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MOL at a glance

MOL is a leading integrated oil and gas group in Central and Eastern Europe with clean EBITDA of USD 2.1bn in 2006, corresponding to 27.2% ROACE on an after tax basis. We are one of the most efficient Upstream and Downstream players in our region on a per barrel basis. We are market leaders in each of our core activities in Hungary and Slovakia.

Our main objective is to provide superior levels of shareholder return by fully exploiting our market potential, by realizing the potential for further internal efficiency improvement and by implementing a dynamic development and expansion strategy.

Our market capitalisation was USD 11.1 bn at the end of 2006. Our shares are listed on the Budapest, Luxembourg and Warsaw Stock Exchanges and the DR's are traded on the Pink Sheet in the US and London's International Order Book.

Our core activities in a snapshot:

- Exploration & Production with seventy years of experience, we put great emphasis on the continual development of our technical skills (modern recovery methods).
- Refining & Marketing operates two high complexity refineries with outstanding product yields, retail and wholesale activities supported by an extensive crude and product pipeline system.
- Petrochemical division is a leading polymer player in Central Europe, operated in full integration with our Refining & Marketing division.
- Natural gas transmission via our extensive high pressure gas pipeline remains a key focus, since we have streamlined our gas activities at the beginning of 2006.

The clean EBITDA contribution of the various segments in 2006 was: Refining & Marketing 48%, Exploration & Production 34%, Natural gas 10% and Petrochemicals 8%.

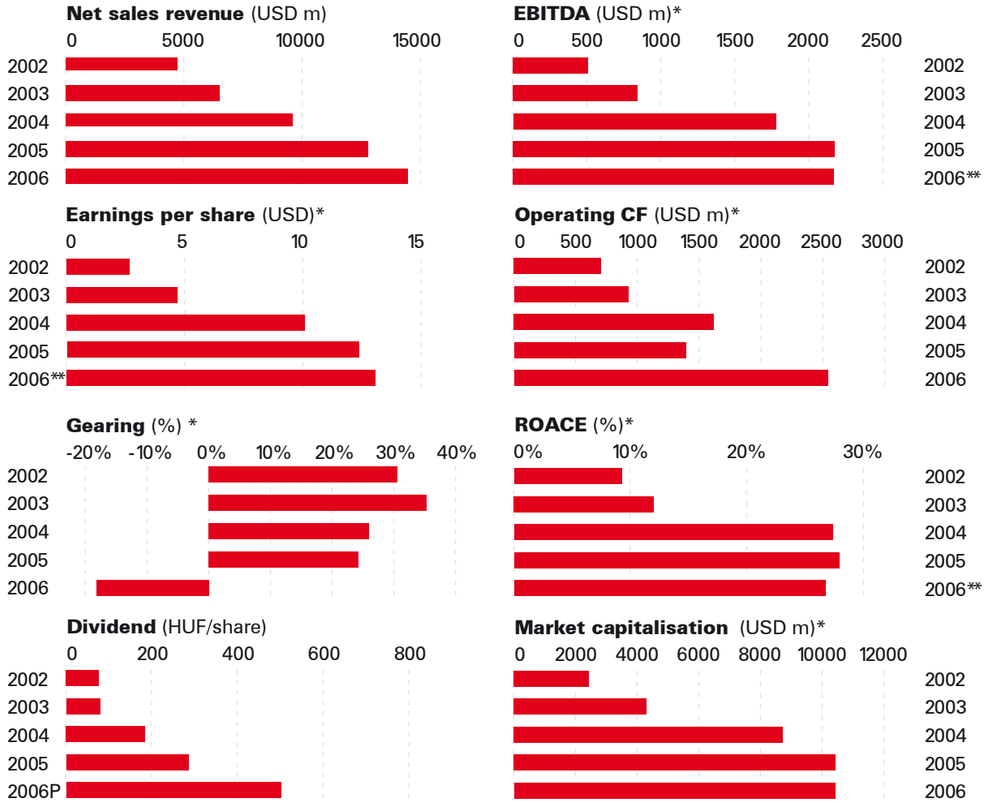
Key Exploration & Production data	2005	2006	'06/'05 %
Gross crude oil reserves* (m bbl)	100.8	111.3	10.4
Gross natural gas reserves** (m boe)	189.2	220.2	16.4
Total gross hydrocarbon reserves (m boe)	290.0	331.5	14.3
Average crude oil production (th. bbl/day)	55.1	53.3	(3.3)
Average natural gas production (th. boe/day)	46.0	49.3	7.2
Total hydrocarbon production (th. boe/day)	101.1	102.6	1.5
Key Refining & Marketing data	**2005**	**2006**	**'06/'05 %**
Total refinery throughput (kt)	15,054	15,110	0.4
Total crude oil product sales*** (kt)	13,961	14,307	2.5
Diesel yield (%)	42.0	44.2	5.2
Gasoline yield (%)	21.6	20.5	(5.5)
Fuel oil yield (%)	3.2	3.4	6.7
Total number of filling stations	834	772	(7.4)
Key Petrochemical data	**2005**	**2006**	**'06/'05 %**
Olefin sales (kt)	229	244	6.6
Polymer sales (kt)	1,065	1,126	5.7
Key Natural Gas data	**2005**	**2006**	**'06/'05 %**
Hungarian natural gas transmission (m cm)	17,714	17,278	(2.5)
Natural gas transit (m cm)	2,570	2,386	(7.2)

Gross proved reserves include information on MOL's proportionate share (25%) of INA, d.d. from 2006.
* Proved ** Proved including condensate *** Excluding LPG and gas products, but including feedstock transfer to Petrochemical segment

Key financial and operating data

Key financial data, IFRS (HUF bn)	2005	2006	'06/'05 %	2006 USD m
Net sales revenues	2,455.2	2,891.1	18	13,733.8
EBITDA	427.9	529.3	24	2,514.4
Operating profit	304.4	394.8	30	1,875.4
Clean operating profit*	290.2	312.6	8	1,485.0
Profit before taxation	277.2	362.4	31	1,721.5
Net income	244.9	329.5	35	1,565.2
Operating cash flow	282.2	529.5	88	2,515.3
Capital expenditures and investments	236.7	187.2	(21)	889.4
Basic EPS, HUF	2,401	3,424	43	16.3 USD
Return On Equity (ROE) %	24.9	30.5	23	-
ROACE %**	26.4	31.6	20	-
Clean ROACE* %**	29.9	27.2	(9)	-

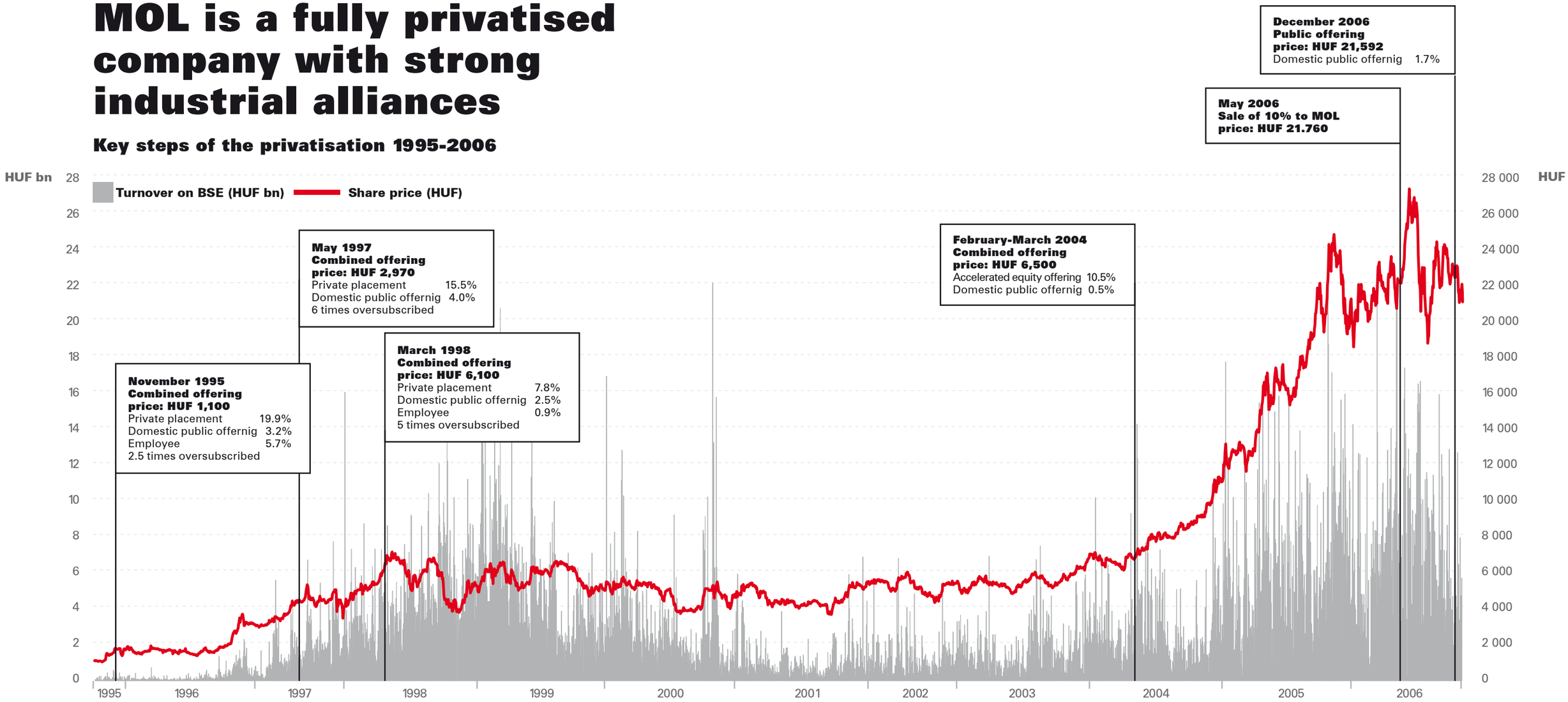
* Excluding one-off gain of HUF 82.6bn on the gas transaction and the profit of the subsidiaries sold in this transaction (Wholesale and Storage) ** Based on NOPLAT



* Definitions can be found on page 182. ** Excluding one-off gain on the gas transaction.

MOL is a fully privatised company with strong industrial alliances

Key steps of the privatisation 1995-2006



We gained control over TVK in 2001.

We purchased majority position in Slovnaft in 2002.

Joint production on ZMB field in Russia started in 2003.

We purchased 25% plus one share in INA in 2003.

Letter from the Chairman and CEO and the Group CEO

Dear Shareholders,

Our performance in 2006 was very strong on all fronts. We were able to achieve outstanding results, reaching an EBITDA of USD 2.1 billion (excluding one-off gains on gas divestments), which corresponds to a 27.2% ROACE after tax. We believe that this excellent performance not only reinforces our long-term strategic decisions but also reflects our continuous efforts to deliver efficiency gains across all of our businesses.

Mixed industry environment

Over the years, we have made several investments in our businesses, which have allowed us to reap the full benefits of the strong oil price and margin environment. The strong growth in demand for motor fuel products across the region provided further impetus to our performance, with demand for diesel up by more than 15% in our home markets, Hungary and Slovakia.

Increased activity in our international upstream business

In line with our strategy, we have continued our efforts to increase international exploration and production activity in our core markets. In Russia, we acquired a 100% stake in the company which owns the exploration licence for block Surgut-7. This is in the vicinity of ZMB, our producing field, and offers significant synergy potential for any discovery. At the end of 2006, we also purchased a 100% stake in the Russian crude oil production company BaiTex, increasing our proven and probable reserves by 67 million barrels on a SPE basis. In Pakistan, we entered the development phase at the Tal block and continued our intensive exploration and appraisal work. With the aim of expanding our activity, we also signed concession agreements on two other exploration blocks near Islamabad.

Increased sales volumes in downstream

Although somewhat less favourable than in 2005, the industry environment remained positive for our downstream business in 2006. The negative impact of lower crack spreads was off-set by higher sales, the stronger US dollar and our optimisation efforts within the value chain. The favourable product slate of our refineries with more than 70% proportion of high margin white products also contributed to our results. In our home markets of Hungary and Slovakia, gasoline sales increased by 8%, while gasoil sales were 17% higher compared to 2005. In spite the intensifying competition, we managed to stabilise our market shares in the retail business and significantly increase sales volumes, especially in Romania. In 2006, we signed a joint agreement with INA for the acquisition of 67% in Energopetrol, the dominant oil player in Bosnia.

Our investment started to pay off in Petrochemicals

Thanks to our initiative aimed at a large scale capacity increase implemented in the previous years, we were able to fully benefit from a positive change in the petrochemical environment from the second half of the year. Driven by the successful expansion of our regional sales operation network, our polymer sales reached a record volume, exceeding 1.1 million tonnes. As a new step in the consolidation between Slovnaft's and TVK's petrochemical activities, we unbundled Slovnaft's petrochemical activities. In early 2007, through an additional share purchase, our direct and indirect influence in TVK increased to 94.86%.

New opportunities in the gas business

2006 saw the sale of our natural gas storage and wholesale subsidiaries to E.ON. However, we have retained our transmission business due to potential growth opportunities. In 2006, we continued the negotiations regarding the Nabucco project aimed at transporting natural gas from the Caspian region to Europe. We established a joint venture with Gazprom to examine possible areas for cooperation, including underground gas storage facilities and extending the Blue Stream gas pipeline. Finally, we won the tender for the development of the strategic gas storage facility in Hungary, thereby re-entering the storage business as we see further business opportunities in the commercial storage of gas.

Continued favourable industry environment and dividend development

We expect the favourable industry environment to continue in 2007, with crude oil prices slightly lower, but Brent-Ural and crack spreads remaining above historical level. The regional demand, especially with regards to diesel, is expected to remain well above the European average. In line with our strategy, we will continue to examine non-organic growth opportunities in our upstream and downstream businesses. We intend to increase further the level of the dividend after the 2006 business year. Finally, we would like to thank all of our colleagues, whose hard work and dedication is of critical importance in the continuing success of our company.

Zsolt Hernádi
Chairman and CEO

György Mosonyi
Group CEO

Overview of the environment

Buoyant global economic growth, with signs of moderate slowdown

Global economic growth rebounded in 2006, continuing a period of outstanding expansion since 2004. Overall, GDP growth almost reached the record highs of 2004, but had a broader base, due to an increasing balance in its geographical composition. In the US, the recent unmatched increase has started to moderate, as interest rates rose and the housing market cooled. Meanwhile, Western Europe and Japan gained further momentum. The Chinese boom continued, fuelled by investments and external demand. Looking forward, some further deceleration is likely in the US, which may moderate growth around the globe.

Remnants of the crude demand shock fading, supply side uncertainties kept prices at record highs to August

Oil prices increased in the first part of the year, reaching record levels in August. By then, the effects of the 2004 demand shock had started to fade, and the price surge was more attributable to supply side fears. Global oil demand growth remained weak, at an annual rate of 1%.

On the supply side, the speed of recovery of crude production after the hurricanes exceeded expectations. This, and other new capacities, mainly from the Caspian region added ample additional crude supply, although technical problems and political instability caused a substantial production fall in Iran and Nigeria. Together with the slowing demand growth, this created a relative oversupply of crude oil, which was reflected in increasing crude stocks. Global spare capacity was still extremely low, and tensions with Iran and in Nigeria led to fears over a further supply fall-out. Thus, risk premiums kept prices high until early August, although market sentiment turned markedly thereafter. This was probably associated with the marked increase of non-OPEC supply to the market. By the end of 2006, higher than usual prices had persisted for 4 years. Although various bottlenecks fuelled upstream cost inflation, high prices generated a genuine investment boom. At the end of 2006 their aggregate effect was around 1 million barrels/day, comparable to the growth of demand.

Massive price response – fundamentals at work

2006 showed that oil demand does respond to the record prices: oil consumption actually decreased in all main developed regions of the world, despite buoyant economic activity. The downward adjustment was still concentrated on the non-transportation use of oil, but the increase in transportation fuels was also marginal. Moreover, the change in US consumer preferences towards more fuel efficient vehicles continued, hinting at a pronounced longer term effect of high prices. The combined effect of lower than expected demand growth and increasing non-OPEC supply led to more than 20% drop in crude prices by the end of the year, despite of the lingering political risk.

Resilience of the world economy

The global economy seems to have remained much more resilient to the high oil prices than previously expected. This is due to increased energy efficiency and the decreased share of crude oil in the global energy mix following the previous oil shocks. Still, high energy prices represent a risk in the world economy and some of the effects may have been temporarily obscured by the strength of the recent expansion.

OPEC aims to gain control again

OPEC countries' influence on the current market arguably weakened during the recent boom, as they used all their capacity to satisfy the boost in demand. As the supply-demand balance improved, with stocks rising and prices dropping, OPEC members decided to cut production by 1.2 mn bbl/day from November in order to stop prices from falling further. Although only partially implemented, this is a first step towards regaining control.

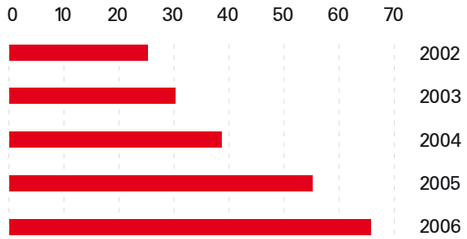
Hungary: Fiscal adjustment High fuel demand growth

In Hungary, GDP growth remained around 4%, and exports grew rapidly, outpacing imports. The fiscal deficit, however, deteriorated from an already excessive base, also contributing to a high current account deficit. Due to the poor public finance situation, the government announced plans to decrease the fiscal deficit, to be achieved through increasing tax revenues and cutting some government expenditure. Despite the high fuel prices, fuel demand grew robustly, diesel again taking the lead, although with a sizable contribution from gasoline.

Slovakia: Excellent growth continues Diesel demand accelerates

The Slovak economy expanded by a respectable pace of around 8% in 2006. Its growth is based on a sound mix of domestic consumption and external demand. It is also based on the relatively balanced public finance situation and on an acceptable level of inflation. The robust economic growth led to strong demand for motor fuels, especially in the diesel sector, which grew by some 16%, although demand for gasoline stagnated.

Average Brent crude oil price (USD/bbl)



Strong operation of our businesses is the key to our success

Exploration and Production

Working together with local and international partners, our Upstream business aims to realise new exploration, field development and production projects. Exploration, production and acquisition projects support the growth of hydrocarbon production, whilst modern technologies and a suitable human resources strategy have been developed to support our overall strategic objectives. Our gross proved hydrocarbon reserves amounted to 331.5 million boe (34% crude oil), while our average hydrocarbon production was at 102.6 thousand boe/day in 2006.

Highlights

- First partnerships related to Central-Eastern European exploration projects formed
- Closer ties with INA in cross border exploration and possible common field development initiatives
- Extension of Pakistani portfolio with Margala and Margala North exploration blocks
- Acquisition of a new exploration block in Western-Siberian region and an oil producing field in Volga-Ural region of Russia
- Concession agreement signed for a new exploration block in Oman
- Further technological development

Competitive advantage

We have the highest profitability per barrel in our upstream activity in Europe, a reflection of our superior operational efficiency. Our seventy years of experience in exploration and production in Hungary and fifteen years in international exploration, field development and production activity, are testament to our ability to operate projects, both independently and with international partners. We place great emphasis on the continual development of our technical skills and use modern recovery methods including enhanced oil recovery and horizontal drilling.

Key developments in 2006

New partnerships in the Central-Eastern European region
With the aim of geographical expansion and to boost domestic exploration activity, in 2006 we signed a joint operation agreement with INA relating to exploration of the Zaláta-Podravska-Zlatina area near the Hungarian-Croatian border. Within the frame of this agreement, Zaláta-1 well has been drilled. In addition, we have established a partnership with Hungarian Horizon Energy Ltd and as a result of this cooperation, the Okány-1 exploration drilling has been completed.

Successful domestic exploration
In 2006, we enjoyed remarkable success in our domestic exploration. Five of the six domestic exploration wells were successful. Gomba-4 and Gomba-5 were completed for oil production, while Beru-1 and Léta-1 wells had good results for gas production. The above mentioned Okány-1 exploration well (jointly operated with Hungarian Horizon Energy) was also successful.

New producing field in Volga-Ural area
At the end of 2006 we acquired a 100% stake in BaiTex LLC, which owns the license to the subsoil under the Baituganskoye oil producing field located in the Volga-Ural region of Russia. According to the reserve audit as of December 31, 2005, the field had 66.7 million barrels of proven and probable reserves according to SPE. Current production amounts to 1800 bbl/day. MOL plans to spend USD 200-250 million on field development, which may increase daily production up to approximately 14,000 barrels after 2010.

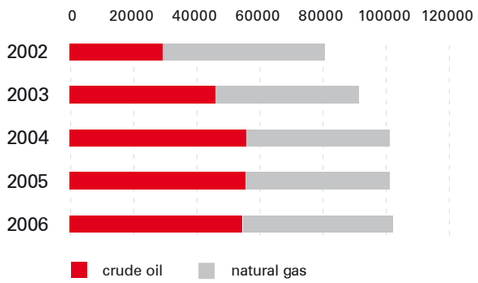
New exploration block in Western Siberia
In 2006, we acquired a 100% stake in NWOG-MOL, which owns the exploration license of the Surgut-7 block in Western-Siberia. The block is located approximately 10 km from the ZMB oil field, which provides significant potential synergies in case of a discovery. The exploration period is 4 years, which may be followed by a production period of 18 years. The program requirement includes a 300 km 2D seismic acquisition and the drilling of one exploration well.

Expanding presence in Pakistan
By the end of 2006, we obtained approval for a development & production lease of over 376 km² within the TAL block area. Based on this, we entered the development phase in parallel to the continuation of intensive exploration and appraisal work. The Manzalai field will be developed in several stages. As a first step, capacity of 7 million m³ per day is planned to be reached in 2009. Consequently, we signed Petroleum Concession Agreements on two exploration blocks. Margala and Margala North Blocks are situated in the eastern part of the productive Potwar Basin of northern Pakistan, in the vicinity of Islamabad. The planned work programmes for the two blocks are similar and include a 200 km 2D seismic acquisition with the opportunity of drilling an optional exploration well in the third year.

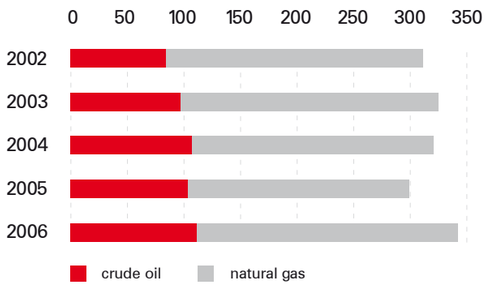
New target country - Oman
In 2006, we signed an exploration and production sharing agreement regarding block 43B with the Omani Ministry of Oil and Gas. The block is located onshore in the North East of Oman. The 15,232 square kilometre block has possible depths of gas and

Focused Upstream portfolio

Average hydrocarbon production (boe/day)



Proven reserves (m boe)



condensate prone target reservoirs at depths between 2000 and 4000 metres. We plan a 300 km 2D seismic line acquisition, as well as processing. Following completion of the G&G studies and the seismic interpretations, depending on the results, we have the option to drill one optional exploratory well.

Geothermal energy exploration

We have formed a consortium with Enex (Iceland) and GreenRock (Australia) with the aim of establishing the first geothermal power plant in the Central-Eastern European region. We will be responsible for the operation of the plant and have identified two prospective existing wells in the South-Western part of Hungary where thermal water production and reinjection tests have been initiated.

Strategic UGS

An attractive opportunity to manage our domestic asset base is the development of gas storage facilities. We have won a tender to implement a strategic gas storage facility and are in negotiations with various companies for the development of commercial gas storage facilities.

Further technological development

Traditionally, our performance in IOR applications has been outstanding, which is a trend that continued in 2006. This year we completed the 100th horizontal well in Hungary. In addition, we introduced a new, modern sand control technique and a reservoir-friendly, non-damaging well completion fluid technology for completing the underground gas storage wells of the Hajdúszoboszló field. We also achieved excellent drilling performance by international standards at our RIG 3 drilling site.

Outlook

In 2007, our goal is to continue to form suitable partnerships in exploration and production operations. We will also seek opportunities to enter into further exploration projects as well as to strengthen our positions in our core areas: CIS countries including Russia, Middle-East and North Africa. Our aim for 2007 is to enhance our presence in our core regions.

Refining and Marketing

We operate two high complexity refineries, Duna (Nelson's complexity of 10.6) and Bratislava (Nelson's complexity of 11.5) with a total nameplate capacity of 14.2 mtpa. Our downstream activity is fully integrated from crude supply to refining, logistics, commercial sales and retail of refined products. Our principal aim is to develop a competitive refinery pool and product slate with an optimised supply chain management to meet the growing demand for high quality products and services. Our focus is on maintaining quality leadership and leveraging it in new growth markets, as well as on the improvement of operational efficiency through selective expansion of the domestic and regional retail network and customer loyalty.

Highlights

- Capitalised on opportunities arising from the healthy business environment
- Strengthening of market position in the region and increasing profitability
- Greater increase in sales volumes compared to growth in market demand
- Successful response to the challenges in the retail market
- Continued leadership in the implementation of the biofuel program and research into second generation biofuels

Competitive advantage

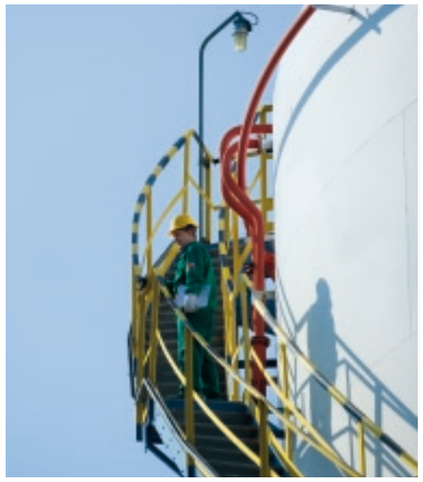
Our high complexity refineries produce a product slate with a high proportion of top quality and high margin motor fuel products. These refineries are supported by extensive crude and product pipeline logistics and an efficient depot network, which enables us to deliver products to consumers across our markets at a competitive cost. As a result, our refinery margin is among the highest in the region. In addition, our supply chain management driven operations ensure maximum flexibility allowing us to react quickly to market changes.

Key developments in 2006

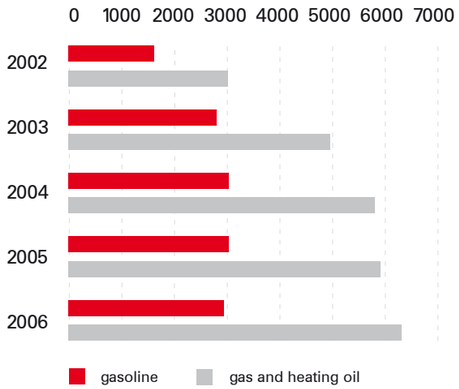
Benefiting from the industry environment
Thanks to our efforts in continuously developing our refineries, we were able to benefit from the slightly weaker, but still favourable business environment by producing high value-added refinery products, whilst using lower-quality crude oil.

Increased sales volumes
Continuing "dieselisation" is a combined effect of dynamic growth in transportation activity as well as a gradual shift towards diesel-engine operated cars. Capitalising on this trend, in Hungary and Slovakia, we increased gasoil sales by 17% while our gasoline sales were 8% higher compared to 2005.

Strengthened positions in end-user market
As result of proactive market research aimed at identifying and successfully meeting customer needs, we increased our share in the end-user market. Using efficient and tailored marketing tools, our sales staff made a significant contribution to the increase in profitability levels, resulting in an overall improvement in our market competitiveness.



Sale of gasoline, gas and heating oil (kt)



Intense competition in the retail business

In our core markets, the threat of increasing competition and aggressive expansion of the hypermarket petrol station network put significant pressure on our margins. To defend our volumes, we introduced competitive main grade micro-market pricing, which enabled us to increase our sales volumes and stabilize our market shares in our core markets.. We were also able to substantially reduce our unit costs, improve our return per assets and double our retail EBIT.

Development of the biofuel program

In 2006, we successfully continued our Biofuel Program, which – in compliance with the EU directive – aims to provide biocomponent content for motor fuels, as defined by the national targets in our domestic and key export markets. To secure the necessary quantity of the biodiesel component, we launched an international supply tender. As a result joint ventures were established with the aim of building and operating a biodiesel plant with a capacity of 150 kilotonnes per year in Komárom and with a capacity of 100 kilotonnes per year in Slovakia. By the beginning of 2008, we will be ready to produce diesel with 4.4 % biocomponent content. We started providing biocontent in gasoline, by blending ETBE, in mid 2005. In co-operation with partners, including the Pannon University of Veszprém, we launched a research and development program for "second generation" biodiesel production, using a wide range of cheap feedstock, such as agricultural, industrial and forestry waste.

Outlook

Dynamic growth in diesel demand, at levels slightly below the two-digit growth rate experienced in the domestic market in 2006, is expected to prevail in 2007. In order to meet the rising demand across our regional markets, mainly for diesel, we plan to increase production capability at the Duna Refinery by reconstructing some of its main units. In addition, to continue "dieselisation" and improve production flexibility, we intend to further increase the diesel yield of our refineries.

In the retail business, our integrated regional operations will allow us to offer a wider range of services to our customers, including loyalty programs and card acceptance, throughout the region. We will continue to seek regional organic and inorganic growth opportunities. In particular, we plan to expand our Serbian retail network further and start running the Bosnian Energopetrol retail network jointly with our Croatian partner, INA.

Petrochemicals

MOL Group's Petrochemicals business supplies polymers to European plastic processing companies. Our products are present in more than 40 countries. The production facilities are located in Tiszaújváros (TVK Plc. units) and Bratislava (Slovnaft Petrochemicals, SPC s.r.o. units) and are operated in an integrated manner jointly optimised with refining.

Our focus is on increasing profitability in existing markets and developing our operations in new target markets. Our aim is to maximise the return on investments made in the past years, leveraging our established position in domestic and CEE markets and our strengthening traditional niche market position in Western European markets, while developing our presence in the strategic eastern growth markets. We continue to improve our pricing position through product portfolio optimisation and an increasing focus on targeted customer segments. We also aim to further improve our product portfolio through product customisation and product application development. We remain committed to maintaining our competitive cost position through continuing improvements in efficiency.

Highlights

- EBIT up more than 20% on the previous year
- Polymer production and sales volume surpassed 1.1 million tonnes in 2006
- Successful exploitation of the favourable external environment in the second half of the year
- Spin-off of Slovnaft's petrochemicals activities, forming Slovnaft Petrohemicals, s.r.o. (SPC)
- Establishment of a subsidiary in Ukraine to facilitate polymer sales
- Successful outsourcing of internal polymer logistics activities at TVK
- General overhaul carried out at several plants

Competitive advantage

With the completion of our major capacity increase, we became one of the largest polymer players in Central and Eastern Europe. We have a high quality asset base with a competitive product slate. Close integration with refining guarantees the security of feedstock supply while providing significant operational benefits for both Downstream and Petrochemicals businesses, leading to an improved group performance. Our geographical location also gives us a competitive advantage, offering convenient transportation to the high growth polymer markets to the East.

Key developments in 2006

Superior financial results

2006 was an outstanding year for the Petrochemical business, with EBIT increasing by 20% compared to 2005. Despite the high feedstock and energy prices and volatile polymer prices we were able to further expand our activities. In 2006, we sold more than 1.1 million tonnes of polymers, its highest ever volume, showing the success of the expansion of our regional sales operation network.

Polymer sales in domestic markets were further increased, and we also achieved a significant increase in sales volume of our new PP and HDPE grades in our strategic markets.

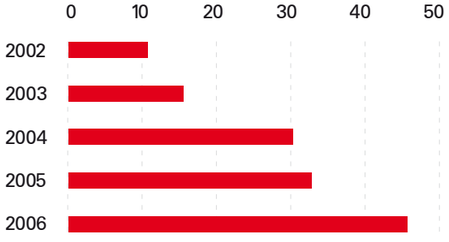
Helped by the more reliable operation of the new production facilities, polymer production

rose by 4% compared to the previous year, matching the increasing regional demand. Our profitability is comparable to that of West European petrochemical companies and better compared our Central European peers.

Investments start to show results

The investments made in the last few years have now started to pay off both in volume and profitability terms. More economic and competitive capacity has led to customer needs being met in a more effective and flexible way. All of this adds up to further potential for profit improvement.

EBITDA (HUF bn)



Synergies from integrated operation

The integrated operation of the legally separate petrochemicals companies within the MOL Group supported the achievement of excellent business results. Synergies were realized through feedstock optimization, more efficient production planning and scheduling, and product portfolio and inventory optimization.

Spin-off of Slovnaft's petrochemicals activities

As an integrated part of the MOL Group Petrochemicals Division, the former petrochemicals business unit of Slovnaft started its legally separated operation as Slovnaft Petrochemicals, SPC s.r.o. on 1st of July, 2006. The new company is fully owned by Slovnaft and its main activity is the production and sale of olefin and polymer products. This step supports the business consolidation of Slovnaft's and TVK's petrochemicals activities, with the divisional operations becoming more transparent from both a legal and accounting point of view.

Strengthening of our presence in strategic growth markets

We started the year with the foundation of a new foreign trading subsidiary in Ukraine. The aim of establishing the company in Kiev is to strengthen our presence in the strategically important Ukrainian market. Thanks to the new trading office, customer contact will improve considerably and we will be able to provide our partners with more effective technical support.

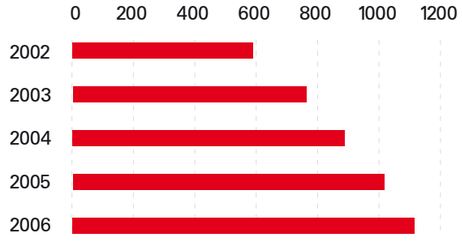
Record volume of polymers produced

Planned general overhauls at certain units of TVK and SPC were successfully completed in the second half of the year. Besides ensuring proper production operations at the sites, the good performance of the new units allowed us to produce a record volume of polymers, more than 1.1 million tonnes of LDPE, HDPE and PP.

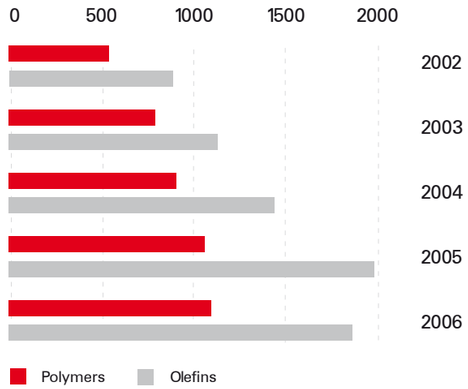
Core business is in focus

In line with our strategy of focusing on the core business, we outsourced the internal polymer logistics activities and railway operations of TVK in October. Deliveries were unaffected by the handover period, with a smooth service maintained.

Polymer sales (kt)



Polymer and olefin production (kt)



Outlook

We are cautiously optimistic for petrochemical margins to be favourable in 2007. We will start preparations for the modernisation and further development of the LDPE production facilities at the Bratislava site. The anticipated long-term outcome of this process can be the development of the Bratislava LDPE units to meet regional demand at a higher technological level and with a modern product slate. We will continue to focus on maintaining our competitive position, outsourcing non-core activities and exploiting further synergies from our integrated operation.

Natural Gas

In line with our strategy, we have continued to streamline our natural gas business with the sale of a 100% stake both in MOL Natural Gas Storage Plc. and MOL Natural Gas Supply Plc. to E.ON on March 31st 2006. As a result, gas transmission now represents the principal activity of this business segment. Meanwhile, we have re-entered the gas storage business and continue to evaluate development opportunities in the sector.

At present, MOL remains the only company in Hungary with a licence to carry out natural gas transmission and system operation activities, which both take place in a regulated market environment. The majority of the transmission activity serves the domestic consumers, while the unregulated regional transit comprises the smaller part of our activity. We currently deliver natural gas to our Serbian and Bosnian partners and continually seek expansion opportunities in the transit markets. The aim of this business is to secure access to the transmission system and the balance of the supply system. Concurrently, an environment-friendly operation of the transmission system remain paramount.

Highlights

- Continuous gas supply throughout the extremely cold month of January in 2006
- Winner of the tender for the development of the strategic gas storage facility in Hungary
- Joint venture with Gazprom to examine possible areas of cooperation
- We continued the negotiations on the Nabucco project

Competitive advantage

We have an extensive, appr. 5,500 km-long high pressure gas pipeline system in Hungary. As a result, our regulated domestic gas supply business provides stable cash flow for the group. Given our unique geographical location, we are able to capitalise on expansion opportunities in the growing regional gas transit business. In addition, several of our depleted gas fields in Hungary can be converted into storage, potentially providing further revenues for the group. Finally, the Hungarian natural gas transmission system is among the top five of the 15 European transmission systems in terms of pipeline integrity according to an independent industry evaluation company.

Key developments in 2006

Development of the strategic gas storage
We have won the tender to build strategic natural gas storage of 1.2 bn m³ in Hungary. The planned gas storage facility will be developed from a producing gas field, called Szőreg-1. We estimate that the necessary capital expenditure will be HUF 150 bn, including the HUF 65 bn purchase price of the field which will be sold to MSZKSZ (Hungarian Association of Hydrocarbon Storage). The development is expected to be completed by 2010. As a result of this transaction, we are again an active participant in the gas storage business.

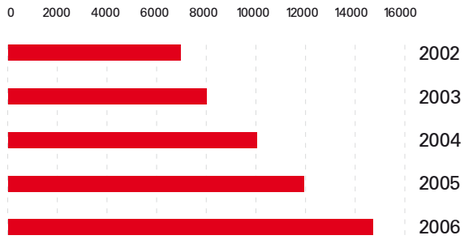
MOL-Gazprom cooperation
In 2006, we established a joint venture with Gazprom with the aim of examining possible areas for cooperation, including the diversification of the Russian natural gas export routes by extending the Blue Stream gas pipeline towards Central and South-Eastern Europe; the establishment of underground gas storage facilities at depleted Hungarian gas fields and establishing a commercial hub in Hungary for common storage capacities. We will evaluate the first phase of the project in 2007.

New strategic opportunities – Nabucco project
In addition to underground gas storage, another method of achieving security of energy supply is the diversification of import sources, which can only be realised competitively through international cooperation. In line with this, MOL is taking part in the Nabucco project, aimed at transporting natural gas from the Caspian region to Europe, in cooperation with OMV, Transgaz, Bulgargaz and Botas. The project, which is also supported by the European Union, is aimed at building a 3,300 km long pipeline by the beginning of the next decade, with an initial transmission capacity of 8 bcm per annum, extended to 31 bcm per annum in the future.

Outlook
The new natural gas market model, due to be introduced later in 2007, is expected to extend market liberalisation to all consumer segments. Barriers imposed on utility companies are expected to be eliminated. Our intention is to use the opportunities arising from increasing competition to become a more active participant in the trade market.

The increasing transit transportation demand calls for an increase in cross-border capacities. In particular, an increase in import capacities as well as the interconnection of the Hungarian transmission network with the transmission systems of the surrounding countries are under consideration.

Gas transit revenue (mn HUF)



Our strategic partner INA

MOL currently owns 25% plus one share of the share capital of INA. d.d., the national oil and gas company of Croatia, which was purchased in November 2003. INA produced 4.9 million tonnes of refined products in 2006 and operates more than 450 retail stations in the region. In 2006, INA produced more than 58.2 million boe/day of hydrocarbon and closed the year with proven reserves exceeding 261 million boe. In partnership with MOL, INA has a strong position in the fast growing South-Eastern European oil product market.

Privatisation process of INA

In 2006, INA's privatization process continued according to Croatian Privatization Law. A total of 17% of the company's shares were sold through an initial public offering on the Zagreb and London stock exchanges. Following the transaction, the Government of Croatia remains the majority owner of INA with 52%. In addition to MOL's 25% stake, 7% of the shares are owned by the War Veterans Fund.

Based on the agreement concluded with the Government of Croatia, MOL is entitled to nominate two members of the seven-member Management Board of INA, including the Chief Financial Officer and the Corporate Services Director. In addition, MOL nominates two members out of the seven-member Supervisory Board.

Development program of INA refineries

MOL provides INA with corporate know-how, drawing from the lessons learned from its own development, helping the company prepare for the forthcoming industry challenges. In line with this, MOL supports the modernization program of INA's refineries. Thanks to this program, INA's petroleum products will comply with the EU quality standards as of 2009. The project, with a total value of USD 1-1.1 billion, will be executed in several phases. Following the basic engineering, the first phase of the project began in 2005 by signing contracts related to the sulphur recovery unit at the Sisak Refinery.

Supply Chain Management system at INA

In 2004, INA introduced the concept and the system of Supply Chain Management, with MOL's support. The benefits resulting from this development were first seen in 2005, through improved cost control for the whole supply chain, from crude purchasing to sales of products, and improved customer relations. INA and MOL aim to further improve and harmonize these activities to enhance operational efficiency in refining and wholesale, to maintain lower stock levels, and prepare harmonized turnarounds and maintenance plans.

Energopetrol partnership

As part of the consolidated marketing strategy for the South Eastern European region, INA and MOL jointly won the tender to become the 67% owner of Energopetrol d.d. Sarajevo, the leading petroleum wholesaler and retailer in the Federation of Bosnia and Herzegovina. Energopetrol owns and operates 65 filling stations in Bosnia and Herzegovina.

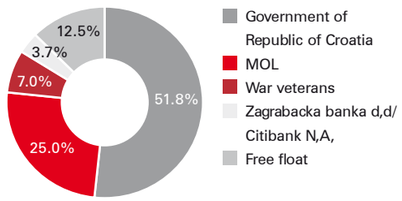
Other areas of cooperation

In addition to the long-standing co-operation in cross-border field operations along the Hungarian-Croatian border, we are jointly evaluating certain opportunities in the international upstream business with the aim of sharing risk and combining financial and human resources. Furthermore, MOL provides INA with assistance with the implementation of an integrated SAP-based Enterprise Management System, the first phase of which was completed in 2006. The changes initiated in business processes, such as the newly launched cost cutting project and the introduction of an integrated procurement system at INA have all contributed to improved operational efficiencies.

Outlook

In 2007, we aim to continue the implementation of the Enterprise Management System. At the same time, we will continue the development program of the INA refineries. The further development of our relationship will enable us to more effectively address the forthcoming challenges in the region, as well as to exploit synergies with the aim of increasing efficiency at both businesses.

Ownership structure of INA (31 December 2006)



Corporate values

For MOL Group, 2006 was an outstanding year in terms of our Sustainable Development activities; we put great emphasis on environmental, social and economic issues. Our aim is to become a company with an exemplary record in every field of our operations and for our stakeholders to value us not only for the quality of the products and services we offer but also for the principles that are central to our operations.

The complex concept of Sustainable Development (SD), that aims to ensure a better quality of life for present and future generations, is constantly developing and nowadays extends to all areas of social and economic life and environmental protection. Our goal is to establish a systematic approach within the company which transcends local issues to result in thinking and action on an international scale serving efficient and sustainable corporate operations. In order to achieve this objective, we aim to integrate the three pillars of Sustainable Development – social, environmental and economic – in equal measure into our corporate strategy and all operational activities.

New MOL Group-level Management System for Sustainable Development

MOL strives to adopt and keep in step with international best practices and requirements as regards is sustainability program and it has the strategic objective of operating a system, that supports sustainable company management within the company for the long term. For this reason, MOL Group Senior Management approved the establishment of a Sustainable Development Management System (SDMS) in June 2006, providing it with clear aims and processes as well as accountability and the responsibility for executing specific tasks with the right tools.

The internal Governance structure of SDMS

The highest-level SDMS decision-making body is the Board of Directors' Sustainable Development Committee. This ensures the highest commitment to and representation of Sustainable Development issues in MOL Group relations, both internal and external. The implementation of SDMS objectives is carried out by the Sustainable Development Working Team, which is made up of representatives of MOL Business and Functional Units, thus ensuring the integration of Sustainability into day-to-day operations and the development of a new way of thinking throughout the company.

Our Social Investments

MOL Group is one of the most significant donor in our region. We support young talents, the environment protection, outstanding performance in culture and sport as well as different health development programs. Our commitment was acknowledged by the award „TOP Corporate Philanthropist 2006" received from Hungarian Donors' Forum. We donated various organisations a total of HUF 460 million.

In 2006, the **New Europe Foundation** put a special emphasis on young talent and child health programmes. Under the slogan "May I help you?" two programmes were established, the Talent Support and Child Healing programmes. Thanks to these two programmes, 89 talented young sportsmen and women and 34 young artists received donations in 2006 and, 29 paediatric organisations offering support to chronically ill children were granted significant funds.
The overwhelming number of applications demonstrates the success of the programmes in Hungary in 2006, and similar support programmes are already in preparation for other countries in the region where MOL Group is present, primarily in Romania.

We expanded another major initiative last year to enrich communities with larger and more beautiful green areas through a regional environmental programme, called **Green Belt**. Its aim is to contribute to the creation and redevelopment of local green areas in cooperation with the regional environmental protection organisations and local communities. Under the programme, from approximately 200 applications, 33 were granted financial support last year. To honour the most successful applicants, MOL has founded the MOL Green Belt Award last year, which is handed over to the local community which succeeded in creating the most beautiful and environmentally friendly green area in the most efficient way.

Health, safety and environmental protection

Key performance indicators

MOL Group has set very ambitious Strategic HSE goals for 2006-2010 in line with the new Group Strategy. This includes Lost Time Injury Frequency (LTIF) being in the first quartile compared to the peer group, or at least 1.0 ratio by 2008.
In 2006 the number of Lost Time Injuries was 58, which equates to a Lost Time Injury Frequency for MOL Group of 2.2. This was accompanied by 105 non-LTI cases (less severe incidents), and 19 fire cases on our sites. Due to the extension of the reporting system in 2006 to include our financially consolidated subsidiaries, both figures represent an increase compared to the previous year.
In 2006 no MOL employees suffered any fatal work related injuries. However, we regret to report that one of our contractors suffered

a severe electric shock during construction work, resulting in his death.

External environmental liability assessment

By 2015, MOL Group is committed to decreasing the amount of known environmental provision-based liabilities from the 2004 year-end baseline by 90%. According to our policy to ensure transparency, we employed ERM Hungária Ltd, an independent consultant to verify the environmental liabilities of the Group in 2006.

Greenhouse gas emissions

Following the 2005 introduction of the Emission Trading Scheme (ETS) for greenhouse gas emission-allowance trading, a greenhouse gas emission management strategy was developed and approved by MOL Group top management. The strategy set out clear tasks and responsibilities, with the ultimate goal of achieving cost-efficient compliance with emission trading regulations by using technological advancement to decrease CO_2 emissions as well as increasing energy efficiency and seeking potential Joint Implementation projects.

Safe workplaces project

In 2006 MOL Group has signed a contract with DuPont Safety Resources for the extension of the Safe Workplaces Project with a dedicated section for Process Safety Management (PSM) in line with our aim to implement a structured PSM throughout the company.

Take a STEP for your health

The Workplace Health Promotion Program (STEP), which was approved as the part of New Europe Program was launched in third quarter of 2006. Aiming to improve the state of health of MOL Group employees, individual health plan are compiled and health screenings are provided for them in the first year of the 5-year program.

Human values

Career Management

Growth and continuous efficiency improvement can only be achieved with trained, committed and performance-orientated staff. Therefore we have been continuously developing our HR systems to put a focus on employees' knowledge, skills and performance.

In 2005, we began a formal assessment of the group's talent base, to enable us to identify and nurture talent internally to fulfil a variety of leadership and expert positions across all levels and divisions. Several structured talent programs are in place with the aim of developing the participants' business and leadership skills and preparing an internal talent pool for supporting the Group's Growth Strategy. These include the New Graduate Program, Divisional Talent Programs and Managerial / Leadership Talent Program, all of which were launched in 2006 and 2007.

Compensation based on harmonized job grading system

In 2006 we continued the programme of harmonizing our job grading and compensation system throughout the MOL Group. Started in 2005, it aims to create a single, logical, transparent and consistent system.

Strategic recruitment

To support the Corporate Strategy of growth and internationalisation, recruitment activity has been revitalized. The new Strategic Human Resourcing programme covers the whole supply chain of potential workforce including secondary schools, universities, student organisations and the international labour market. In addition to attracting future colleagues, we focus on long term and value creating relationships for knowledge transfer, joint innovation and research projects. The New Graduate Program covers their introduction, development and career management phases of employment. We use many innovative ways to select the best

people, including an essay writing contest where new graduates are invited to submit a piece on the subject "Imagine being MOL CEO".

Employee engagement survey

During 2006 we conducted a group-wide Employee Survey involving all 13 500 employees at our largest 18 companies in 6 countries. The purpose was to identify and analyse the level of engagement of MOL Group employees and to identify those factors that hinder or improve both this and their performance.

The survey revealed that overall employee engagement is good and we have even made a small improvement since our last measurement in 2004. However, we have identified units, employee groups and action areas where improvements still need to be made. At our annual large group senior management seminar we discussed the conclusions and set the necessary actions for improvement. One important conclusion was that the management has a key role in motivating the staff and encouraging them to put the maximum effort into their job. For 2007 the revitalization and mobilization of the staff will be one of our key priorities.

To strengthen employee commitment, we have been developing continuous, consistent and proactive communication with our employees. This initiative is in line with one of our main HR values which is essential to maintaining effective employee relations.