL Hungarian Oil and Gas Plc. hereby announces that following the 28 December 2005 closing of the public bid for all “C” series MOL shares made on 27 December 2005, it acquired 209 “C” series shares at HUF 20,000 per share. As a results of the transaction MOL became the owner of all, 578 “C” series MOL shares.”

**8. THE FOLLOWING TEXT IS TAKEN FROM AN ANNOUNCEMENT MADE TO THE BUDAPEST STOCK EXCHANGE ON 27 DECEMBER 2005**

**“Announcement on the change in the influence**

Based on the announcement made on 27 December 2005 by MOL Hungarian Oil and Gas Plc. about the option rights on treasury shares, BNP Paribas and the Slovintegra-Slovbena shareholder group announced the change in their influence. On 23 December 2005 BNP Paribas exercised its option and as a result its ownership increased from 8,806 “A” series MOL shares to 7,561,680 “A” series MOL shares, thus its influence increased to 7.45%. At the same time with the sale of 7,552,874 “A” series MOL shares the influence of Slovintegra-Slovbena decreased from 7.45% to 0%.”

**9. THE FOLLOWING TEXT IS TAKEN FROM AN ANNOUNCEMENT MADE TO THE BUDAPEST STOCK EXCHANGE ON 27 DECEMBER 2005**

**“Agreement regarding option rights on treasury shares**

MOL Hungarian Oil and Gas Plc. hereby announces that the Slovintegra-Slovbena (“SISB”) shareholder group, BNP Paribas SA (“BNP”) and MOL Plc. signed an agreement on 23 December 2005 regarding option rights on MOL’s treasury shares.

According to this agreement, MOL has appointed BNP to exercise its call option on shares held by SISB, and BNP exercises its option to purchase 7,552,874 “A” series MOL shares from SISB.

Following completion of the transaction, MOL will receive an American call option on 7,552,874 “A” series MOL shares from BNP, in addition to BNP will receive a European put option on the same number of MOL shares from MOL. For both options the expiration date is 18 December 2006 and the exercise price is HUF 7,645 per share. The exercise price was based on option agreements concluded between MOL and SISB in November 2002.”

**10. THE FOLLOWING TEXT IS TAKEN FROM AN ANNOUNCEMENT MADE TO THE BUDAPEST STOCK EXCHANGE ON 27 DECEMBER 2005**

**“Public bid for “C” series shares**

MOL Hungarian Oil and Gas Plc. hereby announces that it has made a public bid for all “C” series MOL shares on 27 December 2005. “C” series shares are currently held exclusively by MOL Plc. and the Slovintegra-Slovbena shareholder group.”

**11. THE FOLLOWING TEXT IS TAKEN FROM AN ANNOUNCEMENT MADE TO THE BUDAPEST STOCK EXCHANGE ON 23 DECEMBER, 2005**

**Agreement on the extension of production licences for 12 mining sites and future royalty obligations**

MOL Hungarian Oil and Gas Company hereby announces, that on 22 December 2005, in line with Act XLVIII of 2003 on Mining, it signed an agreement with the Minister of Economy and Transport on the extension of production licences for 12 mining sites until 2010.

According to the agreement, MOL will pay between 1.02 and 1.05 times the present royalty rate for all hydrocarbon produced at the current mining sites until 2020. The rate of mining royalty for natural gas put into development before 1998 will continue to decline gradually.

Given that the multiple applied in the agreement is less than the maximum 1.2 multiple set in the Mining Act, MOL will make a one-off payment of HUF 20 billion in 2005. As a result of the agreement, MOL will operate its Hungarian Upstream business in a more transparent regulatory environment, and will make an appropriate return on its investments.

**12. THE FOLLOWING TEXT IS TAKEN FROM AN ANNOUNCEMENT MADE TO THE BUDAPEST STOCK EXCHANGE ON 23 DECEMBER 2005**

**“MOL Natural Gas Storage Plc. signed an agreement with the Ministry of Economy and Transport on the transfer of ownership of cushion gas**

On 22 December 2005, MOL Natural Gas Storage Plc. (“MOL Storage”) signed an agreement with the Ministry of Economy and Transport on the transfer of ownership of approximately three billion cubic meters of cushion gas for a HUF 60 billion royalty payment.

MOL Storage Plc. guarantees to the Hungarian State that it will not produce the cushion gas obtained during the transaction for 16 years. In return, the Hungarian State guarantees a return to MOL equivalent to its Group return target.

The majority of the cushion gas, necessary for the normal operation of the underground gas storage business, is currently owned by the Hungarian State. After the closing of the transaction, MOL Storage will own of all of the cushion gas, which is necessary for the operation of the four largest underground storage facilities.”

**13. THE FOLLOWING TEXT IS TAKEN FROM AN ANNOUNCEMENT MADE TO THE BUDAPEST STOCK EXCHANGE ON 21 DECEMBER 2005**

**“Change in the regulation of the gas business**

MOL Hungarian Oil and Gas Company hereby announces that the Minister of Economy and Transport, in line with his obligation to set the gas price in every six months, published the new wholesale and end user prices as of 18 January 2006. The wholesale price of the natural gas is expected to be increased by an average 10%. The gas price increase has been triggered by the continuous increase in the import gas price and the strengthening of the US dollar against the HUF.

According to our calculation, if the import gas price and foreign exchange rates develop in line with expectations, the current gas price increase will not cover the import costs of the public utility wholesale company in the first half of 2006.

Along with the price setting for the first quarter of 2006 the Minister of Economy and Transport issued a decree on the natural gas price regulation to be in force until 31 December 2009, which makes the price regulation more transparent than earlier. The price setting will be made on a quarterly basis in contrast to the current half year period, as a result the price setting can follow more easily the market development. Paralelly the regulated return will change to 6.9% from the earlier 8.5% in transmission and to 8.4% from 10% in storage serving public utility supply. In case of MOL Földgázellátó Rt. (wholesale, marketing and trading) new element is a 0.5% return on the Cost of goods purchased for resale. At the same time there is a change in the decree on system access tariffs (transport, storage). The new tariffs have already been set in line with the new returns defined in the regulation mentioned above.”

**14. THE FOLLOWING TEXT IS TAKEN FROM AN ANNOUNCEMENT MADE TO THE BUDAPEST STOCK EXCHANGE ON 1 DECEMBER 2005**

**“MOL signed call option agreement with APV Rt. on treasury shares**

MOL Hungarian Oil and Gas Company hereby announces that on 1 December 2005 it signed call option agreement with APV Rt. (State Privatisation and Holding Company). The agreement will enter into force upon the approval of APV’s Board of Directors, which is expected in December 2005.

According to the agreement, MOL is entitled to purchase 10,898,525 “A” Series MOL shares (representing 10% of MOL’s registered capital) owned by APV Rt. during two option periods, between 10 and 30 December 2005 and between 1 May and 27 October 2006. During the first option period, MOL can exercise its option right for maximum 3,269,558 “A” Series MOL shares (representing 3% of MOL’s registered capital), while in the second option period the option right can be exercised for all shares. If the option is exercised, the purchase price to be paid is the higher of the weighted average price of MOL shares for 90 trading days on the Budapest Stock



Exchange prior to the signing or the exercise of the option. If MOL exercises the call option, it undertakes selling restrictions on the shares purchased until 31 December 2015.

Zsolt Hernádi, Executive Chairman of MOL commented:

“The opportunity to purchase the shares by MOL provides the Company with stability to implement its long-term strategy and reduces the risk resulting from marketing the significant share package, both for the Hungarian State and the other shareholders of MOL. In addition, the option agreement ensures appropriate financial flexibility for the execution of MOL’s growth strategy, already announced.”

## **15. THE FOLLOWING TEXT IS TAKEN FROM AN ANNOUNCEMENT MADE TO THE BUDAPEST STOCK EXCHANGE ON 28 NOVEMBER 2005**

### **“SETTING THE PACE FROM “NEW EUROPE”**

#### **MOL Group’s New Strategic and Financial Targets for the Period 2006-2010**

MOL’s 2006-2010 strategy is to maximise the potential from growth in “New Europe” while providing superior returns. Drawing on the Company’s disciplined transaction track record and proven transformation and integration skills, MOL will continue to develop the group with a focus on growth and efficiency, while at the same time closely managing risk at the group level.

#### *Key strategic targets\**

- Group EBITDA over USD 3.5 billion
- Group ROACE\*\* of 15%
- Efficiency improvement of USD 285 million

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\* based on a set of market assumptions

\*\* NOPLAT based

Zsolt Hernádi, Executive Chairman of MOL commented:

“Based on our successful regional partnerships, well-timed investments in quality assets and the consequent execution of our efficiency and synergy plans we achieved our 2005 strategy targets well ahead of schedule. In the course of the three year period MOL became one of the best performing integrated energy companies in the world. Based on our proven capabilities in the period to 2010 our aim is to generate outstanding growth while maintaining the Group’s level of returns above that of our peers”

#### *MOL has set the following targets to achieve these goals.*

- Growth: MOL growth targets have been developed with due consideration given to the maintenance of the balance of MOL’s business portfolio. MOL aims to increase upstream integration by tripling hydrocarbon production and to double refined product sales. MOL plans to achieve the ambitious growth targets set for the period by dedicating USD 5.4 billion for organic CAPEX and through the continued application of a disciplined approach to inorganic opportunities.
- Efficiency: Further improvement of operating efficiency by creating an annual total efficiency improvement of USD 285 million by 2010. This includes significant cost savings and better utilisation of assets.
- Financial flexibility: MOL intends to keep its gearing ratio below 30% and maintain its investment grade credit rating. The Company plans to gradually increase the absolute level of dividend to reach the dividend payout ratio of peers (currently 30% of normalised earnings) by 2010.

In order to reach the aforementioned targets, we have developed the following strategies for our businesses:

#### **Upstream – Build a focused but robust core portfolio**

In the Exploration & Production segment MOL intends to triple its hydrocarbon production to 300,000 boe per day and triple the total oil and gas reserves to 900 million boe by 2010 whilst maintaining reserve replacement costs under USD 6.5 boe. In the Central Eastern European region MOL aims to expand its exploration and production activity jointly with INA and through new corporate acquisitions. In the international

arena MOL intends to develop a strong and focused portfolio applying rigorous evaluation and portfolio management methods. This includes at least one new core region, in addition to the existing ones, in order to secure long-term reserve growth and at the same time maintaining a balance between exposure to exploration and development & production projects. As a result of these actions the company intends to increase the contribution of upstream to Group EBITDA to over 40%.

#### **Downstream – Develop further the competitive quality refinery pool and an efficient retail network**

In the Refining & Marketing segment, MOL's aim is to maintain quality leadership and leverage it to new growth markets. Therefore the company intends to invest in quality-related upgrades in the core markets in order to improve product yields and will also take advantage of appropriate acquisitive opportunities. The Company intends to increase refined product sales to reach 500,000 barrels per day at the same time to optimise the downstream value chain to maximise profit through the extension of the supply chain philosophy within the growing Group.

MOL targets an efficient group retail network of 1,500 stations by 2010 within its refineries' supply radius.

#### **Petrochemical business – Leverage investments of the past three years**

In the Petrochemical segment, leveraging on its quality asset base, competitive cost structure and favourable geographic position, MOL's aim is to strengthen its traditional niche market position on Western markets, while developing its presence in strategic Eastern growth markets.

#### **Gas transmission – Generate additional non-regulated transit income**

In the Gas business, MOL's objective is to maintain its position in transmission, which provides not only stable cash generation but growth opportunities. The company's intention is to increase its participation further in the regional gas transit business, utilising its unique geographical location.

In summary, MOL is confident that its current capabilities, its proven track record and new strategy provide it with a solid basis from which it can meet future challenges. MOL's vision is to set the pace from "New Europe" by achieving outstanding growth, above-average profitability and superior returns from its portfolio."

### **16. THE FOLLOWING TEXT IS TAKEN FROM AN ANNOUNCEMENT MADE TO THE BUDAPEST STOCK EXCHANGE ON 3 OCTOBER 2005**

#### **"Gas price increase**

MOL Hungarian Oil and Gas Company hereby announces that the Minister of Economy and Transport will increase the end-user price of natural gas sold to non-household consumers by an average of 19% from 1 November 2005. Volumes sold to non-household consumers represent roughly two-thirds of MOL's annual gas sales volume. The extraordinary gas price increase has been triggered by the continuous increase in the import gas price.

According to our calculation, if the import gas price and foreign exchange rates develop in line with expectations, the current gas price increase will cover the justified costs of the public utility wholesale company in the non-household consumer segment in Q4 2005."

### **17. THE FOLLOWING TEXT IS TAKEN FROM AN ANNOUNCEMENT MADE TO THE BUDAPEST STOCK EXCHANGE ON 3 OCTOBER 2005**

#### **"MOL signed agreements for its €750 million Eurobond**

MOL Hungarian Oil and Gas Public Limited Company, rated BBB- (Standard & Poor's), hereby announces that it signed the agreements related to its €750 million fixed rate note on 30 September 2005. The notes are due on 5th October 2015, were priced at 70bp above mid-swap rates, and will pay an annual coupon of 3.875% and are in the denomination of €50,000 each. The notes will be listed on the Luxembourg Stock Exchange.

The notes were offered as part of a private placement.

The size, tenor and price achieved for the Eurobond issue clearly demonstrate the level of investor confidence in both the company's financial strength and its strategy in the region. At €750mn, MOL's issue represents the largest ever non-sovereign benchmark for Central Europe. The order book exceeded €2.2bn, with over 200

accounts from 31 countries. The transaction represents the first ever BBB- rated issuer to have debuted beyond the 7-year sector. The launch spread of midswap+70bp represents the tightest ever spread for a BBB- credit in the 10-year sector. Under no circumstances shall this notice constitute an offer to sell, or issue or the solicitation of an offer to buy or subscribe for notes.”

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