PROSPECTUS

MOL Hungarian Oil and Gas Public Limited Company

EUR 750,000,000 3.875 per cent. Notes due 2015

Issue Price: 99.561 per cent.

The EUR 750,000,000 3.875 per cent. Notes due 2015 (the **Notes**) are issued by MOL Hungarian Oil and Gas Public Limited Company (the **Issuer** or **MOL**).

The Issuer may, at its option, redeem all, but not some only, of the Notes at any time at par plus accrued interest, in the event of certain tax changes as described under Condition 6.2 (*Redemption for Taxation Reasons*). The Notes mature on 5 October, 2015. Interest will be payable in arrear on 5 October of each year. Interest will accrue from and including 5 October, 2005 to but excluding 5 October, 2015 and will be at a rate of 3.875 per cent. per annum.

For a discussion of certain factors which should be considered in connection with an investment in any Notes, see "*Risk Factors*" beginning on page 2 of this Prospectus.

The Notes will be rated BBB- by Standard & Poor's Rating Services, a division of The McGraw Hill Companies Inc. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation.

Application will be made to the *Commission de Surveillance du Secteur Financier* (the **CSSF**) in its capacity as competent authority under the Luxembourg act 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 Notes 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 Notes will initially be represented by a temporary global note (the **Temporary Global Note**), without interest coupons, which will be deposited on or about 5 October, 2005 (the **Closing 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 Temporary Global Note will be exchangeable for interests in a permanent global note (the **Permanent Global Note** and, together with the Temporary Global Note, the **Global Notes**), without interest coupons, on or after 15 November, 2005 (the **Exchange Date**), upon certification as to non-U.S. beneficial ownership. Interests in the Permanent Global Note will be exchangeable for definitive Notes only in certain limited circumstances—see "*Summary of Provisions relating to the Notes while represented by the Global Notes*".

Joint Lead Managers

BNP PARIBAS **DRESDNER KLEINWORT WASSERSTEIN**

Managers

BANCA IMI
BANK AUSTRIA CREDITANSTALT AG
BARCLAYS CAPITAL
BAYERN LB
CALYON CORPORATE AND INVESTMENT BANK
NATIONAL SAVINGS AND COMMERCIAL BANK LTD. (OTP BANK)
RZB—AUSTRIA RAIFFEISEN ZENTRALBANK ÖSTERREICH AG

The date of this Prospectus is 30 September, 2005.

The Issuer (the Responsible Person) accepts responsibility for the information contained in this Prospectus. To the best of the knowledge and belief of the Issuer (having taken all reasonable care to ensure that such is the case) the information contained in this Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such 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 joint lead managers and the managers (together the Managers) and the trustee (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 Managers 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 Notes. The Managers 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 issue of the Notes.

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 Notes and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer or any of the Managers.

Neither this Prospectus nor any other information supplied in connection with the Notes (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 any of the Managers that any recipient of this Prospectus or any other information supplied in connection with the Notes should purchase the Notes. Each investor contemplating purchasing the Notes should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer. Neither this Prospectus nor any other information supplied in connection with the issue of any Notes constitutes an offer or invitation by or on behalf of the Issuer or any of the Managers to any person to subscribe for or to purchase the Notes.

Neither the delivery of this Prospectus nor the offering, sale or delivery of any Notes shall in any circumstances imply that the information contained herein concerning the Issuer is correct at any time subsequent to the date hereof or that any other information supplied in connection with the issue of the Notes is correct as of any time subsequent to the date indicated in the document containing the same. The Managers expressly do not undertake to review the financial condition or affairs of the Issuer during the life of the Notes or to advise any investor in the Notes 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 Notes.

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

This Prospectus does not constitute an offer to sell or the solicitation of an offer to buy any Notes 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 Notes may be restricted by law in certain jurisdictions. The Issuer and the Managers do not represent that this Prospectus may be lawfully distributed, or that the Notes 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

Managers which would permit a public offering of the Notes outside the European Economic Area or distribution of this Prospectus in any jurisdiction where action for that purpose is required. Accordingly, no Notes 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 Notes may come must inform themselves about, and observe, any such restrictions on the distribution of this Prospectus and the offering and sale of Notes. In particular, there are restrictions on the distribution of this Prospectus and the offer or sale of Notes in the United States, the United Kingdom, Japan, the Republic of Hungary and France (see "*Subscription and Sale*").

In respect of information in this Prospectus sourced from a third party, the Issuer confirms that the information has been accurately reproduced and that as far as the Issuer is aware and is able to ascertain from information published by that third party, no facts have been omitted which would render the reproduced information inaccurate or misleading.

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 29 September, 2005:
the exchange rate for HUF to EUR was HUF 248.74 to EUR 1;
the exchange rate for SKK to EUR was SKK 38.87 to EUR 1; and
the exchange rate for USD to EUR was USD 1.21 to EUR 1.

As at 30 June, 2005:
the exchange rate for HUF to EUR was HUF 247.36 to EUR 1;
the exchange rate for SKK to EUR was SKK 38.35 to EUR 1; and
the exchange rate for USD to EUR was USD 1.21 to EUR 1.

As at 31 December, 2004:
the exchange rate for HUF to EUR was HUF 245.93 to EUR 1;
the exchange rate for SKK to EUR was SKK 38.73 to EUR 1; and
the exchange rate for USD to EUR was USD 1.36 to EUR 1.

As at 30 June, 2004:
the exchange rate for HUF to EUR was HUF 253.23 to EUR 1;
the exchange rate for SKK to EUR was SKK 39.94 to EUR 1; and
the exchange rate for USD to EUR was USD 1.21 to EUR 1.

As at 31 December, 2003:
the exchange rate for HUF to EUR was HUF 262.23 to EUR 1;
the exchange rate for SKK to EUR was SKK 41.17 to EUR 1; and
the exchange rate for USD to EUR was USD 1.26 to EUR 1.

CONTENTS

In connection with the issue of the Notes, the Manager or Managers (if any) named as the Stabilising Manager(s) (or persons acting on behalf of any Stabilising Manager(s)) may over-allot Notes (provided that the aggregate principal amount of Notes allotted does not exceed 105 per cent. of the aggregate principal amount of the issue of the Notes) or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager(s) (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 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 Notes and 60 days after the date of the allotment of the Notes.

GENERAL INFORMATION

Description:	EUR 750,000,000 3.875 per cent. Notes due 2015
Issuer:	MOL Hungarian Oil and Gas Public Limited Company
Joint Lead Managers:	BNP Paribas Dresdner Bank AG London Branch
Managers:	Banca IMI S.p.A. Bank Austria Creditanstalt AG Barclays Bank PLC Bayerische Landesbank CALYON National Savings and Commercial Bank Ltd. (OTP Bank) Raiffeisen Zentralbank Österreich Aktiengesellschaft
Principal Paying Agent in relation to the Notes:	BNP Paribas Securities Services, Luxembourg Branch
Luxembourg Listing Agent:	BNP Paribas Securities Services, Luxembourg Branch
Trustee:	BNP Paribas Trust Corporation UK Limited
Denominations:	The Notes will have a minimum denomination of EUR 50,000. For so long as the Notes are represented by a Global Note and Euroclear and Clearstream, Luxembourg so permit, the Notes shall be tradeable in minimum nominal amounts of EUR 50,000 and integral multiples of EUR 1,000 thereafter. If Notes in definitive form are required to be issued in the limited circumstances specified in the Permanent Global Note they will only be printed and issued in denominations of EUR 50,000. Accordingly, if Notes in definitive form are required to be issued, a Noteholder holding Notes having an original nominal amount which cannot be fully represented by Notes in definitive form in the denomination of EUR 50,000 will not be able to receive a Note in definitive form in respect of the original nominal amount of the Notes by which the original nominal amount of such holding of Notes exceeds the next lowest integral multiple of EUR 50,000 (the **Excess Amount**) and will not be entitled to receive interest or principal or be entitled to vote at any meeting of Noteholders in respect of the Excess Amount. However, while Notes are represented by a Global Note, a Noteholder will be entitled to receive interest or principal in respect of the Excess Amount and will, at any meeting of Noteholders, be entitled to vote in respect of the Excess Amount.
Listing:	Application will be made to the *Commission de Surveillance du Secteur Financier* (the **CSSF**) in its capacity as competent authority under the Luxembourg act 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 Notes to be admitted to trading on the Luxembourg Stock Exchange's regulated market and to be listed on the Luxembourg Stock Exchange.
Use of Proceeds:	The net proceeds from the issue of Notes, after deduction of EUR 10,600 relating to the application for admission to trading, will be applied by the Issuer for its general corporate purposes and the rationalisation of its existing portfolio of debt.
Yield:	3.929 per cent.
Rating:	The Notes will be rated BBB- by Standard & Poor's Rating Services, a division of the The McGraw Hill Companies Inc.

RISK FACTORS

MOL believes that the following factors may affect its ability to fulfil its obligations under the Notes. Most of these factors are contingencies which may or may not occur and MOL 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 Notes are also described below.

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

Factors that may affect MOL's ability to fulfil its obligations under the Notes

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 Euro. 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 Euro, 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 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 HAG (Hungary-Austria Gasleitung) 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^2. At present MOL has 33 exploration blocks covering more than 36 000 km^2. 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 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 European Union 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 Notes 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 Rt.** or **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 European Union 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 investors in Hungarian securities. In addition, Hungary's civil code and corporate, competition, securities, environmental, gas, privatisation and other laws continue to be revised to meet European Union 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.

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 in the Notes 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 in the Notes 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.

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

The Notes may not be a suitable investment for all investors

Each potential investor in the Notes 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 Notes, the merits and risks of investing in the Notes 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 Notes and the impact the Notes 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 Notes;

(iv) understand thoroughly the terms of the Notes 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 Notes generally

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

Modification

The conditions of the Notes contain provisions for calling meetings of Noteholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Noteholders including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a manner contrary to the majority.

EU Savings Directive

If, following implementation of this Directive, a payment were to be made or collected through a Member State which has opted for a withholding system and an amount of, or in respect of tax were to be withheld from that payment, neither MOL nor any Paying Agent nor any other person would be obliged to pay additional amounts with respect to any Note as a result of the imposition of such withholding tax. If a withholding tax is imposed on payment made by a Paying Agent following implementation of this Directive, MOL 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 Notes may be redeemed prior to maturity

In the event that MOL would be obliged to increase the amounts payable in respect of any Notes due to any withholding or deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of the Republic of Hungary or any political subdivision or any authority thereof or therein having power to tax or any other jurisdiction or any political subdivision or any authority thereof or therein having power to tax, MOL may redeem all outstanding Notes in accordance with the Conditions.

Because the Global Notes are held by or on behalf of Euroclear and Clearstream, Luxembourg, investors will have to rely on their procedures for transfer, payment and communication with MOL

The Notes will be represented by the Global Notes except in certain limited circumstances described in the Permanent Global Note. The Global Notes will be deposited with a common depositary for Euroclear and Clearstream, Luxembourg. Except in certain limited circumstances described in the Permanent Global Note, investors will not be entitled to received definitive Notes. Euroclear and Clearstream, Luxembourg will maintain records of the beneficial interests in the Global Notes. While the Notes are represented by the Global Notes, investors will be able to trade their beneficial interests only through Euroclear and Clearstream, Luxembourg.

For so long as the Notes are represented by a Global Note and Euroclear and Clearstream, Luxembourg so permit, the Notes shall be tradeable in minimum nominal amounts of EUR 50,000 and integral multiples of EUR 1,000 thereafter. If Notes in definitive form are required to be issued in the limited circumstances specified in the Permanent Global Note they will only be printed and issued in denominations of EUR 50,000. Accordingly, if Notes in definitive form are required to be issued, a Noteholder holding Notes having an original nominal amount which cannot be fully represented by Notes in definitive form in the denomination of EUR 50,000 will not be able to receive a Note in definitive form in respect of the original nominal amount of the Notes by which the original nominal amount of such holding of Notes exceeds the next lowest integral multiple of EUR 50,000 (the **Excess Amount**) and will not be entitled to receive interest or principal or be entitled to vote at any meeting of Noteholders in respect of the Excess Amount. However, while Notes are represented by a Global Note, a Noteholder will be entitled to receive interest or principal in respect of the Excess Amount and will, at any meeting of Noteholders, be entitled to vote in respect of the Excess Amount.

MOL will discharge its payment obligations under the Notes 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 a Global Note must rely on the procedures of Euroclear and Clearstream, Luxembourg to receive payments under the Notes. MOL has no responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in the Global Notes.

Holders of beneficial interests in the Global Notes will not have a direct right to vote in respect of the Notes. 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 Notes are based on English 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 law or administrative practice after the date of this Prospectus.

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 Notes on the Luxembourg Stock Exchange, the Notes 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 Notes easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. Illiquidity may have a severely adverse effect on the market value of the Notes.

Exchange rate risks and exchange controls

MOL will pay principal and interest on the Notes in Euro. 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 Euro. These include the risk that exchange rates may significantly change (including changes due to devaluation of the Specified Currency 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 Euro would decrease (1) the Investor’s Currency-equivalent yield on the Notes, (2) the Investor’s Currency-equivalent value of the principal payable on the Notes and (3) the Investor’s Currency-equivalent market value of the Notes.

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.

Interest rate risks

Investment in the Notes involves the risk that subsequent changes in market interest rates may adversely affect the value of the Notes.

Credit ratings may not reflect all risks

One or more independent credit rating agencies may assign credit ratings to the Notes. 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 Notes. A credit rating is not a recommendation to buy, sell or hold 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 Notes are legal investments for it, (2) the Notes can be used as collateral for various types of borrowing and (3) other restrictions apply to its purchase or pledge of any of the Notes. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of the Notes under any applicable risk-based capital or similar rules.

DOCUMENTS INCORPORATED BY REFERENCE

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

(a) the audited consolidated financial statement for the year ended 31 December, 2003 (prepared in accordance with IFRS) and the auditor's reports thereon, the audited consolidated financial statement 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 website of the Issuer, www.mol.hu/english/investor_relations/financial/doc219568 and also from the website of the Luxembourg Stock Exchange, www.bourse.lu. In addition, such documents will be available free of charge from the principal office in Luxembourg of BNP Paribas Securities Services, Luxembourg Branch.

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

Document	**Section incorporated**
Annual Report 2004	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	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

Document	Section incorporated
- 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	Pages 1 to 16
- Financial overview	Pages 8 to 9
- Statements of Operations	Page 10
- Balance Sheets	Page 11
- Movements in shareholders equity	Page 12
- Statements of cash flows	Page 13

TERMS AND CONDITIONS OF THE NOTES

The following is the text of the Conditions of the Notes which (subject to modification) will be endorsed on each Note in definitive form (if issued):

The EUR 750,000,000 3.875 per cent. Notes due 2015 (the **Notes**, which expression shall in these Conditions, unless the context otherwise requires, include any further notes issued pursuant to Condition 16 and forming a single series with the Notes) of MOL Hungarian Oil and Gas Public Limited Company (*MOL Magyar Olaj- és Gázipari Részvénytársaság*) (the **Issuer**) are constituted by a Trust Deed dated 5 October, 2005 (as amended or supplemented from time to time, the **Trust Deed**) made between the Issuer and BNP Paribas Trust Corporation UK Limited (the **Trustee**, which expression shall include all persons for the time being appointed as trustee or trustees under the Trust Deed) as trustee for the holders of the Notes (the **Noteholders**) and the holders of the interest coupons appertaining to the Notes (the **Couponholders** and the **Coupons** respectively).

The statements in these Conditions include summaries of, and are subject to, the detailed provisions of and definitions in the Trust Deed. Copies of the Trust Deed and the Agency Agreement dated 5 October, 2005 (as amended or supplemented from time to time, the **Agency Agreement**) made between the Issuer, BNP Paribas Securities Services, Luxembourg Branch as principal paying agent (the **Principal Paying Agent** which expression shall include any successor or additional principal paying agent appointed from time to time in connection with the Notes), the initial Paying Agents (as defined in the Agency Agreement) and the Trustee are available for inspection on reasonable notice during normal business hours by the Noteholders and the Couponholders at the registered office for the time being of the Trustee, being at the date of issue of the Notes at 55 Moorgate, London, EC2R 6PA and at the specified office of each of the Paying Agents. The Noteholders and the Couponholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and the Agency Agreement applicable to them.

1. FORM, DENOMINATION AND TITLE

1.1 Form and Denomination

The Notes are in bearer form, serially numbered, in the denomination of EUR 50,000 with Coupons attached on issue. For so long as the Notes are represented by a Global Note (as defined in the Trust Deed) and Euroclear and Clearstream, Luxembourg (each as defined in the Trust Deed) so permit, the Notes shall be tradeable in minimum nominal amounts of EUR 50,000 and integral multiples of EUR 1,000 thereafter.

If Notes in definitive form are required to be issued in the limited circumstances specified in the Permanent Global Note (as defined in the Trust Deed) they will only be printed and issued in denominations of EUR 50,000. Accordingly, if Notes in definitive form are required to be issued, a Noteholder holding Notes having an original nominal amount which cannot be fully represented by Notes in definitive form in the denomination of EUR 50,000 will not be able to receive a Note in definitive form in respect of the original nominal amount of the Notes by which the original nominal amount of such holding of Notes exceeds the next lowest integral multiple of EUR 50,000 (the **Excess Amount**) and will not be entitled to receive interest or principal or be entitled to vote at any meeting of Noteholders in respect of the Excess Amount. However, while Notes are represented by a Global Note, a Noteholder will be entitled to receive interest or principal in respect of the Excess Amount and will, at any meeting of Noteholders, be entitled to vote in respect of the Excess Amount.

1.2 Title

Title to the Notes and to the Coupons will pass by delivery.

1.3 Holder Absolute Owner

The Issuer, any Paying Agent and the Trustee may (to the fullest extent permitted by applicable laws) deem and treat the bearer of any Note or Coupon as the absolute owner for all purposes (whether or not the Note or Coupon shall be overdue and notwithstanding any notice of ownership or writing on the Note or Coupon or any notice of previous loss or theft of the Note or Coupon or of any trust or interest therein) and shall not be required to obtain any proof thereof or as to the identity of such bearer.

2. STATUS

The Notes and the Coupons are direct, unconditional and (subject to the provisions of Condition 3) unsecured obligations of the Issuer and (subject as aforesaid) rank and will rank *pari passu*, without any preference among themselves, with all other outstanding unsecured and unsubordinated obligations of the Issuer, present and future, but, in the event of insolvency, only to the extent permitted by applicable laws relating to creditors' rights.

3. NEGATIVE PLEDGE

3.1 Negative Pledge

So long as any of the Notes remains outstanding (as defined in the Trust Deed) the Issuer will not, and will ensure that none of its Subsidiaries will, create or have outstanding any mortgage, charge, lien, pledge or other security interest (including, without limitation, anything analogous to the foregoing under the laws of any relevant jurisdiction) (each a **Security Interest**) upon, or with respect to, any of its present or future business, undertaking, assets or revenues (including any uncalled capital) to secure any Relevant Indebtedness or Guarantee of Relevant Indebtedness (each as defined below), unless the Issuer, in the case of the creation of a Security Interest, before or at the same time and, in any other case, promptly, takes any and all action necessary to ensure that:

(i) all amounts payable by it under the Notes, the Coupons and the Trust Deed are secured by the Security Interest(s) equally and rateably with the Relevant Indebtedness to the satisfaction of the Trustee; or

(ii) such other security or other arrangement (whether or not it includes the giving of a Security Interest) is provided either (A) as the Trustee in its absolute discretion considers not materially less beneficial to the interests of the Noteholders or (B) as is approved by an Extraordinary Resolution (which is defined in the Trust Deed as a resolution duly passed by a majority of not less than three-fourths of the votes cast thereon) of the Noteholders.

3.2 Interpretation

For the purposes of these Conditions:

(a) **Guarantee** means, in relation to any Relevant Indebtedness of any Person, any obligation of another Person to pay such Relevant Indebtedness including (without limitation):

  (i) any obligation to purchase such Relevant Indebtedness;

  (ii) any obligation to lend money, to purchase or subscribe shares or other securities or to purchase assets or services in order to provide funds for the payment of such Relevant Indebtedness;

  (iii) any indemnity against the consequences of a default in the payment of such Relevant Indebtedness; and

  (iv) any other agreement to be responsible for such Relevant Indebtedness;

(b) **Relevant Indebtedness** means any borrowings of any Person having an original maturity of more than one year in the form of or represented by bonds, notes, debentures, debenture stock, loan stock, certificates or other debt securities (not comprising, for the avoidance of doubt, preference shares or other equity securities):

  (i) where more than 50 per cent. in aggregate principal amount of such bonds, notes, debentures or other debt securities are initially offered outside the Republic of Hungary by or with the authorisation of the Issuer; and

  (ii) which are or are capable of being listed, quoted or traded on any stock exchange, over-the-counter or other organised market for securities (whether or not initially distributed by way of private placing);

(c) **Person** means any individual, company, corporation, firm, partnership, joint venture, association, organisation, state or agency of a state or other entity, whether or not having separate legal personality; and

(d) **Subsidiary** means, in relation to the Issuer, any company (i) in which the Issuer holds a majority of the voting rights or (ii) of which the Issuer is a member and has the right to appoint or remove a majority of the board of directors or (iii) of which the Issuer is a member and controls a majority of the voting rights, and includes any company which is a Subsidiary of a Subsidiary of the Issuer.

4. INTEREST

4.1 Interest Rate and Interest Payment Dates

The Notes bear interest from and including 5 October, 2005 at the rate of 3.875 per cent. per annum, payable annually in arrear on 5 October (each an **Interest Payment Date**). The first payment (representing a full year's interest) (for the period from and including 5 October, 2005 to but excluding 5 October, 2006 and amounting to EUR 1,937.50 per EUR 50,000 principal amount of Notes) shall be made on 5 October, 2006.

4.2 Interest Accrual

Each Note will cease to bear interest from and including its due date for redemption unless, upon due presentation, payment of the principal in respect of the Note is improperly withheld or refused or unless default is otherwise made in respect of payment, in which event interest shall continue to accrue as provided in the Trust Deed.

4.3 Calculation of Broken Interest

When interest is required to be calculated in respect of a period of less than a full year, it shall be calculated on the basis of (a) the actual number of days in the period from and including the date from which interest begins to accrue (the **Accrual Date**) to but excluding the date on which it falls due divided by (b) the actual number of days from and including the Accrual Date to but excluding the next following Interest Payment Date.

5. PAYMENTS

5.1 Payments in respect of Notes

Payments of principal and interest in respect of each Note will be made against presentation and surrender (or, in the case of part payment only, endorsement) of the Note, except that payments of interest due on an Interest Payment Date will be made against presentation and surrender (or, in the case of part payment only, endorsement) of the relevant Coupon, in each case at the specified office outside the United States of any of the Paying Agents.

5.2 Method of Payment

Payments will be made by credit or transfer to a euro account (or any other account to which euro may be credited or transferred) specified by the payee or, at the option of the payee, by euro cheque.

5.3 Missing Unmatured Coupons

Each Note should be presented for payment together with all related unmatured Coupons, failing which the full amount of any relative missing unmatured Coupon (or, in the case of payment not being made in full, that proportion of the full amount of the missing unmatured Coupon which the amount so paid bears to the total amount due) will be deducted from the amount due for payment. Each amount so deducted will be paid in the manner mentioned above against presentation and surrender (or, in the case of part payment only, endorsement) of the relative missing Coupon at any time before the expiry of 10 years after the Relevant Date (as defined in Condition 7) in respect of the relevant Note (whether or not the Coupon would otherwise have become void pursuant to Condition 8) but not thereafter.

5.4 Payments subject to Applicable Laws

Payments in respect of principal and interest on the Notes 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 7.

5.5 Payment only on a Presentation Date

A holder shall be entitled to present a Note or Coupon for payment only on a Presentation Date and shall not, except as provided in Condition 4, be entitled to any further interest or other payment if a Presentation Date is after the due date.

Presentation Date means a day which (subject to Condition 8):

(a) is or falls after the relevant due date;

(b) is a Business Day in the place of the specified office of the Paying Agent at which the Note or Coupon is presented for payment; and

(c) in the case of payment by credit or transfer to a euro account as referred to above, is a TARGET Settlement Day.

In these Conditions, **Business Day** means, in relation to any place, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in that place and **TARGET Settlement Day means** any day on which the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET) System is open.

5.6 Initial Paying Agents

The names of the initial Paying 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 Paying Agent and to appoint additional or other Paying Agents provided that:

(a) there will at all times be a Principal Paying Agent;

(b) there will at all times be at least one Paying Agent (which may be the Principal Paying Agent) having its specified office in a European city which so long as the Notes are listed on the Luxembourg Stock Exchange shall be Luxembourg;

(c) the Issuer undertakes that it will ensure that it maintains a Paying 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; and

(d) there will at all times be a Paying Agent in a jurisdiction within continental Europe, other than the jurisdiction in which the Issuer is incorporated.

Notice of any termination or appointment and of any changes in specified offices will be given to the Noteholders promptly by the Issuer in accordance with Condition 12.

6. REDEMPTION AND PURCHASE

6.1 Redemption at Maturity

Unless previously redeemed or purchased and cancelled as provided below, the Issuer will redeem the Notes at their principal amount on 5 October, 2015.

6.2 Redemption for Taxation Reasons

If the Issuer satisfies the Trustee immediately before the giving of the notice referred to below that:

(a) as a result of any change in, or amendment to, the laws or regulations of a Relevant Jurisdiction (as defined in Condition 7), or any change in the application or official interpretation of the laws or regulations of a Relevant Jurisdiction, which change or amendment becomes effective after 30 September, 2005, on the next Interest Payment Date the Issuer would be required to pay additional amounts as provided or referred to in Condition 7; and

(b) the requirement cannot be avoided by the Issuer taking reasonable measures available to it,

the Issuer may at its option, having given not less than 30 nor more than 60 days' notice to the Noteholders in accordance with Condition 12 (which notice shall be irrevocable), redeem all the Notes, but not some only, at any time at their principal amount together with interest accrued to but excluding the date of redemption. Prior to the publication of any notice of redemption pursuant to this paragraph, the Issuer shall deliver to the Trustee a certificate signed by two Directors of the Issuer stating that the requirement referred to in (a) above will apply on the next Interest Payment Date and cannot be avoided by the Issuer taking reasonable measures available to it, and the Trustee shall be entitled to accept without further investigation the certificate as sufficient evidence of the satisfaction of the conditions precedent set out above, in which event it shall be conclusive and binding on the Noteholders and the Couponholders.

No such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay such additional amounts if a payment in respect of the Notes were then due.

6.3 No other redemption

The Issuer shall not be entitled to redeem the Notes otherwise than as provided in Conditions 6.1 and 6.2 above.

6.4 Purchases

The Issuer or any of its Subsidiaries (as defined above) may at any time purchase Notes (provided that all unmatured Coupons appertaining to the Notes are purchased with the Notes) in any manner and at any price.

6.5 Cancellations

All Notes which are (a) redeemed or (b) purchased by or on behalf of the Issuer or any of its Subsidiaries will forthwith be cancelled, together with all related unmatured Coupons attached to the Notes or surrendered with the Notes, and accordingly may not be held, reissued or resold.

6.6 Notices Final

Upon the expiry of any notice as is referred to in paragraph 6.2 above the Issuer shall be bound to redeem the Notes to which the notice refers in accordance with the terms of such paragraph.

7. TAXATION

7.1 Payment without Withholding

All payments in respect of the Notes 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 (**Taxes**) imposed or levied by or on behalf of the Relevant Jurisdictions, unless the withholding or deduction of the Taxes is required by law. In that event, the Issuer will pay such additional amounts as may be necessary in order that the net amounts received by the Noteholders and Couponholders after the withholding or deduction shall equal the respective amounts which would have been receivable in respect of the Notes or, as the case may be, Coupons in the absence of the withholding or deduction; except that no additional amounts shall be payable in relation to any payment in respect of any Note or Coupon:

(a) presented for payment by or on behalf of, a holder who is liable to the Taxes in respect of the Note or Coupon by reason of his having some connection with the Relevant Jurisdiction other than the mere holding of the Note or Coupon; or

(b) presented for payment in the Republic of Hungary; or

(c) presented for payment by or on behalf of a holder who would not be liable or subject to the withholding or deduction by making a declaration of non-residence or other similar claim for exemption to the relevant tax authority; or

(d) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any law implementing or complying with, or introduced in order to conform to, such Directive; or

(e) presented for payment by or on behalf of a holder who would have been able to avoid such withholding or deduction by presenting the relevant Note or Coupon to another Paying Agent in a Member State of the European Union; or

(f) presented for payment more than 30 days after the Relevant Date (as defined below) except to the extent that a holder would have been entitled to additional amounts on presenting the same for payment on the last day of the period of 30 days assuming, whether or not such is in fact the case, that day to have been a Presentation Date (as defined in Condition 5).

7.2 Interpretation

In these Conditions:

(a) **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 Principal Paying 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 Noteholders by the Issuer in accordance with Condition 12; and

(b) **Relevant Jurisdiction** means the Republic of Hungary or any political subdivision or any authority thereof or therein having power to tax or any other jurisdiction or any political subdivision or any authority thereof or therein having power to tax to which the Issuer becomes subject in respect of payments made by it of principal and interest on the Notes and Coupons.

7.3 Additional Amounts

Any reference in these Conditions to any amounts in respect of the Notes shall be deemed also to refer to any additional amounts which may be payable under this Condition or under any undertakings given in addition to, or in substitution for, this Condition pursuant to the Trust Deed.

8. PRESCRIPTION

Notes and Coupons will become void unless presented for payment within periods of 10 years (in the case of principal) and five years (in the case of interest) from the Relevant Date in respect of the Notes or, as the case may be, the Coupons, subject to the provisions of Condition 6.

9. EVENTS OF DEFAULT

9.1 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 Notes then outstanding or if so directed by an Extraordinary Resolution of the Noteholders shall (subject in each case to being indemnified to its satisfaction), (but, in the case of the happening of any of the events described in subparagraphs (b) and (d) to (f) (other than the winding up or dissolution of the Issuer), and (g) to (j) inclusive 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 Noteholders) give notice to the Issuer that the Notes 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, in any of the following events (**Events of Default** and each an **Event of Default**):

(a) if default is made in the payment of any principal or interest due in respect of the Notes or any of them and the default continues for a period of 3 Business Days in the case of principal or 5 Business Days in the case of interest provided that such default will not be an Event of Default if (i) it occurs by reason only of administrative or technical difficulties affecting the transfer of the funds due from the Issuer, (ii) the Issuer issued the appropriate transfer and payment instructions in sufficient time to permit the transfer and payment of the amount due to be made on its due date and (iii) the holders of the Notes receive from the Issuer that amount within 7 Business Days after the due date for payment; or

(b) if the Issuer fails to perform or observe any of its other obligations under these Conditions 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

(c) if any Indebtedness of the Issuer or a Material Subsidiary is not paid when due after the expiration of any applicable grace period, or any Indebtedness of the Issuer or a Material Subsidiary is declared to be or otherwise becomes due and payable prior to its specified maturity, *provided, however*, that no Event of Default shall have occurred if the aggregate amount of such Indebtedness (or its equivalent) which is not paid when due (after the expiration of any applicable grace period) or is due and payable prior to its specified maturity date is equal to or less than EUR 50,000,000 (or its equivalent in another currency); or

(d) if one or more final and binding judgment(s) or order(s) for the payment of any amount in excess of EUR 50,000 is rendered against the Issuer or any of its Material Subsidiaries and continue(s) unsatisfied and unstayed for a period of 30 days after the date(s) thereof or, if later, the date therein specified for payment; or

(e) it is or will become unlawful for the Issuer to perform or comply with any of its obligations under or in respect of the Notes or the Trust Deed; or

(f) if any order is made by any competent court or resolution is passed for the winding up, liquidation or dissolution of the Issuer or a Material Subsidiary save for the purposes of reorganisation whilst solvent on terms approved in writing by the Trustee or by an Extraordinary Resolution of the Noteholders; or

(g) if the Issuer or a Material Subsidiary ceases or threatens to cease to carry on the whole or substantially the whole of its business, save for the purposes of reorganisation whilst solvent on terms approved in writing by the Trustee or by an Extraordinary Resolution of the Noteholders, or the Issuer or a Material Subsidiary stops or threatens to stop payment of, or is unable to, or admits inability to, pay, its debts (or any class of its debts) as they fall due or is adjudicated or found bankrupt or insolvent; or

(h) if (i) proceedings are initiated against the Issuer or a Material Subsidiary under any applicable liquidation, insolvency, composition, reorganisation or other similar laws or an application is made (or documents filed with a court) for the appointment of an administrative or other receiver, manager, administrator or other similar official, or an administrative or other receiver, manager, administrator or other similar official is appointed, in relation to the Issuer or a Material Subsidiary or, as the case may be, in relation to the whole or substantially (in the opinion of the Trustee) the whole of the undertaking or assets of the Issuer or a Material Subsidiary or an encumbrancer takes possession of the whole or substantially (in the opinion of the Trustee) the whole of the undertaking or assets of the Issuer or a Material Subsidiary, or a distress, execution, attachment, sequestration or other process is levied, enforced upon, sued out or put in force against the whole or substantially (in the opinion of the Trustee) the whole of the undertaking or assets of the Issuer or a Material Subsidiary, and (ii) in any such case (other than the appointment of an administrator or an administrative receiver appointed following presentation of a petition for an administration order) unless initiated by the relevant company, is not discharged within 90 days (or such longer period as the Trustee may consider appropriate in relation to the jurisdiction concerned) or unless, and for so long as, the Trustee is satisfied that it is being contested in good faith and diligently; or

(i) if the Issuer or a Material Subsidiary (or its directors or shareholders) initiates or consents to judicial proceedings relating to itself under any applicable liquidation, insolvency, composition, reorganisation or other similar laws (including the obtaining of a moratorium) or makes a conveyance or assignment for the benefit of, or enters into any composition or other arrangement with, its creditors generally (or any class of its creditors) or any meeting is convened to consider a proposal for an arrangement or composition with its creditors generally (or any class of its creditors); or

(j) if any event occurs which, under the laws of any Relevant Jurisdiction, has or may have an analogous effect to any of the events referred to in subparagraphs (f) to (i) above; or

(k) if a secured party takes possession, or a receiver, manager or other similar officer is appointed, of the whole or any part of the undertaking, assets and revenues of the Issuer or any Material Subsidiary where the value of the undertaking, assets and revenues in question exceeds EUR 50,000; or

(l) if any action, condition or thing at any time required to be taken, fulfilled or done in order (i) to enable the Issuer lawfully to enter into, exercise its rights and perform and comply with its obligations under and in respect of the Notes or the Trust Deed, (ii) to ensure that those obligations are legal, valid, binding and enforceable and (iii) to make the Notes, the Coupons and the Trust Deed admissible in evidence in the courts of Hungary, is not taken, fulfilled or done.

9.2 Interpretation

For the purposes of this Condition,

(a) **Indebtedness** means any indebtedness (whether being principal, premium, interest or other amounts) for or in respect of any notes, bonds, debentures, debenture stock, loan stock or other debt securities or any borrowed money or any liability under or in respect of any acceptance or acceptance credit; and

(b) **Material Subsidiary** means, at any time, a Subsidiary of the Issuer whose consolidated tangible net worth or EBITDA (excluding intra-Group items) then equals 10 per cent. of the Consolidated Tangible Net Worth or EBITDA of the Issuer (on a consolidated basis).

For this purpose:

(i) the consolidated tangible net worth or EBITDA of a Subsidiary of the Issuer will be determined from its latest annual financial statements (consolidated if it has Subsidiaries) upon which the Issuer's latest annual audited consolidated financial statements have been based;

(ii) if a Subsidiary of the Issuer becomes a member of the Group after the date on which the latest annual audited consolidated financial statements of the Issuer have been prepared, the consolidated tangible net worth or EBITDA of that Subsidiary will be determined from its latest annual financial statements;

(iii) the Consolidated Tangible Net Worth or EBITDA of the Issuer will be determined from the Issuer's latest annual audited consolidated financial statements, adjusted (where appropriate) to reflect the consolidated tangible net worth or EBITDA of any company or business subsequently acquired or disposed of; and

(iv) if a Material Subsidiary disposes of all or substantially all of its assets to another Subsidiary of the Issuer, it will immediately cease to be a Material Subsidiary and the other Subsidiary (if it is not already) will immediately become a Material Subsidiary; whether or not a Subsidiary is a Material Subsidiary after that disposal will be determined by reference to the subsequent annual financial statements of that Subsidiary and the Issuer (on a consolidated basis).

However:

(A) the first determination of whether a company which becomes a Subsidiary of the Issuer after 5 October, 2005 is or is not a Material Subsidiary shall be made by reference to its latest annual audited financial statements and the latest annual audited consolidated financial statements of the Issuer, in each case for the financial year after the financial year of the Issuer in which the date of that company's acquisition falls; and

(B) if there is a dispute as to whether or not a company is a Material Subsidiary, a certificate of the auditors of the Issuer provided by the Issuer to the Trustee that in the auditors' opinion a Subsidiary of the Issuer is or is not or was or was not at any particular time or throughout any specified period a Material Subsidiary may be relied upon by the Trustee without further enquiry or evidence and, if relied upon by the Trustee, shall, in the absence of manifest error, be conclusive and binding on all parties.

For the purposes of this definition, **consolidated tangible net worth** of a company means total assets as they appear in the financial statements of that company (consolidated if prepared) less the aggregate of total intangible assets and total liabilities of that company on a consolidated basis, calculated by reference to that company's financial statements (consolidated if prepared).

Where:

Consolidated Tangible Net Worth means total assets as they appear in the consolidated financial statements of the Issuer less the aggregate of total intangible assets and total liabilities of the Issuer on a consolidated basis, calculated by reference to the most recent annual consolidated financial statements of the Issuer.

EBITDA means, in relation to any person and for any Measurement Period, operating profit plus cash dividends received plus any depreciation or amortisation. For the purposes of the definition of Material Subsidiary, cash dividends received shall be calculated by reference to the cashflow statement and each of operating profit, depreciation and amortisation shall be calculated by reference to the relevant person's consolidated (or, if that is not available, unconsolidated) profit and loss account. For the purposes of calculating EBITDA for any Measurement Period, the EBITDA of any company which has been acquired or disposed of by a member of the Group for a consideration in excess of EUR 250,000,000 during that Measurement Period shall be included, in the case of an acquisition, or excluded, in the case of a disposal, on a pro forma basis as if the acquisition, or, as the case may be, the disposal, had been completed on the first day of that Measurement Period.

Group means the Issuer and its Subsidiaries.

Measurement Period means a period of 12 months ending on the last day of a financial year of the Issuer.

10. ENFORCEMENT

10.1 Enforcement by the Trustee

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, the Notes and the Coupons, but it shall not be bound to take any such proceedings or any other action in relation to the Trust Deed, the Notes or the Coupons unless (a) it has been so directed by an Extraordinary Resolution of the Noteholders or so requested in writing by the holders of at least one-fifth in principal amount of the Notes then outstanding and (b) it has been indemnified to its satisfaction.

10.2 Enforcement by the Noteholders

No Noteholder or Couponholder 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.

11. REPLACEMENT OF NOTES AND COUPONS

Should any Note or Coupon be lost, stolen, mutilated, defaced or destroyed it may be replaced at the specified office of the Principal Paying Agent or the Paying 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 Notes or Coupons must be surrendered before replacements will be issued.

12. NOTICES

12.1 Notices to the Noteholders

All notices to the Noteholders will be valid if published in a leading English language daily newspaper published in London or such other English language daily newspaper with general circulation in Europe and, so long as the Notes are listed on the Luxembourg Stock Exchange and the rules of that exchange so require, in one daily newspaper published in Luxembourg approved by the Trustee. It is expected that publication will normally be made in the *Financial Times* and the *d'Wort*. So long as the Notes are listed on the Luxembourg Stock Exchange, the Issuer will also request that notices to Noteholders be published on the website of the Luxembourg Stock Exchange. The Issuer shall also ensure that notices are duly published in a manner which complies with the rules and regulations of any stock exchange or the relevant authority on which the Notes are for the time being listed. Any such notice will be deemed to have been given on the date of the first publication or, where required to be published in more than one newspaper, on the date of the first publication in all required newspapers, and, in the case of publication on the website of the Luxembourg Stock Exchange, on the date of such publication. If publication as provided above is not practicable, notice will be given in such other manner, and shall be deemed to have been given on such date, as the Trustee may approve. Couponholders will be deemed for all purposes to have notice of the contents of any notice given to the Noteholders in accordance with this paragraph.

13. SUBSTITUTION

The Trustee may, without the consent of the Noteholders or Couponholders, 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 Notes, the Coupons and the Trust Deed of any other company being a Subsidiary or a holding company or another Subsidiary of a holding company of the Issuer, subject to:

(a) the Trustee being satisfied that the interests of the Noteholders will not be materially prejudiced by the substitution; and

(b) certain other conditions set out in the Trust Deed being complied with.

14. MEETINGS OF NOTEHOLDERS, MODIFICATION, WAIVER, AUTHORISATION AND DETERMINATION

14.1 Meetings of Noteholders

The Trust Deed contains provisions for convening meetings of the Noteholders 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 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 Notes for the time being outstanding, or at any adjourned such meeting one or more persons present whatever the principal amount of the Notes held or represented by him or them, except that, at any 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 two-thirds, or at any adjourned such meeting not less than one-third, of the principal amount of the Notes for the time being outstanding. An Extraordinary Resolution passed at any meeting of the Noteholders will be binding on all Noteholders, whether or not they are present at the meeting, and on all Couponholders.

14.2 Modification, Waiver, Authorisation and Determination

The Trustee may agree, without the consent of the Noteholders or Couponholders, 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 or Potential Event of Default (as defined in the Trust Deed) shall not be treated as such (provided that, in any such case, it is not, in the opinion of the Trustee, materially prejudicial to the interests of the Noteholders) 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.

14.3 Trustee to have Regard to Interests of Noteholders 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 Noteholders as a class but shall not have regard to any interests arising from circumstances particular to individual Noteholders or Couponholders (whatever their number) and, in particular but without limitation, shall not have regard to the consequences of any such exercise for individual Noteholders or Couponholders (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 Noteholder or Couponholder 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 Noteholders or Couponholders except to the extent already provided for in Condition 7 and/or any undertaking given in addition to, or in substitution for, Condition 7 pursuant to the Trust Deed.

14.4 Notification to the Noteholders

Any modification, abrogation, waiver, authorisation, determination or substitution shall be binding on the Noteholders and the Couponholders and, unless the Trustee agrees otherwise, any modification or substitution shall be notified by the Issuer to the Noteholders as soon as practicable thereafter in accordance with Condition 12.

15. INDEMNIFICATION OF THE TRUSTEE AND ITS CONTRACTING WITH THE ISSUER

15.1 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.

15.2 Trustee Contracting with the Issuer

The Trust Deed also contains provisions pursuant to which the Trustee is entitled, *inter alia*, (a) to enter into business transactions with the Issuer and/or any of the Issuer's Subsidiaries and to act as trustee for the holders of any other securities issued or guaranteed by, or relating to, the Issuer and/or any of the Issuer's Subsidiaries, (b) 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 Noteholders or Couponholders, and (c) to retain and not be liable to account for any profit made or any other amount or benefit received thereby or in connection therewith.

16. FURTHER ISSUES

The Issuer is at liberty from time to time without the consent of the Noteholders or Couponholders to create and issue further notes or bonds (whether in bearer or registered form) either (a) ranking *pari passu* in all respects (or in all respects save for the first payment of interest thereon) and so that the same shall be consolidated and form a single series with the outstanding notes or bonds of any series (including the Notes) constituted by the Trust Deed or any supplemental deed or (b) upon such terms as to ranking, interest, conversion, redemption and otherwise as the Issuer may determine at the time of the issue. Any further notes or bonds which are to form a single series with the outstanding notes or bonds of any series (including the Notes) constituted by the Trust Deed or any supplemental deed shall, and any other further notes or bonds may (with the consent of the Trustee), be constituted by a deed supplemental to the Trust Deed. The Trust Deed contains provisions for convening a single meeting of the Noteholders and the holders of notes or bonds of other series in certain circumstances where the Trustee so decides.

17. GOVERNING LAW AND SUBMISSION TO JURISDICTION

17.1 Governing Law

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

17.2 Jurisdiction of English Courts

The Issuer has, in the Trust Deed, irrevocably agreed for the benefit of the Trustee, the Noteholders and the Couponholders 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, the Notes or the Coupons 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, the Noteholders and the Couponholders may take any suit, action or proceeding arising out of or in connection with the Trust Deed, the Notes or the Coupons respectively (together referred to as **Proceedings**) against the Issuer in any other court of competent jurisdiction and concurrent Proceedings in any number of jurisdictions.

The Issuer has, in the Trust Deed, consented to the enforcement of any judgment and, to the extent that it may in any jurisdiction claim for itself or its assets immunity from suit, execution, attachment (whether in aid of execution, before judgment or otherwise) or other legal process, and to the extent that in any such jurisdiction there may be attributed to itself or its assets or revenues such immunity (whether or not claimed), agreed not to claim and irrevocably waived such immunity to the full extent permitted by the laws of such jurisdiction.

17.3 Appointment of Process Agent

The Issuer has, in the Trust Deed, irrevocably and unconditionally appointed Law Debenture Corporate Services Limited at the latter's registered office for the time being as its agent for service of process in England in respect of any Proceedings and has 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.

18. 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 this Note, but this does not affect any right or remedy of any person which exists or is available apart from that Act.

SUMMARY OF PROVISIONS RELATING TO THE NOTES WHILE REPRESENTED BY THE GLOBAL NOTES

The following is a summary of the provisions to be contained in the Trust Deed to constitute the Notes and in the Global Notes which will apply to, and in some cases modify, the Conditions of the Notes while the Notes are represented by the Global Notes.

1. Exchange

The Permanent Global Note will be exchangeable in whole but not in part (free of charge to the holder) for definitive Notes only:

(a) upon the happening of any of the events defined in the Trust Deed as “Events of Default”;

(b) if either Euroclear or Clearstream, Luxembourg is closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so and no alternative clearing system satisfactory to the Trustee is available; or

(c) if the Issuer would suffer a disadvantage as a result of a change in laws or regulations (taxation or otherwise) or as a result of a change in the practice of Euroclear and/or Clearstream, Luxembourg which would not be suffered were the Notes in definitive form and a certificate to such effect signed by two Directors of the Issuer is given to the Trustee.

Thereupon (in the case of (a) and (b) above) the holder of the Permanent Global Note (acting on the instructions of one or more of the Accountholders (as defined below)) or the Trustee may give notice to the Issuer and (in the case of (c) above) the Issuer may give notice to the Trustee and the Noteholders, of its intention to exchange the Permanent Global Note for definitive Notes on or after the Exchange Date (as defined below).

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

For these purposes, **Exchange Date** means a day specified in the notice requiring exchange falling not less than 40 days after that on which such notice is given and being a day on which banks are open for general business in the place in which the specified office of the Principal Paying Agent is located and, except in the case of exchange pursuant to (b) above, in the place in which the relevant clearing system is located.

2. Payments

On and after 15 November, 2005, no payment will be made on the Temporary Global Note unless exchange for an interest in the Permanent Global Note is improperly withheld or refused. Payments of principal and interest in respect of Notes represented by a Global Note will, subject as set out below, be made against presentation for endorsement and, if no further payment falls to be made in respect of the Notes, surrender of such Global Note to the order of the Principal Paying Agent or such other Paying Agent as shall have been notified to the Noteholders for such purposes. A record of each payment made will be endorsed on the appropriate part of the schedule to the relevant Global Note by or on behalf of the Principal Paying Agent, which endorsement shall be *prima facie* evidence that such payment has been made in respect of the Notes. Payments of interest on the Temporary Global Note (if permitted by the first sentence of this paragraph) will be made only upon certification as to non-U.S. beneficial ownership unless such certification has already been made.

3. Notices

For so long as all of the Notes are represented by one or both of the Global Notes and such Global Note(s) is/are held on behalf of Euroclear and/or Clearstream, Luxembourg, notices to Noteholders may be given by delivery of the relevant notice to Euroclear and/or Clearstream, Luxembourg (as the case may be) for communication to the relative Accountholders rather than by publication as required by Condition 12, provided that, so long as the Notes are listed on the Luxembourg Stock Exchange, notice will also be given by publication in a daily newspaper published in Luxembourg if and to the extent that the rules of the Luxembourg Stock Exchange so require. So long as the Notes are listed on the Luxembourg Stock Exchange, the Issuer will also request that notices to Noteholders be published on the website of the Luxembourg Stock Exchange. Any such notice shall be deemed to have been given to the Noteholders (i) in the case of delivery of the relevant notice to Euroclear and/or Clearstream, Luxembourg, on the day after the day on which such notice is delivered to Euroclear and/or Clearstream, Luxembourg (as the case may be); and (ii) in the case of publication on the website of the Luxembourg Stock Exchange, on the day on which such notice is first published on the website.

4. Accountholders

For so long as all of the Notes are represented by one or both of the Global Notes and such Global Note(s) is/are held on behalf of Euroclear and/or Clearstream, Luxembourg, each person (other than Euroclear or Clearstream, Luxembourg) who is for the time being shown in the records of Euroclear or Clearstream, Luxembourg as the holder of a particular principal amount of such Notes (each an **Accountholder**) (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg as to the principal amount of such Notes 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 principal amount of such Notes for all purposes (including but not limited to, for the purposes of any quorum requirements of, or the right to demand a poll at, meetings of the Noteholders) other than with respect to the payment of principal and interest on such principal amount of such Notes, the right to which shall be vested, as against the Issuer and the Trustee, solely in the bearer of the relevant Global Note in accordance with and subject to its terms and the terms of the Trust Deed. Each Accountholder must look solely to Euroclear or Clearstream, Luxembourg, as the case may be, for its share of each payment made to the bearer of the relevant Global Note.

5. Prescription

Claims against the Issuer in respect of principal and interest on the Notes represented by a Global Note will be prescribed after 10 years (in the case of principal) and five years (in the case of interest) from the Relevant Date (as defined in Condition 7).

6. Cancellation

Cancellation of any Note represented by a Global Note and required by the Conditions of the Notes to be cancelled following its redemption or purchase will be effected by endorsement by or on behalf of the Principal Paying Agent of the reduction in the principal amount of the relevant Global Note on the relevant part of the schedule thereto.

7. Euroclear and Clearstream, Luxembourg

References in the Global Notes and this summary to Euroclear and/or Clearstream, Luxembourg shall be deemed to include references to any other clearing system approved by the Trustee.

USE OF PROCEEDS

The net proceeds from the issue of Notes, after deduction of EUR 10,600 relating to the application for admission to trading, will be applied by the Issuer for its general corporate purposes and the rationalisation of its existing portfolio of debt.

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^3) 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 representaing 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 Nm3 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 THE ISSUER

A. INFORMATION ABOUT THE ISSUER

The legal name of the issuer is MOL Hungarian Oil and Gas Public Limited Company (**MOL** or the **Issuer**)(in Hungarian *MOL Magyar Olaj- és Gázipari Részvénytársaság*), in its abbreviated form: MOL (*MOL Rt.*). The Issuer also operates under the commercial name MOL. The Issuer's registered seat is at Október huszonharmadika u. 18. Budapest, H-1117, Hungary, telephone number +36 1 209 0000. The Issuer 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 the Issuer'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

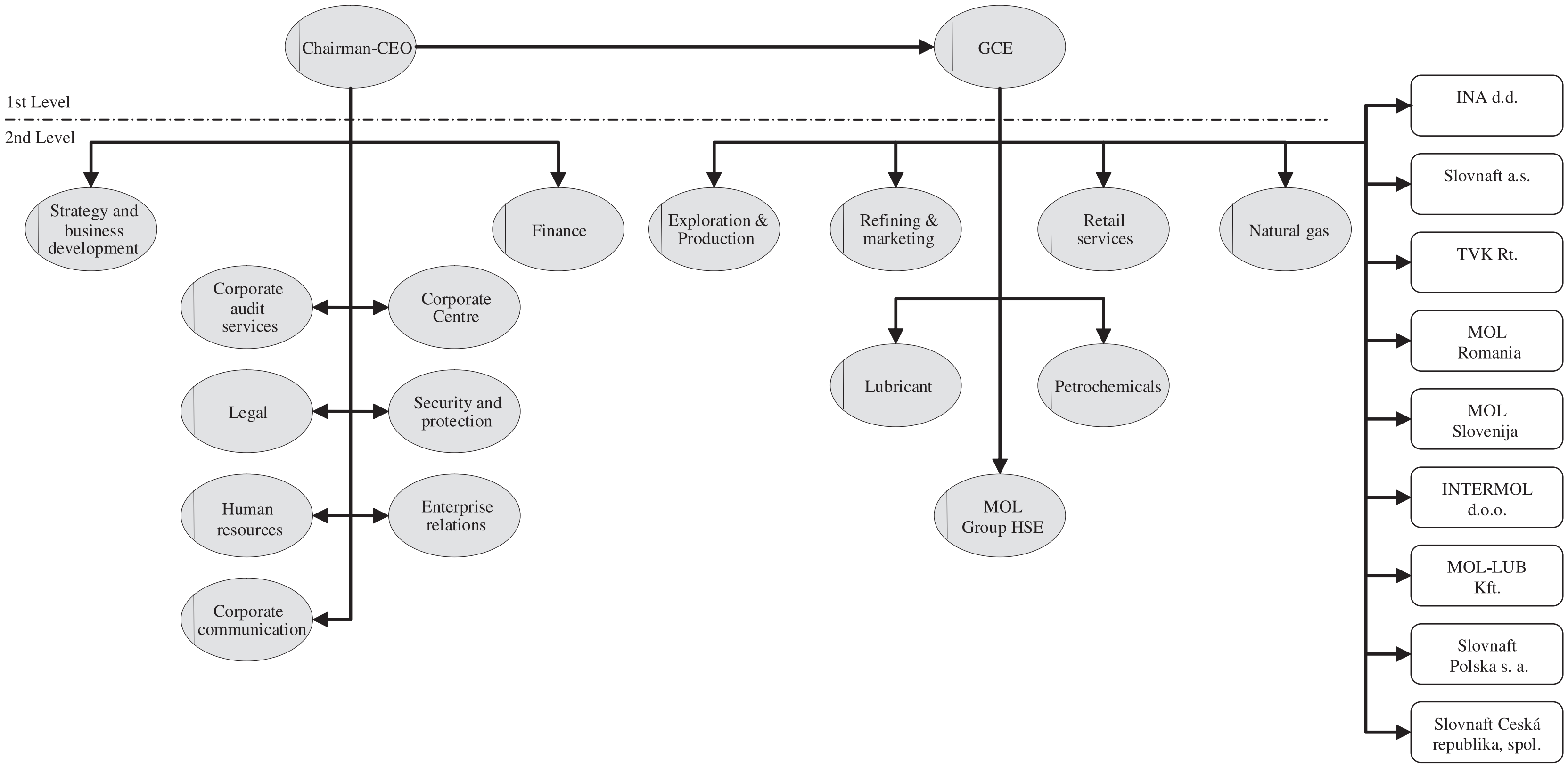
Principal activities

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:

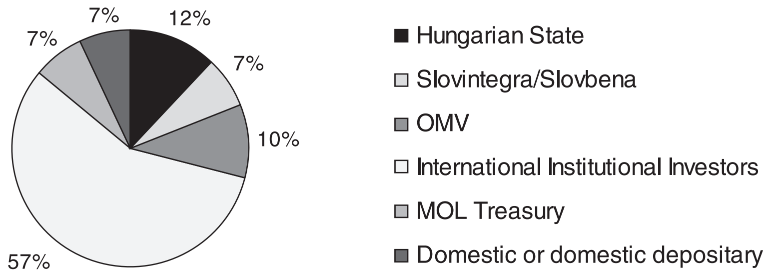
- **the Exploration and Production business** is responsible for domestic and international oil and gas exploration, development and production activities;
- **the Refining and Marketing business** processes crude oil and other feedstock from domestic and imported sources, and is responsible for the 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.

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.

The Issuer 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):

Company name	Country	Range of activity	Stake
Exploration and Production			
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%
Natural Gas			
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%

Company name	Country	Range of activity	Stake
Balatongáz Kft.	Hungary	Gas-utility development and management	77%
Refining and Marketing			
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%
Petrochemicals			
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%
Corporate and other			
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):

Company name	Country	Range of activity	Stake
Associated companies			
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%
Other investments			
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 the Issuer which could result in a future change in the current shareholding structure of the Issuer

Shares

In November 2002, MOL signed an agreement with the Slovak companies Slovbena 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 Slovbena 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 Slovbena 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 Slovbena 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 Slovbena 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 Slovbena 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. The Issuer'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(1)	Crude oil (including condensate and natural gas liquids)	Combined(2)	Percentage of combined net reserves proven-developed
	(bn. cubic meters)	(thousand tonnes)	(ktoe)(3)	(%)
Hungarian fields – Net proven reserves:(4)				
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:(1)			
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:(2)			
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 Vétyem-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^2)	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(1) (30%), PPL(2) (30%), POL(3) (25%), GOP(4) (5%)(5)	10.0%(5)
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 Fedorovsky 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.

	Q1	Year ended December 31,		
	2005	2004	2003	2002
Sources of crude oil (million tonnes)				
Purchases to Duna Refinery(1)	1.7	5.5	5.2	4.9
From own production to Duna Refinery(2)	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

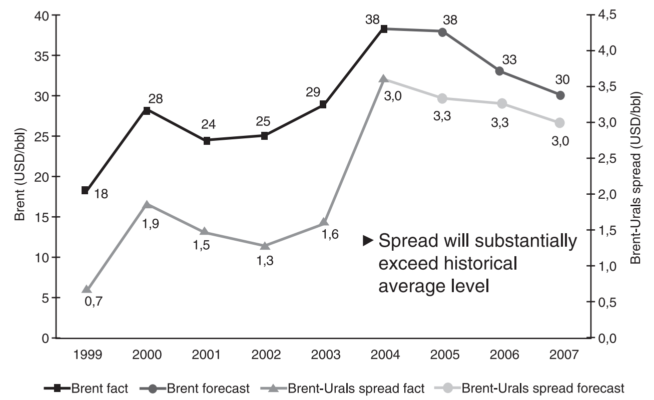
In addition to its crude purchasing, the MOL Group is also engaged in limited back-to-back crude oil trading with a customer in the United Kingdom. These trades involve the purchase and sale of Middle Eastern crude oil. The MOL Group seeks to limit its exposure with respect to these trades by using purchase 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

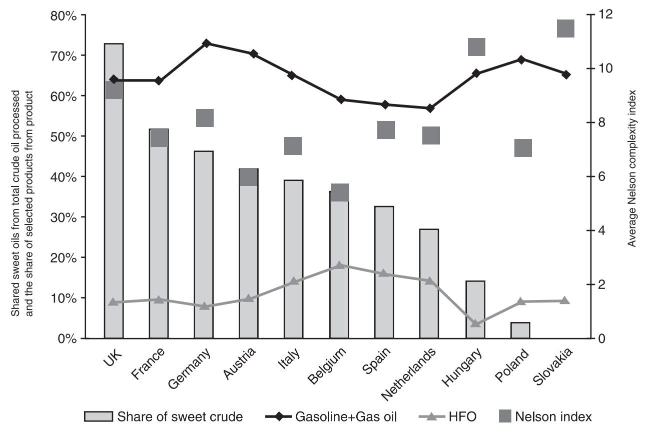
As shown in the left chart below, the Brent-Ural spread is expected to surpass its historical average level providing a further earning upside. The factors having upward pressure on Brent-Ural spread are as follows: (i) higher crude oil price, (ii) Russian pipeline capacities are focused on European 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).

Brent-Urals spread



Use of crude oil



*without refinery losses and refineries' own consumption
**data for product slate is from 2002 in case of the UK, France and Belgium
Source: PFC 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 Almásfüzítő 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.

(thousand tonnes)	Q1 2005	2004	2003	2002	2001
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 Almásfüzítő 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
Refinery utilisation(1)					
Duna Refinery	93.3%	86%	88.7%	83.3%	83.9%
Tisza plant	—	—	—	—	42.2%
Throughput (thousand tonnes)					
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
Total throughput	**2,223**	**7,703**	**7,614**	**7,474**	**7,897**
Production volumes (thousand tonnes)					
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
Total	**1,881**	**7,064**	**7,100**	**7,101**	**7,359**

(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 pyrolisis 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-Herczegovina 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 EUR 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 Foldgaztarolo, 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 Foldgaztarolo (*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-Herczegovina. 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 licencee 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, Pusztaszöllős), and provides services on a contractual basis with MOL Natural Gas Storage Plc. operating the other three big underground gas storages (Hajdúszoboszló, Zsana, Pusztaederics).

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 Pusztaederics 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 Euro, 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 Euro 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 EUR 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 EUR 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.

	Q1	Year ended December 31,			
	2005	2004	2003	2002	2001
MOL Group Petrochemicals Division					
Annual plant capacity					
Total ethylene capacity	**839**	**839**	**589**	**589**	**589**
Total polymer capacity (of which)	**1067**	**1067**	**867**	**867**	**867**
LDPE	305	305	305	305	305
HDPE	400	400	200	200	200
PP	362	362	362	362	362
Annual production					
Total ethylene production	**194**	**595**	**545**	**575**	**557**
Total polymer production (of which)	**243**	**859**	**797**	**835**	**788**
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.

	Q1	Year ended December 31,			
	2005	2004	2003	2002	2001
MOL Group polymer sales: (1) (thousand tonnes)					
LDPE	67	292	233	111	107
HDPE	68	210	187	197	187
PP	89	370	342	288	262
Total polymer sales	**224**	**872**	**806**	**596**	**556**

(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 EUR 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:

Name, appointment	Position	Year of appointment	Date of expiry of the term of office
Zsolt Hernádi(2)	Chairman-Chief Executive Officer	1999	February 2009
László Akar(1)	Director	2002	October 2007
Dr Sándor Csányi(2)	Vice Chairman	2000	April 2009
Michel-Marc Delcommune	Group Chief Strategy Officer	1999	April 2009
Dr Miklós Dobák(1)	Director	1996	April 2009
Dr Gábor Horváth(2)	Director	1999	February 2009
Miklós Kamarás(2)	Director	2002	October 2007
Dr Ernő Kemenes(1)	Director	2002	October 2007
György Mosonyi	Group Chief Executive Officer	1999	February 2009
Iain Paterson(1)	Director	1999	February 2009
Mrs Kálmán Simóka Ph.D.(1)	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:

Name, appointment	Year of appointment	Date of expiry of the term of office
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:

Name	Current Title	Year of appointment
Zsolt Hernádi	Chairman-Chief Executive Officer	2001
György Mosonyi	Group Chief Executive Officer	1999
Michel-Marc Delcommune	Group Chief Strategy Officer	1999(1)
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:

Name	Position
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 the Issuer.

Functions in the Issuer and principal activities outside the Issuer

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 the Issuer, 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 Slovbena 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 Dunaferr 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.

FINANCIAL INFORMATION

Unaudited Consolidated Balance Sheets 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
ASSETS		
Non-current assets		
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
Total non-current assets	**1,180,257**	**1,058,089**
Current assets		
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
Total current assets	**523,700**	**448,702**
TOTAL ASSETS	**1,703,957**	**1,506,791**
LIABILITIES AND SHAREHOLDERS' EQUITY		
Shareholders' equity		
Share capital	93,315	94,238
Reserves	640,371	439,662
Net income for the period	133,916	80,965
Equity attributable to shareholders	**867,602**	**614,865**
Minority interest	73,284	65,915
Total equity	**940,886**	**680,780**
Non-current liabilities		
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
Total non-current liabilities	**325,937**	**326,223**
Current liabilities		
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
Total current liabilities	**437,134**	**499,788**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**1,703,957**	**1,506,791**

* Changes in IFRS effective from 1 January, 2005 were adopted by the Group and prior periods have been restated as required by the standards.

Audited Consolidated Balance Sheets 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
ASSETS		
Non-current assets		
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
Total non-current assets	**1,101,385**	**1,091,774**
Current assets		
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
Total current assets	**533,495**	**440,961**
TOTAL ASSETS	**1,634,880**	**1,532,735**
LIABILITIES AND SHAREHOLDERS' EQUITY		
Shareholders' equity		
Share capital	94,634	93,128
Reserves	430,858	330,760
Net income for the year	209,325	99,981
Total shareholders' equity	**734,817**	**523,869**
Minority interest	**68,020**	**155,752**
Non-current liabilities		
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
Total non-current liabilities	**319,716**	**430,995**
Current liabilities		
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
Total current liabilities	**512,327**	**422,119**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**1,634,880**	**1,532,735**

Unaudited Consolidated Statements of Operations prepared in accordance with International Financial Reporting Standards (IFRS) for the periods ended 30 June, 2005 and 30 June, 2004

	30 June, 2005	30 June, 2004 restated*
Net sales	1,116,283	896,834
Other operating income	9,520	6,288
Total operating revenues	**1,125,803**	**903,122**
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
Raw material and consumables used	*801,272*	*638,224*
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
Total operating expenses	**958,179**	**793,617**
Operating profit	**167,624**	**109,505**
Interest received	1,681	2,120
Dividends received	5	170
Exchange gains and other financial income	1,935	5,804
Total financial income	**3,621**	**8,094**
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
Total financial expense	**18,429**	**14,775**
Financial expense/(gain), net	**14,808**	**6,681**
Income from associates	-1,553	-2,346
Profit before tax	**154,369**	**105,170**
Income tax expense	16,740	21,014
Profit after tax	**137,629**	**84,156**
Minority interests	-3,713	-3,191
Net income	**133,916**	**80,965**
Basic earnings per share (HUF)	**1,305**	**784**
Diluted earnings per share (HUF)	**1,291**	**777**

* Changes in IFRS effective from 1 January, 2005 were adopted by the Group and prior periods have been restated as required by the standards.

Audited Consolidated Statements of Operations 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
Total operating revenues	**1,971,956**	**1,524,039**
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
Total operating expenses	**1,722,365**	**1,440,968**
Profit from operations	**249,591**	**83,071**
Financial (income)/expense, net	-5,155	16,075
Income from associates	-7,985	-5,405
Profit before tax	**262,731**	**72,401**
Income tax expense/(benefit)	47,817	-32,476
Profit after tax	**214,914**	**104,877**
Minority interest	-5,589	-4,896
Net income	**209,325**	**99,981**
Basic earnings per share (HUF)	**2,030**	**987**
Diluted earnings per share (HUF)	**2,005**	**986**

Unaudited Consolidated Statements of Changes in Shareholders' Equity 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
Opening balance 1 January, 2004	**93,128**	**145,157**	**7,832**	**8,606**	**2,857**	**166,308**	**330,760**	**99,981**	**523,869**	**155,752**
Effect of IFRS 2—Cost of share-based payment	—	—	—	—	234	—	234	-234	—	—
Restated opening balance 1 January, 2004	**93,128**	**145,157**	**7,832**	**8,606**	**3,091**	**166,308**	**330,994**	**99,747**	**523,869**	**155,752**
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
Closing balance 30 June, 2004	**94,238**	**149,932**	**6,251**	**9,283**	**14,093**	**260,103**	**439,662**	**80,965**	**614,865**	**65,915**
Opening balance 1 January, 2005	**94,634**	**151,764**	**8,387**	**-3,184**	**14,679**	**260,103**	**431,749**	**208,434**	**734,817**	**68,020**
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	—
Restated opening balance 1 January, 2005	**94,634**	**151,764**	**8,387**	**-3,184**	**14,679**	**288,089**	**459,735**	**208,434**	**762,803**	**68,020**
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
Closing balance 30 June, 2005	**93,315**	**132,211**	**4,237**	**13,981**	**10,417**	**479,525**	**640,371**	**133,916**	**867,602**	**73,284**

Audited Consolidated Statements of Changes in Shareholders' Equity for the years ended 31 December, 2004 and 31 December, 2003

(HUF millions)	Share capital	Hedging reserve	Translation reserve	Treasury shares	Equity component of compound debt instruments	Retained earnings	Total reserves	Net income	Total
Balance 1 January, 2003 as previously reported	**93,245**	**2,081**	**-7,038**	**-20,926**	**—**	**272,817**	**246,934**	**65,262**	**405,441**
Effect of early adoption of IAS 21	—	—	4	—	—	-4	—	—	—
Balance 1 January, 2003 as restated	**93,245**	**2,081**	**-7,034**	**-20,926**	**—**	**272,813**	**246,934**	**65,262**	**405,441**
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
Balance 31 December, 2003	**93,128**	**7,832**	**8,606**	**-21,427**	**2,857**	**332,892**	**330,760**	**99,981**	**523,869**
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
Balance 31 December, 2004	**94,634**	**8,387**	**-3,184**	**-20,753**	**17,678**	**428,730**	**430,858**	**209,325**	**734,817**

Unaudited Consolidated Statements of Cash-Flows for the periods ended 30 June, 2005 and 30 June, 2004

	30 June, 2005	30 June, 2004 restated*
	HUF millions	HUF millions
Profit from operations	**167,624**	**109,505**
Adjustments to reconcile operating profit to net cash provided by operating activities		
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
Operating cash flow before changes in working capital	**194,129**	**155,583**
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
Net cash provided by operating activities	**180,120**	**171,198**
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
Net cash used in investing activities	**-93,869**	**-114,103**
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
Net cash provided by financing activities	**-119,909**	**-48,856**
(Decrease) / increase in cash and cash equivalents	**-33,658**	**8,239**
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
Cash at the end of the period	**56,780**	**72,369**

* Changes in IFRS effective from 1 January, 2005 were adopted by the Group and prior periods have been restated as required by the standards.

Audited Consolidated Statements of Cash-Flows for the years ended 31 December, 2004 and 31 December, 2003

	31 December, 2004	31 December, 2003
	HUF millions	HUF millions
Profit from operations	**249,591**	**83,071**
Adjustments to reconcile operating profit to net cash provided by operating activities		
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
Operating cash flow before changes in working capital	**377,994**	**180,405**
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
Net cash provided by operating activities	**324,381**	**203,158**
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
Net cash used in investing activities	**-224,811**	**-298,529**
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
Net cash provided by financing activities	**-75,657**	**114,639**
Increase in cash and cash equivalents	**23,913**	**19,268**
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
Cash at the end of the year	**88,126**	**62,841**

CONFLICTS OF INTEREST

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 the Issuer and their duty to the Issuer.

A. Ferenc Horváth: Mr Horváth's brother, Dr. István Horváth is the CEO of Vértes Volán Rt. There is a transportation contract between MOL and Vértes 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 some corporate matters.

D. Mr Hatina, a member of the Supervisory Board, holds shares in Slovbena a.s. and Slovintegra a.s., which have signed a sale and purchase agreement with MOL in November 2002 regarding their 31.6% interest in Slovnaft and subscribed shares in the related closed capital increase of MOL.

MATERIAL CONTRACTS

The Issuer has not entered into any material contract outside of the ordinary course of business, which could result in it or any Group member being under an obligation or entitlement that is material to the Issuer's ability to perform its obligations under the Notes.

TAXATION

Hungarian Taxation

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

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

Taxation of foreign resident corporation Noteholders

Under the Act LXXXI of 1996 on Corporate Tax and Dividend Tax (the **Corporation Tax Act**), Hungarian resident taxpayers have a full, all-inclusive tax liability, while foreign resident corporations have a limited tax liability.

Foreign resident corporations are subject to Hungarian taxation on the income received through a permanent establishment in Hungary or dividends received from Hungary.

Interest on Notes paid to foreign resident Noteholders by resident legal entities and any capital gain realised by a foreign resident Noteholder on the sale of Notes is not subject to tax in Hungary if the foreign resident Noteholders has no permanent establishment in Hungary.

Taxation of foreign resident individual Noteholders

The Act CXVII of 1995 on Personal Income Tax (the **Personal Income Tax Act**) applies to the tax liability of Hungarian and foreign private individuals. The tax liability of Hungarian resident private individuals covers the worldwide income of such persons, while foreign resident private individuals' tax liability is limited only to their income originating in Hungary or income that is otherwise taxable in Hungary on the basis of international treaties or reciprocity.

In the case of a foreign resident individual Noteholder, the income derived from interest payments or the income deriving from the difference between the issue price and the nominal value of the Notes, is subject to 0 per cent. tax.

The Personal Income Tax Act determines which type of interest and the maximum amount up to which the realised income can be treated as "interest". All other interest type income which is not covered by the definition of the Hungarian Personal Income Tax Act or which exceeds the amount defined there is treated as "other income" for Hungarian tax purposes.

Pursuant to the provisions of the Personal Income Tax Act, the origination of "other income" is the state where the private individual has a tax residency. Therefore, such other income realised by a foreign resident private individual is not taxable in Hungary, since it is deemed to be originating from the state where the foreign resident private individual has a tax residency.

In the case of a foreign resident individual Noteholder, the income derived from capital gains will not be taxable in Hungary under the provisions of the Personal Income Tax Act.

If the foreign resident private individual has a permanent establishment in Hungary, his income may be subject to personal income tax in Hungary according to the provisions of the Personal Income Tax Act.

The provisions of a relevant double tax treaty concluded between the state where the investor is tax resident and the Republic of Hungary, may override Hungarian tax laws.

Luxembourg Taxation

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

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 Notes, nor is any Luxembourg withholding tax payable upon redemption or repurchase of the Notes, except for interest payments made by a Luxembourg paying agent to individual beneficial owners who are tax resident of (i) 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 (ii) of certain non-EU countries and territories which have agreed to adopt similar measures than 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 Notes

A Luxembourg holder of Notes 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 Notes.

A corporate holder of Notes, 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 Notes are attributable, must include any interest received or accrued, any redemption premium, as well as any gain realised on the sale or disposal of Notes, in its taxable income for Luxembourg income tax assessment purposes. The same inclusion applies to an individual holder of Notes, 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 Notes are attributable.

An individual holder of Notes, 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 Notes. A gain realised by an individual holder of Notes, 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 Notes, is not subject to Luxembourg income tax, provided this sale or disposal took place more than six months after the Notes were acquired. However, any portion of such gain corresponding to accrued but unpaid interest income is subject to Luxembourg income tax.

Net Wealth Taxation of holders of Notes

Any holder of Notes, whether he/she/it is resident of Luxembourg for tax purposes or, if not, he/she/it maintains a permanent establishment or a fixed place of business in Luxembourg to which the Notes are attributable, is subject to Luxembourg wealth tax on such Notes, except if the holder of Notes 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 is a capital company governed by the law of 15 June, 2004 on venture capital vehicles.

Other Taxes

Neither the issuance nor the transfer of Notes 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 Notes is a resident of Luxembourg for tax purposes at the time of his death, the Notes are included in his taxable estate for inheritance tax assessment purposes.

Gift tax may be due on a gift or donation of Notes 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, from 1 July, 2005, 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 be 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 agreed to adopt similar measures (a withholding system in the case of Switzerland) with effect from the same date.

SUBSCRIPTION AND SALE

The Managers have, in a subscription agreement (the **Subscription Agreement**) dated 30 September, 2005 agreed with the Issuer the basis upon which they or any of them agree to purchase the Notes. Any such agreement will extend to those matters stated under "*Form of the Notes*" and "*Terms and Conditions of the Notes*".

United States

The Notes 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 (as defined in Regulation S under the Securities Act) except in certain transactions exempt from the registration requirements of the Securities Act.

The Notes are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986 and regulations thereunder.

Each Manager has represented and agreed that it will not offer, sell or deliver Notes (a) as part of their distribution at any time or (b) otherwise until 40 days after the completion of the distribution, as determined and certified by the relevant Manager or, in the case of an issue of Notes on a syndicated basis, the relevant lead manager, of all Notes of the Tranche of which such Notes are a part, within the United States or to, or for the account or benefit of, U.S. persons. Each Manager has further agreed that it will send to each Manager to which it sells any Notes during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

Until 40 days after the commencement of the offering of any Series of Notes, an offer or sale of such Notes within the United States by any Manager (whether or not 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

Each Manager has represented and agreed that:

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

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

Japan

The Notes have not been and will not be registered under the Securities and Exchange Law of Japan (the **Securities and Exchange Law**) and each Manager has agreed that it will not offer or sell any Notes, 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 and any other applicable laws, regulations and ministerial guidelines of Japan.

Hungary

If the Notes 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.

France

Each of the Managers and the Issuer has represented and agreed that:

(i) it has only made and will only make an offer of Notes to the public (*appel public à l'épargne*) in France in the period beginning on the date of publication of a prospectus in relation to those Notes 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 général* of the AMF and ending at the latest on the date which is 12 months after the date of such publication; or

(ii) it has only made and will only make an offer of Notes to the public in France (*appel public à l'épargne*) and/or it has only required and will only require the admission to trading on Euronext Paris S.A. 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

(iii) otherwise, it has not offered or sold and will not offer or sell, directly or indirectly, Notes 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 Notes, 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

Each Manager has agreed that it will comply with all applicable securities laws and regulations in force in any jurisdiction in which it purchases, offers, sells or delivers the Notes or possesses or distributes this Prospectus and will obtain any consent, approval or permission required by it for the purchase, offer, sale or delivery by it of the Notes under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers, sales or deliveries and neither the Issuer nor any of the other Managers shall have any responsibility therefor.

None of the Issuer and the Managers represents that the Notes may at any time lawfully be sold in compliance with any applicable registration or other requirements in any jurisdiction, or pursuant to any exemption available thereunder, or assumes any responsibility for facilitating such sale.

GENERAL INFORMATION

Authorisation

The issue of Notes have been duly authorised by a resolution of the Board of Directors of the Issuer dated 23 September, 2005.

Listing of Notes

Application will be made to the CSSF in its capacity as competent authority under the Luxembourg act relating to prospectuses for securities (*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 Notes to be admitted to trading on the Luxembourg Stock Exchange's regulated market and to be listed on the Luxembourg Stock Exchange.

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 constitutional documents (with an English translation thereof) of the Issuer;

(b) the consolidated audited financial statements of the Issuer 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 the Issuer for the period ended 30 June, 2005;

(d) the Subscription Agreement, the Agency Agreement, the Trust Deed and the forms of the Global Notes, the Notes in definitive form and the Coupons;

(e) a copy of this Prospectus; and

(f) any supplements to this Prospectus and any other documents incorporated herein or therein by reference.

Clearing Systems

The Notes 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 Notes allocated by Euroclear and Clearstream, Luxembourg are 023126427 and XS0231264275 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 30 June, 2005 and there has been no material adverse change in the financial position or prospects of the Issuer since 31 December, 2004.

Solvency of the Issuer

There are no recent events particular to the Issuer which are material to an evaluation of the Issuer's solvency.

Litigation

Save as disclosed in the section entitled "E. Litigation" beginning on page 69 of this Prospectus, neither the Issuer nor any other member of the Group is or has been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware) in the 12 months preceding the date of this document which may have or have had in such period had a significant effect on the financial position or profitability of the Issuer or the Group.

Auditors

The auditors of the Issuer are Ernst & Young Könyvvizsgáló Korlátolt Felelősségű Társaság of Váci út 20. H-1132 Budapest, Hungary, who have audited the Issuer's consolidated accounts, without qualification, in accordance with International Financial Reporting Standards for each of the financial years ended on 31 December, 2003 and 31 December, 2004. The auditors of the Issuer are members of the following professional bodies: (i) *Magyar Konyvvizsgaloi Kamara* (Chamber of Hungarian Auditors); (ii) Association of Chartered Certified Accountants (ACCA); and (iii) Information Systems Audit and Control Association (ISACA). The auditors of the Issuer have no material interest in the Issuer.

The reports of the auditors of the Issuer are included or incorporated in the form and context in which they are included or incorporated, with the consent of the auditors who have authorised the contents of that part of this Prospectus. As far as the Issuer is aware and is able to ascertain, no facts have been omitted which would render the reproduced information inaccurate or misleading.

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.

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