

**DOCUMENTS FOR THE ANNUAL GENERAL MEETING**

**ANNUAL GENERAL MEETING OF  
MOL HUNGARIAN OIL AND GAS PLC.**

**TO BE HELD ON APRIL 27, 2006**

**Date of the AGM: April 27, 2006, 10 a.m.**

***Venue of the AGM: Danubius Thermal & Conference Hotel, Helia***

Dear Shareholder,

The Annual General Meeting of the Company was convened by the Board of Directors of MOL Rt. for April 27, 2006, 10 a.m., whose agenda is contained in the announcement published as stipulated in the by-laws. The announcement was published on 27 March 2006 in Magyar Tőkepiac, Népszabadság and Magyar Nemzet.

1. Closing the business year 2005:

- Report of the Board of Directors on the 2005 business operation as prescribed by the Act on Accounting, presentation of the proposal for the financial statements (parent company and consolidated in compliance with International Financial Reporting Standards as adopted by the European Union ("IFRS")) and distribution of profit after taxation
- The auditor's report on the 2005 report, closing statement
- Report of the Supervisory Board on the 2005 reports and the proposal for the distribution of profit after taxation
- Decision on the 2005 financial statements of the company as prescribed by the Act on Accounting (parent company and consolidated in compliance with IFRS), distribution of profit after taxation, amount of dividend
- Decision on the approval of the corporate governance declaration

2. Appointment of the auditor and determination of its remuneration

3. Authorization of the Board of Directors to acquire treasury shares

4. Amendment of the Company's name, branch offices, business premises and scope of activity as well as the related amendments of Article 3 (Name of the company), Article 4 (Business premises and branch offices) and Article 5 (Scope of activity) of the Articles of Association

5. Amendment of the Articles of Association:

- The amendment of the articles relating the convening and procedure of the general meeting; registration of the shareholders or the nominees; shareholder proxy; closing of the share register and blocking of shares following the closing of the share register
- The amendment of the articles related to the Board of Directors and the Supervisory Board
- The authorisation of the Board of Directors in the Articles of Association to amend the Company's name, seat, business premises and branch offices and the Company's scope of activity, except for the main activity
- The amendment of the articles relating to the payment of dividend

6. Approval of the amended charter of the Supervisory Board;

7. Appointment of the audit committee of the Company from the independent members of the Supervisory Board

8. Approval of the principles and the framework of company's long-term incentive scheme for senior employees

The brochure contains an English language translation of the original proposals and information in accordance with the items on the agenda. The purpose of documents prepared for the General Meeting is to promote a better orientation of the particular items on the agenda and to provide information for the shareholders regarding the questions to be discussed at the General Meeting.

## **Technical remarks**

### ***Registration***

The shareholders shall be registered at the place of the General Meeting between 8.30 a.m. and 9.45 a.m. when the registration in the shareholders' register shall be checked on the basis of the shareholders' identification cards or, in the absence of such, other documents proving personal identity; in case of legal entities and/or in case of a shareholder not being present in person, a personal proxy made out in the name of the proxy holder and document proving personal identity of such proxy holder must be presented; the voting machines entitled to a pre-determined number of votes shall be delivered on basis of such documents. It is essential that a proxy should expressly entitle its holder to participate at the annual general meeting of MOL Rt, to be held on April 27, 2006, as a general proxy will be deemed insufficient. The proxy should contain the following particulars:

- name, number of the identification card and signature of the authorizing principal, and, in case of legal entities, the name and corporation authorized signature of the legal entity;
- name, number of identification card, mother's name and permanent address of the proxy-holder;
- name and address of witnesses;
- in case of legal entities, certification of the representation power of the individuals signing the proxy.

### ***Method of voting***

The Board of Directors recommends machine voting to be used at the general meeting, regarding which detailed information shall be provided on the spot. The general meeting shall first decide on the approval of the machine-based electronic voting system, then elect the keeper of the minutes, the certifiers of the minutes with the official vote counters.

# Item No. 1

## Report of the Board of Directors on the Business Activity of 2005

### Management Discussion and Analysis

#### Financial highlights

In 2005, EBITDA reached HUF 427.9 bn (USD 2.1 bn), which was more than double the USD 1 bn strategic target set in 2002. Operating profit increased by HUF 55.7 bn, to HUF 304.4 bn, supported by previous years' investments in quality downstream assets, resulting in favourable product slate and higher product sales volumes, strong commodity prices and increased international oil production. ROACE calculated on EBIT basis was 27.6%, which also exceeded significantly the 17% strategic target. Net income attributable to equity holders of the parent grew by HUF 36.3 bn to HUF 244.9 bn, primarily reflecting the strong operating performance, which was partially compensated by higher financial expenses, due to a loss on foreign currency denominated debt in 2005, compared to a foreign exchange gain in 2004.

- **Exploration and Production** operating profit in 2005 increased by HUF 51.2 bn, to HUF 105.4 bn, as a strong increase in international crude production and higher transfer prices compensated for the lower domestic hydrocarbon production, increasing royalty charges on Hungarian and Russian operations and the impairment on certain domestic fields.
- **Refining and Marketing** contributed operating profit of HUF 177.0 bn, an increase of 11.4% over 2004, supported by higher motor fuel sales volumes, higher refinery crack spreads and efficiency gains coming from integrated Group operations.
- **Natural Gas** operating profit decreased by HUF 14.4 bn to HUF 50.4 in 2005, as regulatory price increases did not compensate for a steep rise in import gas prices.
- The **Petrochemical** segment's operating profit increased to HUF 19.1 bn in 2005, compared to a HUF 18.8 bn profit in 2004. Operational result was positively influenced by the higher sales from the new capacities and the efficiency improvement measures. However, these effects were negatively impacted by the unfavourable changes in the business environment in the second half of 2005.
- We continued our **efficiency improvement** programs and achieved a USD 305 million benefit by the end of 2005, which exceeds the USD 260 million combined efficiency target set for end of 2005. As a result of the efficiency improvement measures Group closing headcount decreased by 5.2% y-o-y, from 15,465 to 14,660.
- **Capital expenditures** and investments decreased to HUF 236.7 bn in 2005, compared to HUF 254.5 bn in 2004, partly due to lower acquisition costs and lower spending in petrochemical segment. Capital expenditures included the acquisition of Shell's operation in Romania and cash spent for the ownership transfer of the storages cushion gas in 2005. MOL's gearing ratio on December 31, 2005 was 23.4% (24.4% on December 31, 2004). Net debt at the end of December 2005 was HUF 322.4 bn.
- **Operating cash flow** before changes in working capital grew by 3% to HUF 397.2 bn. Including working capital changes and corporate tax paid, operating cash flow decreased by 13% to HUF 282.2, mainly due to higher commodity prices and higher stocks of petrochemical products.

#### Overview of the Business Environment

International, regional and domestic economic trends significantly influenced MOL's operational and financial performance in 2005. In particular, results were positively influenced by higher refinery crack spreads, but negatively influenced by the unfavorable trend in the petrochemical market in the second half of the year. Average consumer-price inflation in Hungary was 3.6% in 2005, as opposed to 6.8% in 2004. In Slovakia, average consumer-price inflation decreased further to 2.7% in 2005, compared to 7.5% in 2004. The

Hungarian Forint strengthened further against the US Dollar: the average exchange rate in 2005 was 1 USD = 199.7 HUF, while in 2004 it was 1 USD = 202.6 HUF. The Forint also strengthened (1.4%) against the Euro in 2005. In 2005, the Slovak Crown strengthened by 3.6% against the EUR compared to the 3.5% in the previous year. The rate of Hungarian GDP growth in 2005 was 4.1%, compared to 4.6% in 2004, while GDP growth in Slovakia was 6.0% in 2005 (5.5% in 2004). In the Central European region, demand for motor gasoline decreased by 1.0%, while demand for motor gas oil increased by 6-7% in 2005.

In 2005, the average Brent price increased significantly, by 42.5% in USD terms. Due to an even higher increase in the quoted prices of main oil products, crack spreads (the difference between the quoted price of a given oil product and that of crude oil), which basically influence the profitability of crude oil processing, increased significantly compared to 2004. In 2005, the average Brent quoted crude oil price was 54.5 USD/bbl, up from 38.3 USD/bbl in 2004. The average Med quoted price of Ural Blend, which makes up the bulk of MOL's crude oil purchases, was 50.9 USD/bbl, up by 47.5% compared to 2004 (34.5 USD/bbl). Average FOB Rotterdam gasoline, gas oil and naphtha prices increased by 34%, 41% and 26%, respectively. Crack spreads of MOL's main products increased significantly. The average crack spread of FOB Rotterdam gasoline and gas oil increased by 10% and 34%, respectively, while naphtha decreased by 29%.

The new EU compliant Decree (69/2003 GKM) on natural gas pricing entered into effect as of January 1, 2004. In 2004, the Hungarian natural gas market became liberalized. In spite of the fact that all non-residential consumers are entitled to leave the public utility supply, so far few wholesale-consumers have opted to purchase from the competitive free market. The portion of the competitive free market reached 9% of the total turnover. Official price regulation still exists in every segment of the public utility supply, but in the free market only the access to the transmission network is regulated. In order to mitigate price increases for residential consumers, a compensation fund was established. The compensation is financed by the supplementary royalty paid on the natural gas produced from domestic hydrocarbon fields put into production before 1998 and, following an amendment to the regulation, the excess revenue earned (above the regulated return) by the public utility wholesale company. Compensation is provided to direct residential consumers of natural gas, households supplied with communal district-heating produced from natural gas and to residential consumers receiving propane-butane gas via the pipeline.

Variations in weather conditions cause fluctuations in natural gas and certain petroleum product sales. Whereas the effect of seasonal demand fluctuations is reflected in MOL Group's operational results, due to the integrated value chain of the Company, these effects are moderated. Demand for natural gas and heating fuels is typically lowest in the third quarter and highest between October and March, while demand for motor fuels is generally highest in the second and third quarters and lowest in the first quarter.

The Company pays a mining royalty to the Hungarian State on the crude oil and natural gas produced in Hungary at a basic rate of 12%. Pursuant to the Gas Supply Act (GSA) adopted in 2003 and the related by-laws, the rate of the mining royalty payable on gas produced from fields put into production before 1998 increased from 57% in 2004, to 64% in 2005, due to an increase in import gas price. This supplementary royalty on domestically produced gas reduced the Exploration and Production segment's profitability by HUF 50.4 bn in 2005. The rate of the mining royalty on this gas, assuming that the increase in gas prices will be lower than the increase in the acknowledged cost, will gradually decrease as per the predetermined formula until it reaches almost the previous 12%, which has been modified from 2006 with an 1.02-1.05 multiplier by the agreement signed between MOL and the Minister of Economy and Transport. This agreement determines the royalty payable by MOL on domestic hydrocarbon production from the existing fields until 2020.

**Key financial data by business segments**  
(in HUF million)

<b>NET EXTERNAL SALES REVENUES<sup>1</sup></b>	<b>2005</b>	<b>2004</b>
Exploration and Production	30,650	40,328
Refining and Marketing	1,499,912	1,183,106
Natural Gas	641,331	530,344
Petrochemicals	275,961	197,539
Corporate and other	7,310	4,513
<b>TOTAL</b>	<b>2,455,164</b>	<b>1,955,830</b>
<b>OPERATING PROFIT<sup>2</sup></b>	<b>2005</b>	<b>2004</b>
Exploration and Production	105,374	54,167
Refining and Marketing	176,987	158,902
Natural Gas	50,415	64,841
Petrochemicals	19,114	18,801
Corporate and other	(41,788)	(51,977)
Inter-segment transfers <sup>3</sup>	(5,666)	4,037
<b>TOTAL</b>	<b>304,436</b>	<b>248,771</b>

<sup>1</sup> Net external sales revenues include only sales to third parties outside the Group. Total sales of the segments in 2005 were as follows: Exploration and Production (HUF 289,497 million), Refining and Marketing (HUF 1,767,374 million), Natural Gas (HUF 661,761 million), Petrochemicals (HUF 355,697 million) and Corporate and other segment (HUF 97,258 million) while in 2004 were as follows: Exploration and Production (HUF 208,521 million), Refining and Marketing (HUF 1,347,458 million), Natural Gas (HUF 541,279 million), Petrochemicals (HUF 246,309 million) and Corporate and other segment (HUF 93,006 million).

<sup>2</sup> The operating profit includes the profit arising both from sales to third parties and transfers to the other business segments. Exploration and Production transfers crude oil, condensates and LPG to Refining and Marketing and natural gas to the Natural Gas segment. Refining and Marketing transfers chemical feedstock, propylene and isobutane to Petrochemicals and Petrochemicals transfers various by-products to Refining and Marketing. The internal transfer prices are based on prevailing market prices. The gas transfer price equals the average import price. Segmental figures contain the results of the fully consolidated subsidiaries engaged in the respective segments.

<sup>3</sup> The inter-segment transfers show the effect on operating profit of the change in the amount of unrealised profit deferred in respect of transfers between segments. Unrealised profits arise where the item transferred is held in inventory by the receiving segment and a third party sale takes place only in a subsequent period. For segmental reporting purposes the transferor segment records a profit immediately at the point of transfer. However, at the company level profit is only reported when the third party sale has taken place. Unrealised profits arise principally in respect of transfers from Exploration & Production to Natural Gas and from Refining & Marketing to Petrochemicals.

### **Sales, Operating Expenses and Operating Profit**

In 2005, Group net sales revenues increased by 26% to HUF 2,455.2 bn, primarily reflecting increased average selling prices and sales volumes of refining products and natural gas. Group sales to customers outside Hungary reached HUF 1,175.9 bn, representing 48% of total sales.

The value of raw materials and consumables used increased by 34%, above the growth rate of sales. Within this, raw material costs increased by 43%, primarily as a result of the sharp increase in crude oil import prices and the increased quantity of import crude oil processed.

Cost of goods sold increased by 27%, mainly as a consequence of the higher import prices and higher volume of gas sold from import, representing HUF 109.6 bn and HUF 7.1 bn, respectively. The value of material-type services used increased by 4% to HUF 111.3 bn.

Other operating expenses increased by 13% to HUF 217.3 bn, mainly due to the HUF 8.6 bn Slovnaft fine in Q3 2005 in Slovakia and an increase in the royalty payment in Hungary.

Personnel expenses for the period decreased by 12%, reflecting the comparative effect of the severance payment redemption provision of HUF 25.0 bn recognised in Q4 2004 and a decrease of more than 5% in MOL Group average headcount, compensated by an additional HUF 2.2 bn severance payment redemption charge in 2005 (at MOL Rt.), and the average salary increase of more than 8%.

From production costs incurred in the period under review, HUF 55.7 bn is attributable to the increase in the level of finished goods inventory and work in progress, as opposed to the HUF 19.0 bn in 2004.

The work performed by the enterprise and capitalised decreased by 8%, but remains significant at HUF 24.9 bn, compared to HUF 27.3 bn in 2004.

## **Exploration and Production Overview**

The Exploration and Production segment's operating profit was HUF 105.4 bn, 94.5% higher compared to 2004, mainly due to a strong increase in international crude production and the favourable industry environment.

Crude oil transfer prices increased by 40.5% and natural gas transfer prices increased by 42.8% compared to 2004.

Segmental operating revenues increased by HUF 84.5 bn, due to an increase in international crude oil sales volumes and prices. Operating expenses increased by HUF 33.3 bn, mainly due to the increased production at the ZMB project and the increased royalty charges. The royalty paid by MOL Rt., related to the domestic production increased by HUF 12.5 bn to HUF 71.8 bn in 2005 compared to HUF 59.3 bn in 2004, of which the supplementary gas royalty was HUF 50.4 bn in 2005, which was HUF 8.6 bn higher than in 2004. The Group has performed an impairment test on upstream assets and recorded a subsequent impairment of HUF 7.5 bn on certain suspended and depleted fields in Q4 2005.

ZMB's operating profit contribution increased by HUF 21.4 bn compared to 2004, as a result of high crude oil prices and by 19.2% higher production volumes.

At the end of 2005, the Group held 32 exploration blocks in Hungary with a total area of 36,279 km<sup>2</sup>. An extension of a 33<sup>rd</sup> exploration blocks permit was underway at the end of 2005. In 2005, 10 territorial permits for exploration expired, 9 of these were extended, with the remaining permit extension process in progress.

According to our reserve review, total net proved developed and undeveloped reserves of the MOL Group at December 31, 2005 were 213.8 Mboe, consisting of 19.2 billion m<sup>3</sup> (133.7 Mboe) of natural gas (including condensate and gas liquids) and 10.8 Mt (80.1 Mboe) of crude oil. The net proved developed and undeveloped reserves in December 31 2004 were 240.2 Mboe, consisting of 21.5 billion m<sup>3</sup> (152.9 Mboe) of natural gas and 11.7 Mt (87.3 Mboe) of crude oil. Reserve replacement ratio was 91.4% in 3 years average.

In Hungary, the new findings and field extension increased our gross proved reserves by 2.8 Mboe, while a further increase of 11.1 Mboe was the result of the intensified enhanced oil recovery techniques. However, due to the supplementary mining royalty, in net reserves, the growth was 2.2 Mboe and 7.7 Mboe, respectively. 2005 annual production reduced our net reserves by 17.2 Mboe, the revaluation of reserves reduced them by a further 26.5 Mboe.

During the year 2005 a new independent reserve audit was carried out by DeGolyer and MacNaughton related to the date of 31 December 2004 to determine the actual recoverable

reserves of the ZMB field. According to this audit, the 2004 year-end gross proved reserves of the ZMB field increased by 48.2 Mbbl to 125.4 Mbbl. Consequently, MOL's share of gross proved reserves, taking into account the 10 Mbbl production in 2005, was 52.8 Mbbl as of 31 December 2005.

In 2005, our promising foreign exploration projects have been continued in Kazakhstan, Pakistan and Yemen.

MOL plc, through its wholly-owned subsidiary MOL Caspian Ltd, joined the Fedorovsky exploration project in Kazakhstan, buying a 22.5% share on 1 July 2004. Currently, the operation is in the second exploration phase, the minimum required work program consists of drilling two exploration wells and carrying a seismic survey. The seismic work and first exploration well have been completed in 2005, with the Zhaik 1 encountering good oil and gas shows below 5600 M that could however not be tested commercially due to technical reasons. A 3D seismic survey has been subsequently shot over the field and an appraisal well will spud at the end of 2006. The second commitment well, Zharsuat 5 is currently being drilled. The consortium has already obtained a two year extension (until 11 May 2008) with an additional work commitment to undertake a 100 km<sup>2</sup> 3D seismic survey.

At MOL's entry the partners in the consortium were Avery Worldwide Ltd (operator with 55 % interest) and FIOC (22.5 %). Following the purchase of the Avery Worldwide Ltd stake by EVL, MOL plc increased its stake with the purchase of an additional 5% interest (27.5 %) and also assumed the position of Operating Shareholder in February 2005.

In Pakistan, Tal Block – operated by MOL – we started the extended well test of Manzalai-1 at the beginning of 2005, 9,700 boe natural gas and 600 bbls condensate are produced daily. Both products are marketed locally. The second appraisal well was drilled in the Manzalai field (Manzalai-2 well), which resulted in significant gas and condensate tests from four reservoir levels. Based on these two successful discoveries, we will apply for the development concession in 2006.

We have started an extended well test on the Makori oil/condensate/gas field, which was discovered in January 2005. Its planned production capacity is 2,500 bbls oil and 3,000 boe natural gas per day. A 3D survey over the field was acquired in 2005.

With the continuation of our extensive exploration strategy in 2006, we plan three additional exploration wells in the coming year. Henceforward, MOL will actively seek further potential exploration opportunities in this area and submitted a bid for a new exploration block.

In Yemen MOL involved a majority partner in Block 49 in 2006, without taking on any additional commitments, under which we farmed out 75% interest to CCC in return for a complete carry of our share of costs for an additional exploration well.

At Block 48, we expanded the work program with further seismic acquisition to reduce the geological risk. Due to the delay in our activities, we applied for and obtained an extension of exploration entitlement from the Yemeni authorities. We will be initiating a two well exploration drilling program in mid 2006.

Gross domestic crude oil production fell by 12% to 0.9 Mt in 2005, compared to the previous year. Natural gas production (net dry) was 2.8 bn m<sup>3</sup> in 2005, down 2.9% year-on-year, due to the drop of the reservoir pressure caused by the exploitation and the increase in water production of the fields. However, these negative factors were partly compensated by the positive development at the Hosszúpályi gas field.

In 2005, average daily net domestic oil and natural gas production was 73.3 th boe, compared to 78.4 th boe in 2004. Gas production was 73.3% of the total production calculated on a crude oil equivalent basis (73.5% in 2004). Condensate volumes decreased by 10.0 % from 229 kt to 206 kt. We applied the Enhanced Oil Recovery (EOR) method in 7 fields, representing 13.8% of total domestic crude oil production (0.1 Mt).

Joint production at the ZMB field continued in 2005. Our previous partner exited and Russneft, a fully integrated oil company, became our new partner in the joint venture. MOL's



share of the crude oil production of the field reached 1.369 Mt, which represents 19.2% growth compared to the previous year.

Despite the positive effect of international crude oil production, MOL Group's unit cost of hydrocarbon production (including gasoline production) increased to 3.4 USD/boe in 2005, from the 3.1 USD/boe in 2004. The average production cost of natural gas rose from 17.9 USD/thousand m<sup>3</sup> to 19.2 USD/thousand m<sup>3</sup>, primarily due to the decreasing domestic production and the strong HUF against USD.

## **Refining and Marketing Overview**

Segmental operating profit in 2005 increased by 11.4% to HUF 177.0 bn, mostly due to higher sales volumes and favourable refinery crack spreads.

Our competitive advantages, synergies achieved at MOL and at Slovnaft, integration of businesses, strong Brent-Ural spread and active supply chain management also contributed to the favourable results. These positive factors were partially offset by the strengthening of local currencies against USD.

In 2005, we processed 12.4 Mt of crude oil, compared to 12.0 Mt in the previous year (an increase of 3.1%). The Hungarian processing volume (7.0 Mt) increased by 10.3 % compared to 2004. The proportion of domestic crude oil processed at the Duna Refinery fell further to 13.0 % (in 2004 15.5 %), while the volume of processed imported crude oil increased by 13.6 %. 5.4 Mt imported crude oil was processed by Slovnaft.

Aggregate refinery product sales volumes were 11.8 Mt (including sales of LPG and gas products, but excluding the chemical raw materials sold to the Petrochemical segment), compared to 11.5 Mt in 2004. The reason for the improvement (0.3 Mt) was mainly the higher sales in Hungary, in addition to an increase in exports.

Our Hungarian refinery product sales increased by 0.2 Mt despite the decrease of 27% in fuel oils, mainly due to increased sales of higher value products like diesel and kerosene.

MOL Group's sales outside Hungary increased from 7.4 million tons to 7.5 million tons. Within this, sales in the Slovak market decreased slightly compared to the sales in the previous year. The increase in export sales outside Hungary and Slovakia reached 0.1 million tons (2%), due to optimisation of refinery production and Group level supply chain management, resulting in greater regional competitiveness.

Hungarian motor fuel demand increased by 7.1%, while MOL motor fuel sales increased to a lesser degree by 6%. Demand for motor gasoline remained flat, due to high market prices and a continuing shift to diesel usage. Our sales decreased by 1.0%, resulting in a slightly lower, but still significant market share. At the same time, the Hungarian consumption of motor diesel, which is more directly influenced by general economic development than price changes, increased significantly by 12%, due to the increasing demand of the transportation industry, which was mainly the consequence of intensive investments in the Hungarian market. Import competition strengthened due to the high crack spreads. Nevertheless, our diesel sales increased by nearly 11%.

Our Hungarian gasoline refinery coverage reached 81 %, while our diesel refinery coverage was 82 %.

The trend in the Slovak motor fuel market was similar to that in Hungary. Motor gasoline market increased only to lesser extent, while demand for diesel grew by more than 11 %. Due to the growing import pressure, our gasoline sales decreased, and we could not fully exploit the advantage of the growth of diesel market. Therefore, compared to 2004 our refinery coverage decreased in case of both products amounting to 64 % and 65 %, respectively.

At the same time, we kept our market share in the end-user market in Hungary and slightly increased the same in Slovakia.

MOL Group's motor fuel export in the region<sup>1</sup> decreased by 2 %, but total motor fuel sales in the region<sup>2</sup> increased by 1 % due to the higher diesel sales in Hungary and Slovakia.

In 2005, the volume of petrochemical feedstock supplied to the Petrochemical segment increased significantly, in line with the recent cracking capacity increase completed last year as part of Group level optimisation. Total volume delivered increased by 32%, compared with the previous year, to 2,515 kt, of which naphtha was 1,746 kt, chemical gasoil 365 kt (in 2004 the same product volumes were 1,427 kt and 120 kt, respectively). In 2005, the Petrochemical segment supplied 708 kt of by-products to the Refining and Marketing segment for further processing (in 2004, this figure was 556 kt).

As a result of the growth in infrastructure investments, demand for bitumen rose sharply, both in Hungary and in Slovakia. As a result, our domestic bitumen sales increased significantly in both countries, by 48% and 65%, respectively.

In 2005, the Hungarian LPG and gas product market shrank. In the case of wholesale, we retained our market leading position achieving 76%, while our retail market share remained unchanged at 22% in 2005.

As a result of the completion of our EU 2005 refinery development project, from July 2005, our total gasoline and diesel production has max. 10 ppm sulphur content, strengthening our quality leader position. Also from July, we have met the biofuel blending regulation according to the different legal regulations in the region.

Our autogas sales ie. the liquid petroleum gases sales for car refuelling increased by 30.9% compared to the previous period. The number of MOL autogas sales sites reached 159, which represents an increase of 6 sites.

In 2005, MOL's Hungarian retail fuel sales volumes decreased by 3.8%, compared to 2004. The main reason for this was the significant increase in prices, which made motor gasoline demand more price sensitive and encouraged a small part of the customer base to turn to discount retailers. The 9.7% fall in gasoline sales was partially compensated by a 3.2% rise in diesel sales, primarily due to strengthened card sales. According to the Hungarian Petroleum Association (MÁSZ) data, our retail market share was 37.4% for gasoline and 44.6% for gasoil. Hungarian shop sales remained unchanged in 2005, and the value of shop sales per litre of motor fuel sold increased by 3.3%. Our card sales also increased by 6.2% compared to 2004.

In 2005, we continued the fuel station network efficiency-improvement project in Slovakia, which resulted in the closure of 31 lower turnover stations in 2005.

As a result of network rationalisation, in 2005, motor fuel sales per station increased by 8.3% in Slovakia. Slovnaft's retail market share in Slovakia was 40.8% for gasoline, and 42.6% for gasoil, according to SAPPO data. In the Slovakian market, our shop sales increased by 22.9% in 2005 compared to 2004, in large part due to higher sales of tobacco and motorway stickers and the opening of restaurants at two filling stations. As a result, shop sales per litre of motor fuel sold increased by 24.1%.

In Romania (MOL Romania and MOL Ro Comert together), our fuel sales more than doubled (increased by 104.3%) in 2005, as a result of network expansion (mainly due to the Shell Romania acquisition with 59 filling stations) and increased sales volume per site. MOL's retail market share in Romania increased significantly to 13% in 2005. Our shop sales in Romania increased by 45.1% in 2005 y-o-y, due to both the above mentioned network growth and the fact that from January 1, 2005, the Romanian government introduced the use of motorway stickers.

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<sup>1</sup> Sales in Austria, Slovenia, Czech Republic, Poland, Romania, Croatia, Bosnia-Herzegovina and Serbia-Montenegro.

<sup>2</sup> Sales in the above listed countries, in Hungary and Slovakia.

As part of our retail network efficiency improvement program, we sold 11 filling stations in the Czech Republic in 2005.

At the end of the year, the MOL Group had 834 fuel stations (incl. non fully consolidated subsidiaries). Of these, within our main markets, 355 were operated in Hungary, 253 in Slovakia, 30 in the Czech Republic and 137 in Romania.

### **Petrochemicals Overview**

In 2005, the operating profit of the Petrochemical segment reached HUF 19.1 billion, which represents a slight improvement compared to 2004 (HUF 18.8 bn). Profit was favourably influenced by increasing sales volumes from new capacities and improving internal efficiency, while the unfavourable market trends in the second half, had a negative effect on the operating profit. Petrochemical integrated margin increased slightly y-o-y, but in H2 2005 it decreased by 14.7% compared to the same period of the previous year.

In 2005, quoted polyethylene (PE) prices increased by 11-14% while polypropylene (PP) quotations increased by 16-17% year-on-year. The spread between PE product and feedstock quotations increased by 3-5% year-on-year, while in the case of PP products, the margin decreased by 7%.

In 2005, polymer sales volumes increased by 22.2% compared with 2004, to 1,065 kt. The most significant growth was in HDPE (+68%) and PP (+17%) products, mainly as a result of the start up of the new HDPE plant in TVK, and the new PP plant in Slovnaft.

Polymer sales by product group were: 26% LDPE (low-density polyethylene), 33% HDPE (high-density polyethylene) and 41% PP. Total sales increased by 22.5% to 1295 kt, due to the start up of the new Olefin and HDPE plants at TVK and new PP plant at Slovnaft.

The Hungarian polymer sales decreased by 4 kt compared to the previous year; while in Slovakia it decreased by 9 kt. The portion of export sales in our sales portfolio increased, due to new capacities and the improving commercial efficiency as a result of single channel sales activity. In addition, we raised our sales mainly in the Italian, French and German markets.

The MOL Group's market share in Hungary was 58%, 41% and 56% in the LDPE, HDPE and PP markets respectively, which represents a 7 and 12 percentage point decrease in the case of LDPE and PP, respectively. Market share of HDPE increased slightly, due to the increasing volume of the new HDPE product.

In other European markets, polymer sales increased by 206 kt, while total sales increased by 209 kt compared to 2004, mainly due to the aforementioned reclassification of the product portfolio. In our main export markets (Germany, France and Italy), TVK and Slovnaft implemented a single-channel sales operation, focusing on the higher profitability end-user markets. As a result, the volume of polymer sales to these markets increased compared to last year.

### **Natural Gas Overview**

The Natural Gas segment reported an operating profit of HUF 50.4 bn compared to a profit of HUF 64.8 bn in 2004.

The operating profit of the Segment was determined by the profit contribution of three gas companies (MOL Natural Gas Supply Plc., MOL Natural Gas Transmission Plc. and MOL Natural Gas Storage Plc.).

On 12 January 2006, following the approval of the European Commission, MOL and E.ON-Ruhrgas International (ERI) agreed, that the closing of the partial sale of MOL's midstream gas business would take place on 31 March 2006. Based on the forecast 31 March 2006 balance sheet, the purchase price adjusted by the maximum amount of all potential future financial liabilities of MOL related to this transaction is EUR 300 million for the 100% ownership stakes in WMT and Storage. In addition to this ERI will make a payment of EUR

600 million to assume 100% of the debt of Storage and WMT (also based on a forecast 31 March 2006 balance sheet). Through the adjustment mechanism, the purchase price can potentially be increased by a maximum amount of EUR 290 million. The settlement of these price adjustments will take place semi-annually until the end of 2009.

Considering the announced agreement with ERI on the sale of two of the three gas subsidiaries, MOL Natural Gas Supply Plc and MOL Natural Gas Storage Plc, we report the result and operational data, which influence the profit of the segment, by gas company in contrast to previous practice.

Unconsolidated operating profit of **MOL Natural Gas Supply Plc** decreased to an operating loss of HUF 4.7 bn in 2005, compared to HUF 15.9 bn operating profit in 2004. The main reason for the loss was the fact that the increase in the regulated price compared to 2004 could not compensate for the significant growth in the import purchase price. In 2004, HUF 22.2 bn was paid to the compensation fund, which is the source of the residential gas-price compensation system, since the actual import price was lower than the import price acknowledged in the regulation.

In 2005, the import purchase price expressed in HUF increased by 40.9%, while the USD based import prices increased by 40.5%. Public utility sales price increased by 19.2% on average compared to 2004 as a consequence of the regulatory price increases. The natural gas wholesale price increased by 13% from January 15th 2005 and by 8% from August 1st. From November 1st 2005, the non-household gas price increased by 19% among non-household customers. Competitive prices on the open market increased by 22.4% compared to 2004. As a result of the higher sales price and the 1.5% higher sales volumes the revenue from external wholesale natural gas sales increased from HUF 519.6 bn to HUF 628.0 bn.

In 2005, 10.9 bcm of natural gas was sold from import and 2.6 bcm from domestic production. Total sales increased by 1.5% mainly as a consequence of the 2.4% higher natural gas demand from gas suppliers. At the same time, sales to power plants decreased by 7.1%, due to both the lower electricity production of domestic power plants as a consequence of cheaper electricity import, and the fact that the consumption of the TVK Power Plant was transferred to the own consumption category. Industrial and other gas sales increased by 21.3% as a consequence of our successful competitive marketing activity.

Sales of imported gas were 10.9 bcm, 80.5% of total sales in 2005, compared with 10.6 bcm and 80.0% in 2004. Sales from domestic production were 2.6 bcm in 2005, which broadly in line with the previous year's level.

According to the new gas business regulation of January 1st 2004, all non-residential consumers are entitled to leave public utility supply. Several consumers took advantage of this opportunity and entered into the competitive market. Competitive trade sales represented 3.1% of the total natural gas sales realized outside of MOL Group in 2005 compared to the 2.2% in 2004.

Unconsolidated (calculated based on revaluated assets) operating profit of **MOL Natural Gas Transmission Plc** increased to HUF 27.3 bn in 2005 compared to HUF 24.3 bn in 2004. Operating revenues increased from HUF 63.0 bn in 2004 to HUF 67.2 bn in 2005. Unconsolidated operating revenues increased significantly, mainly due to an increase in gas transmission tariffs, but also due to the volume increase in booked (realised) capacity. The non-regulated transit natural gas transmission revenue increased by 17% (to HUF 11.7 bn) compared to 2004, due to an increase in transit fees, and also the increase (1.7%) in transmitted natural gas volume. However, these positive factors were partly compensated by a 1.2% increase in operating costs.

Unconsolidated (calculated based on revaluated assets) **operating profit of MOL Natural Gas Storage Plc** increased to HUF 16.2 bn in 2005 compared to 14.8 HUF bn in 2004, mainly due to an increase in natural gas production of the Zsana-North field belonging to the Zsana underground gas storage. Revenues increased by HUF 2.6 bn, of which fee storage revenues increased by HUF 0.8 bn (from HUF 26.1 bn in 2004 to HUF 26.9 bn in 2005).

The mobile closing inventory was 2.46 bcm at the end of 2005, 2.0% higher than the closing volume in 2004, due to milder winter weather. In addition to mobile natural gas stored for MOL Natural Gas Supply Plc., in 2005 storage was also provided to other traders.

### **Corporate and other segment overview**

In 2005, the Corporate and Other segment's negative operating result was lower by HUF 10.2 bn compared with the previous year, mainly due to the creation of a provision for the redemption of the additional severance payment obligation (HUF 22.0 bn) in 2004. The favourable single effect of the above mentioned provision was moderated by an additional HUF 2.2 bn severance payment redemption charge in 2005 (at MOL Rt.) and higher insurance fee owing to the increasing risk perception of a natural disaster by the insurance companies.

### **Financial results**

A net financial expense of HUF 32.2 bn was recorded in 2005 compared to a net financial gain of HUF 5.2 bn in 2004, due to the combined effect of interest payable, which amounted to HUF 12.8 bn, and a foreign exchange loss of HUF 22.0 bn incurred in the period compared to the interest payable of HUF 16.8 bn and foreign exchange gain of HUF 28.8 bn recognised in 2004.

### **Income from associates**

Income from associates was HUF 4.9 bn, including INA's 2005 contribution of HUF 4.4 bn (net of additional depreciation on assets revalued to their fair value).

### **Profit before Taxation**

As a result of the above-mentioned items, the Group's profit before taxation in 2005 was HUF 277.2 bn, compared to HUF 261.9 bn in 2004.

### **Taxation**

Corporate tax expense decreased by HUF 18.7 bn to HUF 29.2 bn in 2005, primarily as a result of a 100% tax holiday of MOL Rt. and TVK Rt. in 2005. The current tax expense is the result of the contribution of Slovnaft (at 19%) and the gas companies (at 16%), of HUF 12.6 bn and HUF 2.5 bn respectively, as well as the corporate tax payable on the profit of the ZMB joint venture (HUF 5.1 bn).

### **Cash flow**

<b>Consolidated Cash Flow (HUF million)</b>	<b>2005</b>	<b>2004</b>
Net cash provided by operating activities	282,159	324,381
of which movements in working capital	(81,914)	(43,016)
Net cash used in investing activities	(259,461)	(224,811)
Net cash provided by/(used in) financing activities	(49,472)	(75,657)
Net increase/(decrease) in cash equivalents	(26,774)	23,913

Operating cash flow in 2005 was HUF 282.2 bn, a 13% decrease compared to the 2004 figure. Operating cash flow before movements in working capital increased by 3%. The change in the working capital position decreased funds by HUF 81.9 bn, arising from an increase in inventories (particularly due to the higher purchase price of crude oil at the refineries), accounts receivable, other receivables and accounts payable (of HUF 94.4 bn, HUF 62.4 bn, HUF 1.3 and HUF 79.0 bn, respectively) and a decrease in other current liabilities (of HUF 2.8 bn). Corporate taxes paid amounted to HUF 33.1 bn related to cash outflow of Slovnaft's corporate tax liabilities arising in 2004 and prepayments for 2005.

Net cash used in investing activities was HUF 259.5 bn compared with HUF 224.8 bn in 2004. Within this organic capital expenditure increased compared to 2004 due to the payment for the ownership of 3.1 bcm cushion gas. Cash spent in 2005 also includes the consideration paid for Shell Romania, while the comparative figure in 2004 contains our further acquisition of shares in Slovnaft and TVK. The acquisition of other investments in Q4 2005 reflects the payment for the extension of production licences for 12 mining sites and an agreement on future royalty obligations. Net financing cash outflows amounted to HUF 49.5 bn, mainly as a combined result of the net repayment of short-term debt, HUF 21.9 bn buyback of treasury shares on the Budapest Stock Exchange and the issuance of the Eurobond. The share buyback from Slovintegra-Slovbena is shown in the Acquisition of subsidiaries item.

## **Funding Overview**

MOL Group total debt increased from HUF 347.3 billion at year-end 2004 to HUF 387.1 billion by 31 December 2005. The currency composition of total debt was 78.0% EUR, 20.1% USD and 1.8% HUF as of 31 December 2005. The net gearing ratio amounted to 23.4%.

The main pillars of bank loan funding were the EUR 600 million syndicated loan facility, and the EUR 700 million syndicated loan facility agreed in May 2005. The EUR 700 million syndicated facility is the largest ever bank facility in Hungary, as well as the largest recorded unsecured bank facility in the oil & gas sector in Central and Eastern Europe. The strongly improving profitability enabled the full prepayment of the three EIB facilities in 2005.

In September 2005, MOL launched its debut eurobond transaction which received a BBB-investment grade credit rating from Standard & Poor's Rating Services. The fixed rate EUR 750 million Eurobonds have ten-year maturity and are listed on the Luxembourg Stock Exchange. The Eurobond transaction represents the largest non-sovereign bond issue to date in Central Europe and the first ever BBB-rated issuer that have debuted with a bond of ten-year maturity. The transaction is consistent with MOL Group's financial strategy aimed at diversification and rationalisation of the debt portfolio.

## **Risk management**

The financial risk management function is centralized at the MOL Group. All risks are integrated and measured at group level using the Monte Carlo simulation. The Company may enter into various types of forwards, swaps and options in managing its commodity, foreign exchange and interest rate risk resulting from cash flows from business activities and financing arrangements.

- In a high gearing situation, the objective of risk management will be to reduce the probability of breaching debt covenants, where a breach would seriously impair the company's ability to fund its operations. To achieve this objective, risk management will focus both on (1) reducing the volatility of the company's EBITDA with derivative instruments and (2) structuring the debt with an appropriate currency mix.
- In a low gearing situation, the objective of risk management would be to maintain discipline in CAPEX spending and finding other productive uses for its excess equity in order to increase financial flexibility, such as seeking a higher credit rating and lowering the cost of debt.

As a general approach, risk management consider the business as a well balanced integrated portfolio so it does not hedge particular element of the commodity exposure. In the field of commodity risk management MOL has entered into small quantities of commodity swap transactions for refined product contracts aimed at temporary inventory hedging during 2005, due to maintenance works at the refinery. The gas legislation, which came into force in 2004 pledges a quasi pass-through mechanism of the inherent commodity risk.

In order to minimise foreign exchange risk, the Company follows the basic economic currency risk management principle that the currency mix of the debt portfolio should reflect the currency mix of the net operating cash flow of the Group. The Company used cross currency swaps to adjust the currency mix of the debt portfolio.

As result of the successful 750M EUR Bond transaction, the fixed portion of the total debt increased substantially. In the current interest rate environment our objective is to maintain a relatively high fixed portion of debt. Both existing USD floating to fixed swaps and EUR Bond's fixed interest rate levels are close to historic lows. Taking into account that even medium term gearing level is expected to increase, allowing temporarily higher fixed portion will benefit MOL on the long term, by securing fixed interest rates at historic low levels.

During 2005, a new country limit system was implemented with regard to country/counterparty risks inherent in the MOL's E&P strategy in order not to jeopardize in the achievement of strategic goals due to exaggerate concentration of investments .

In line with MOL's risk management policy, no speculative transactions are allowed. Any derivative transaction the company may enter is under ISDA agreements.

### Capital expenditure program

<b>MOL Group CAPEX (HUF million)</b>	<b>2005</b>	<b>2004</b>
Exploration and Production	34,418	31,137
Refining and Marketing*	92,199	78,961
Natural Gas	85,844	14,648
Petrochemicals	11,105	57,543
Corporate and other	13,137	72,185
<b>Total</b>	<b>236,703</b>	<b>254,474</b>

\* Including Refining & Marketing, Retail and Lubricants segments

MOL Group capital expenditure (including exploration costs) decreased from HUF 254.5 bn in 2004, to HUF 236.7 bn in 2005 due to lower acquisition spending and to the fact that the major refinery and petrochemical investments were completed in 2004.

In 2005, the **Exploration and Production segment** spent HUF 10.2 bn on domestic exploration activities, HUF 1.0 bn more than in the previous year. HUF 11.5 bn was spent on production projects at previously explored fields, compared to HUF 13.8 bn in 2004. Within the framework of these projects we developed previously explored fields, continued the implementation of hydrocarbon production intensification programs and maintained the technical level of our production facilities.

In case of international exploration and production projects, the capital expenditure increased by HUF 4.4 bn from HUF 8.2 bn in 2004 due mainly to the growth of acquisition and exploration costs in Kazakhstan and Russia.

Capital expenditure of the **Refining and Marketing segment** was down by HUF 5.0 bn in 2005 compared to the previous year. The reason for the decrease was that the EU-2005 diesel projects were completed both at MOL and Slovnaft in 2004. The implementation of the main projects at the MOL refinery - Waste water treatment unit and EU 2005 gasoline project in Duna Refinery – resulted in a lower capital expenditure compared to the previous year.

MOL-Slovnaft implemented several logistics projects within the Refining and Marketing Division (HUF 9.0 bn in 2005, vs HUF 5.1 bn in 2004) in order to ensure the reliable

operation of the pipeline system and logistics depots. By completing these projects we comply with the stricter regulatory and environmental requirements.

At the **Retail segment** capital expenditure grew to HUF 34.2 bn of which HUF 3.2 bn was spent in the North Region (Slovnaft). The capital expenditure at segment level increased by HUF 18.2 bn compared to the previous year due to the acquisition of Shell-Romania network.

In the **Lubricant segment** the implementation of projects was nearly at the same level in year 2005 and 2004 (HUF 0.4 bn in 2005, HUF 0.3 bn in 2004). In 2005 we modernised the production of our anti-freezer and coolant products.

The capital expenditure in the **Natural Gas segment** exceeded the previous year's level by HUF 71.1 bn. There are two main components of the substantial capital expenditure in 2005 (HUF 85.8 bn): the non-planned re-qualification of cushion gas (HUF 5.0 bn) and the cash spent for the ownership of previously state-owned cushion gas (HUF 60.0 bn) by the Storage subsidiary at the end of 2005.

But even without the above mentioned elements, there is a growth in the capital expenditure caused by the Gas turbine emission reduction and the Capacity increase of compressor stations projects at the Transmission subsidiary and the peak capacity increase at the Zsana UGS Storage subsidiary.

Capital expenditure decreased by HUF 46.4 bn at the **Petrochemical segment**, due to the fact that the Strategic Development project at TVK and the Poly-propylene Plant at Slovnaft were completed in 2004.

TVK HDPE-2 Plant was put into operation at the end of the year 2004. After the test run, the Olefin-2 Plant came into operation on 30<sup>th</sup> of September 2005. The implementation of the new Polypropylene Plant (PP-3) at Slovnaft was completed in the first quarter of 2005. Following the completion of these investments, MOL Group's ethylene capacity increased by 250 kt, while the total polymer capacity by 455 kt.

The capital expenditure of the **Corporate and Other** segment decreased by HUF 59.1 bn to HUF 13.1 bn in 2005. In 2004, Slovnaft and TVK share acquisitions were included here. Nevertheless, HUF 9.3 bn was spent on the development of the Group information system compared to HUF 5.8 bn in 2004.

## **Corporate Social Responsibility**

For the MOL Group, 2005 was an important period in the development of Corporate Social Responsibility (CSR) activities and in the integration of diverse aspects of environmental, social and economic issues. Compared with international practice, and based on our own experience, we believe that our efforts towards Sustainable Development have not been in vain and will provide great returns in the long run.

### **Walking the talk**

Sustainable Development is about ensuring better quality of life for present and future generations. It is a complex, constantly developing theory, extending to all areas of social and economic life and environmental protection. The role of the companies within this issue is defined within the framework of the underlying principles of Corporate Social Responsibility.

Issues and events are interconnected regardless of the area in question, and form a global system in which we all live. Identifying the real causal relationship between them is one of the most difficult tasks that we all have to perform. This clearly suggests that we have to reconsider our way of life, and take a different, inter-disciplinary approach to prevent further deterioration in the environment, called sustainability approach. MOL Group's mission throughout the region, therefore, is to satisfy customer requirements while keeping sustainable development principles in mind, to conduct exemplary operations and to provide excellent services to the region.



## **Our commitment**

The MOL Group Management is committed to contributing to Sustainable Development: supporting research, innovation and environmental protection, promoting best practices, and not only complying with regulations but performing beyond their requirements. Sustainability is not an issue on its own but an integral part of our long-term business success. Our commitment requires continuous self-improvement and that environmental, social and economic matters are considered to be equal in our operational and planning processes. We want to become a company with an exemplary record in every field and would like our stakeholders to regard us for the quality of the products and services we offer and the values we hold dear.

### **Environmental protection**

- Launch of a new integrated wastewater treatment system at the Duna refinery
- Commencement of biofuel production
- Marketing of exclusively sulphur-free fuels

## **Integrating responsibility**

Creating equal opportunities for present and future generations is nothing else but taking responsibility for our actions at all levels. As an international company, working in a multicultural environment, we have gained sufficient experience and considerable latitude to introduce appropriate measures and assume full responsibility regarding the environmental and social impact of our operation, the quality of our products and services, our employees and their working conditions, and our relations with those with whom we share a common environment, both now, and in the future. We respect local and national cultures and values, and promote cooperation, share knowledge, information and best practices across MOL Group. In relations with local communities, we make every effort to become a reliable partner in supporting public activities, outstanding programmes, children, and talented people.

### **Social Investment Programmes**

- May we help? - Child healing programme
- May we help? - Talent support programme
- Travelling Theatre programme

## **Performance indicators**

An indicator helps us to understand where we are, in which direction we are going, and what strategies we have to adopt to achieve our goals. Reliability and relevance are vital to the understanding of processes and trends in our operation. The MOL Group carefully collects and monitors data, conducts qualitative surveys and constantly revises its methods of gathering and managing information necessary to support long-term pollution prevention as well as safe and sustainable operations.

## **Integrating views**

Multi-stakeholder processes call for the involvement and cooperation of all parties concerned, and are indispensable to the successful application of the principles of Sustainable Development to everyday practice. Moreover these processes provide the participants with the opportunity to articulate and representing their own ideas and interests. This means that besides effective performance, MOL Group also needs to continue promoting multi-stakeholder dialogue to meet the emerging needs of consumers and society as a whole.

### **Human resources**

- Launch of a new group-level English language training programme
- Modification of the severance payment system

## **Extended product liability**

Product liability is an ongoing responsibility which calls upon all those involved in product life cycles to share accountability for reducing the environmental impacts of products. Thus, we are committed to integrate, as far as possible, the stewardship concept with our management

and production processes. By reconsidering the characteristics of our products and production processes, our relationship with the supply chain, and with the ultimate customer, we are more and more capable of providing better products and services, reducing costs in certain cases, and providing customers with more value with less impact on the environment.

### **Communicating performance**

We are aware of our responsibility for the information that MOL shares with its stakeholders. As a result, we seek to fulfil specific information requirements and communicate at special events, whilst actively keeping our stakeholders fully up-to-date to ensure the highest transparency possible. In particular, we have a policy to avoid selective disclosure of price sensitive information. We report every year on the performance and achievements of our subsidiaries regarding sustainable development issues. Moreover, our new internet site, launched recently, presents the latest news and detailed information on the issues covered by our annual SD Report.

### **MOL Group's New Strategic and Financial Targets for the Period 2006-2010**

MOL Group's 2006-2010 strategy is to maximise the potential from growth in "New Europe" while providing superior returns. Drawing on the Company's disciplined transaction track record and proven transformation and integration skills, MOL will continue to develop the group with a focus on growth and efficiency, while at the same time closely managing risk at the group level.

#### Key strategic targets\*

- o Group EBITDA over USD 3.5 billion
- o Group ROACE\*\* of 15%
- o Efficiency improvement of USD 285 million

\*based on a set of market assumptions

\*\*NOPLAT based

#### MOL has set the following targets to achieve these goals.

- **Growth:** MOL's growth targets have been developed with due consideration given to the maintenance of the balance of MOL's business portfolio. MOL aims to increase upstream integration by tripling hydrocarbon production and to double refined product sales. MOL plans to achieve the ambitious growth targets set for the period by dedicating USD 5.4 billion to organic CAPEX and through the continued application of a disciplined approach to inorganic opportunities.
- **Efficiency:** Further improvement of operating efficiency by creating an annual total efficiency improvement of USD 285 million by 2010. This includes significant cost savings and better utilisation of assets.
- **Financial flexibility:** MOL intends to keep its gearing ratio below 30% and maintain its investment grade credit rating. The Company plans to gradually increase the absolute level of dividend to reach the dividend payout ratio of its peers (currently 30% of normalised earnings) by 2010.

In order to reach the aforementioned targets, we have developed the following strategies for our businesses:

### **Upstream – Build a focused but robust core portfolio**

In the Exploration & Production segment MOL intends to triple its hydrocarbon production to 300,000 boe per day and triple the total oil and gas reserves to 900 million boe by 2010 whilst maintaining reserve replacement costs under USD 6.5 boe. In the Central-Eastern European region MOL aims to expand its exploration and production activity jointly with INA

and through new corporate acquisitions. On the international arena MOL intends to develop a strong and focused portfolio applying rigorous evaluation and portfolio management methods. This includes at least one new core region, in addition to the existing ones, in order to secure long-term reserve growth and at the same time maintaining a balance between exposure to exploration and development & production projects. As a result of these actions, the company intends to increase the contribution of upstream to Group EBITDA to over 40%.

#### **Downstream – Develop further the competitive quality refinery pool and an efficient retail network**

In the Refining & Marketing segment, MOL's aim is to maintain quality leadership and leverage it to new growth markets. Therefore the company intends to invest in quality-related upgrades in core markets in order to improve product yields and will also take advantage of appropriate acquisitive opportunities. The Company intends to increase refined product sales to reach 500,000 barrels per day and at the same time to maximise profit through the extension of the supply chain philosophy.

MOL targets an efficient group retail network of 1,500 stations by 2010 within its refineries' supply radius.

#### **Petrochemical business – Leverage investments of the past three years**

In the Petrochemical segment, leveraging on its quality asset base, competitive cost structure and favourable geographic position, MOL's aim is to strengthen its traditional niche market position on Western European markets, while developing its presence in strategic Eastern European growth markets.

#### **Gas transmission – Generate additional non-regulated transit income**

In the Gas business, MOL's objective is to maintain its position in transmission, which provides not only stable cash generation but growth opportunities. The company's intention is to increase its participation further in the regional gas transit business, utilising its unique geographical location.

In summary, MOL is confident that its current capabilities, its proven track record and new strategy provide it with a solid base to meet future challenges. MOL's vision is to set the pace from "New Europe" by achieving outstanding growth, above-average profitability and superior returns from its portfolio.

# MOL HUNGARIAN OIL AND GAS PUBLIC LIMITED COMPANY

## Balance sheet – Assets for the year ending on 31 December 2005

Statistical code: 10625790-2320-114-01

Company registration number: 01-10-041683

Data in HUF million

<b>Code</b>	<b>Description</b>	<b>Previous year</b>	<b>Adjustments for previous years</b>	<b>Current year</b>
<b>A.</b>	<b>NON-CURRENT ASSETS</b>	<b>888,863</b>	<b>37</b>	<b>1,108,774</b>
<b>I.</b>	<b>INTANGIBLE ASSETS</b>	<b>7,193</b>	<b>(9)</b>	<b>15,621</b>
1.	Capitalised cost of foundation and restructuring	0	0	0
2.	Capitalised research and development cost	192	(5)	201
3.	Property rights	223	0	1,359
4.	Intellectual property	6,778	(4)	9,053
5.	Goodwill	0	0	5,008
6.	Advances on intellectual property	0	0	0
7.	Revaluation of intangible assets	0	0	0
<b>II.</b>	<b>PROPERTY, PLANT AND EQUIPMENT</b>	<b>292,842</b>	<b>46</b>	<b>354,491</b>
1.	Land and building and related property rights	165,643	(22)	220,811
2.	Plant, machinery and vehicles	92,348	746	101,019
3.	Other equipment, fixtures and vehicles	8,307	48	8,425
4.	Livestock	0	0	0
5.	Assets under construction	25,209	(726)	23,837
6.	Advances on assets under construction	1,335	0	399
7.	Revaluation of property, plant and equipment	0	0	0
<b>III.</b>	<b>NON-CURRENT FINANCIAL INVESTMENTS</b>	<b>588,828</b>	<b>0</b>	<b>738,662</b>
1.	Long-term investments	515,778	0	544,843
2.	Long-term loans to related parties	72,588	0	193,538
3.	Other long-term investments	1	0	1
4.	Long-term loans to other investments	0	0	0
5.	Other long-term loans	461	0	280
6.	Long-term debt securities	0	0	0
7.	Revaluation of financial investments	0	0	0
8.	Fair valuation difference of financial investments	0	0	0

Budapest, 24 March 2006

# MOL HUNGARIAN OIL AND GAS PUBLIC LIMITED COMPANY

## Balance sheet – Assets for the year ending on 31 December 2005

Statistical code: 10625790-2320-114-01

Company registration number: 01-10-041683

Data in HUF million

<b>Code</b>	<b>Description</b>	<b>Previous year</b>	<b>Adjustment s for previous years</b>	<b>Current year</b>
<b>B.</b>	<b>CURRENT ASSETS</b>	<b>522,553</b>	<b>538</b>	<b>827,784</b>
<b>I.</b>	<b>INVENTORIES</b>	<b>63,368</b>	<b>234</b>	<b>112,867</b>
1.	Raw materials and consumables	20,791	272	36,388
2.	Unfinished production and semi-finished products	16,196	0	39,334
3.	Grown, fattened and other livestock	0	0	0
4.	Finished products	20,411	0	30,496
5.	Merchandises	5,970	(38)	6,649
6.	Advances on stocks	0	0	0
<b>II.</b>	<b>RECEIVABLES</b>	<b>364,112</b>	<b>304</b>	<b>492,349</b>
1.	Receivables from the supply of goods and services (customers)	55,918	168	69,372
2.	Receivables from related parties	301,050	9	315,841
3.	Receivables from other investments	966	1	3,208
4.	Receivables from bills of exchange	0	0	0
5.	Other receivables	6,137	126	103,761
6.	Fair valuation difference of receivables	0	0	0
7.	Positive valuation difference of derivative transactions	41	0	167
<b>III.</b>	<b>SECURITIES</b>	<b>84,378</b>	<b>0</b>	<b>211,441</b>
1.	Investments in related parties	50,212	0	62,774
2.	Other investments	0	0	360
3.	Treasury shares	32,606	0	146,387
4.	Debt securities for trading purposes	1,560	0	1,920
5.	Fair valuation difference of securities	0	0	0
<b>IV.</b>	<b>CASH AND CASH EQUIVALENTS</b>	<b>10,695</b>	<b>0</b>	<b>11,127</b>
1.	Cash and cheques	973	0	1,560
2.	Bank accounts	9,722	0	9,567
<b>C.</b>	<b>PREPAYMENTS</b>	<b>17,080</b>	<b>(157)</b>	<b>28,788</b>
1.	Accrued income	9,454	0	2,172
2.	Prepaid cost and expenses	4,906	(157)	26,616
3.	Deferred expenses	2,720	0	0
<b>TOTAL ASSETS</b>		<b>1,428,496</b>	<b>418</b>	<b>1,965,346</b>

Budapest, 24 March 2006

**MOL HUNGARIAN OIL AND GAS PUBLIC LIMITED COMPANY**  
**Balance sheet – Liabilities for the year ending on 31 December 2005**

Statistical code: 10625790-2320-114-01  
 Company registration number: 01-10-041683

Data in HUF million

<b>Code</b>	<b>Description</b>	<b>Previous year</b>	<b>Adjustments for previous years</b>	<b>Current year</b>
<b>D.</b>	<b>SHAREHOLDERS' EQUITY</b>	<b>855,746</b>	<b>(318)</b>	<b>1,254,389</b>
I.	SHARE CAPITAL	108,619	0	108,985
	Of which: treasury shares at nominal value	5,338	0	7,412
II.	REGISTERED BUT UNPAID CAPITAL (-)	0	0	0
III.	SHARE PREMIUM	174,288	0	219,164
IV.	RETAINED EARNINGS	366,760	0	332,097
V.	TIED-UP RESERVE	86,039	0	195,336
VI.	VALUATION RESERVE	(44)	0	0
1.	Revaluation adjustment reserve	0	0	0
2.	Fair valuation reserve	(44)	0	0
VII.	NET INCOME FOR THE PERIOD	120,084	(318)	398,807
<b>E.</b>	<b>PROVISIONS</b>	<b>74,572</b>	<b>0</b>	<b>105,695</b>
1.	Provisions for expected liabilities	72,765	0	105,695
2.	Provisions for future expenses	0	0	0
3.	Other provisions	1,807	0	0
<b>F.</b>	<b>LIABILITIES</b>	<b>481,964</b>	<b>571</b>	<b>588,393</b>
<b>I.</b>	<b>SUBORDINATED LIABILITIES</b>	<b>0</b>	<b>0</b>	<b>0</b>
1.	Subordinated liabilities to related parties	0	0	0
2.	Subordinated liabilities to other investment	0	0	0
3.	Subordinated liabilities to third parties	0	0	0
<b>II.</b>	<b>LONG-TERM LIABILITIES</b>	<b>197,572</b>	<b>0</b>	<b>329,774</b>
1.	Long-term loans	0	0	0
2.	Convertible bonds	9,800	0	7,740
3.	Liability from bond issue	0	0	189,548
4.	Liabilities from capital investment and development loans	187,679	0	88,759
5.	Liabilities from other long-term loans	0	0	0
6.	Long-term liabilities to related parties	6	0	43,677
7.	Long-term liabilities to other investments	0	0	0
8.	Other long-term liabilities	87	0	50

Budapest, 24 March 2006

**MOL HUNGARIAN OIL AND GAS PUBLIC LIMITED COMPANY**  
**Balance sheet – Liabilities for the year ending on 31 December 2005**

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Statistical code: 10625790-2320-114-01  
 Company registration number: 01-10-041683

Data in HUF million

<b>Code</b>	<b>Description</b>	<b>Previous year</b>	<b>Adjustments for previous years</b>	<b>Current year</b>
<b>III.</b>	<b>SHORT-TERM LIABILITIES</b>	<b>284,392</b>	<b>571</b>	<b>258,619</b>
1.	Short-term borrowings	15,000	0	0
	Of which: convertible bonds	0	0	0
2.	Short-term loans	128,206	0	86,855
3.	Advances from customers	741	0	786
4.	Liabilities from the supply of goods and services (suppliers)	62,125	275	93,041
5.	Bills of exchange	0	0	0
6.	Short-term liabilities to related parties	25,905	(10)	39,244
7.	Short-term liabilities to other investments	119	0	27
8.	Other short-term liabilities	49,190	306	38,666
9.	Fair valuation difference of liabilities	0	0	0
10.	Negative valuation difference of derivative transactions	3,106	0	0
<b>G.</b>	<b>ACCRUALS</b>	<b>16,214</b>	<b>165</b>	<b>16,869</b>
1.	Deferred revenues	92	162	29
2.	Accrued cost and expenses	8,913	3	9,188
3.	Other deferred income	7,209	0	7,652
<b>TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES</b>		<b>1,428,496</b>	<b>418</b>	<b>1,965,346</b>

Budapest, 24 March 2006

# MOL HUNGARIAN OIL AND GAS PUBLIC LIMITED COMPANY

## Income Statement for the year ending on 31 December 2005

Statistical code: 10625790-2320-114-01

Company registration number: 01-10-041683

Data in HUF million

<b>Code</b>	<b>Description</b>	<b>Previous year</b>	<b>Adjustments for previous years</b>	<b>Current year</b>
01.	Net domestic sales revenue	969,430	188	1,162,806
02.	Net export sales revenue	202,375	(7)	308,866
<b>I.</b>	<b>NET SALES REVENUES</b>	<b>1,171,805</b>	<b>181</b>	<b>1,471,672</b>
03.	Changes in own produced inventory	9,711	0	33,223
04.	Work performed by the enterprise and capitalised	6,368	0	5,182
<b>II.</b>	<b>CAPITALISED OWN PERFORMANCE</b>	<b>16,079</b>	<b>0</b>	<b>38,405</b>
<b>III.</b>	<b>OTHER OPERATING INCOME</b>	<b>20,469</b>	<b>(44)</b>	<b>36,920</b>
	of which: reversed impairment	0	0	0
05.	Raw material costs	370,423	56	593,626
06.	Value of services used	96,120	99	95,383
07.	Other services	179,911	445	186,803
08.	Cost of goods sold	118,711	(40)	130,228
09.	Value of services sold (intermediated)	2,014	72	2,439
<b>IV.</b>	<b>MATERIAL EXPENSES</b>	<b>767,179</b>	<b>632</b>	<b>1,008,479</b>
10.	Wages and salaries	32,453	1	30,788
11.	Other personnel expenses	7,007	54	21,600
12.	Tax and contribution	12,425	2	15,247
<b>V.</b>	<b>PERSONNEL EXPENSES</b>	<b>51,885</b>	<b>57</b>	<b>67,635</b>
<b>VI.</b>	<b>DEPRECIATION</b>	<b>44,252</b>	<b>132</b>	<b>46,005</b>
<b>VII.</b>	<b>OTHER OPERATING EXPENSES</b>	<b>251,534</b>	<b>(393)</b>	<b>265,085</b>
	of which: impairment	1,232	0	5,571
<b>A.</b>	<b>PROFIT OR LOSS FROM OPERATING ACTIVITIES</b>	<b>93,503</b>	<b>(291)</b>	<b>159,793</b>

Budapest, 24 March 2006



# MOL HUNGARIAN OIL AND GAS PUBLIC LIMITED COMPANY

## Income Statement for the year ending on 31 December 2005

Statistical code: 10625790-2320-114-01

Company registration number: 01-10-041683

Data in HUF million

<b>Code</b>	<b>Description</b>	<b>Previous year</b>	<b>Adjustments for previous years</b>	<b>Current year</b>
13.	Received (due) dividend	22,241	0	55,780
	of which: received from related parties	22,185	0	55,780
14.	Gain from the sale of investments	1,854	0	0
	of which: received from related parties	0	0	0
15.	Interest and exchange rate gains on financial investments	1,699	1	2,719
	of which: received from related parties	1,679	0	2,702
16.	Other received (due) interest and interest-type revenues	30,545	0	23,457
	of which: received from related parties	29,310	0	21,245
17.	Other revenues of financial transactions	25,007	12	213,464
	of which: fair valuation difference	41	0	167
<b>VIII.</b>	<b>TOTAL FINANCIAL INCOME</b>	<b>81,346</b>	<b>13</b>	<b>295,420</b>
18.	Exchange rate loss on financial investments	0	0	0
	of which: to related parties	0	0	0
19.	Interest and interest-type expenses	13,575	0	11,934
	of which: to related parties	2,041	0	1,835
20.	Impairment on investments, securities, bank deposits	3,659	0	4,365
21.	Other financial expenses	13,726	0	40,425
	of which: fair valuation difference	3,030	0	0
<b>IX.</b>	<b>TOTAL FINANCIAL EXPENSES</b>	<b>30,960</b>	<b>0</b>	<b>56,724</b>
<b>B.</b>	<b>FINANCIAL PROFIT OR LOSS</b>	<b>50,386</b>	<b>13</b>	<b>238,696</b>
<b>C.</b>	<b>ORDINARY BUSINESS PROFIT</b>	<b>143,889</b>	<b>(278)</b>	<b>398,489</b>
X.	Extraordinary revenues	209	3	785
XI.	Extraordinary expenses	628	78	467
<b>D.</b>	<b>EXTRAORDINARY PROFIT OR LOSS</b>	<b>(419)</b>	<b>(75)</b>	<b>318</b>
<b>E.</b>	<b>PROFIT BEFORE TAXATION</b>	<b>143,470</b>	<b>(353)</b>	<b>398,807</b>
XII.	Income tax	6,388	(35)	0
<b>F.</b>	<b>PROFIT AFTER TAXATION</b>	<b>137,082</b>	<b>(318)</b>	<b>398,807</b>
22.	Use of retained earnings for dividend	0	0	0
23.	Approved dividend and profit share	16,998	0	0
<b>G.</b>	<b>NET INCOME FOR THE PERIOD</b>	<b>120,084</b>	<b>(318)</b>	<b>398,807</b>

Budapest, 24 March 2006

**MOL Magyar Olaj- és Gázipari Rt. and Subsidiaries**  
Consolidated balance sheet as of 31 December 2005 prepared in  
accordance with International Financial Reporting Standards

	2005	2004
	HUF million	HUF million
<b>ASSETS</b>		restated
<b>Non-current assets</b>		
Intangible assets	40,740	5,401
Property, plant and equipment, net	1,112,753	925,069
Investments in associated companies	126,354	115,105
Other investments	486	3,062
Deferred tax assets	33,480	36,210
Other non-current assets	30,363	16,538
<b>Total non-current assets</b>	<b>1,344,176</b>	<b>1,101,385</b>
<b>Current assets</b>		
Inventories	264,985	172,450
Trade receivables, net	289,348	218,950
Investments	519	-
Other current assets	65,637	53,969
Cash and cash equivalents	64,170	88,126
<b>Total current assets</b>	<b>684,659</b>	<b>533,495</b>
<b>TOTAL ASSETS</b>	<b>2,028,835</b>	<b>1,634,880</b>
<b>EQUITY AND LIABILITIES</b>		
<b>Equity attributable to equity holders of the parent</b>		
Share capital	94,020	94,634
Reserves	644,340	430,966
Net income attributable to equity holders of the parent	244,919	208,570
<b>Equity attributable to equity holders of the parent</b>	<b>983,279</b>	<b>734,170</b>
Minority interests	70,359	67,955
<b>Total equity</b>	<b>1,053,638</b>	<b>802,125</b>
<b>Non-current liabilities</b>		
Long-term debt, net of current portion	296,844	199,893
Provisions for liabilities and charges	108,045	53,647
Deferred tax liabilities	17,704	12,995
Other non-current liabilities	5,386	53,181
<b>Total non-current liabilities</b>	<b>427,979</b>	<b>319,716</b>
<b>Current liabilities</b>		
Trade and other payables	444,683	319,630
Provisions for liabilities and charges	12,256	46,038
Short-term debt	2,485	54,384
Current portion of long-term debt	87,794	92,987
<b>Total current liabilities</b>	<b>547,218</b>	<b>513,039</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>2,028,835</b>	<b>1,634,880</b>

## MOL Magyar Olaj- és Gázipari Rt. and Subsidiaries

Consolidated income statement for the year ending on 31 December 2005  
prepared in accordance with International Financial Reporting Standards

	2005	2004
	HUF million	HUF million restated
Net revenue	2,455,164	1,955,830
Other operating income	18,450	16,126
<b>Total operating income</b>	<b>2,473,614</b>	<b>1,971,956</b>
Raw materials and consumables used	1,801,177	1,345,931
Personnel expenses	107,874	123,224
Depreciation, depletion, amortisation and impairment	123,500	108,559
Other operating expenses	217,322	191,748
Change in inventories of finished goods and work in progress	(55,722)	(18,994)
Work performed by the enterprise and capitalised	(24,973)	(27,283)
<b>Total operating expenses</b>	<b>2,169,178</b>	<b>1,723,185</b>
<b>Profit from operations</b>	<b>304,436</b>	<b>248,771</b>
Financial income	8,434	36,485
Financial expense	40,592	31,330
<b>Financial (income)/expense, net</b>	<b>32,158</b>	<b>(5,155)</b>
Income from associates	4,879	7,985
<b>Profit before tax</b>	<b>277,157</b>	<b>261,911</b>
Income tax expense	29,158	47,817
<b>Profit for the year</b>	<b>247,999</b>	<b>214,094</b>
Attributable to:		
Equity holders of the parent	244,919	208,570
Minority interests	3,080	5,524

## **Proposal to Item 1 of the Agenda**

### **The auditor's Report on the 2005 Report**

Our shareholders are requested to note that the Auditor's Reports form integral parts of the Annual Report and Consolidated Annual Report for 2004 of MOL Rt. and the information set out in these reports should be considered in conjunction with the financial statements indicated in said reports (Balance-sheet and Profit and Loss Statement) and with the supplementary annexes, not present in the General Meeting materials. For a better understanding of MOL Rt.'s and MOL Group's consolidated financial position as of 31 December 2005 and the results of its operations for the year then ended, the accompanying balance sheets and statements of operations should be read in conjunction with the supplement (notes) to the financial statements.

## **Independent Auditors' Report**

on the annual financial statements presented to the shareholders' meeting for approval

**(TRANSLATION)**

To the Shareholders of MOL Magyar Olaj- és Gázipari Rt.

We have audited the accompanying balance sheet of MOL Magyar Olaj- és Gázipari Rt. ("the Company") as at 31 December 2005, which shows a balance sheet total of HUF 1,965,346 million and a profit for the year of HUF 398,807 million, the related profit and loss account for the year then ended and the notes included in the Company's 2005 annual financial statements. The annual financial statements are the responsibility of the Company's management. The auditor's responsibility is to express an opinion on the financial statements based on the audit and to assess whether the business report is consistent with the financial statements.

We issued an unqualified opinion on the Company's annual financial statements as at 31 December 2004 on 24 March 2005.

We conducted our audit in accordance with Hungarian National Audit Standards and with applicable laws and regulations in Hungary. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The annual financial statements have been prepared for the consideration of the forthcoming shareholders' meeting and do not reflect the effects, if any, of resolutions that might be adopted at that meeting.

We have audited the elements of and disclosures in the annual financial statements of MOL Magyar Olaj- és Gázipari Rt., along with underlying records and supporting documentation, in accordance with Hungarian National Audit Standards and have gained sufficient and appropriate evidence that the annual financial statements have been prepared in accordance with the Hungarian accounting law and with generally accepted accounting principles in Hungary. In our opinion, except for the matter referred to in the preceding paragraph, the annual financial statements give a true and fair view of the financial position of MOL Magyar Olaj- és Gázipari Rt. as at 31 December 2005 and of the results of its operations for the year then ended. The business report corresponds to the disclosures in the financial statements.

Without qualifying our opinion we call the Shareholders' attention to the fact, that in the course of the preparation of the annual financial statements, the Company departed from § 41.(1) of the accounting law based on its allowance described in § 4.(4) to give a true and fair view of the equity and financial position of MOL Magyar Olaj- és Gázipari Rt. as at December 31, 2005 and of the results of its operations for the year then ended. Consequently, in order to appropriately match the expenditure with the related revenue, provision for field abandonment in the amount of HUF 50,076 million had been recognized as an increase of property plant and equipment, instead of charging the amount directly to income before taxation. This treatment is consistent with that adopted in the financial statements of the Company prepared in accordance with International Financial Reporting Standards. The Company tied up capital reserve in an amount corresponding to the capitalised field abandonment provision included in the net balance of property, plant and equipment as of 31 December 2005 in order to fund the future liabilities.

Budapest, 24 March 2006

**(The original Hungarian language version has been signed)**

Ernst & Young Kft.  
Registration No. 001165

Judit Szilágyi  
Registered Auditor  
Chamber membership No.: 001368

## **Independent Auditors' Report**

*on the annual financial statements presented to the shareholders' meeting for approval*

### **(TRANSLATION)**

To the Shareholders of MOL Magyar Olaj- és Gázipari Rt.

We have audited the accompanying consolidated balance sheet of MOL Magyar Olaj- és Gázipari Rt. ("the Company") as at 31 December 2005, which shows a balance sheet total of HUF 2,208,835 millions and net income attributable to equity holders of the parent of HUF 244,919 millions, the related consolidated profit and loss account for the year then ended, changes in shareholders' equity, consolidated cash flows for the years then ended and the related notes 1 to 34 included in the Company's 2005 consolidated annual financial statements. The consolidated annual financial statements are the responsibility of the Company's management. The auditor's responsibility is to express an opinion on the consolidated financial statements based on the audit and to assess whether the consolidated business report is consistent with the consolidated financial statements.

We issued an unqualified opinion on the Company's consolidated annual financial statements prepared in accordance with the Hungarian accounting law as at 31 December 2004 on 24 March 2005 and on the Company's consolidated annual financial statements prepared in accordance with the International Financial Reporting Standards on 24 March 2005.

We conducted our audit in accordance with Hungarian National Auditing Standards and with applicable laws and regulations in Hungary. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

We have audited the elements of and disclosures in the consolidated annual financial statements, along with underlying records and supporting documentation, of MOL Magyar Olaj- és Gázipari Rt. in accordance with Hungarian National Auditing Standards and have gained sufficient and appropriate evidence that the consolidated annual financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the EU. In our opinion, the consolidated annual financial statements give a true and fair view of the equity and financial position of MOL Magyar Olaj- és Gázipari Rt. as at 31 December 2005 and of the results of its operations for the year then ended. The consolidated business report corresponds to the disclosures in the consolidated financial statements.

Budapest, 24 March 2006

Ernst & Young Kft.  
Registration No. 001165

Judit Szilágyi  
Registered Auditor  
Chamber membership No.: 001368

## **Proposal to Item 1 of the Agenda**

<b>Supervisory Board of MOL Hungarian Oil and Gas Company</b>
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### **Report of the Supervisory Board**

In 2005 the composition of the Supervisory Board changed. Following the resignation of Dr. Lajos Oláh the Annual General Meeting elected Mr. István Vásárhelyi as a new member of the Supervisory Board. The Supervisory Board performed its duties in accordance with its statutory obligations. The report of the Supervisory Board has been prepared pursuant to the report of the Board of Directors, the opinion of the auditors and the scheduled regular mid-year reviews. MOL is the leading integrated oil and gas company of Central and Eastern Europe, the market leader in Hungary, and, with parent company's net sales of HUF 1.471,7 billion and Group's International Financial Reporting Standards (IFRS) net sales of HUF 2.455,2 billion, the largest company in Hungary. The work performed last year by the Board of Directors can be deemed successful and this is also reflected in the share price. The weighted average stock exchange price of MOL shares increased by 100.1% in 2005 to HUF 17,588 (in 2004 this was HUF 8.791). The stock exchange closing price on 31st December, 2005 was HUF 19,950.

The accounting methods applied in developing the financial reports are in accordance with the provisions of the Accounting Act and are consistent with the accounting policies of the Company. All figures in the balance-sheet are supported by reconciliation and stock-taking where relevant. Assessment and payment of tax obligations were implemented as prescribed by law. The Company's 2005 financial statements provide a true and fair picture of its economic activities. For the MOL Group a total of 62 companies were fully, and a further 10 companies were partially consolidated, using the equity method. Last year the ownership structure changed: at the end of 2005 the shareholding of ÁPV was 11.7% and that of foreign institutional investors was 58.2%, including the 12.9% shareholding of JP Morgan, the Depository of MOL GDRs. The ownership of domestic institutional investors amounted to 5.8%.

In December 2005, MOL signed call option agreement with APV Rt. (State Privatisation and Holding Company), according to which MOL is entitled to purchase 10,898,525 "A" Series MOL shares (representing 10% of MOL's registered capital) owned by APV Rt. between 1 May and 27 October 2006. In December 2005 BNP Paribas exercised MOL's call option to purchase 7,552,874 "A" series MOL shares from Slovintegra-Slovbena shareholder group. Following completion of the transaction, MOL received call option on these shares from BNP, in addition to BNP received put option from MOL. For both options the expiration date is 18 December 2006 and the exercise price is HUF 7,645 per share.

The Supervisory Board endorses the proposal of the Board of Directors to pay a gross dividend of HUF 35 billion for 2005. The Supervisory Board proposes that the General Meeting approve the audited financial statements of MOL for 2005, with a balance-sheet total of HUF 1,965 billion, after-tax profit of HUF 399 billion, and tie-up reserve of HUF 195 bn and the audited consolidated financial statements of the MOL Group for 2005, with a balance-sheet total of HUF 2.029 billion and after-tax profit of HUF 248 billion. These reports do not include the impact of the proposed dividend submitted for approval to the General Meeting.

Budapest, 31st March, 2006

For and on behalf of the Supervisory Board of MOL:

**Dr. Mihály Kupa**

Chairman of the Supervisory Board

**1/d Decision on the 2005 financial statements of the company as prescribed by the Act on Accounting (parent company and consolidated in compliance with IFRS), distribution of profit after taxation, amount of dividend**

The reports are attached separately with a “1d” marking.

**Proposed resolution on the financial statements**

The Board of Directors proposes to the General Meeting to approve the annual report of MOL Rt. prepared in accordance with Hungarian statutory accounting legislation and the related auditors' report with total assets of HUF 1.965 bn, profit after taxation of HUF 399 bn and tied-up reserve of HUF 195 bn.

The Board of Directors proposes to the General Meeting to approve the consolidated annual report of MOL Group prepared based on paragraph 10 of the accounting law, in accordance with IFRS and the related auditor's report with total assets of HUF 2,029 bn and profit attributable to equity holders of HUF 245 bn.



## **Proposal to Item 1 of the Agenda**

### **Decision on amount of dividend**

As a result of investments made in recent years and the successful implementation of efficiency improvement programmes MOL Group achieved record IFRS net income. The high level of net income enables a significant increase in the dividend payable.

At the same time the aim of the company is still to grow further, which requires significant financial resources. The company aims to utilise both organic and inorganic opportunities in order to increase shareholder value.

After the acquisitions executed in recent years the company has demonstrated that following the investments it can efficiently integrate and operate acquired assets. MOL plans further acquisitions in the CEE region and intends to gradually increase its presence in the international Upstream activity. As it is difficult to predict the timing of potential acquisitions and the company often has no influence on these events, it is essential to secure the necessary financial flexibility and to retain a significant part of the profit for that purpose.

MOL indicated clear intention in its new five year strategy to increase the payout ratio to the level of its peers (currently around 30% of normalised earnings). The proposed HUF 35 billion dividend is around HUF 325 per share, the exact amount can slightly change depending on the number of treasury shares held by the company.

#### **Draft Resolution**

The Board of Directors recommends to the General Meeting to pay **35bn HUF** as a dividend in 2006 connected to the year ended 31.12.2005. The profit after dividend payment shall be booked as retained earnings.

## 1/e Decision on the approval of the corporate governance declaration

### Proposed resolution

The Board of Directors upon the approval of the Supervisory Board agrees to propose the AGM the approval of declaration on the Corporate Governance Recommendations of the Budapest Stock Exchange as follows:

### DECLARATION

**in connection with the Corporate Governance Recommendations (dated December 8, 2003) published by the Budapest Stock Exchange Company Limited by Shares regarding corporate governance practices**

The Board of Directors of MOL Hungarian Oil and Gas Company Limited by Shares (the "Company") declared as set forth below and provided the following information in the name of the Company:

#### 1. to Section 1.1.2 of the Recommendations

The mission of the Board of Directors covers matters set forth in this Section.

Yes (Complies)

No (Please explain)

The Board of Directors established its Charter.

Yes (Complies)

No (Please explain)

#### 2. to Section 1.2.2 of the Recommendations

The Supervisory Board established its Charter and work schedule.

Yes (Complies)

No (Please explain)

#### 3. to Section 1.3.2 of the Recommendations

Minutes have been prepared on meetings of the Board of Directors and the Supervisory Board, respectively, and resolutions had been properly administered.

Yes (Complies)

No (Please explain)

#### 4. to Section 1.6.1. and Section 2.1.6 of the Recommendations

The Board of Directors has prepared the guidelines regarding the evaluation and remuneration of the management.

Yes (Complies)

No (Please explain)

The Board of Directors has published the guidelines regarding the evaluation and remuneration of the management.

Yes (Complies)

No (Please explain)

(when, where)

*In 2005 Annual Report.*

#### **5. to Section 1.7. of the Recommendations**

An independent internal audit department (independent internal control) functions at the Company.

Yes (Complies)

No (Please explain)

The independent audit department has an auditing plan approved by the Board of Directors or the Supervisory Board.

Yes (Complies)

No (Please explain)

#### **6. to Section 1.10. of the Recommendations**

The shareholders' meeting and the Supervisory Board have been informed about the fact that the outside audit firm of the Company received a material assignment in addition to the audit.

Yes (Complies)

No (Please explain)

No material assignment.

#### **7. to Section 2.1.1. of the Recommendations**

The guidelines for disclosures have been prepared by the Company.

Yes (Complies)

No (Please explain)

#### **8. to Section 2.1.4. of the Recommendations**

The Board of Directors published its actual business strategy.

Yes (Complies)

No (Please explain)

(when, where)

*2006-2010 Strategy was announced in November 2005, through BSE and own website, in "Magyar Tőkepiac" daily, and on an analyst and press conference with simultaneous webcasting. Hungarian and international institutional investors and security analysts could participate in a strategy telephone conference. Following the announcement roadshows were held in UK, Western Europe and US. Detailed presentation is available on website.*

#### **9. to Section 2.1.6. of the Recommendations**

The Company published in accordance with Section 2.2.6 of the Recommendations the information relating to the career of the members of the Board of Directors, the Supervisory Board and executive management.

Yes (Complies)

No (Please explain)

(when, where)

*In 2005 Annual Report and on company website.*

#### **10. to Section 2.1.7. of the Recommendations**

The Company published in accordance with Section 2.1.7 of the Recommendations its

risk management guidelines.

Yes (Complies)  
(when, where)

No (Please explain)

*In 2005 Annual Report.*

#### **11. to Section 2.1.9 of the Recommendations**

The Company published its guidelines on insider dealings.

Yes (Complies)  
(when, where)

No (Please explain)

*As part of its Code of Ethics, published on company website.*

#### **12. to Section 2.1.10. of the Recommendations**

The Board of Directors published in accordance with Section 2.1.10 of the Recommendations information regarding the relationships of the directors and members of the management with third parties.

Yes (Complies)  
(when, where)

No (Please explain)

*In 2005 Annual Report.*

### **Information and other notes**

#### **1. to Section 1.3.1. of the Recommendations**

The Board of Directors held with 85 % average participation ratio 10 meetings in the business year of 2005.

The Supervisory Board held with 76 % average participation ratio 6 meetings in the business year of 2005.

#### **2. to Section 1.5.2. of the Recommendations**

The ratio of the independent directors compared to the total number of directors: 64% independent. (Based on Company's own definition, which is in line with international best practice, and the declaration thereon by the members of the Board.)

#### **3. to Section 1.5.5. of the Recommendations**

The ratio of the independent Supervisory Board members to the total number of Supervisory Board members: 67% independent (as MOL does not consider employee representatives to be independent).

#### **4. to Section 1.8. of the Recommendations**

At the Company the below board committees held the below number of meetings per committee in the business year of 2005:

Audit Committee: 5 meetings

Corporate Governance and Remuneration Committee: 7 meetings

## 5. to Section 3.1.4. of the Recommendations

In preparing and holding the shareholders' meeting at the Company the relevant recommendations on preparation and holding of shareholders' meeting had been taken into account in the business year of 2005:

Yes

No

*(While MOL took the recommendations into account, it did not fully comply in all aspects, eg. in respect of blocking period for shares prior general meetings.)*

## 6. The Company established a Corporate Governance Code.

Yes

No

(available on company website)

## 7. The Company established a Code of Ethics.

Yes

No

(available on company website)

## 8. The function of the Chief Executive Officer and the Chairman of the Board of Directors is fulfilled by the same person.

Yes

No

Date: Budapest, 28 April 2006

**Zsolt Hernádi**  
Chairman & Chief Executive Officer

**György Mosonyi**  
Group Chief Executive Officer

## Proposal on the approval of the corporate governance declaration

Budapest Stock Exchange published its corporate governance recommendations ("Recommendations") in February 2004. In 2004, MOL voluntarily submitted its declaration on the compliance with the Recommendations among first issuers. From 2005 MOL is obliged to submit its declaration on the Recommendations. The Board of Directors approved the declaration in both years. Pursuant to the new Company Act from 1 July 2006 the declaration needs to be approved by general meeting.

MOL has always recognised the importance of maintaining the highest standards of corporate governance and played pioneer role in the adoption of best international practice. Therefore we propose that MOL approves the declaration to be submitted to Budapest Stock Exchange on its general meeting already this year, prior to the mandatory deadline.

MOL's pioneer role indicated also by the announcement of its Corporate Governance Code with the intention to reach the international "Best Practice" level.

The Corporate Governance Guidelines of the Budapest Stock Exchange are available on: [www.bse.hu](http://www.bse.hu)

## **Item No. 2**

### **Appointment of the Auditor, determination of the auditor's fee**

The Board of Directors of the Company, after evaluating Ernst & Young in respect of its 2005 performance and its binding offer for the 2006 audit tasks, proposes further cooperation with the auditor in 2006.

#### **Proposed resolution**

The Board of Directors proposes to the Annual General Meeting the election of Ernst & Young Könyvvizsgáló Kft. (1132 Budapest, Váci út 20.), namely Judit Szilagyi (registration number: MKVK-001368), to be the independent auditor of MOL Rt for the year 2006, until the AGM closing the year but latest 30 April 2007. The BoD proposes the audit fee for MOL Rt for 2006 to be HUF 81.5 million plus VAT.

## Item No. 3

### Authorization of the Board of Directors to acquire treasury shares

#### Background, evaluation of the current situation

The authorisation granted by the Annual General Meeting of MOL held on 27 April 2005 for the Board of Directors to purchase treasury shares shall expire at the end of October 2006. The Board of Directors proposes to request a new authorisation from the General Meeting so the Board of Directors have authorisation granted by the General Meeting to purchase treasury shares in the period between October 2006 and the next General Meeting.

#### Resolution:

The Board of Directors proposes the AGM of 2006 to authorize the Board of Directors of the Company to acquire treasury shares – simultaneously setting aside the resolution No 14 of the April 27 2005 AGM – pursuant to the following terms and conditions:

- Purpose of acquiring the treasury shares:
  - supporting the achievement of the strategic goals of MOL, particularly use of treasury shares as consideration in acquisition transactions, or
  - operation of share-based incentive schemes, or
  - adding a new potential measure to optimize the capital structure through the repurchase of outstanding share capital (eventually, if justified by later cancellation of shares re-purchased), or
  - facilitating the implementation of potentially attractive share-based or hybrid financing instruments.
- Mode of acquisition of treasury shares: with or without consideration, either on the stock exchange or through public offer or on the OTC market if not prohibited by legal regulations.
- The authorisation empowers the Board of Directors to acquire ordinary shares of the Company with a par value of HUF 1,000 each.
- The amount (number) of shares that can be acquired: the total number of treasury shares acquired or owned by the Company simultaneously may not exceed 10 % of the share capital of the Company.
- The period of validity of the authorisation: from the resolution made on the Annual General Meeting for an 18 months period.
- If the acquisition of the treasury shares is in return for a consideration, the minimum amount can be paid in return for one piece of share is HUF 1, while the maximum amount is highest amount of the effective stock exchange price level of the day of the transaction, or of the volume weighted average daily stock exchange prices of 90 trading days before the date of the transaction or of the volume weighted average stock exchange price of 90 trading days before the date of signing the agreement for acquiring the treasury shares (particularly purchase agreement, call option agreement or other collateral agreement).

## Item No. 4

**Amendment of the Company's name, branch offices, business premises and scope of activity as well as the related amendments of Article 3 (Name of the company), Article 4 (Business premises and branch offices) and Article 5 (Scope of activity) of the Articles of Association**

### Amendment of the name of the company

According to paragraph (4) Section 177 of the Company Act as amended at the end of last year, the name of a public limited company shall include also the operational form (private or public) of the company by 30 June 2006 at the latest.

#### **Proposed resolution**

The Board of Directors agrees to propose the AGM of the Company the amendment of Article 3 of the Articles of Association as follows (new text is in by bold).

#### **3. NAME OF THE COMPANY**

In Hungarian: MOL Magyar Olaj- és Gázipari **Nyilvánosan Működő** Részvénytársaság

In English: MOL Hungarian Oil and Gas Public Limited Company

In German: MOL Ungarische Öl und Gas **Öffentliche** Aktiengesellschaft

#### **THE ABBREVIATED TRADE NAME OF THE COMPANY**

In Hungarian language: MOL **NyRt.**

In English language: MOL Plc.

In German language: MOL AG

### Amendment of the scope of activities of the Company

#### **Proposed resolution**

The Board of Directors agrees to propose the AGM of the Company the extension of the scope of activities of the Company with the following activity and the respective amendment of Article 5 of the Articles of Association as follows:

74.70'03 Cleaning, tidying

Further, the Board of Directors agrees to propose the AGM of the Company the cancellation of the following activities from the scope of activities of the Company and the respective amendment of Article 5 of the Articles of Association as follows:

6522'03 Other borrowing activities

6523 '03 Other financial activities, not classified elsewhere

### Amendment of the business premises and branch offices of the Company



**Proposed resolution**

The Board of Directors agrees to propose the AGM of the Company the amendment of Annex 2 of the Articles of Association as follows:

The Board of Directors proposes to cancel the following real estates from the Company's business premises and branch offices:

3527 Miskolc, Bessenyői u. 16.  
3501 Miskolc, 9189 tul.lap, hrsz: 35421/2  
3980 Sátoraljaújhely 8154 tul.lap, hrsz: 1815/2  
8751 Zalakomár, Vasút u. 2.  
5945 Kardoskút, 0146 hrsz.  
4511 Nyírbogdány, 794 tul.lap hrsz:928  
4511 Nyírbogdány, Gyártelep, 0253/21 hrsz.

The Board of Directors proposes to extend the Company's business premises and branch office with the following real estates:

4621 Fényeslitke, 0157/1 hrsz.  
8840 Csurgó, 010/5 hrsz.  
8887 Bázakerettye, 125 hrsz.  
8800 Nagykanizsa, Múzeum tér 2/b.

## Item No. 5

### Amendment of the Articles of Association

- **The amendment of articles related to the convening and chairing of the general meeting, registration of the shareholders or nominees, the shareholder proxy, the closing of the share register and the blocking of the shares following the closing of the share register**

#### Amendment of the articles related to the convocation of the general meeting and the publications of the Company

The new Company Act effective from 1 July 2006 provides for that in addition to the publications as required by law and the stock exchange rules the invitation to the general meeting and other announcements of the Company can be published on the Company's website instead of printed press.

According to paragraph (3) Section 303 the invitation to an extraordinary general meeting following a public takeover offer has to be published at least 15 days instead of the minimum required 30 days prior to the day of the general meeting. In order to reflect the above and harmonize the Articles of Association with the Capital Market Act by providing also a clear wording thereof we propose to amend Articles 13.1 and 26 of the Articles of Association as follows:

#### **Proposed resolution**

The Board of Directors agrees to propose the AGM of the Company the amendment of Articles 13.1 and 26 of the Articles of Association effective as of 1 July 2006 as follows (new text is in bold, text to be deleted is crossed):

13.1. **Unless laws require a shorter period for convening the general meeting the**  
~~Notice of the general meeting shall be sent at least 30 days prior to the~~  
~~members of the Board of Directors, the members of the Supervisory Board, the~~  
~~Budapest Stock Exchange, the auditor, and to the financial institutions~~  
**depositories** the shares are deposited at under deposit agreements concluded  
with the Company, as required by these Articles of Association. **Unless laws**  
**require a shorter period for convening the general meeting, the general**  
**meeting shall be convened via** ~~a~~  
~~An announcement of and invitation to the~~  
~~general meeting shall be published in the newspapers~~ **manner** set forth in  
Article 26 at least 30 days prior to the **starting** date of the general meeting.

#### 26. PUBLICATIONS

**In addition as required by laws or stock exchange rules** the Company shall  
publish its announcements **on the website of the Company,** ~~in the Magyar~~  
~~Tőkepiac daily newspaper,~~ and, in events required by law, in the Companies'  
Bulletin **and in the Magyar Tőkepiac daily newspaper,** whereas the invitation  
to the general meeting shall be published **on the website of the Company.** ~~in~~  
~~the Népszabadság and Magyar Nemzet dailies.~~

### Authorization through proxy card

In line with international corporate governance recommendations, the Company intends to facilitate the participation of the shareholders in the general meeting and the voting via the introduction of voting authorization given by the shareholders on a form sent by the Company (proxy card), upon the shareholders' request. The possibility to vote through a proxy card was established by paragraph (5) Section 298 of the new Company Act effective as of 1 July 2006. In order to introduce this voting method the Articles of Association have to be amended accordingly.

#### **Proposed resolution**

The Board of Directors agrees to propose the AGM of the Company the amendment of Article 13.3 of the Articles of Association and the inclusion of a new Article 13.6 into the Articles of Association effective as of 1 July 2006 as follows (new text is in bold, text to be deleted is crossed):

- 13.3. The invitation and the announcement shall state that the shareholders may exercise their rights at the general meeting through appointed representative. **Unless otherwise provided for by law, members of the Board of Directors and the Supervisory Board, company secretary, executives of the Company,** as well as the auditor, may not represent a shareholder at the general meeting. The power of attorney has to be provided to the Company in the form of a public or a private document with full probative force **or proxy card sent by the Company.**
- 13.6 **In case any shareholder wishes to appoint a representative on a proxy card, it shall send a request to the Company in a way and by the date determined in the invitation and announcement to the general meeting. The proxy card is valid only for one general meeting, but will be applicable to the continued general meeting after suspension or the general meeting re-convened due to lack of quorum. The proxy card is valid if it has the shareholder's or the nominee's of the shareholder autograph or authenticated signature and it was delivered to the Company in a way and by the date provided in the invitation and announcement. If the proxy card does not include instructions on voting in respect of certain issues on the agenda the designated person acting on behalf of the shareholder or the nominee will vote in line with the proposals of the Board of Directors unless the proxy card includes an opposite order ("discretionary proxy"). The proxy can be revoked with a notice given to the Company and signed by the shareholder or the nominee who was the original signatory of the proxy card. As long as the notice on revocation of the proxy has not been received by the Company other person cannot act on behalf of the shareholder or the nominee at the general meeting.**

### Articles related to GDR depository

According to paragraph (5) of Section 153 of the Capital Market Act effective as of 1 January 2006 the European Transparency Directive and international practice the GDR depository has to be registered in the share register as nominee if it so requests. In such a case according to the Capital Market Act the Company has to recognize the power of attorney made in accordance with the governing law of GDR issuance.

Currently the Articles of Association do not allow the registration of the GDR depository as nominee. Due to the regulatory requirements we propose to amend the relevant articles.

#### **Proposed resolution**

The Board of Directors agrees to propose the AGM of the Company the amendment of Articles 8.3 and 8.7 of the Articles of Association as follows (new text is in bold, text to be deleted is crossed):

- 8.3. Shareholders' proxies may exercise the shareholders' rights only in respect of the shares registered on the security account kept with such shareholders' proxy, or in respect of the registered shares deposited at such proxy. **The depository appointed by the Company issuing certificates of deposit on the Company's shares under foreign law abroad (See Article 10.1.1.) shall be registered in the share register as shareholders' proxy (nominee), if such depository requests so and if it provides for a power of attorney in compliance with the law applicable for the issuance of certificates of deposit and the deposit agreement.** Any other registration into the share register shall only be made if the shareholder's proxy has deposited one copy of the letter of proxy, prepared as a public document or as a private document with full probative power, at the Company. Such letter of proxy shall unambiguously state the fact that the shareholder, issuing the letter of proxy is not subject to any limitation specified under Articles 10.1.1 and 10.1.2 of these Articles of Association, in the absence of that the registration into the share register may be refused."
- 8.7. The Company shall regard and treat depositories, commissioned by the Company, issuing certificates of deposit on the Company's shares under foreign law abroad (See Article 10.1.1.), **according to the registration in the share register, as shareholders' proxies (nominees) or** as shareholders, subject to the condition that such depositories shall cause the holders of certificates of deposit to comply with the provisions of the present Articles of Association applicable to shareholders.

#### Date of registration of shares into the share register, the elimination of the blocking period following the registration into the share register

According to paragraph (2) Section 304 of the new Company Act effective as of 1 July 2006 the name of the shareholder or the nominee of the shareholder should be registered in the share register prior to the beginning of the general meeting. If the Articles of Association do not determine the time of the registration this time cannot be earlier than the 7<sup>th</sup> working day before the start of the general meeting.

According to paragraph (3) section 304 of the Company Act if the Articles of Association do not states differently, the closing of the share register does not limit the right of the registered person to sell his/her shares after the closing of the share register. Our previous practice was based on the earlier legal regulation, according to which the shares should be blocked in order to be registered into the share register before the general meeting. In the new legal environment, in line with the EU directives and the international corporate governance recommendations, the company would like to eliminate the restriction of the shareholders' rights regarding the liquidity of their shares.

### Proposed resolution

The Board of Directors agrees to propose the AGM of the Company the amendment of Articles 11.3 and 13.4. of the Articles of Association effective as of 1 July 2006 as follows (new text is in bold, text to be deleted is crossed):

- 11.3. The Company shall accept the statement of account issued by the Central Clearing House and Depository Co. Ltd. (KELER), or **shareholder identification executed according to the procedural rules of KELER**, as a certificate of the ownership of the share.
- 13.4. A condition of participation and voting at the general meeting for holders of registered shares is that the holder of the share(s) or the proxy shall be listed in the share register at least ~~eight (8)~~ **seven (7)** business days prior to the date of the general meeting. **The registration in the share register is based on shareholder identification.**

### Amendments of the articles related to the transfer of the shares

The new Company Act entering into force as of 1 July 2006 abolishes the currently applicable regulations with respect to keeping the share register. For maintaining the share register of a public limited company Chapter 15 of the Capital Market Act will apply. The main concept of the share register will change, as according to the Capital Market Act, the security account keeper (not the shareholder) will be obliged to report the debiting of the security accounts of shareholders registered in the share register to the share registrar (in case of MOL to KELER). As the obligations of the shareholders in this respect are abolished, the penalty payment obligation for the failure of performing these obligations is also not required any more. Because the shares of the Company are dematerialized securities i.e. kept on security accounts it is not reasonable to impose this obligation to the shareholders from practical point of view neither.

### Proposed resolution:

The Board of Directors agrees to propose the AGM of the Company the amendment of Article 11.2 of the Articles of Association effective as of 1 July 2006 as follows (new text is in bold, text to be deleted is crossed):

- 11.2 **The keeper of security account or the depository** ~~The shareholder~~, if **the shareholder** previously registered in the share register, shall report ~~the transfer of his share(s) to the Company within eight~~ **five** days ~~following such transfer that the shareholder's ownership on the share(s) is terminated by debiting of the shareholder's security account or by termination of the deposit.~~ The keeper of the share register shall be responsible for the deletion from the share register on the basis of such reporting. The deleted data shall, however, remain observable. ~~Should a shareholder default or not perform said reporting obligation, the Board of Directors may impose a penalty payment obligation on the shareholder up to 1‰ (per thousand) of the aggregate value of the shares so transferred.~~

### The possibility to suspend the general meeting

The Company Act in force provides the possibility to suspend the general meeting, but following the entry into force of the new Company Act the shareholders may use this possibility only if the Articles of Association explicitly provide for it. For practical reasons it may be necessary that the shareholders decide on the suspension of the general meeting therefore we propose to amend the Articles of Association accordingly.

#### **Proposed resolution:**

The Board of Directors agrees to propose the AGM of the Company to include a new Article 14.4 into the Articles of Association with the Article 14.4. as follows (new text in bold):

**14.4. The general meeting may by simple majority of votes one time resolve the suspension of the general meeting for maximum 30 day.**

### Holding adjourned general meeting

Similarly to the rule on the suspension of the general meeting, following 1 July 2006, the Articles of Association have to determine the rules of general meeting re-convened due to lack of quorum. Therefore we propose that the Articles of Association determine the date and time of the adjourned general meeting (wording proposed to delete crossed, new wording in bold).

#### **Proposed resolution:**

The Board of Directors agrees to propose the AGM of the Company the amendment of Article 13.5. of the Articles of Association as of 1 July 2006 as follows (wording proposed to delete crossed, new wording in bold):

13.5 A general meeting has a quorum if shareholders representing more than half of the shares entitled to vote, and - in case the agenda includes any item, which, pursuant to Article 12.4 hereof, requires the affirmative vote of the holder of the "B" series share - the holder of the "B" series share is are present. In determining whether the general meeting has a quorum the restrictions of Articles 10.1 and 10.2 shall be applied so that the voting right beyond the 10% limitation shall be disregarded. If the general meeting does not have a quorum, the **re-convened** general meeting ~~shall be re-convened within 15 days and such general meeting~~ shall have a quorum for the matters indicated on the original agenda, irrespective of the number of shareholders present. **Such re-convened general meeting may be re-convened for the same day as the general meeting having no quorum, however, the period between the two general meeting cannot be longer than 21 days.**

#### **• Amendments of the provisions relating to the Board of Directors and the Supervisory Board**

Although the Company tries to achieve that all its shareholders comply with the capital market regulations applicable on acquisition of influence in a public company, taking into consideration the past few years' capital market experiences in Hungary the possibility of a creep-in control by certain investor groups without making a public take-over in a manner and at a time as required by laws cannot be excluded. A public bid with the appropriate valuation and takeover premium could be in the interest of all shareholders, but getting a

hidden influence and creep-in control over the company without any or an appropriate public take-over offer would damage shareholders' value. Thus, in order to avoid that a shareholder group gains control over the Board of Directors without a public offer we propose to limit the number of the members of the Board of Directors and Supervisory Board who can be removed from their offices within a 12 months period by one third.

As these proposed amendments do not intend to prohibit or limit the possibility of a public take-over bid the new provisions would apply only as long as none of the shareholders acquire more than 33 % of the Company's shares upon a public offer. (Currently, based on Hungarian regulations, shareholders acquiring 33% in MOL have to make a public bid.)

**Proposed resolution:**

The Board of Directors agrees to propose the AGM of the Company the amendment of Article 15.4. of the Articles of Association as follows (wording proposed to delete crossed, new wording in bold):

- 15.4. The general meeting for a maximum term of five (5) years shall elect members of the Board of Directors. Their appointment, **unless otherwise provided for by this Article**, can be terminated at any time or may be renewed after the expiry of the five-year term. **The appointment of more than 1/3 members of the Board of Directors can be terminated within 12 months only if any shareholder or shareholders' group holds more than 33 % of the Company's shares acquired via a public purchase offer**

**Proposed resolution:**

The Board of Directors agrees to propose the AGM of the Company the amendment of Article 22.1. of the Articles of Association as follows (new wording in bold):

- 22.1. The Supervisory Board shall consist of at least three and not more than nine members. The Central Works Council, by taking into consideration the opinion of trade unions active at the Company, shall appoint the employee members of the Supervisory Board (one third of the members of the Supervisory Board). **The appointment of more than 1/3 of the none employee members of the Supervisory Board can be terminated within 12 months only if any shareholder or shareholders' group holds more than 33% of the Company's shares acquired via a public purchase offer.**

Information right of the Supervisory Board

According to paragraph (2) Section 35 of the new Company Act effective as of July 1 2006 the Supervisory Board may request information from the members of Board of Directors and senior managers. The requested information shall be ensured in the manner and within the time required by the Articles of Association. As our Articles of Association do not include such regulation we propose to amend the Articles of Association respectively. Since it can already be included into the Articles of Association based on the current regulations, and all the changes in respect of the Supervisory Board will take effect immediately, we propose that this amendment to the Articles of Association shall come into force upon acceptance by the General Meeting.

**Proposed resolution:**

The Board of Directors agrees to propose the AGM of the Company to include a new Article 22.7 into the Articles of Association as follows (new wording in bold):

**22.7. Supervisory Board may request information from the members of Board of Directors and senior managers. In case of a written request, the addressee shall provide for the requested information in written form within 8 (eight) working days.**

- **The authorisation of the Board of Directors to amend the name of the Company, the seat of the Company, business premises and branch offices of the Company and except for the main activity the Company's scope of activity and the respective amendment of the Articles of Association**

According to the new Company Act effective as of 1 July 2006 the Articles of Association may authorize the Board of Directors to amend the name, seat, business premises, branch offices and the scope of activities of the Company (except for the main activity) and to resolve the respective amendment of the Articles of Association. As the business activity of the Company may require such amendments between two general meetings and such amendments would not affect the shareholders' rights, we propose the authorization of the Board of Directors to decide on the above amendments.

#### **Proposed resolution**

The Board of Directors agrees to propose the AGM of the Company to include a new paragraph r) into Article 15.2 of the Articles of Association effective as of 1 July 2006 as follows (new wording in bold):

15.2. The Board of Directors shall be competent in the following matters.

**r) decision on the amendment of the name, seat, business premises, branch offices and the scope of activities of the Company (except for the main activity) and on the related amendment of the Articles of Association.**

- **Amendment of the Articles of Association relating the payment of dividend**

According to paragraph (1) Section 220 of the new Company Act effective as of 1 July 2006 unless otherwise provided for in the Articles of Association shareholders, who are registered in the share register at the time of general meeting resolving the payment of dividend would be entitled to receive dividend.

According to the current practice of the Company, the date relevant for the right to receive dividend is determined by the Board of Directors. If the right to receive dividend would be granted on the date of the general meeting, it would disturb the prompt and future trading on the Budapest Stock Exchange and the index calculation, as in this case the shares became traded without dividend right 3 days before the general meeting (due to T+3 settlement) without the decision of the general meeting on the dividend payment and the amount thereof. Thus, there would be no information on the precise value of the share as the value of the dividend is discounted by the market. Taking into account the above, we propose to amend Article 24.1 of the Articles of Association in order to maintain the current practice



### **Proposed resolution**

The Board of Directors agrees to propose the AGM of the Company the amendment of Article 24.1 of the Articles of Association as of 1 July 2006 as follows (new wording in bold):

- 24.1. The ordinary general meeting, based on the proposal of Board of Directors approved by the Supervisory Board, shall have the authority to determine profit distribution, i.e. the amount of the profit after taxation to be reinvested into the Company and the amount to be paid out as dividends. Based upon the decision of the general meeting, dividend can be paid in a non-cash form as well. The starting date for the payment of dividends shall be defined by the Board of Directors in such way as to ensure a period of at least 10 working days between the first publication date of such announcement and the initial date of dividend distribution. **Only those shareholders are entitled to receive dividend, who are registered in the share register of the Company on the basis of shareholders identification executed on the date published by the Board of Directors in the announcement on the dividend payment. Such date relevant to the dividend payment determined by the Board of Directors may deviate from the date of general meeting deciding on the payment of dividend.**

## **Item No. 6**

### **Approval of the amended charter of the Supervisory Board**

This agenda point is scheduled to be discussed by the Supervisory Board during its March 6 meeting.

#### **Background**

According to the new Company Act effective as of 1 July 2006 the general meeting shall appoint an audit committee comprising at least 3 independent members of the Supervisory Board. The independent audit committee shall be responsible, among other, for the following activities:

- Giving opinion on the report as prescribed by the Accounting Act,
- Proposal for the auditor and its remuneration,
- Preparation of the agreement to be concluded with the auditor,
- Monitoring the compliance of the conflict of interest rules and professional requirements applicable to the auditor, co-operation with the auditor, and proposal to the Board of Directors or General Meeting on necessary measures to be taken, if necessary,
- Evaluation of the operation of the financial reporting system, proposal on necessary measures to be taken
- Assistance to the operation of Supervisory Board for the sake of the proper supervision of the financial reporting system.

In addition to the audit committee of the Board of Directors, the audit committee comprising independent members of the Supervisory Board would strengthen the independent control over the financial and accounting policy of the Company, thus we propose the establishment thereof, as soon as possible. Since the operation of the Audit Committee is possible under the current regulations as well, we propose that the General Meeting shall decide on the establishment of the Audit Committee with an immediate effect.

The establishment of the new audit committee requires the amendment of the charter of Supervisory Board, which requires the approval of General Meeting.

Following the election of the audit committee we propose, that members of the audit committee should accept of the committee's charter.

#### **Proposed resolution**

The Supervisory Board agrees to proposes the AGM of the Company the approval of the extension of the Charter of Supervisory Board with a new Chapter V regarding the audit committee, as follows:

##### **V. AUDIT COMMITTEE**

1. The audit committee appointed from the independent members of the Supervisory Board pursues its activities in accordance with its charter adopted by its members.
2. In case the rendering of an opinion, submission of proposal, exercise of control, adoption of any measure or decision is within the scope of competence of the audit committee pursuant to laws or stock exchange rules, the audit committee decides about such in accordance with its own charter and informs the Supervisory Board at its next meeting thereof.

## **Item No. 7**

### **Election of the audit committee of the Company from the independent members of the Supervisory Board**

The Supervisory Board nominates its four independent members (3 members plus in case of permanent hindrance of any member one back-up) to the Audit Committee of the Company: John I. Charody, Attila Chikán dr., Kupa Mihály dr., and Lámfalussy Sándor dr. as back-up).

## **Item No. 8**

### **Approval of the principles and the framework of company's long-term incentive scheme for senior employees**

#### **Antecedents, evaluation of "as is" situation**

Article 302 of the Company Act entering into effect on 1 July 2006 sets out that "the mandatory or not mandatory decision – depending on the provisions of the Statutes – on the guidelines and framework of the long-term remuneration and incentive system of senior executives, members of the supervisory board and senior employees" "is the General Meeting's exclusive competence."

The General Meeting has already decided on the remuneration and long-term incentive system of external board members, members of the supervisory board and senior executives (Resolution 73 and 74 of General Meeting held on 1 September 2003, Resolution 26 of General Meeting held on 30 April 2004, Resolution 15, 16, 17 and 19 of General Meeting held on 27 April 2005).

MOL operates for key employees, management – in this manner for senior employees of MOL as well – an incentive system, which in the short run motivates to perform annual financial indicators and individual tasks, in the long run it creates interest in the increase of share price.

The incentive system is converted in 2006 in order to assure the share price interest in a more direct, more effective way. Instead of the previous share-based long-term incentive part an option based incentive (henceforward: option incentive) is introduced, which assures the interest of increasing MOL share prices.

The base of the incentive is the reachable price-increase during the duration period. In case there is no share price increase, no income arises either.

The new incentive system is created in a way, that the expenses of the paid-out incentive, coming from expected share price increase, will not exceed the costs of the previous share-based system.

The top managers who are taking part in the bond program are not participating in the option system until its duration, till 2008.

The rate of the incentives is determined by management level, based on the proportion to the contribution to meet corporate targets, in accordance with the grades. Based on the status of January 2006, the amounts of the incentive are as follows:

Grade of senior employees	Headcount of senior employees	Yearly Bonus in the % of base salary	Long term incentive system
I-II	6	80-100	As of bond program
III	2	70	Bond program or 40 unit * option incentive
IV	2	60	Bond program or 30 unit * option incentive
V	2	50	Bond program or 20 unit * option incentive

\* The number of shares per unit will be determined by the Board every year. (In 2006, 1 unit amounts to 100 shares)

The detailed regulations relating to the incentive system will be approved by the Board.

#### Long-term incentive system based on share options – introduction

The long term share option incentive system ensures the continuous interest of MOL management in increasing share prices.

The option system is a cash based incentive, which is calculated as a stock option program in reference to MOL shares. The option system is calculated year-to-year and starts from year 2006. The term of the option is 5 years, the first 3 years being a waiting period. The incentive can be paid in the last 2 years, in case the yield of the option is redeemed.

The reachable gross income at the redemption is the difference between the initial price of MOL share calculated per unit, given in Euro (the average share price of the last quarter in the year preceding the first year) and the price at the redemption (any time during the 4<sup>th</sup> and 5<sup>th</sup> year). The incentive, which was determined by entitlement by pieces of shares, will be paid in cash, after the deduction of the taxes and contributions by the valid tax laws.

The switch to the new system will be from January 2006, at new signing or at modification of labour contract.

**Proposal for resolution:**

The General Meeting of the Company approves the guidelines and framework of long-term incentive system of senior employees of MOL as follows.

The incentive system applying to MOL's senior employees makes the managers interested in meeting the corporate and organisation unit targets and a high-level performance of individual tasks, and in the increase of share prices. The detailed regulations relating to the incentive system will be approved by the Board.

The company's incentive system consists of two parts:

- Short-term bonus system
- Long-term – share option – incentive system, which does not apply to the senior employees who are participating in the convertible bond program until 2008, previously approved by the General Meeting.

Long-term incentive system based on share options

The scheme will create and maintain the long-term interest of MOL management in increasing share prices. The option system is a cash based incentive, which is calculated as a stock option program in reference to MOL shares. The option system is calculated year-to-year and starts from year 2006.

The term of the option is 5 years, the first 3 years being a waiting period, and the incentive can be redeemed in the last two years.

The amount of the incentive is the difference between the initial price of all the MOL shares calculated per unit (the average share price of the last quarter in the year preceding the first year given in Euro) and the price at redemption.

The rate of the incentives increases in proportion to the contribution to meet the corporate targets per management level, in accordance with the units defined by MOL categories.

The number of shares per unit will be determined by the Board every year. (In 2006, 1 unit amounts to 100 shares)