

Financial statement



Management Discussion and Analysis

Financial highlights

In 2007, operating profit remained stable in USD-terms at USD 1,934 mn, but decreased by HUF 54.1 bn, to HUF 355.5 bn, mainly due to 13% depreciation of USD vs. HUF. Operating profit excluding special items increased by 5% in USD-terms as strong increase in downstream and petrochemical sales volumes, strong crude prices as well as improving crack spreads and integrated petrochemical margins compensated for lower hydrocarbon production. Operating profit excluding special items in HUF-terms decreased by 8% to HUF 299.4 bn in 2007. Net profit attributable to the equity holders of the parent excluding special items improved by 13% in USD-terms, while it narrowed by 2% in HUF-terms in 2007 y-o-y. Net income excluding the non-realised fair valuation difference of the conversion option of Magnolia and cleaned of special items was USD 1,215.2 mn (up 12%).

- Exploration & Production operating profit for FY 2007 was USD 429 mn down 27% year-on-year (in HUF terms was 78.9 bn or down by 36%) on lower production levels and one-off items.
- Refining & Marketing operating profit amounted to USD 935 mn in FY 2007, up 12% year-on-year (stable in HUF-terms at HUF 171.9 bn), boosted by strong volumes and higher crack spreads.
- The Petrochemical segment's operating profit doubled to an all time high level of USD 222 mn in FY 2007 (HUF 40.9 bn), due to record production volumes and improving integrated petrochemical margin.

- Gas Transmission operating profit (including the impact of asset revaluation) increased by 14.4% to USD 168 mn in FY 2007 (stable in HUF terms at HUF 30.9 bn), mainly due to higher domestic transmission revenue.
- Corporate and other operating profit of HUF 26.4 bn in FY 2007 includes a one-off gain of HUF 14.4 bn on the acquisition of a 42.25% minority interest in TVK and a subsequent settlement of HUF 44.3 bn from E.ON in connection with the gas business sales.
- Efficiency improvement program has been continued in 2007 as well. Targeted benefit is USD 285 million by the end of 2008. 96% of this target has been already reached by the end of 2007.
- Capital expenditure and investments almost doubled in 2007. The increase from USD 0.9 bn (HUF 187.2 bn) in 2006 to USD 2.0 bn (HUF 363.4 bn) in 2007 was fuelled mainly by acquisition expenditures totalled USD 1.1 bn (HUF 207.6 bn) including IES, a further shareholding in TVK, Tifon and the Matjushinskaya field.
- Net debt at the end of FY 2007 was HUF 506.5 bn, while our gearing ratio (net debt divided by the sum of net debt and total equity) was 35.6% as a result of transactions done within the framework of capital optimisation program.
- Operating cash flow before changes in working capital decreased by 4% to HUF 446.5 bn (USD 2,429.3 mn). Including working capital changes and corporate tax paid, operating cash flow decreased by 40% to HUF 315.5 bn in 2007.

Key financial data by business segments

Net sales revenues	2007 (HUF mn)	2006 (HUF mn)	2007 (USD mn)	2006 (USD mn)
Exploration and Production	334,806	389,611	1,822	1,851
Refining and Marketing	2,290,414	2,331,254	12,461	11,075
Natural Gas	90,694	368,195	493	1,749
Petrochemicals	497,616	451,248	2,707	2,144
Corporate and other	102,163	103,034	556	489
Total	3,315,693	3,643,342	18,039	17,308

Net external sales revenues ¹	2007 (HUF mn)	2006 (HUF mn)	2007 (USD mn)	2006 (USD mn)
Exploration and Production	178,804	162,350	973	771
Refining and Marketing	1,932,290	2,006,863	10,513	9,534
Natural Gas	78,244	359,934	426	1,710
Petrochemicals	398,181	355,856	2,166	1,691
Corporate and other	6,432	6,058	35	29
Total	2,593,951	2,891,061	14,113	13,735

Operating profit	2007 (HUF mn)	2006 restated³ (HUF mn)	2007 (USD mn)	2006 restated³ (USD mn)
Exploration and Production	78,864	122,930	429	584
Refining and Marketing	171,935	175,337	935	833
Natural Gas	38,743	111,564	211	530
Petrochemicals	40,892	23,297	222	111
Corporate and other	26,446	(41,086)	144	(195)
Inter-segment transfers ²	(1,375)	17,530	(7)	83
Total	355,505	409,572	1,934	1,946

Operating profit exc. spec item⁴	2007 (HUF mn)	2006 restated³ (HUF mn)	2007 (USD mn)	2006 restated³ (USD mn)
Exploration and Production	80,554	122,930	438	584
Refining and Marketing	171,935	175,337	935	833
Natural Gas	38,743	37,520	211	178
Petrochemicals	40,892	23,297	222	111
Corporate and other	(31,329)	(41,086)	(170)	(195)
Inter-segment transfers ²	(1,375)	8,724	(7)	41
Total	299,420	326,722	1,629	1,552

¹ Net external sales revenues and operating profit of the segments includes the profit arising both from sales to third parties and transfers to the other business segments. The Exploration and Production transfers domestically produced crude oil, condensates and LPG to the Refining and Marketing segment and natural gas to the Natural Gas segment. Refining and Marketing transfers chemical feedstock, propylene and isobutane to Petrochemicals, and petrochemicals transfers various by-products to Refining and Marketing. The internal transfer prices used are based on prevailing market prices. Divisional figures contain the results of the fully consolidated subsidiaries engaged in operations of the respective divisions.

² This line shows the effect on operating profit of the change in the amount of unrealised profit deferred in respect of transfers between segments on operating profit. Unrealised profits arise where the item transferred is held in inventory by the receiving segment and a third party sale takes place only in a subsequent quarter. For segmental reporting purposes the transferor segment records a profit immediately at the point of transfer. However, at the company level profit is reported only when the related third party sale has taken place. In previous years, the effect of this unrealised profit was not shown separately, but was included in the reported segmental result of the receiving segment. Unrealised profits arise principally in respect of transfers from Refining & Marketing to Petrochemicals.

³ The Group has changed its accounting policy to disclose Hungarian local trade tax and innovation fee as income tax expense as these tax types show the characteristics of income taxes rather than operating expenses. In previous years, local trade tax and innovation fee have been recorded as operating expense.

⁴ Operating profit excludes the one-off gain and the profit of the gas subsidiaries sold (Wholesale and Storage) of HUF 82.9 bn in 2006. In FY 2007, it excludes the one-off gain on the acquisition of TVK shares (HUF 14.4 bn) realised and subsequent settlement from E.ON in connection with the gas business sales of HUF 44.3 bn, of which HUF 26.9 bn income has been accrued in Q4 2007 for the settlement period of July-December 2007. The payment pertaining to this is expected to take place in Q1 2008.

Overview of the Business Environment

Challenging macro environment...

Some elements of the macro environment were very favorable, while changes in foreign currency exchange rates had a negative impact in 2007. Although crude prices, refinery and petrochemicals margins improved during the year, the weakening USD against our local currency had a significant impact on our operating performance in 2007.

... with favorable crude prices and crack spreads...

The average Brent price increased significantly, by 11.2% in USD terms to 72.4 USD/bbl in 2007. The average Med quoted price of Ural Blend, which constitutes most of MOL's crude oil purchases, was 69.4 USD/bbl, up by 13% compared to 2006 (61.4 USD/bbl). Average FOB Rotterdam gasoline and gas oil prices increased by 12.4% and 10.2%, respectively. Average USD denominated crack spreads of FOB Rotterdam gasoline increased by 17.3%, and the gas oil crack spread increased by 6.4% compared to 2006, well above historical averages.

...but undermined by weakening USD

The Hungarian Forint strengthened significantly (by 12.7%) against the US Dollar: the average exchange rate in 2007 was 1 USD = 183.8 HUF (1 USD = 210.5 HUF in 2006). The Forint also strengthened (by 4.9%) against the EUR in 2007, compared to the weakening of 6.5% in 2006. During the year, the Slovak Crown strengthened further by 9.3% against the EUR in 2007 continuing the 2006 trend (SKK was up 3.6% in 2006). Slovak Crown strengthened against the US Dollar also: the average exchange rate in 2007 was 1 USD = 24.7 SKK (1 USD = 29.7 SKK in 2006).

Average consumer-price inflation in Hungary was 8.0% in 2007, compared to 3.9% in 2006. In Slovakia, average consumer-price inflation decreased to 2.8% compared to the 4.5% in 2006. The Hungarian GDP growth has dropped to its lowest levels since 1996 and was only 1.3% in 2007, compared to the growth of 3.9% in 2006. The GDP growth in Slovakia was 10.4% in 2007 (8.5% in 2006). Across the region, demand for motor gasoline increased slightly by 1.6%, while demand for motor gas oil increased rapidly by 8.9% in 2007.

Changes in regulated gas tariffs

The asset proportional profit (projected on the asset base acknowledged by the regulator (RAB) and enforceable for the regulated activity at the Hungarian natural gas transmission) tariff was 6.9% in 2007. During the tariff change in July 2007 the entry capacity fee grew by 8% while exit capacity fee remained relatively flat. Turnover fee decreased by 10%, which reflects the decrease of acknowledged gas price. The HEO (Hungarian Energy Office) issued odorization tariffs valid from July 1st, 2007 until June 30th, 2008.

Mining royalty payment in Hungary...

The Company paid 49% of its crude oil and natural gas income as mining royalty to the Hungarian State on the crude oil and natural gas produced in Hungary in 2007. The rate of mining royalty payable by MOL on crude oil and on natural gas produced from fields put into production after 1998 reached 12.5% in 2007. In accordance with 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 decreased, in line with a formula set by the law, from 75% in 2006 to 64% in 2007. In 2007 HUF 66.2 bn

was paid to energy price compensation budget from royalty after production from these fields. The rate of the mining royalty on the production from fields named in the agreement signed between MOL and the Minister of Economy and Transport will be determined according to regulation effective at the end of 2005. Thus the rate of mining royalty payable on natural gas produced from fields put into production after 1998 - assuming a lower increase in gas prices than the increase in the acknowledged cost -, will gradually decrease as per the predetermined formula until it reaches close to 12%, modified from 2006 with a multiplier of 1.02-1.05 as per the agreement. The bilateral agreement determines the royalty payable by MOL on Hungarian hydrocarbon production from fields named in the agreement until 2020. Other fields including new discoveries from 2005 are subject to production level and Brent quotation dependent rates of mining royalty and payment conditions regulated by the modified Mining Act of 2007 and the related by-laws.

...and in
Russia

The extraction tax and the export duty in Russia is adjusted depending on the average Urals blend listed prices and the Russian Rouble/US Dollar and are calculated by the calculation formulas established in the tax law. Tax authorities inform the public in official announcements about the extraction tax rate every month and about the export duty rate every second month. The extraction tax rate as of 31 December 2007 was USD 17.5/bbl; average extraction tax rate was 19,1% comparing to the annual average Urals blend price in 2007. The export duty rate as of 31 December 2007 was USD 37.9/bbl; the average export duty rate was 41% comparing to the annual average Urals blend price in 2007.

Sales, Operating Expenses and Operating Profit

Net sales

In 2007, Group net sales revenues decreased by 10% to HUF 2,594.0 bn, primarily reflecting lower revenue as a result of the sale of the gas business and the lower average selling prices of refined products despite increased volumes. The decline has been partially compensated by revenue contribution from the Italian refinery IES since its consolidation in mid-November (HUF 41.0 bn).

Other operating income in 2007 contains the impact of acquisition of a 42.25% minority interest in TVK (HUF 14.4 bn) and the HUF 44.3 bn subsequent settlement from E.ON Ruhrgas International AG in connection with the gas business sale (of which HUF 17.4 bn was received in Q3 2007 for the settlement period of January-June 2007, while a further HUF 26.9 bn for the settlement period of July-December 2007 is expected to be paid in Q1 2008). The comparative figure of other operating income primarily reflects the one-time gain of HUF 82.6 bn realized on the disposal of the gas business at the end of Q1 2006.

Raw
materials and
consumables

The value of raw materials and consumables decreased by 8%, marginally below the rate of decline in sales. Within this, raw material costs increased by 9%, primarily as a combined effect of the fall in HUF based crude oil import prices and the higher quantity of import crude oil processed as well as the contribution of IES of HUF 36.0 bn. Cost of goods sold decreased by 52%, due to the effect

of the gas business sale in Q1 2006 and the decreased volume of crude oil during the period. The value of material-type services used increased by 5% to HUF 131.3 bn.

Other
operating
expenses

Other operating expenses decreased by 14% to HUF 225.1 bn, mainly as a result of the impact of the sales of the two gas subsidiaries, the reduced value of export duty at ZMB joint venture and the lower mining royalty. Mining royalty decreased due to the combined effect of the disposal of the Szőreg-1 field and lower domestic and foreign production volumes as well as the higher regulated gas wholesale prices.

Personnel
expenses

Personnel expenses for the period increased by 7% to HUF 117.3 bn, due to the combined effect of an average salary increase of 6.5% and 1.6% increase in average headcount. The closing headcount of MOL group increased by 8.6%, from 13,861 to 15,058, resulting from the acquisition of IES and Tifon in Q4 2007 and our international E&P expansion.

Of production costs incurred in the period, HUF 70.2 bn is attributable to the increase in the level of finished goods and work in progress, as opposed to the decrease of HUF 13.3 bn in 2006.

Exploration and Production Overview

HUF 78.9 bn
operating
profit

The Exploration and Production segment's operating profit was HUF 78.9 bn (USD 429 m) in 2007, 36% lower compared to 2006 in HUF-terms and 27% lower in USD-terms. The 12% lower production volumes (mainly as a consequence of suspended production of Szőreg-1 field due to its ongoing conversion into an underground gas storage facility) and the unfavourable exchange rate development (13% weaker USD against HUF) had a negative impact on operating profit in 2007, which was only partially compensated by the 11% higher Brent price.

Lower
revenues ...

Upstream net sales plus other operating income decreased by HUF 55.2 bn to HUF 335.4 bn in 2007, mainly due to the Szőreg-1 field disposal and decrease in selling prices. Hungarian crude oil transfer prices decreased by 4%, while the Hungarian natural gas transfer and sale prices dropped by 13% in 2007 on an average, in HUF terms compared to 2006.

... partly
compensated
by lower
expenditures

Upstream operating expenditures were HUF 11.1 bn lower year-on-year in 2007. The Group's total royalty payments decreased by HUF 26.8 bn in 2007, out of which the royalty paid by MOL Nyrt. (related to the Hungarian production) decreased to HUF 97.1 bn in 2007 compared to HUF 124.4 bn in 2006. The Hungarian royalty to energy price compensation budget paid on gas produced from fields put into operation before 1998 within this amount was HUF 66.2 bn in 2007, HUF 23.7 bn lower than in 2006. One-off items significantly increased Upstream costs: including a subsequent impairment of HUF 6.8 bn on certain suspended and depleted fields, HUF 5 bn impairment related to commercially non-viable discoveries in Yemen and a HUF 6.0 bn impairment of questionable collection of crude oil sales in 2007.

Main 2007 goals were met

Our main objective is to develop a strong and balanced portfolio with significant upside at an appropriate risk level, by maximizing the value of our existing resource base, acquiring new production, development and exploration assets, where we can deploy our skills and capabilities effectively. We also focus on enhanced and improved recovery of our existing producing fields and originating new projects in territories neighbouring our legacy assets. We made the following steps in 2007 to realise these targets:

- Intensive field development in order to balance production in our cash generating domestic projects (excluding production of Szőreg-1 field)
- Increased international hydrocarbon production by 1.8% year-on-year by acquiring new producing assets in Russia
- Increased total gross proved developed and undeveloped reserves in line with SEC guidelines (excluding Szőreg-1 field disposal and 25% of INA reserves)
- Presentation of P1 and P2 reserves according to SPE as well, providing a more realistic framework for reserves presentation from 2008 onward
- Highly competitive OPEX maintained on Group level
- Acquiring new exploration assets with strategic fit to enhance our existing portfolio

The total hydrocarbon production was 90.4 Mboe/day in 2007 compared to the 102.6 Mboe/day in 2006. The decline mainly was a consequence of suspended production of Szőreg-1 field due to its ongoing conversion into an underground gas storage facility. Hungarian assets contributed 70% of the total production while Russian fields dominated the international production.

Domestic hydrocarbon production

In 2007, the average Hungarian hydrocarbon production was 63.0 Mboe/day, compared to 75.7 Mboe/day in 2006. Hungarian crude oil production (without condensate) fell by 6.8% to 16.5 Mboe/day in 2007, compared to 2006, while natural gas production (net dry) was 39.4 Mboe/day, dropping by 17.8% year-on-year, of which 14% was caused by suspended production of the Szőreg-1 field.

Intensive field development

We put strong emphasis on development of our undeveloped reserves in Hungary spending HUF 8.2 bn in 2007 on such projects. The returns for such projects are expected to be strong as transportation infrastructure and gathering systems are available in their proximity.

EOR/IOR/ EGR projects to maximize recovery

In 2007 Enhanced Oil Recovery (EOR) technology was applied at 7 fields, representing 15.3% of total Hungarian crude oil production. The high oil price and favourable royalty regulation motivated us to investigate the further EOR/IOR/ EGR potential of our fields. In 2007 we analysed 130 objects and we selected 36 individual project plans to realize the certain domestic upside potential.

Szőreg-1 transfer to UGS

We continuously investigate the most profitable usage of our assets. Therefore we decided to transform one of our gas reservoirs (Szőreg-1) to underground gas storage facility. We believe that re-entering gas storage business will enable us to utilize profitably our gas fields close to depletion on a longer time horizon.

International production up 1.8% fuelled by acquisitions

International hydrocarbon production increased by 1.8% year-on-year to 27.4 Mboe/day in 2007 as our acquisitions in Russia could offset the lower volumes from the mature ZMB field (West Siberia, Russia, 50% MOL share).

Russian production balanced by new acquisitions

Our share of the crude oil production from the ZMB field reached 23.9 Mbbl/day in 2007, a 8.2% decrease compared to the previous year, while the Baitugan field (in Russia's Volga-Urals area, with a 100% MOL share) produced 1.8 Mbbl/day and the Matjushkinskaya fields (a 3,231 km² block in Tomsk region acquired in April 2007 with 100% interest) provided an additional 0.6 Mbbl/day average production with a peak production above 1.1 Mbbl/day in December.

Intensive field development in Russia

In ZMB field 23 new production and water injection wells were drilled in 2007. Regarding Baitugan field in 2007 the main task was to create the basis for the future production growth. Based on the modification and authorization of existing Field Development Plan the reconstruction of surface facilities has been started. Drilling activities has already started at the end of 2007. USD 260-275 mn will be spent on field development, which may increase daily production, according to our estimation, up to approximately 14.0 Mbbl/day by 2014. In Matjushkinskaya field new production wells were put into operation and existing wells were fractured resulting in higher production in December. Building of Central Processing Station and Commercial Access Point started with the purpose of decreasing transportation and oil preparation cost and provide the ability of processing increased production in the future.

Pakistani production 1.2 Mboe/day

Production in Manzalai and Makori fields in Tal block (Pakistan, 8.42% MOL share) was above 14.0 Mboe/day (1.2 Mboe/day net to MOL) in 2007. The completion of surface facilities, a 200 km gas pipeline and drilling of 6 production wells is in progress in line with our Field Development Plan. The appraisal of Makori field is expected to be done during 2008.

Our reserves according to SEC rules maintained excluding Szőreg disposal

According to our reserve review (excluding MOL's entitlement to 25% of INA d.d.'s reserves) in line with SEC guidelines, total gross proved developed and undeveloped reserves of the MOL Group at December 31, 2007 were 255.4 MMboe, consisting of 18.7 bcm (130.3 MMboe) of natural gas (including condensate and gas liquids) and 17.3 million t (125.1 MMboe) of crude oil. The net proved developed and undeveloped reserves at December 31, 2007 were 182.8 MMboe, consisting of 12.1 bcm (74.1 MMboe) of natural gas and 14.9 million t (108.7 MMboe) of crude oil.

Domestic reserves decreased

In Hungary, annual production in 2007 reduced our gross proved reserves by 22.9 MMboe, while the conversion of Szőreg reservoir to gas storage resulted in a further 17 MMboe decrease of gross proved reserves. New Hungarian discoveries and field extensions increased MOL's gross proved reserves by 1.3 MMboe, while the revaluation of reserves decreased the gross proved reserves by 10.7 MMboe.

Russian acquisitions increased international reserves

Internationally, reserve revisions resulted in an increase (mostly at Baitugan field acquired at the end of 2006) in gross proved reserves of 45.9 MMboe. In April 2007, we acquired Matjushkinskaya field which increased gross proved reserves as of year end by 2.3 MMbbl. The 2007 Russian and Pakistani production reduced our gross proved reserves by 9.8 MMboe.

An independent reserve audit was carried out in 2006 by DeGolyer and MacNaughton to determine the actual recoverable reserves of the ZMB field as at 31 December 2005. According to this audit, the 2005 year-end gross proved reserves of the ZMB field were 104.5 MMbbl (SEC-standards). MOL's share of gross proved reserves - taking into account 2006-2007 production - was 34.4 MMbbl as of 31 December 2007. The Baitugan field had 50.9 MMbbl of proved reserves according to the reserve audit (prepared in line with SEC guidelines) as of December 31, 2007. Proved reserves of the Matjushkinskaya field are 2.3 MMbbl (as per SEC guidelines).

Manzalai and Makori fields in Tal block (Pakistan, 8.42% MOL share) had 13.7 MMboe of proved gas and condensate reserves pertaining to our share, according to the reserve evaluation (prepared in line with SPE guidelines) as of December 31, 2007. Due to lack of long-term gas sale agreement we book only 0.5 MMboe of proved reserves according to SEC guidelines.

SPE P1+P2 reserves reaches 340 MMboe

Beginning from 2008, parallel to reserves presentation of proved reserves under US SEC, MOL will also publish its P1 and P2 reserves according to SPE. In the opinion of the Company, SPE guidelines provide a more realistic framework for reserves presentation. MOL's 2007 year-end SPE gross proved reserves are 277.2 MMboe, containing only MOL's Hungarian and international reserves excluding INA. SPE P1+2 figures are at 340.6 MMboe (excluding MOL's entitlement to 25% of INA d.d.'s reserves).

Highly competitive OPEX maintained

Although our unit cost of hydrocarbon production increased from 3.2 USD/boe in 2006 to 4.18 USD/boe in 2007 - as a result of unfavourable exchange rate movements and lower volumes- it remained highly competitive considering the 2006 European industrial average of 7.9 USD/boe.

Our main goal is to develop a strong and balanced portfolio

We carried out intensive exploration activity in Hungary and we continued with our international exploration projects in Pakistan, Kazakhstan, Oman and Yemen, and have started new projects in Russia, the Middle East-Central Asia region and in Africa in 2007 in line with our strategic objectives.

High exploration success rate of 50%

Our upstream had a strong exploration performance in 2007. Out of the total 16 exploration wells tested, 8 resulted in commercial discoveries, which represented a drilling success rate of 50%. These successes highlight the attractiveness of our Hungarian acreage position, where these positive results were encountered: we tested 13 wells from which 8 wells have been classified as gas producers and 5 wells have been dry or failed to produce commercial quantities of hydrocarbons on testing. There were 2 additional wells under test or awaiting testing in Hungary at the closing of this report.

New partners in conventional exploration...

In order to maximize skill-base and operating focus as well as to share risks and costs, we have teamed up with partners on several projects (our strategic partner INA from Croatia and Hungarian Horizon Energy, an affiliate of US-based Aspect Energy). Both co-operations were successful in 2007 evidenced by 5 successful exploratory drillings in the two joint operations.

...and in unconventional exploration

We also made a partnership with ExxonMobil to investigate a significant portion of Hungary's unconventional gas potential. The objective is to leverage ExxonMobil's extensive experience, advanced technology and know-how along with MOL's superior understanding of the Hungarian petroleum geology and industry operations to achieve successful results.

Strongest acreage position in Hungary

Our Group has the strongest acreage position in Hungary with 29 blocks and total exploration acreage of 33,825 km² at the end of 2007. In addition, two new exploration block permits were underway (2,735 km²).

Preparation of drilling campaign in Russia

In the Surgut-7 block (Russia, 100% MOL share) we identified three promising leads and prospects based on the first phase of seismic interpretation. Further 3D seismic acquisition is in progress. The drilling of the first prospect is planned to be spud in March 2008. The already producing Matjushkinskaya block has significant exploration potential, with a 2008 drilling campaign already prepared in 2007. Both blocks are near to existing production fields and surface facilities which may provide significant synergies in case of a discovery.

Further success in Pakistani exploration

In 2007 we have drilled a very promising exploration well on MamiKhel structure with natural gas and condensate discovery. In Margala and Margala North exploration blocks (situated in the eastern part of the productive Potwar basin of northern Pakistan) POL (Pakistan Oilfields Ltd.) received 30% share in both blocks out of our initial ownership of 100% at the beginning of 2007. We are in negotiations regarding further farm-out up to 20% in order to share the risks of the exploration with partners. In 2007 we conducted several geological, geophysical and field works in order to prepare compilation of 2D seismic acquisition in 2008.

Fedorovsky exploration block (Kazakhstan)

We are operating shareholder (27.5%) of the Fedorovsky exploration block in Kazakhstan. Following non-commercial oil inflow in one of our two prior exploration wells in the southern, basinal part of the Block the focus of exploration activities has been shifted to the northern part of the block.

Yemeni, Omani exploration projects

In Oman (100% MOL share) the 2008 seismic campaign has been prepared in 2007 with detailed planning of the different geophysical surveys and choosing of the potential contractors for the work. In Block 48 (Yemen, 100% MOL share) both wells (Tibela North-1 and Tibela Northwest-1) proved the previous geological model, but none of the wells gave commercial volume of hydrocarbon.

New exploration projects: in Kurdistan and Cameroon

MOL has entered into 2 PSCs with Kurdistan Regional Government and Gulf Keystone Petroleum Int. Ltd. in Iraq in November 2007. MOL is the operator of Block Akri-Bijeel with a working interest of 80% and has 20% non-operated working interest in Block Shaikan.

In Cameroon we have signed an SPA with Tullow Oil for a 40% non-operated interest in Ngosso block at the end of 2007. Completion is subject to the Cameroonian Government's approval.

Refining and Marketing Overview

Operating profit up 12% in USD-terms, but stable in HUF-terms	Refining and Marketing operating profit increased by 12% in USD-terms to USD 935.4 mn in 2007, but remained almost stable at HUF 171.9 bn (down by a mere 1.9% year-on-year). Higher sales volumes, favourable crack-spreads and efficiency improvements compensated the negative impact of the weakening of US dollar against local currencies to a large extent.
Outstanding efficiency maintained	As in the previous years, our top ranking position amongst European downstream players was maintained throughout 2007. A key driver of our outstanding downstream performance is the high-quality refining and logistics asset base. The strategic and disciplined deployment of leading edge technologies enable us to convert heavier, sour crudes (92% of the crude supply in 2007) into a portfolio of highly marketable motor fuel products with lowest possible residue production. The supply chain optimization driven by the 'from-crude-to-plastics' concept throughout the entire value chain combined with the outstanding logistic networks largely contributed to our success.
Growth strategy successfully pursued	Growth strategy initiatives have been successfully pursued. For organic capabilities, a large-scale vacuum gas oil hydrocrack project package in Duna Refinery was launched in May 2007 to leverage on the growing middle distillate demand in our core markets. For inorganic capabilities, the Italian IES and the Croatian Tifon companies have been acquired in Q4 2007. For stretching into attractive new markets, long-term agreements with the Czech energy company CEZ have been concluded.
Dieselization shapes organic development	The growth of world demand for middle distillates (diesel, jet, heating oil) is expected to significantly outpace other products in the oil barrel for the next years. While the diesel deficit in Europe was estimated over 15 Mt in 2007, the gap is projected to grow further according to IEA. Current diesel deficit in the CEE region is also forecast to grow to 11 Mt, in line with these expectations. The growing demand offered a sound business opportunity for us.
Large-scale hydrocrack project to meet growing demand	To capture the emerging diesel growth, the implementation of a large-scale conversion (hydrocrack) package in the Duna Refinery has been launched. The pack has three main levers. Crude oil processing capacity will be revamped by 1.3 Mtpa to ensure the processing of higher quantities of REB type crudes. A grass-root new VGO Hydrocrack plant of 1.5 Mtpa capacity will be constructed to increase the refinery conversion level. Parallel to these, the existing Delayed Coker unit will have to be upgraded with an incremental 0.3 Mtpa capacity to process the residues. Capital expenditures for the investment are estimated at around EUR 300 mn. The package is expected to provide additional 1.3 Mtpa gas oil production thus elevating gas and heating oil yield from current 44% to 53% by 2011.
IES acquisition...	The implementation of non-organic growth strategy continued with the acquisition of the 100% share in Italiana Energia e Servizi (IES), an oil refining and marketing company as of 15 November 2007. IES owns the Mantova refinery with 2.6 Mtpa capacity and has a network of 176 retail stations. The refinery, similarly to our

existing assets, is a pipeline-supplied, landlocked refinery with high complexity (NCI of 8.4) and produces good quality products at favourable product slates (middle distillate yield of 46%) from heavy crude oil.

...reaching new markets and building on current strengths

The new entity is located in the highly-motorized hub of North-East Italy. The transaction provides an excellent opportunity to reach out and expand our downstream activities into North-East Italy, Austria and Switzerland, adjacent to our current focus markets. The high-demand location will secure market channels beyond our local production also for volumes of INA refineries on the mid-run. We will improve the efficiency of the current operation by intensive transfer of our proven know-how and techniques in crude processing, refinery modernization and product marketing. The refinery will undergo an investment program of EUR 145 mn in 2008 focusing on gas oil desulfurization and related environmental expectations. We continue to explore the possibility of elevating processing capacity and residue conversion level, while expanding our captive markets through the profitable retail channel in Italy.

Tifon – expansion of retail network

We purchased 100% of Tifon, a fuel retail and wholesale company in Croatia as of 31 October 2007. Tifon, a respected fuel retailer, currently owns and operates a premium network of 35 well positioned fuel stations all over in Croatia. Tifon is the fourth largest fuel wholesaler with 8% market coverage in Croatia and its retail market share was 7% at the end of 2007. In addition, the company has more than 20 premium site deveelopment projects under implementation, expected to be finished within the next two years.

With the transaction we made a further step to reach our retail strategic goals in the North-Adriatic region. We aim to raise network porfitability by improving Customer Value Proposition as well as by introducing efficient network management praticies for stringent cost-control.

JV with CEZ – entry into the electricity market

We created a strategic alliance and signed a joint venture agreement with CEZ energy company to create a joint gas-fired power and heat generation business in Central and South Eastern Europe, including Slovakia, Hungary, Croatia and Slovenia. The cooperation with CEZ provides an entry into a highly attractive regional electricity market with additional growth opportunities with a reputable partner. Our partnership also enhances our energy security of supply, increases our refinery efficiency and complexity and provides significant synergy opportunities.

The first major investment is the construction of two combined cycle gas turbine power plants (with 800MW capacity each) fuelled primarily by gas and also by refinery residuals at the Bratislava and Duna refinery sites. In addition, in Bratislava, the current thermal plant will be modernized and its capacity increased to 160MW. The expected investment by the parties in both projects will be approximately EUR 1.4 bn and the first year of operation is scheduled for 2013-14. This is an important step in cost effective steam and power supply while increasing the complexity of the refineries.

Refinery throughput up 6%	In 2007, we processed 13.3 Mt of crude oil, compared to 12.5 Mt in the previous year (an increase of 6.1%) supported by the smooth operation of our refineries. The Hungarian processing volume was 7.0 Mt in 2007, increased of 2.3% compared to 2006. The proportion of Hungarian crude oil processed at the Duna Refinery continued to fall in line with the trend seen in previous years, accounting for 11.4% (12.4% in 2006), while the volume of imported crude oil processed was higher by 3.5% than at base. Slovnaft processed 6.0 Mt of imported crude oil representing growth of 5.6% in comparison with 2006. The consolidation of IES boosted throughput by 0.3 Mt in Q4 2007.
Refinery sales up 8%	Aggregate product sales volumes were 13.1 Mt (including sales of LPG and gas products, but excluding the chemical raw materials sold to the Petrochemical segment), compared to 12.1 Mt in 2006. The consolidation of IES added 0.3 Mt to our refined product sales volumes in Q4 2007. We focused on our key markets in order to achieve our objective of profit optimization.
Leading position in our home markets maintained	Our Hungarian refinery product sales increased by 0.1 Mt to 4.9 Mt in 2007. We managed to increase sales of higher value products such as diesel (by 4%) and gasoline (by 3.5%) in 2007 year-on-year. Our sales in Slovakia increased by 4% (0.1 Mt), also supported mainly by higher diesel volumes and increase in gasoline sales by 9%.
Growing exports	Our exports increased from 5.8 Mt to 6.7 Mt mainly due to the higher gas and heating oil, gasoline and bitumen exports (up by 13% (0.4 Mt), by 8% (0.1 Mt) and by 134% (0.2 Mt), respectively) partially supported by the acquisitions of IES and Tifon in Q4 2007.
Demand remained healthy, above 6% growth	In spite of the increase of crude oil and international product quoted prices, the demand for motor fuels in the regional market increased further significantly by over 6% due to fast economic growth. Within motor fuels the demand for gasoline increased to a small extent, while consumption of diesel increased significantly, due to higher need for transportation driven by infrastructural investments and due to spread of diesel-engine passenger cars. MOL has successfully maintained its position on the regional market.
Hungarian motor fuel consumption grew by 4%	Motor fuel consumption increased in Hungary by more than 4% boosted by households, despite the austerity measures and moderate economic growth. Road transportation increased by 17% y-o-y on the basis of freight ton kilometres, while public sector fuel demand was cut back in 2007. We continued to maintain our strong position in the motor fuel wholesale market in 2007 driven by efficient commercial work and excellent product quality. Our sales increased in line with the growth in the market: motor gasoline sales increased by 3.5% and diesel by 4.2%. We have launched motor gasoline with minimum 4.4% (v/v) renewing fuel component content in Hungary as of 1st of July 2007. The introduction of motor gasoline with bio-ethanol content took place successfully. Since the end of 2007 we have also exclusively been distributing diesel with 4.4% (v/v) biodiesel content in Hungary.

Slovakian motor fuel demand up 6%	In Slovakia the motor gasoline consumption increased by 2%. Despite expansion of hypermarket filling stations, we could increase our market share in 2007 with sales increasing by more than 9% due to commercial work. Demand for diesel increased by more than 8% and our sales increased by 7%.
But bitumen demand in our core markets declined	Several infrastructural investments and highway construction projects were completed or arrived into a final phase before 2007, which had a significant impact on the bitumen market. The Hungarian consumption dropped by 45%. Our bitumen market share declined slightly to 71%. The Slovakian market declined by 25% compared to the previous year, but Slovnaft could increase its market share up to 65%.
Higher LPG market shares	We could improve both our wholesale and retail market shares in LPG in Hungary, despite decreasing demand on milder weather. Our wholesale market share increased from 76% of 2006 to 79% in 2007, while our retail market share improved marginally from 22% to 23%. In Slovakia the introduction of selling autogas through Slovnaft's filling station network continued through 95 filling stations at the end of 2007 compared to 84 in 2006. The number of our autogas sales sites was in Hungary 151, down by 4 sites from 2006.
Petchem feedstock volume was up 8%	In 2007, the total transferred volume to Petrochemical segment increased by 200 kt to 2,700 kt in 2007. Out of this, naphtha amounted to 1,994 kt and chemical gasoil was 203 kt (1,841 kt and 158 kt, respectively, in 2006). In 2007, our Petrochemical segment supplied 630 kt of by-products to our Refining and Marketing segment for further processing.
Retail network performance and customer satisfaction improved	We achieved considerable improvement in general brand perception through increasing customer satisfaction by 4% in our mature markets, Hungary, Slovakia and Romania. Customers rated fuel quality, general appearance of the filling station and the politeness of service with the same improving perception. MOL is viewed as the innovative, quality leader on most of our markets, which provide a good basis for generating solid returns on our investments. There is an ongoing knowledge-transfer and integration practice within retail to transfer key know-how from mature markets to new acquisitions (more than 200 retail outlets in 2007 from Tifon and IES) to quickly exploit synergies.
Stable retail volumes in Hungary	Hungarian retail sales (excluding LPG) remained stable (1.3% decrease in our gasoline sales was offset by the 0.9% increase in diesel sales), while the average throughput per site showed a 1.4% decrease in 2007 year-on-year. Our retail market share decreased by 1.6% to 36.7% (33.9% in gasoline and 39.7% in diesel), according to the Hungarian Oil Association (MÁSZ) in 2007. This was primarily due to the intensive growth of the hypermarkets and entrance of the new players into the market. Our shop sales increased by 12% while our card fuel sales decreased by 3.9% in 2007 year-on-year.
Throughput per site: up 13% in Slovakia...	We increased the average throughput per site by 13% in 2007, as a result of our continued efficiency improvement program in Slovakia. Based on the data of the SAPPO, our market share in Slovakia remained stable at 38.5% in gasoline and 41% in diesel.

... and up 8%
in Romania

Our fuel sales in Romania decreased by 2.9%, due to the decrease in size of our network. We disposed of the 30 least competent filling stations, while we purchased only 11 in the deal with Petrom S.A. in 31 October 2006 and opened two filling stations in 2007. As a result, we had a temporary decrease in the sales volume, but we managed to increase the throughput per site by 7.8%. Our Romanian retail market share almost remained stable at 12.8%. Our shop sales in Romania are not comparable to the 2006 figure, due to change in the operational model.

By executing our strategy to expand our network, fuel sales in Serbia doubled to 49.3 million litres in 2007.

Close to
1000 petrol
stations

At year end we had 994 petrol stations, including 357 in our main market of Hungary, 209 in Slovakia after the closure due to efficiency increase 122 in Romania, and 30 in the Czech Republic. We acquired Tifon d.o.o. with 35 petrol stations in Croatia as of 31st October 2007. Furthermore, we acquired IES in mid-November 2007 with 176 retail stations in Italy.

Petrochemicals Overview

Highest ever
operating
profit
(+ 76% y-o-y)

The Petrochemical segment achieved its highest ever annual operating profit of HUF 40.9 bn in 2007 (up 76% from HUF 23.3 bn in 2006). The outstanding profit was mainly driven by all-time high production and sales volumes, improving internal operational efficiency, as well as the favourable trends in raw material and product markets characterising almost the whole year of 2007.

Record
production
volumes

Both monomer and polymer production increased significantly by 12% and 9% in 2007 compared to the previous year. The high capacity utilisation of new Steam Cracker continuously surpassing its nominal capacity in 2007, led to the highest ever ethylene production (870 kt). The high capacity utilisation of the new HDPE and PP units contributed to the highest ever polymer production (above 1.2 Mt).

7% increase in
polymer sales
volumes

Polymer sales volume improved by 7% compared to previous year, due to smooth and efficient operations and a positive market environment. The growth was the most significant in case of HDPE (+12%) and PP (+7%) products, mainly due to the higher capacity utilisation of the new HDPE and PP plants.

There was also a change in the structure of the polymer sales the ratio of HDPE grew to 33%, that of PP to 45% and LDPE the remaining 22%.

Both Hungarian and Slovakian sales volumes increased by each 12 kt compared to the previous year. The ratio of polymer export sales increased further, reflecting the improving commercial efficiency. We increased our sales mainly in the Czech, Austrian, German, Polish, and Italian markets.

Favorable
integrated
petrochemical
margin

Almost the whole year of 2007 was characterised by favourable trends in raw material and product markets. The integrated petrochemical margin indicating the profit generating capability of the industry grew by 7.0% in EUR-terms year-on-year in 2007. In 2007, polyethylene (PE) quoted prices increased by 8-10%, and polypropylene (PP) quotations by 6-7% year-on-year, while naphtha quotations increased by 10% in EUR-terms. A weaker exchange rate against USD compare to the previous year had a positive effect on the integrated margin.

Natural Gas Overview

Close to
base level
operating
profit
reflecting the
performance
of gas
transmission
(FGSZ Zrt.)

The Natural Gas segment reported an operating profit of HUF 38.7 bn in 2007 compared to an operating profit of HUF 111.6 bn in 2006. The 2007 profit is not comparable to the basis, as operating profit of the gas segment in 2006 included a one-off gain and the profit of HUF 74.0 bn on the sale of gas subsidiaries (MOL Földgázellátó Zrt. and MOL Földgáztároló Zrt.) to E.ON on March 31st, 2006. The profit of the gas business adjusted for the different operational conditions of the two periods and for the one-off gains from divestment of the gas business reflects the profit of FGSZ Földgázszállító Zrt. (FGSZ Zrt., previously called as MOL Földgázszállító Zrt.) in 2007. The storage business, which MOL re-entered in Q1 2007 by purchasing shares in MMBF Zrt. (previously called as MSZKSZ Zrt.) and the gas trading subsidiary MOL Energiakereskedő Kft. have very limited contribution to the overall operating profit of the gas segment at this stage.

FGSZ Zrt.
operating
profit
remained
stable

IFRS operating profit of FGSZ Zrt. remained stable at HUF 30.9 bn in 2007. Several factors influenced the operating profit of the domestic gas transmission: HUF 2.1 bn revenue was realized from the excess capacity fee invoiced to the players on the Hungarian market in 2006 but not in 2007 due to legal changes. Regulated revenues from Hungarian transmission increased by HUF 0.5 bn year-on-year to HUF 55.1 bn in 2007, as the regular tariff correction offset the negative impact of the 13.4% transmission volumes decrease caused by mild weather conditions.

The non-regulated transit natural gas transmission revenue decreased by 3.8% (to HUF 13.9 bn) compared to 2006. While transited natural gas volume remained stable, unfavorable forex rate changes deteriorated, gas prices and change of contractual conditions fuelled the growth of the transit fee.

The profit impact of reducing revenues was compensated by the 5.4% decrease in operating costs (without COGS and subcontractor performances). Within this, the natural gas cost used for operational purposes – mainly for compressors – showed saving of 25.6% as a consequence of the 15.5% volume decrease.

Capacity
expansion –
new pipeline
construction

FGSZ Zrt. has already started the expansion of the Hungarian import pipeline capacity by 30 M m³/day, delivering gas to Hungary and the region from Q3 2009. Total CAPEX for the project is HUF 69 bn. The enlarged import capacity will give an opportunity to fulfill the future domestic demand and allow us to access gas stocks of the strategic storage in the future. In addition, it will enable us to enjoy a more pro-active role in future natural gas transmission businesses.

Strategic and commercial storage

We are again an active participant in the gas storage business through MMBF Zrt. (66.3% subsidiary of MOL). The MMBF Zrt. started the establishment of the underground gas storage facility with a strategic mobile capacity of 1.2 bcm and 0.7 bcm commercial capacities from a producing reservoir, Szőreg-1. The development, operated by MOL Nyrt. is proceeding according to schedule. The CAPEX estimated at HUF 150 bn, including the HUF 67 bn purchase price of the reservoir which has been sold by MOL to MMBF Zrt. The present infrastructure already enables MMBF to provide strategic gas storage services starting from January, 2008 whereas the whole development is expected to be completed by 2010.

Corporate and other segment overview

HUF 9.8 bn operating profit improvement (excluding one-off items)

Corporate and other operating profit of HUF 26.4 bn in 2007 includes a one-off gain of HUF 14.4 bn on the acquisition of a 42.25% minority interest in TVK, as a result of the excess of book value of the minority interest acquired over the consideration. It also includes subsequent settlement of HUF 44.3 bn from E.ON in connection with the sale of gas business, of which HUF 17.4 bn was recorded as a revenue in Q3 2007 and a further HUF 26.9 bn expected to be paid in Q1 2008.

Additional differences between the profits of the two periods are explained by certain non-recurring items, such as penalties paid and / or provided for at Slovnaft in 2006, or the gain on sale of Klingerova Kolónia (HUF 1.6 bn) a Slovnaft real estate in 2007, and lower project costs due to the difference in project scope between the two years.

Financial results

Net financial expense declined by HUF 21 bn

The net financial expense of HUF 16.6 bn was recorded in 2007 (compared to HUF 37.6 bn in 2006). Interest payable was HUF 16.9 bn in 2007 (HUF 13.4 bn in 2006) and interest received amounted to HUF 13.4 bn in 2007 (HUF 13.2 bn in 2006). A foreign exchange gain of HUF 7.6 bn has been recognised in 2007 compared to a foreign exchange loss of HUF 20.8 bn in 2006. The fair valuation expense on the conversion option embedded in the capital security issued in the monetization of treasury shares by Magnolia Finance Ltd. was HUF 13.0 bn (HUF 14.1 bn in 2006).

Income from associates

INA contributed net HUF 5.1 bn

Income from associates was HUF 5.3 bn, including contribution of HUF 5.1 bn from INA in 2007 as compared with HUF 4.4 bn in 2006 (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 2007 was HUF 344.3 bn, compared to HUF 377.1 bn in 2006.

Taxation

Local trade tax & innovation fee were reclassified

Corporate tax expense (including local trade tax and innovation fees which have been reclassified from operating expenses in both periods) increased by HUF 42.2 bn to HUF 81.9 bn in 2007, primarily as a result of the current tax expense of MOL Nyrt. compared to the previous year’s figure, which reflects MOL Nyrt.’s tax holiday. The different IFRS and tax treatment of the share repurchase option with BNP (treated as a derivative instrument for tax purposes on which a significant taxable gain has been realized in FY 2007) added HUF 7.1 bn to our tax expense. Furthermore the non-realised expense on the conversion option of our capital securities issued by Magnolia Finance Ltd. did not affect our tax base. The current tax expense is the result of the contribution of MOL Nyrt. (16% corporate tax and 4% solidarity surplus tax), Slovnaft a.s. (19% corporate tax rate) and TVK Nyrt. (16%+4%), of HUF 48.3 bn, HUF 12.0 bn and HUF 5.4 bn respectively, as well as the corporate tax payable on the profit of the ZMB joint venture (HUF 6.5 bn) and the corporate tax expense of the other subsidiaries.

Cash flow

Consolidated Cash Flow	2007 (HUF mn)	2006 (HUF mn)
Net cash provided by operating activities	315,506	529,508
of which movements in working capital	(61,511)	101,150
Net cash provided by/(used in) investing activities	(336,978)	111,669
Net cash used in financing activities	(245,951)	(287,481)
Net increase/(decrease) in cash equivalents	(267,423)	353,696

Operating cash flow down 40% mainly due to working capital increase

Operating cash flow in 2007 was HUF 315.5 bn, a 40% decrease compared to 2006. Operating cash flow before movements in working capital decreased by 4% compared to 2006. The change in working capital position decreased funds by HUF 61.5 bn, arising from an increase in inventories of HUF 86.0 bn, trade receivables of HUF 36.8 bn, other receivables of HUF 2.2 bn, trade payables of HUF 74.8 bn accompanied by a decrease in other payables of HUF 11.3 bn. Corporate taxes paid amounted to HUF 69.5 bn, relating to a cash outflow from the income taxes of MOL, Slovnaft and ZMB project companies.

Acquisitions boosted net cash used in investing activities

Net cash used in investing activities was HUF 337.0 bn compared with net cash of HUF 111.7 bn provided in 2006. The cash outflow of the current period reflects the combined effect of the consideration paid for the acquisition of the minority interest of TVK, the second installment paid for the acquisition of BaiTex LLC, the consideration paid for IES, Tifon and Energopetrol as well as the net settlements

of post-closing purchase price adjustment on sale of MOL Földgázellátó Zrt. to E.ON Ruhrgas International AG. The comparative figure for FY 2006 contains the consideration for gas subsidiaries (Wholesale and Storage) received at the time of closing the transaction and acquisition of BaiTex LLC.

Net financing cash outflows on capital structure optimisation

Net financing cash outflows amounted to HUF 246.0 bn, mainly as a result of the repurchase of treasury shares as part of our capital structure optimization program, our dividend payment and HUF 335.9 bn net drawn down of long-term debt while the comparative figure of 2006 contained the result of the issuance of the perpetual exchangeable capital securities by the fully consolidated Magnolia, repurchase of treasury shares and HUF 176.5 bn net repayment of long-term debt.

Funding overview

63% EUR-denominated debt

MOL Group’s total debt increased from HUF 211.9 bn at year-end 2006 to HUF 636.3 bn at 31 December 2007. The currency composition of total debt was 63% EUR, 35% USD, 2% HUF and other currency as of 31 December 2007. Our net debt amounted to HUF 506.5 bn at the end of 2007.

Gearing ratio reached 35.6%

Our gearing ratio (net debt to the sum of net debt and total equity) was 35.6% at 31 December 2007.

Syndicated loans

The main pillars of the funding were the EUR 2.1 bn syndicated loan facility signed in October 2007, the EUR 825 mn syndicated loan facility, the 700 mn syndicated loan facility and the EUR 750 mn Eurobonds with a BBB- investment grade credit rating issued by MOL in September 2005. The EUR 2.1 bn facility is the largest ever Euroloan transaction for MOL which clearly shows the success of the company’s financial strength and excellent operational outlook, as well as the high level of support from MOL’s relationship banks in spite of the global credit market difficulties. The proceeds of the facility will be used for general corporate purposes (including acquisitions).

Risk management

Enterprise Risk Management

In the past two years MOL Group has significantly widened its existing risk management practice and enhanced the risk awareness culture across the whole organization through the implementation of Enterprise Risk Management (ERM) framework.

Enhanced risk culture

A core initiative of the ERM concept is to measure, manage and report different classes of risks (financial, operational and strategic) based on a common methodology and on consolidated basis. The ERM process identifies the possible risks and so enhances the risk awareness culture and discovers risk-return attributes of the whole group, business units and projects. Quantification of risks enables the company to choose the right risk mitigation tools in line with a defined “risk appetite” of the company. ERM helps strategic planning by facilitating the

alignment of MOL’s strategic goals with its risk appetite. ERM is a perfect tool to build a business portfolio with optimized risk-return characteristics via using results of risk quantification in budgeting/CAPEX allocation.

State-of-the-art quantification methodology

ERM includes the following key elements:

- Identification of events and key risk drivers possibly effecting the earnings of MOL group in each business unit, quantification of probabilities and impact metrics to calculate the magnitude of this effect (using Cash Flow @ Risk approach)
- Regular reports about the results (including the risk mitigation proposals elaborated with the Business Units, results of these actions) to the Board of Directors, the Finance & Risk Management Committee Executive Board, and to the Management of Business Units
- Integration of the results into key decision making processes (i.e. strategic review, capital allocation, risk-return impact of particular business decisions)

Comprehensive approach in risk management

The key risk factors are identified in the Enterprise Risk Management model. It quantifies the financial, operational and strategic risks on a group level considering the portfolio effects.

Basically, the model uses the Monte Carlo approach that has been successfully applied so far in Financial Risk Management. As a result, different risk-return attributes can be evaluated for the whole group and for the different Business Units and these are used in making decisions on a Group level basis.

Risk outputs integrated into decision making

Financial risk outputs are already being updated on a monthly basis based on actual market data. In ERM, the operational and strategic risks will also be continually reviewed in line with recent changes in the technical, economic, geological and political environment. MOL will continue to prepare monthly reports on financial risks to the top management, while the full risk report including operational and strategic risks will be compiled quarterly for the Finance and Risk Management Committee and the Managing Directors of Business Units. Each report will contain proposals on mitigation actions together with interim reports on the status of actions taken by the concerned Business Units

Capital expenditure program

MOL Group CAPEX	2007 (HUF mn)	2006 (HUF mn)
Exploration and Production	56,691	79,639
Refining and Marketing*	206,400	74,808
Natural Gas	28,823	13,111
Petrochemicals	7,032	8,923
Corporate and other	64,454	10,731
Total	363,400	187,212

* Including Refining&Marketing, Retail and Lubricants segments

Almost doubling CAPEX on acquisitions

Our Group capital expenditures (CAPEX) including exploration costs increased from HUF 187.2 bn in 2006 to HUF 363.4 bn in 2007 primarily due to higher acquisition spending. We increased our share in TVK Nyrt., purchased an Italian refinery and a retail network in Croatia, and extended interests in Russia.

Exploration & Production CAPEX down HUF 23.0bn

In 2007, Exploration and Production segment spent HUF 16.4 bn on exploration activities, compared to HUF 13.3 bn in the previous year. HUF 17.2 bn was spent on domestic production projects at previously explored fields, compared to HUF 17.9 bn in 2006. Within the project program, company developed previously explored fields, continued the implementation of hydrocarbon production intensification programs and maintained the technical level of production facilities. Concerning international exploration and production projects, capital expenditures decreased by HUF 23.0 bn, from HUF 51.6 bn in 2006, mainly due to the smaller volume of acquisition activities. CAPEX contains the amounts spent, irrelevant whether it is expensed or capitalized, therefore does not contain capitalized FX differences.

Refining & Marketing CAPEX up 176%

Refining and Marketing segment expenditures increased by HUF 131.6 bn (up 176%) to HUF 206.4 bn in 2007. The amount contains CAPEX commitments, and does not contain capitalized FX differences. This segment consists of following businesses:

- Refining and Marketing Business expenditures were HUF 106.6 bn higher at HUF 170.6 bn in 2007 compared to the previous year. It is a combined result of the Italian Refinery acquisition (IES: HUF 121.6 bn) and lower implementation value of the Refinery projects (by HUF – 19.8 bn compared to previous year) due to completion of main projects in 2006 (Steam system intensification; Expanding MSA plant) and higher volume of periodical maintenance works in the previous year. In 2007 MOL implemented several logistics projects in the Refining and Marketing Division in order to ensure reliable operation of the pipeline system and logistics depots. Completion of these projects will ensure compliance with stringent authority and environmental requirements.
- In the Retail Business, capital expenditures increased to HUF 35.2 bn compared to HUF 10.5 bn in 2006 mainly due to the South Region's (MOL) acquisitions in Croatia and Bosnia in 2007. (Tifon: HUF 16.9 bn; Bosnia: HUF 4.6 bn).
- In case of Lubricant Business the capital expenditures increased by 55% to the previous year due to the higher volume of sales and production development.

Natural gas segment CAPEX up 120%

In the Natural Gas segment, capital expenditures were at HUF 28.8 bn, which HUF 15.7 bn higher than in 2006 as a consequence of MMBF Zrt. Investment (storage activities added to the Natural Gas segment in December 2007) and two key projects with high capital expenditures implemented in 2007 (Pilisvörösvár-Százhalombatta DN800 PN64; Increasing import capacity).

Petrochemicals segment CAPEX down 21%

Capital expenditures in the Petrochemical segment decreased by HUF 1.9 bn compared to 2006 due to the completion of the Strategic Development projects at TVK and Slovnaft in previous years that were followed by smaller maintenance type works.

Corporate & Other segment CAPEX up HUF 53.7bn

Capital expenditures of the Corporate and Other segment increased by HUF 53.7 bn year-on year to HUF 64.5 bn in 2007, mainly driven by acquisition spending (TVK: HUF 50.2 bn; MMBF: HUF 3.0 bn). In addition HUF 5.8 bn were spent on the further development of our Group information system and HUF 2.8 bn on the property maintenance.

Strategy

Our stated strategic goal is to maximise the potential from growth in “New Europe” while providing superior returns. Drawing on our disciplined transaction track record and proven transformation and integration skills, we continue to develop the group with a focus on growth and efficiency, while at the same time closely managing risk at the group level.

15% ROACE target

Predominantly we focus on achieving the return target of 15% ROACE (NOPLAT based) on the group level. In addition to organic developments we seek for acquisitions as well as partnerships to reach our return target. Our group ROACE excluding one-off items was 19% in 2007, well above the target.

Partnerships to add value

In order to achieve the strategic targets we actively seek strategic partnership opportunities and partners with complementary skills providing added value for the whole group or the different businesses. In 2007 we established a strategic cooperation with CEZ, the Czech energy provider, focusing on gas-fired power generation opportunities in Central and South Eastern Europe, including Slovakia, Hungary, Croatia and Slovenia. This strategic alliance with CEZ will provide an entry into the highly attractive regional electricity market and will also enhance the energy integration of our refineries.

Furthermore, we signed a strategic co-operation agreement with Oman Oil Company in Q1 2008, which could provide us significant growth potential in upstream and downstream businesses in the Middle-East, Central Asia and in other regions thus creating further value for the shareholders.

We initiated to establish a joint transmission company to operate an integrated Central and South-East European gas pipeline network. The new company would have one of the longest gas pipeline networks in Europe (27,000km) and would be well positioned to leverage international capital markets to finance major projects. Consumers would also enjoy the benefits of an integrated platform for gas supply and a greater overall security of supply.

Dividend payout ratio of 40%

Our Board intends to increase the dividend payout ratio towards 40% of normalised earnings from 2008, depending on investment opportunities.

Organic EBITDA target of USD 2.9bn by 2011

Excluding any future M&A activity, the company is targeting Group EBITDA of USD 2.9 billion in the year of 2011, representing a compound annual average growth of 6.5% between 2006 and 2011 (based on the 2006 macro environment). We estimate that its organic capital expenditure will be approximately USD 5.3 billion between 2007 and 2010.

Exploration & Production targets

As result of our organic projects, total hydrocarbon production is expected at 110-120 Mboe/day by 2011. In Hungary our main goal is to moderate the decline of production and to keep the top-European efficiency in terms of unit costs. To achieve this, we intend to work our exploration acreage in a more intensive way, putting ever harder emphasis on partnerships, but at the same time we continuously develop our newly discovered fields as well as work on new projects – exploiting a period of high hydrocarbon prices – which all aim to enhance the brownfield potential of some of its oil and gas fields through enhanced or improved hydrocarbon recovery methods (EOR/IOR/EGR).

In international arena we continue the development of the previously acquired Russian assets and the already discovered Pakistani reserves. We carry out exploration activities in a growing number of countries. Finally, we intend to develop a stronger, balanced portfolio through acquisitions with significant upside opportunities at appropriate geologic and technical risk level.

Refining & Marketing targets

Our aim is to maintain our efficiency leadership of our Refining & Marketing segment and leverage it to new growth markets. Organic projects, including the Hydrocrack project at Duna Refinery, is expected to boost refinery capacity to 310,000 barrels per day, while the acquisition of Italian IES added further 52,400 barrels per day.

The Hydrocracker project in Duna Refinery is expected to improve EBITDA by approximately USD 150 mn per year starting in 2011 (based on 2006 macro environment), raising gas and heating oil yields of our group from 44% in 2006 to 53% in 2011. The CAPEX budget is very competitive at EUR 300 mn, as a result of our existing high complexity asset base.

We target an efficient group retail network within its refineries' supply radius. The acquisition of Italian IES and Croatian Tifon in Q4 2007 added 176 and 35 stations respectively, raising the total number of petrol stations to 994 by the end of 2007.

We actively investigate further value creative acquisition and/or partnership opportunities in both refining/marketing and retail businesses, especially in the high growth Central European region. We also seek selectively M&A opportunities in the Mediterranean and CIS regions.

Petrochemical targets

Our aim is to strengthen its traditional niche market position on Western markets, while developing its presence in strategic Eastern growth markets. The TVK-Slovnaft petrochemicals merger will further improve the already cost effective operations.

The capacity of our ethylene plants is planned to increase to 870 kt, while polymer capacity expected to reach 1.3 mn tonnes per annum through the cost effective intensification of TVK units, revamp of Slovnaft's ethylene cracker and replacement of LDPE unit by 2012.

Natural gas targets

We see significant profit upside in gas storage business. The first project with a 1.2 bn cubic meter strategic and 0.7 bcm commercial storage capacities are expected to start operation in 2010.

The international gas transit volume is expected to double by 2011 as a result of building pipeline connections to the neighbouring Croatia and Romania. The import capacity extension project will open the way for further regional transit opportunities.

MOL Magyar Olaj- és Gázipari Nyrt. and Subsidiaries

Consolidated financial statements prepared in accordance
with International Financial Reporting Standards together with
the independent auditors' report

31 December 2007

Independent Auditors' Report

To the Shareholders of MOL Magyar Olaj- és Gázipari Nyrt.:

1.) We have audited the accompanying financial statements of MOL Magyar Olaj- és Gázipari Nyrt. and its subsidiaries ("the Group"), which comprise the consolidated balance sheet as at 31 December 2007 and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes on pages 78-167.

Management's Responsibility for the Financial Statements

2.) Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

3.) Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

4.) An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate for the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

6.) In our opinion, the financial statements give a true and fair view of the consolidated financial position of the Group as of 31 December 2007, and of the consolidated results of their operations and their cash flows for the year then ended in accordance with International Financial Reporting Standards.



Ernst & Young Kft.
Budapest, Hungary
20 March 2008

MOL Magyar Olaj- és Gázipari Nyrt. and Subsidiaries

Consolidated financial statements prepared in accordance
with International Financial Reporting Standards

31 December 2007

Budapest, 20 March 2008



Zsolt Hernádi
Chairman of the Board of Directors
Chief Executive Officer



József Molnár
Group Chief Financial Officer

Consolidated balance sheet

31 December 2007

ASSETS	Notes	2007 HUF million	2006 Restated HUF million
Non-current assets			
Intangible assets	3	160,553	89,011
Property, plant and equipment, net	4	1,173,686	1,031,422
Investments in associated companies	9	144,754	131,569
Available-for-sale investments	10	1,362	1,597
Deferred tax assets	28	20,162	20,500
Other non-current assets	11	32,567	26,936
Total non-current assets		1,533,084	1,301,035
Current assets			
Inventories	12	318,604	181,030
Trade receivables, net	13	353,556	229,986
Other current assets	14	82,397	43,728
Prepaid taxes		3,680	10,449
Cash and cash equivalents	15	129,721	399,104
Total current assets		887,958	864,297
TOTAL ASSETS		2,421,042	2,165,332
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Share capital	16	65,950	83,467
Reserves	17	468,418	666,716
Profit for the year attributable to equity holders of the parent		257,796	329,483
Equity attributable to equity holders of the parent		792,164	1,079,666
Minority interests		124,902	191,537
Total equity		917,066	1,271,203
Non-current liabilities			
Long-term debt, net of current portion	18	526,992	208,279
Provisions	19	114,222	112,646
Deferred tax liabilities	28	71,238	33,181
Other non-current liabilities	20	138,094	56,881
Total non-current liabilities		850,546	410,987
Current liabilities			
Trade and other payables	21	525,489	467,694
Current tax payable		6,234	1,288
Provisions	19	12,450	10,507
Short-term debt	22	57,976	2,175
Current portion of long-term debt	18	51,281	1,478
Total current liabilities		653,430	483,142
TOTAL EQUITY AND LIABILITIES		2,421,042	2,165,332

The notes are an integral part of these consolidated financial statements

Consolidated income statement

31 December 2007

	Notes	2007 HUF million	2006 Restated HUF million
Net revenue	23	2,593,951	2,891,061
Other operating income	24	75,063	101,088
Total operating income		2,669,014	2,992,149
Raw materials and consumables used		1,916,196	2,092,452
Personnel expenses	25	117,260	109,325
Depreciation, depletion, amortisation and impairment		140,538	132,826
Other operating expenses	26	225,098	262,721
Change in inventories of finished goods and work in progress		(70,181)	13,337
Work performed by the enterprise and capitalized		(15,402)	(28,084)
Total operating expenses		2,313,509	2,582,577
Profit from operations		355,505	409,572
Financial income	27	22,096	17,676
Financial expense	27	38,663	55,294
Of which: Fair valuation difference of conversion option	27	12,966	14,131
Financial (income)/expense, net	27	16,567	37,618
Income from associates		5,318	5,195
Profit before tax		344,256	377,149
Income tax expense	28	81,853	39,623
Profit for the year		262,403	337,526
Attributable to:			
Equity holders of the parent		257,796	329,483
Minority interests		4,607	8,043
Basic earnings per share attributable to ordinary equity holders of the parent (HUF)	29	3,057	3,424
Diluted earnings per share attributable to ordinary equity holders of the parent (HUF)	29	2,981	3,376

The notes are an integral part of these consolidated financial statements

Consolidated statement of changes in equity

31 December 2007

	Share capital	Share premium	Fair valuation reserve	Translation reserve	Equity component of debt and difference in buy-back prices	Retained earnings	Total reserves	Profit for the year attributable to equity holders of the parent	Equity attributable to equity holders of the parent	Minority interests	Total equity
	HUF million	HUF million	HUF million	HUF million	HUF million	HUF million	HUF million	HUF million	HUF million	HUF million	HUF million
Opening balance 1 January 2006	94,020	134,850	1,662	31,704	(5,456)	481,580	644,340	244,919	983,279	70,359	1,053,638
Cash flow hedges, net of deferred tax	-	-	1,132	-	-	-	1,132	-	1,132	-	1,132
Available for sale financial instruments, net of deferred tax	-	-	2,136	-	-	-	2,136	-	2,136	-	2,136
Currency translation differences	-	-	-	32,307	-	-	32,307	-	32,307	631	32,938
Total income and expense for the year recognized directly in equity	-	-	3,268	32,307	-	-	35,575	-	35,575	631	36,206
Profit for the year	-	-	-	-	-	-	-	329,483	329,483	8,043	337,526
Total income and expense for the year	-	-	3,268	32,307	-	-	35,575	329,483	365,058	8,674	373,732
Transfer to reserves of retained profit for the previous year	-	-	-	-	-	244,919	244,919	(244,919)	-	-	-
Equity dividends	-	-	-	-	-	(30,195)	(30,195)	-	(30,195)	-	(30,195)
Dividends to minority interests	-	-	-	-	-	-	-	-	-	(8,660)	(8,660)
Net change in balance of treasury shares held	(10,898)	(226,275)	-	-	-	-	(226,275)	-	(237,173)	-	(237,173)
Equity recorded for share-based payments	-	-	-	-	-	(625)	(625)	-	(625)	-	(625)
Conversion of convertible bonds	345	1,595	-	-	-	-	1,595	-	1,940	-	1,940
Issuance of Perpetual Exchangeable Capital Securities	-	-	-	-	-	-	-	-	-	121,164	121,164
Shares under repurchase obligation	-	-	-	-	(2,618)	-	(2,618)	-	(2,618)	-	(2,618)
Closing balance 31 December 2006	83,467	(89,830)	4,930	64,011	(8,074)	695,679	666,716	329,483	1,079,666	191,537	1,271,203
Cash flow hedges, net of deferred tax	-	-	60	-	-	-	60	-	60	-	60
Available for sale financial instruments, net of deferred tax	-	-	670	-	-	-	670	-	670	-	670
Currency translation differences	-	-	-	2,456	-	-	2,456	-	2,456	247	2,703
Total income and expense for the year recognized directly in equity	-	-	730	2,456	-	-	3,186	-	3,186	247	3,433
Profit for the year	-	-	-	-	-	-	-	257,796	257,796	4,607	262,403
Total income and expense for the year	-	-	730	2,456	-	-	3,186	257,796	260,982	4,854	265,836
Transfer to reserves of retained profit for the previous year	-	-	-	-	-	329,483	329,483	(329,483)	-	-	-
Equity dividends	-	-	-	-	-	(42,398)	(42,398)	-	(42,398)	-	(42,398)
Dividends to minority interests	-	-	-	-	-	-	-	-	-	(10,499)	(10,499)
Net change in balance of treasury shares held	(17,862)	(490,517)	-	-	-	-	(490,517)	-	(508,379)	-	(508,379)
Equity recorded for share-based payments	-	-	-	-	-	353	353	-	353	-	353
Conversion of convertible bonds	345	1,595	-	-	-	-	1,595	-	1,940	-	1,940
Net of capital increase and decrease	-	-	-	-	-	-	-	-	-	2,748	2,748
Acquisition of subsidiaries	-	-	-	-	-	-	-	-	-	776	776
Acquisition of minority interests	-	-	-	-	-	-	-	-	-	(64,514)	(64,514)
Closing balance 31 December 2007	65,950	(578,752)	5,660	66,467	(8,074)	983,117	468,418	257,796	792,164	124,902	917,066

The notes are an integral part of these consolidated financial statements

Consolidated cash flow statement

31 December 2007

	Notes	2007 HUF million	2006 Restated HUF million
Profit before tax		344,256	377,149
Depreciation, depletion, amortisation and impairment		140,538	132,826
Excess of carrying value of TVK minority interest acquired over the consideration		(14,351)	-
Write-off of inventories, net		1,369	2,383
Increase / (decrease) in provisions		(1,065)	2,824
Net (gain) / loss on sale of property, plant and equipment		(2,836)	(1,124)
Write-off / (reversal of write-off) of receivables		7,973	3,942
Unrealised foreign exchange (gain) / loss on trade receivables and trade payables		(1,261)	522
Net gain on sale of subsidiaries		(44,323)	(86,316)
Exploration and development costs expensed during the year		6,706	5,469
Share-based payment		353	(489)
Interest income		(13,370)	(13,191)
Interest on borrowings		16,946	13,427
Net foreign exchange (gain) / loss excluding foreign exchange differences on trade receivables and trade payables		(7,635)	20,754
Fair valuation difference of conversion option (see Note 27)		12,966	14,131
Other financial (gain) / loss, net		2,887	(3,616)
Share of net profit of associate		(5,318)	(5,195)
Other non cash items		2,676	3,397
Operating cash flow before changes in working capital		446,511	466,893
Decrease / (increase) in inventories		(86,011)	72,706
Decrease / (increase) in trade receivables		(36,803)	10,896
Decrease / (increase) in other current assets		(2,237)	5,016
(Decrease) / increase in trade payables		74,784	(20,948)
(Decrease) / increase in other payables		(11,244)	33,480

The notes are an integral part of these consolidated financial statements

	Notes	2007 HUF million	2006 Restated HUF million
Income taxes paid		(69,494)	(38,535)
Net cash provided by operating activities		315,506	529,508
Capital expenditures, exploration and development costs		(158,075)	(144,846)
Proceeds from disposals of property, plant and equipment		4,532	8,816
Acquisition of subsidiaries and minority interests, net cash (see Note 6)	34	(189,805)	(42,462)
Acquisition of joint ventures, net cash (see Note 8)	34	(1,953)	-
Acquisition of other investments		(464)	-
Net cash inflow / (outflow) on sale of subsidiary undertakings (see Note 7)		(7,468)	272,126
Proceeds from disposal of associated companies and other investments (see Note 9 and 10)		-	3,187
Changes in loans given and long-term bank deposits		21	1,493
Changes in short-term investments		707	(112)
Interest received and other financial income		14,319	12,637
Dividends received		1,208	830
Net cash provided by / (used in) investing activities		(336,978)	111,669
Issuance of Perpetual Exchangeable Capital Securities (see Note 16)		-	159,174
Long-term debt drawn down	34	544,844	432,020
Repayments of long-term debt		(208,977)	(608,486)
Changes in other long-term liabilities		33	(137)
Changes in short-term debt		1,121	33,791
Interest paid and other financial costs		(24,528)	(26,815)
Dividends paid to shareholders		(42,342)	(30,174)
Dividends paid to minority interest		(10,471)	(8,755)
Minority shareholders contribution		2,748	-
Repurchase of treasury shares		(508,379)	(238,099)
Net cash used in financing activities		(245,951)	(287,481)
(Decrease) / increase in cash and cash equivalents		(267,423)	353,696
Cash and cash equivalents at the beginning of the year		399,104	64,170
Cash effect of consolidation of subsidiaries previously accounted for as other investment		-	214
Exchange differences of cash and cash equivalents of consolidated foreign subsidiaries		(1,985)	1,098
Unrealised foreign exchange difference on cash and cash equivalents		25	(20,074)
Cash and cash equivalents at the end of the year		129,721	399,104

The notes are an integral part of these consolidated financial statements

Notes to the consolidated financial statements prepared in accordance with International Financial Reporting Standards

31 December 2007

1 General

MOL Magyar Olaj- és Gázipari Nyrt. (hereinafter referred to as MOL Nyrt., MOL or the parent company) was incorporated on 1 October 1991 on the transformation of its legal predecessor, the Országos Kőolaj- és Gázipari Tröszt (OKGT). In accordance with the law on the transformation of unincorporated state-owned enterprises, the assets and liabilities of OKGT were revalued as at that date. MOL Nyrt. and its subsidiaries (hereinafter referred to as the Group or MOL Group) are involved in the exploration and production of crude oil, natural gas and other gas products, refining, transportation and storage of crude oil and wholesale and retail marketing of crude oil products, production and sale of olefins and polyolefins. The number of the employees in the Group as of 31 December 2007 and 2006 was 15,058 and 13,861, respectively. The registered office address of the Company is Október huszonharmadika u. 18., Budapest, Hungary.

The shares of the Company are listed on the Budapest and the Warsaw Stock Exchange. Depositary Receipts (DRs) are listed on the Luxembourg Stock Exchange and are quoted on the International Order Book in London and other over the counter markets in New York, Berlin and Munich.

2.1 Authorization, statement of compliance and basis of preparation

i) Authorization and statement of compliance

These consolidated financial statements have been approved and authorised for issue by the Board of Directors on 20 March 2008.

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards and all applicable IFRSs that have been adopted by the European Union (EU). IFRS comprise standards and interpretations approved by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC).

Effective 1 January 2005, the change in the Hungarian Accounting Act allows the Group to prepare its consolidated financial statements in accordance with IFRS that have been adopted by the EU. Currently, due to the endorsement process of the EU and the activities of the Group, there is no difference in the policies applied by the Group between IFRS and IFRS that have been adopted by the EU.

Presentation of the financial statements complies with the requirements of the relevant standards. With respect to the conversion option embedded in the perpetual exchangeable capital securities issued in 2006, the revaluation difference arising on this option has been presented as a separate line item on the face of the income statement. The management believes that by separating this non-cash item improves the transparency of the financial statements, since the gain or loss recognized thereon is not affected by the operations of the Group or any relevant factors of the external business environment influencing these operations. For further details on the conversion option see Note 16.

ii) Basis of preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards and IFRIC interpretations issued and effective on 31 December 2007. The Group has not early adopted any IFRS or IFRIC interpretation issued but not yet effective as of this date.

MOL Nyrt. prepares its statutory unconsolidated financial statements in accordance with the requirements of the accounting regulations contained in Law C of 2000 on Accounting (HAS). Some of the accounting principles prescribed in this law differ from IFRS.

For the purposes of the application of the Historical Cost Convention, the consolidated financial statements treat the Company as having come into existence as of 1 October 1991, at the carrying values of assets and liabilities determined at that date, subject to the IFRS adjustments.

The financial year is the same as the calendar year.

iii) Principles of Consolidation

Subsidiaries

The consolidated financial statements include the accounts of MOL Nyrt. and the subsidiaries that it controls. This control is normally evidenced when the Group owns, either directly or indirectly, more than 50% of the voting rights of a company's share capital and is able to govern the financial and operating policies of an enterprise so as to benefit from its activities. As required by IAS 27, immediately exercisable voting rights are taken into account when determining control.

The purchase method of accounting is used for acquired businesses by measuring assets and liabilities at their fair values upon acquisition, the date of which is determined with reference to the date of obtaining control. Minority interest is stated at the minority's proportion of the fair values of net assets. The income and expenses of companies acquired or disposed of during the year are included in the consolidated financial statements from the date of acquisition or up to the date of disposal.

Intercompany balances and transactions, including intercompany profits and unrealised profits and losses are eliminated. The consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances.

Minority interests represent the profit or loss and net assets not held by the Group and are shown separately in the consolidated balance sheet and the consolidated income statement, respectively. Acquisitions of minority interests are accounted for using the parent company extension method, whereby the difference between the consideration and the book value of the share of the net assets acquired is recognized as goodwill.

Joint ventures

A joint venture is a contractual arrangement whereby two or more parties (venturers) undertake an economic activity that is subject to joint control. Joint control exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the venturers. A jointly controlled entity is a joint venture that involves the establishment of a company, partnership or other entity to engage in economic activity that the Group jointly controls with its fellow venturers.

The Company's interests in its joint ventures are accounted for by the proportionate consolidation method, where a proportionate share of the joint venture's assets, liabilities, income and expenses is combined with similar items in the consolidated financial statements on a line-by-line basis. The financial statements of the joint ventures are prepared for the same reporting year as the parent company, using consistent accounting policies.

When the Group contributes or sells assets to the joint venture, any portion of gain or loss from the transaction is recognized based on the substance of the transaction. When the Group purchases assets from the joint venture, the Group does not recognize its share of the profits of the joint venture from the transaction until it resells the assets to an independent party.

Investments in associates

An associate is an entity over which the Group is in a position to exercise significant influence through participation in the financial and operating policy decisions of the investee, but which is not a subsidiary or a jointly controlled entity.

The Group's investments in its associates are accounted for using the equity method of accounting. Under the equity method, the investment in the associate is carried in the balance sheet at cost plus post acquisition changes in the Group's share of net assets of the associate. Goodwill relating to an associate is included in the carrying amount of the investment and is not amortised. The income statement reflects the share of the results of operations of the associate. Where there has been a change recognized directly in the equity of the associate, the Group recognises its share of any changes and discloses this, when applicable, in the statement of changes in equity. Profits and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

The reporting dates of the associate and the Group are identical and the associate's accounting policies conform to those used by the Group for like transactions and events in similar circumstances.

Investments in associates are assessed to determine whether there is any objective evidence of impairment. If there is evidence the recoverable amount of the investment is determined to identify any impairment loss to be recognized. Where losses were made in previous years, an assessment of the factors is made to determine if any loss may be reversed.

2.2 Changes in Accounting Policies

The Group has changed its accounting policy to disclose Hungarian local trade tax and innovation fee as income tax expense as these tax types show the characteristics of income taxes rather than operating expenses. In previous years, local trade tax and innovation fee has been recorded as operating expense. The change in disclosure resulted in a reclassification from operating expenses to income tax expense of HUF 11,796 million and HUF 14,759 million in 2007 and 2006, respectively, with no impact on net income or equity. Comparative periods have been restated accordingly.

The accounting policies adopted are otherwise consistent with those applied in the previous financial years, apart from some further minor modifications in the classification of certain items in the balance sheet or the income statement, none of which has resulted in a significant impact on the financial statements. Comparative periods have been restated to reflect these minor reclassifications.

The Group has adopted the following new and amended IFRS and IFRIC interpretations during the year. Except as noted below, adoption of these standards and interpretations did not have any effect on the financial statements of the Group. They did however give rise to additional disclosures.

- IFRS 7 Financial Instruments: Disclosures
- IAS 1 (amended 2005) Presentation of Financial Statements
- IFRIC 8 Scope of IFRS 2
- IFRIC 7 Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies
- IFRIC 9 Reassessment of Embedded Derivatives
- IFRIC 10 Interim Financial Reporting and Impairment
- IFRIC 11 IFRS 2 – Group and Treasury Share transactions

The Group has not early adopted any standards and interpretations that were published but not yet effective.

The principal effects of these changes are as follows:

IFRS 7 Financial Instruments: Disclosures

Upon adoption of IFRS 7, the Group discloses additional information about its financial instruments, their significance and the nature and extent of risks to which they give rise. More specifically, the Group is required to disclose the fair value of its financial instruments and its risk exposure in greater detail. The new disclosures are included throughout the financial statements.

IAS 1 (amended 2005) Presentation of Financial Statements

Amendments to IAS 1 also require certain additional disclosures to enable users of the financial statements to evaluate the Group's capital management policies and objectives. These new disclosures are shown in Note 30.

IFRIC 8 Scope of IFRS 2

IFRIC Interpretation 8 requires IFRS 2 to be applied to any arrangements where equity instruments are issued for consideration which appears to be less than fair value. As equity instruments are only issued to employees in accordance with the employee share scheme, the interpretation had no impact on the financial position of the Group.

IFRIC 9 Reassessment of Embedded Derivatives

IFRIC 9 states that the date to assess the existence of an embedded derivative is the date that an entity first becomes a party to the contract, with reassessment only if there is a change to the contract that significantly modifies the cash flows. The interpretation had no impact on the existing embedded derivative requiring separation from the host contract, disclosed in Note 11.

IFRIC 10 Interim Financial Reporting and Impairment

The Group adopted IFRIC Interpretation 10 as of 1 January 2007, which requires that an entity must not reverse an impairment loss recognised in a previous interim period in respect of goodwill or an investment in either an equity instrument or a financial asset carried at cost. As the Group had no impairment losses previously reversed, the interpretation had no impact on the financial position or performance of the Group.

Issued but not yet effective International Financial Reporting Standards

At the date of authorisation of these financial statements, the following standards and interpretations were in issue but not yet effective:

- IFRS 2 Share-based Payment (amendment) – Vesting Conditions and Cancellations
This amendment to IFRS 2 – Share-based Payment clarifies the definition of vesting and non-vesting conditions, as well as the accounting treatment of cancellations. The amendment will have no material impact on the existing share-based schemes of the Group.
- IFRS 3 Business Combinations
This revised standard comes into effect for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. It contains a numerous changes compared to the previous IFRS 3. Among others, non-controlling interests must be measured either at fair value or as the non-controlling interest's proportionate share of the acquiree's net identifiable assets, where previously only the latter was permitted. Additional guidance was added on recognizing contingencies and measuring certain identifiable assets and liabilities of the acquiree. Furthermore, costs incurred by the acquirer in connection with the business combination must be recognized as expense, as opposed to the previous treatment which required these to be included in the calculation of goodwill. The revision will have no material impact on the currently reported financial position of the Group.
- IFRS 8 Operating Segments
This standard requires disclosure of information about the Group's operating segments and replaces the requirement to determine primary (business) and secondary (geographical)

reporting segments of the Group. The management expects that there will be no change in the current disclosures, as the primary business segments determined for reporting purposes will qualify as operating segments under the new standard.

- IAS 23 Borrowing Costs
A revised IAS 23 Borrowing costs was issued in March 2007, and becomes effective for financial years beginning on or after 1 January 2009. The standard has been revised to require capitalisation of borrowing costs when such costs relate to a qualifying asset. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. The Group currently follows this policy, therefore the change will have no impact on the consolidated financial statements.
- IAS 27 Consolidated and Separate Financial Statements
This revised standard must be applied for annual periods beginning on or after 1 July 2009. It requires the attribution of total comprehensive income to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interest having a negative balance. The previous standard allocated such excess losses to the owners of the parent except for some rare circumstances. In addition, requirements were added to treat changes in a parent's ownership interest in a subsidiary which do not result in the loss of control within equity, as well as specifying that any gain or loss arising on the loss of control of a subsidiary must be recognized in profit or loss. The revision will have no material impact on the currently reported financial position of the Group.
- IAS 32 Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements (amendment) - Puttable Financial Instruments and Obligations Arising on Liquidation
These revised standards require some puttable financial instruments and some financial instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation to be classified as equity. The amendment will have no impact on the existing financial instruments of the Group.
- IFRIC 11 IFRS 2 – Group and Treasury Share transactions
This interpretation requires arrangements whereby an employee is granted rights to an entity's equity instruments to be accounted for as an equity-settled scheme, even if the entity buys the instruments from another party, or the shareholders provide the equity instruments needed. The existing equity-settled scheme in the Group will not be affected by this interpretation.
- IFRIC 12 Service Concession Arrangements
IFRIC Interpretation 12 was issued in November 2006 and becomes effective for annual periods beginning on or after 1 January 2008. This interpretation applies to service concession operators and explains how to account for the obligations undertaken and rights received in service concession arrangements. No member of the Group is an operator and hence this interpretation will have no impact on the Group.
- IFRIC 13 Customer Loyalty programmes
IFRIC Interpretation 13 was issued in June 2007 and becomes effective for annual periods beginning on or after 1 July 2008. This interpretation requires customer loyalty award credits to be accounted for as a separate component of the sales transaction in which they are granted and therefore part of the fair value of the consideration received is allocated to the award

credits and deferred over the period that the award credits are fulfilled. The Group expects that this interpretation will have no material impact on the Group's financial statements based on the currently existing retail loyalty schemes.

- IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

IFRIC Interpretation 14 was issued in July 2007 and becomes effective for annual periods beginning on or after 1 January 2008. This interpretation provides guidance on how to assess the limit on the amount of surplus in a defined benefit scheme that can be recognised as an asset under IAS 19 Employee Benefits. The Group expects that this interpretation will have no impact on the financial position or performance of the Group as currently it has no funded defined benefit schemes.

2.3 Summary of significant accounting policies

i) Presentation Currency

Based on the economic substance of the underlying events and circumstances the functional currency of the parent company and the presentation currency of the Group have been determined to be the Hungarian Forint (HUF).

ii) Business Combinations

Business combinations are accounted for using the purchase accounting method. This involves recognising identifiable assets (including previously unrecognized intangible assets) and liabilities (including contingent liabilities and excluding future restructuring) of the acquired business at fair value.

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the business combination over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash generating units, or groups of cash generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is allocated represents the lowest level within the Group at which the goodwill is monitored for internal management purposes, and is not larger than a segment based on the Group's reporting format determined in accordance with IAS 14 Segment Reporting.

Where goodwill forms part of a cash-generating unit (or group of cash generating units) and part of the operation within that unit (or group) is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

When subsidiaries are sold, the difference between the selling price and the net assets plus cumulative translation differences and un-amortised goodwill is recognized in the income statement.

iii) Investments and Other Financial Assets

Financial assets within the scope of IAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held to maturity investments, or available for sale financial assets, as appropriate. When financial assets are recognized initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group considers whether a contract contains an embedded derivative when the entity first becomes a party to it.

Purchases and sales of investments are recognized on settlement date which is the date when the asset is delivered to the counterparty.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss includes financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit and loss.

Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments or a financial guarantee contract. Gains or losses on investments held for trading are recognized in the income statement.

Financial assets may be designated at initial recognition as at fair value through profit or loss if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognising gains or losses on them on a different basis; or (ii) the assets are part of a group of financial assets which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or (iii) the financial asset contains an embedded derivative that would need to be separately recorded. Such financial assets are recorded as current, except for those instruments which are not due for settlement within 12 months from the balance sheet date and are not held with the primary purpose of being traded. In this case all payments on such instruments are classified as non-current.

As at 31 December 2007 and 2006, no financial assets have been designated as at fair value through profit and loss.

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets which carry fixed or determinable payments, have fixed maturities and which the Group has the positive intention and ability to hold to maturity. After initial measurement held to maturity investments are measured at amortised cost. This cost is computed as the amount initially recognized minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initially recognized amount and the maturity amount, less allowance for impairment. This calculation includes all fees and points paid or

received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. Gains and losses are recognized in the income statement when the investments are derecognized or impaired, as well as through the amortisation process.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement loans and receivables are subsequently carried at amortised cost using the effective interest method less any allowance for impairment. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognized in the income statement when the loans and receivables are derecognized or impaired, as well as through the amortisation process.

Available-for-sale financial investments

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. After initial measurement, available for sale financial assets are measured at fair value with unrealised gains or losses being recognized directly in equity in the fair valuation reserve. When the investment is disposed of, the cumulative gain or loss previously recorded in equity is recognized in the income statement.

Fair value

For investments that are actively traded in organised financial markets, fair value is determined by reference to quoted market prices at the close of business on the balance sheet date. For investments where there is no quoted market price, fair value is determined by reference to the current market value of another instrument which is substantially the same or is calculated based on the expected cash flows of the underlying net asset base of the investment.

iv) Classification and Derecognition of Financial Instruments

Financial assets and financial liabilities carried on the consolidated balance sheet include cash and cash equivalents marketable securities, trade and other accounts receivable and payable, long-term receivables, loans, borrowings, investments, and bonds receivable and payable. The accounting policies on recognition and measurement of these items are disclosed in the respective accounting policies found in this Note.

Financial instruments (including compound financial instruments) are classified as assets, liabilities or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains, and losses relating to a financial instrument classified as a liability, are reported as expense or income as incurred. Distributions to holders of financial instruments classified as equity are charged directly to equity. In case of compound financial instruments the liability component is valued first, with the equity component being determined as a residual value. Financial instruments are offset when the Company has a legally enforceable right to offset and intends to settle either on a net basis or to realise the asset and settle the liability simultaneously.

The derecognition of a financial instrument takes place when the Group no longer controls the contractual rights that comprise the financial instrument, which is normally the case when the instrument is sold, or all the cash flows attributable to the instrument are passed through to an independent third party.

v) Derivative Financial Instruments

The Group uses derivative financial instruments such as forward currency contracts and interest rate swaps to hedge its risks associated with interest rate and foreign currency fluctuations. Such derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value on derivatives that do not qualify for hedge accounting are taken directly to net profit or loss for the year as financial income or expense.

The fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles. The fair value of interest rate swap contracts is determined by reference to market values for similar instruments.

An embedded derivative is separated from the host contract and accounted for as a derivative if all of the following conditions are met:

- the economic characteristics and the risks of the embedded derivative are not closely related to the economic characteristics of the host contract,
- a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and
- a hybrid (combined) instrument is not measured at fair value with changes in fair value reported in current year net profit.

vi) Hedging

For the purpose of hedge accounting, hedges are classified as

- fair value hedges
- cash flow hedges or
- hedges of a net investment in a foreign operation.

A hedge of the foreign currency risk of a firm commitment is accounted for as a cash flow hedge. At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Hedges which meet the strict criteria for hedge accounting are accounted for as follows:

Fair value hedges

Fair value hedges are hedges of the Group's exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment, or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk that could affect the income statement.

For fair value hedges, the carrying amount of the hedged item is adjusted for gains and losses attributable to the risk being hedged, the derivative is remeasured at fair value and gains and losses from both are taken to the income statement. For fair value hedges relating to items carried at amortised cost, the adjustment to carrying value is amortised through the income statement over the remaining term to maturity. Any adjustment to the carrying amount of a hedged financial instrument for which the effective interest method is used is amortised to the income statement.

Amortisation may begin as soon as an adjustment exists and shall begin no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged.

When an unrecognized firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognized as an asset or liability with a corresponding gain or loss recognized in the income statement. The changes in the fair value of the hedging instrument are also recognized in the income statement.

The Group discontinues fair value hedge accounting if the hedging instrument expires or is sold, terminated or exercised, the hedge no longer meets the criteria for hedge accounting or the Group revokes the designation.

Cash flow hedges

Cash flow hedges are a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction that could affect the income statement. The effective portion of the gain or loss on the hedging instrument is recognized directly in equity, while the ineffective portion is recognized in the income statement.

Amounts taken to equity are transferred to the income statement when the hedged transaction affects the income statement, such as when hedged financial income or financial expense is recognized or when a forecast sale or purchase occurs. Where the hedged item is the cost of a non-financial asset or liability, the amounts taken to equity are transferred to the initial carrying amount of the non-financial asset or liability.

If the forecast transaction is no longer expected to occur, amounts previously recognized in equity are transferred to the income statement. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, amounts previously recognized in equity remain in equity until the forecast transaction occurs. If the related transaction is not expected to occur, the amount is taken to the income statement.

Hedges of a net investment

Hedges of a net investment in a foreign operation, including a hedge of a monetary item that is accounted for as part of the net investment, are accounted for in a way similar to cash flow

hedges. Gains or losses on the hedging instrument relating to the effective portion of the hedge are recognized directly in equity while any gains or losses relating to the ineffective portion are recognized in the income statement. On disposal of the foreign operation, the cumulative value of any such gains or losses recognized directly in equity is transferred to the income statement.

vii) Impairment of financial assets

The Group assesses at each balance sheet date whether a financial asset or group of financial assets is impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The amount of the loss is recognized in the income statement.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for financial assets, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

Available-for-sale financial investments

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognized in the income statement, is transferred from equity to the income statement. Impairment losses recognized on equity instruments classified as available for sale is not reversed. Impairment losses recognized on debt instruments classified as available for sale are reversed through income, if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognized in income.

viii) Cash and Cash Equivalents

Cash includes cash on hand and cash with banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with maturity less than three months from the date of acquisition and that are subject to an insignificant risk of change in value.

ix) Trade Receivables

Receivables are stated at face value less provision for doubtful amounts. Where the time value of money is material, receivables are carried at amortized cost. A provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Group will not be able to collect all of the amounts due under the original terms of the invoice. Impaired debts are derecognized when they are assessed as uncollectible.

x) Inventories

Inventories, including work-in-process are valued at the lower of cost and net realisable value, after provision for slow-moving and obsolete items. Net realisable value is the selling price in the ordinary course of business, less the costs of making the sale. Cost of purchased goods, including crude oil and purchased gas inventory, is determined primarily on the basis of weighted average cost. The acquisition cost of own produced inventory consists of direct materials, direct wages and the appropriate portion of production overhead expenses including royalty. Unrealisable inventory is fully written off.

xi) Property, Plant and Equipment

Property, plant and equipment are stated at historical cost (or the carrying value of the assets determined as of 1 October 1991) less accumulated depreciation, depletion and accumulated impairment loss. When assets are sold or retired, their cost and accumulated depreciation are eliminated from the accounts and any gain or loss resulting from their disposal is included in the consolidated income statement.

The initial cost of property, plant and equipment comprises its purchase price, including import duties and non-refundable purchase taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use, such as borrowing costs. Estimated decommissioning and site restoration costs are capitalized upon initial recognition or, if decision on decommissioning is made subsequently, at the time of the decision. Changes in estimates thereof adjust the carrying amount of assets. Expenditures incurred after the property, plant and equipment have been put into operation, such as repairs and maintenance and overhead costs (except form periodic maintenance costs), are normally charged to income in the period in which the costs are incurred. Periodic maintenance costs are capitalized as a separate component of the related assets.

Construction in progress represents plant and properties under construction and is stated at cost. This includes cost of construction, plant and equipment and other direct costs. Construction-in-progress is not depreciated until such time as the relevant asset is available for use.

The policy for accounting for exploration and development costs of oil and gas reserves is described in xv) below.

xii) Intangible Assets

Intangible assets acquired separately are capitalized at cost and from a business acquisition are capitalized at fair value as at the date of acquisition. Intangible assets are recognized if it is probable that the future economic benefits that are attributable to the asset will flow to the enterprise; and the cost of the asset can be measured reliably.

Following initial recognition, the cost model is applied to the class of intangible assets. The useful lives of these intangible assets are assessed to be either finite or indefinite. Amortisation is charged on assets with a finite useful life over the best estimate of their useful lives using the straight line method. The amortisation period and the amortisation method are reviewed annually at each financial year-end. Intangible assets, excluding development costs, created within the business are not capitalized and expenditure is charged against income in the year in which the expenditure is incurred. Intangible assets are tested for impairment annually either individually or at the cash generating unit level.

Research costs are expensed as incurred. Development expenditure incurred on an individual project is carried forward when its future recoverability can reasonably be regarded as assured. Following the initial recognition of the development expenditure the cost model is applied requiring the asset to be carried at cost less any accumulated impairment losses. Costs in development stage can not be amortized. The carrying value of development costs is reviewed for impairment annually when the asset is not yet in use or more frequently when an indicator of impairment arises during the reporting year indicating that the carrying value may not be recoverable.

The policy for accounting for exploration and development costs of oil and gas reserves is described in xv) below.

xiii) Depreciation, Depletion and Amortisation

Depreciation of each component of an intangible assets and property, plant and equipment is computed on a straight-line basis over their respective useful lives. Usual periods of useful lives for different types of property, plant and equipment are as follows:

Software	3 – 5 years
Buildings	10 – 50 years
Refineries and chemicals manufacturing plants	4 – 12 years
Gas and oil storage and transmission equipment	7 – 50 years
Petrol service stations	5 – 30 years
Telecommunication and automatisa��on equipment	3 – 10 years

Depletion and depreciation of production installations and transport systems for oil and gas is calculated for each individual field or field-dedicated transport system using the unit of production method, based on proved and developed commercially recoverable reserves. Recoverable reserves are reviewed on an annual basis. Transport systems used by several fields and other assets are calculated on the basis of the expected useful life, using the straight-line method. Amortisation of leasehold improvements is provided using the straight-line method over the term of the respective lease or the useful life of the asset, whichever period is less. Periodic maintenance costs are depreciated until the next similar maintenance takes place.

The useful life and depreciation methods are reviewed at least annually to ensure that the method and period of depreciation are consistent with the expected pattern of economic benefits from items of property, plant and equipment, and, if necessary, changes are accounted for in the current period.

xiv) Impairment of Assets

Property, plant and equipment and intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Whenever the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognized in the income statement for items of property, plant and equipment and intangibles carried at cost. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. The fair value is the amount obtainable from the sale of an asset in an arm's length transaction while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. Recoverable amounts are estimated for individual assets or, if this is not practicable, for the cash-generating unit. Impairment losses are reviewed annually and, where the recoverable amount of an asset has changed, are increased or written back, fully or partially, as required.

Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of the cash-generating unit (or group of cash-generating units), to which the goodwill relates. Where the recoverable amount of the cash-generating unit (or group of cash-generating units) is less than the carrying amount of the cash-generating unit (group of cash-generating units) to which goodwill has been allocated, an impairment loss is recognized. Impairment losses relating to Goodwill cannot be reversed in future periods. The Group performs its annual impairment test of goodwill as at 31 December.

Intangible assets with indefinite useful lives are monitored for impairment indicators throughout the year and are tested for impairment at least annually as of 31 December either individually or at the cash generating unit level, as appropriate.

xv) Oil and natural gas exploration and development expenditures

Oil and natural gas exploration and development expenditure is accounted for using the successful efforts method of accounting.

Licence and property acquisition costs

Exploration and property acquisition costs are capitalized as intangible assets and amortized on a straight-line basis over the estimated period of exploration. Each property is reviewed on an annual basis to confirm that drilling activity is planned and it is not impaired. If no future activity is planned, the remaining balance of the licence and property acquisition costs is written off. Upon determination of economically recoverable reserves ('proved reserves' or 'commercial reserves'),

amortization ceases and the remaining costs are aggregated with exploration expenditure and held on a field-by-field basis as proved properties awaiting approval within intangible assets. When development is approved internally, the relevant expenditure is transferred to property, plant and equipment, among land and buildings.

Exploration expenditure

Geological and geophysical exploration costs are charged against income as incurred. Costs directly associated with an exploration well are capitalized as an intangible asset until the drilling of the well is complete and the results have been evaluated. These costs include employee remuneration, materials and fuel used, rig costs, delay rentals and payments made to contractors. If hydrocarbons are not found, the exploration expenditure is written off as a dry hole. If hydrocarbons are found and, subject to further appraisal activity, which may include the drilling of further wells (exploration or exploratory-type stratigraphic test wells), are likely to be capable of commercial development, the costs continue to be carried as an asset. All such carried costs are subject to technical, commercial and management review at least once a year to confirm the continued intent to develop or otherwise extract value from the discovery. When this is no longer the case, the costs are written off. When proved reserves of oil and natural gas are determined and development is sanctioned, the relevant expenditure is transferred to property, plant and equipment.

Development expenditure

Expenditure on the construction, installation or completion of infrastructure facilities such as platforms, and the drilling of development wells, including unsuccessful development or delineation wells, is capitalized within property, plant and equipment.

xvi) Interest-bearing loans and borrowings

All loans and borrowings are initially recognized at the fair value of the consideration received net of issue costs associated with the borrowing. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any issue costs, and any discount or premium on settlement. Gains and losses are recognized in net in the income statement when the liabilities are derecognized as well as through the amortisation process, except to the extent they are capitalized as borrowing costs.

xvii) Provisions

A provision is recognized when the Group has a present obligation (legal or constructive) as a result of a past event and it is probable (i.e. more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. The amount of the provision is the present value of the risk adjusted expenditures expected to be required to settle the obligation, determined using the estimated risk free interest rate as discount rate. Where discounting is used, the carrying amount of the provisions increases in each period to reflect the unwinding of the discount by the passage of time. This increase is recognized as interest expense.

Provision for Redundancy

The employees of the Group are eligible, immediately upon termination, for redundancy payment pursuant to the Hungarian law and the terms of the Collective Agreement between MOL and its employees. The amount of such a liability is recorded as a provision in the consolidated balance sheet when the workforce reduction program is defined, announced and the conditions for its implementation are met.

Provision for Environmental Expenditures

Environmental expenditures that relate to current or future economic benefits are expensed or capitalized as appropriate. Expenditures that relate to an existing condition caused by past operations and do not contribute to current or future earnings are expensed. Liabilities for environmental costs are recognized when environmental assessments or clean-ups are probable and the associated costs can be reasonably estimated. Generally, the timing of these provisions coincides with the commitment to a formal plan of action or, if earlier, on divestment or on closure of inactive sites. The amount recognized is the best estimate of the expenditure required. Where the liability will not be settled for a number of years, the amount recognized is the present value of the estimated future expenditure.

Provision for Decommissioning

The Group records a provision upon initial recognition for the present value of the estimated future cost of abandonment of oil and gas production facilities following the termination of production. The estimate is based upon current legislative requirements, technology and price levels. A corresponding item of property, plant and equipment of an amount equivalent to the provision is also created. This is subsequently depreciated as part of the capital costs of the facility or item of plant. Any change in the present value of the estimated expenditure is reflected as an adjustment to the provision and the corresponding property, plant and equipment.

Provision for Retirement Benefits

The Group operates three long-term defined employee benefit programmes. None of these schemes requires contribution to be made to separately administered funds. The cost of providing benefits under those plans is determined separately for each plan using the projected unit credit actuarial valuation method. Actuarial gains and losses are recognized as income or expense immediately. Past service costs, resulting from the introduction of, or changes to the defined benefit scheme are recognized as an expense on a straight-line basis over the average period until the benefits become vested.

xviii) Greenhouse gas emissions

The Group receives free emission rights in Hungary and Slovakia as a result of the European Emission Trading Schemes. The rights are received on an annual basis and in return the Group is required to remit rights equal to its actual emissions. The Group has adopted a net liability approach to the emission rights granted. A provision is only recognized when actual emissions exceed the emission rights granted and still held. Where emission rights are purchased from other parties, they are recorded at cost, and treated as a reimbursement right, whereby they are matched to the emission liabilities and remeasured to fair value.

xix) Share-based payment transactions

Certain employees (including directors and managers) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares ('equity-settled transactions').

Equity-settled transactions

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by applying generally accepted option pricing models (usually by the binomial model). In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the parent company ('market conditions').

The cost of equity-settled transactions is recognized, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ('vesting date'). The cumulative expense recognized for equity settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the number of awards that, in the opinion of the directors of the Group at that date, based on the best available estimate of the number of equity instruments that will ultimately vest.

No expense is recognized for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognized as if the terms had not been modified. An additional expense is recognized for any increase in the value of the transaction as a result of the modification, as measured at the date of modification. Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognized for the award is recognized immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

Cash-settled transactions

The cost of cash-settled transactions is measured initially at fair value at the grant date using the binomial model. This fair value is expensed over the vesting period with recognition of a corresponding liability. The liability is remeasured at each balance sheet date up to and including the settlement date to fair value with changes therein recognized in the income statement.

xx) Leases

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the inception of the lease at the fair value

of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income. Capitalized leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term. Initial direct costs incurred in negotiating a finance lease are added to the carrying amount of the leased asset and recognized over the lease term on the same bases as the lease income. Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as an expense in the income statement on a straight-line basis over the lease term.

xxi) Government grants

Government grants are recognized at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognized as income over the years necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the income statement over the expected useful life of the relevant asset by equal annual instalments.

xxii) Reserves

Reserves shown in the consolidated financial statements do not represent the distributable reserves for dividend purposes. Reserves for dividend purposes are determined based on the company-only statutory earnings of MOL Nyrt.

Translation reserves

The translation reserve represents translation differences arising on consolidation of financial statements of foreign entities. Exchange differences arising on a monetary item that, in substance, forms part of the company's net investment in a foreign entity are classified as equity in the consolidated financial statements until the disposal of the net investment. Upon disposal of the corresponding assets, the cumulative revaluation or translation reserves are recognized as income or expenses in the same period in which the gain or loss on disposal is recognized.

Fair valuation reserves

The fair valuation reserve includes the cumulative net change in the fair value of effective cash flow hedges and available for sale financial instruments.

Equity component of debt and difference in buy-back prices

Equity component of compound debt instruments includes the residual amount of the proceeds from the issuance of the instrument above its liability component, which is determined as the present value of future cash payments associated with the instrument. The equity component of compound debt instruments is recognized when the Group becomes party to the instrument (see also iv).

xxiii) Treasury Shares

The nominal value of treasury shares held is deducted from registered share capital. Any difference between the nominal value and the acquisition price of treasury shares is recorded directly to share premium.

xxiv) Dividends

Dividends are recorded in the year in which they are approved by the shareholders.

xxv) Revenue Recognition

Revenue is recognized when it is probable that the economic benefits associated with a transaction will flow to the enterprise and the amount of the revenue can be measured reliably. Sales are recognized net of sales taxes and discounts when delivery of goods or rendering of the service has taken place and transfer of risks and rewards has been completed.

Interest is recognized on a time-proportionate basis that reflects the effective yield on the related asset. Dividends due are recognized when the shareholder's right to receive payment is established. Changes in the fair value of derivatives not qualifying for hedge accounting are reflected in income in the period the change occurs.

xxvi) Borrowing Costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalized. Capitalisation of borrowing costs commences when the activities to prepare the asset are in progress and expenditures and borrowing costs are being incurred. Borrowing costs are capitalized until the assets are ready for their intended use. Borrowing costs include interest charges and other costs incurred in connection with the borrowing of funds, including exchange differences arising from foreign currency borrowings used to finance these projects to the extent that they are regarded as an adjustment to interest costs.

xxvii) Income Taxes

The income tax charge consists of current and deferred taxes. Deferred taxes are calculated using the balance sheet liability method. Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Deferred tax assets and liabilities are measured using the tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The measurement of deferred tax liabilities and deferred tax assets reflects the tax consequences that would follow from the manner in which the enterprise expects, at the balance sheet date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and tax losses when it is probable that sufficient taxable profits will be available against which the deferred tax assets can be utilized, except:

- where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred income tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax liabilities are recognized for all taxable temporary differences, except:

- where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

At each balance sheet date, the Company re-assesses unrecognized deferred tax assets and the carrying amount of deferred tax assets. The enterprise recognises a previously unrecognized deferred tax asset to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered. The Company conversely reduces the carrying amount of a deferred tax asset to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of the deferred tax asset to be utilised.

Current tax and deferred tax are charged or credited directly to equity if the tax relates to items that are credited or charged, in the same or a different period, directly to equity, including an adjustment to the opening balance of reserves resulting from a change in accounting policy that is applied retrospectively.

xxviii) Foreign Currency Transactions

Foreign currency transactions are recorded in the reporting currency by applying to the foreign currency amount the exchange rate between the reporting currency and the foreign currency at the date of the transaction. Exchange rate differences arising on the settlement of monetary items at rates different from those at which they were initially recorded during the periods are recognized in the consolidated income statement in the period in which they arise. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. Items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Foreign exchange differences on trade receivables and payables are included in operating profit, while foreign exchange differences on borrowings are recorded as financial income or expense.

Financial statements of foreign entities are translated at year-end exchange rates with respect to the balance sheet, and at the weighted average exchange rates for the year with respect to the income statement. All resulting translation differences are included in the translation reserve of equity. On disposal of a foreign entity, the deferred cumulative amount recognized in equity relating to that particular foreign operation shall be recognized in the income statement.

xxix) Earnings Per Share

The calculation of basic earnings per share is based on the profit attributable to ordinary shareholders using the weighted average number of shares outstanding during the year after deduction of the average number of treasury shares held over the period.

The calculation of diluted earnings per share is consistent with the calculation of basic earnings per share while giving effect to all dilutive potential ordinary shares that were outstanding during the period, that is:

- the net profit for the period attributable to ordinary shares is increased by the after-tax amount of dividends and interest recognized in the period in respect of the dilutive potential ordinary shares and adjusted for any other changes in income or expense that would result from the conversion of the dilutive potential ordinary shares.
- the weighted average number of ordinary shares outstanding is increased by the weighted average number of additional ordinary shares which would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

xxx) Segmental Disclosure

For management purposes the Group is organised into four major operating business units: Exploration and Production, Refining and Marketing, Natural Gas and Petrochemicals. The business units are the basis upon which the Group reports its primary segment information. The Group does not report secondary segment information since most of its operating assets are located in one geographical area, Central Europe.

xxxi) Contingencies

Contingent liabilities are not recognized in the consolidated financial statements unless they are acquired in a business combination. They are disclosed in the Notes unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is not recognized in the consolidated financial statements but disclosed when an inflow of economic benefits is probable.

2.4 Significant accounting judgments and estimates

Critical judgments in applying the accounting policies

In the process of applying the accounting policies, which are described in note 2.3 above, management has made certain judgments that have significant effect on the amounts recognized in the financial statements (apart from those involving estimates, which are dealt with below). These are detailed in the respective notes, however, the most significant judgments relate to the following:

Scope of environmental and field abandonment provision

Regulations, especially environmental legislation does not exactly specify the extent of remediation work required or the technology to be applied. Management uses its previous experience and its own interpretation of the respective legislation to determine the scope of environmental and field abandonment provisions. The amount of environmental provision is HUF 29,496 million and HUF 27,374 million, while field abandonment provision amounts to HUF 82,705 million and HUF 84,534 million as of 31 December 2007 and 2006, respectively (see Note 19).

Application of Successful Efforts method of accounting for exploration expenditures

Management uses judgment when capitalized exploration expenditures are reviewed to determine capability and continuing intent of further development. Carrying amount of capitalized exploration expenditures is HUF 49,247 million and HUF 49,376 million as of 31 December 2007 and 2006, respectively (see Note 3).

Sources of estimate uncertainty

The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the amounts reported in the financial statements and the Notes thereto. Although these estimates are based on the management's best knowledge of current events and actions, actual results may defer from those estimates. These are detailed in the respective notes, however, the most significant estimates relate to the following:

Calculation the fair values of financial instruments

Fair valuation of financial instruments (especially the conversion option embedded in the perpetual exchangeable capital securities issued by a special purpose entity, Magnolia Finance Ltd., see Note 16) reflects management's estimate of the future trend of key drivers of such values, including, but not limited to yield curves, foreign exchange and risk-free interest rates, and in case of the conversion option, volatility of MOL share prices and dividend yield. Further details of financial instruments are described in Note 31.

Quantification and timing of environmental and field abandonment liabilities

Management estimates the future cash outflow associated with environmental and decommissioning liabilities using comparative prices, analogies to previous similar work and other assumptions. Furthermore, the timing of these cash flows reflects managements' current assessment of priorities, technical capabilities and urgency of such obligations. Both the amounts and the timing of these future expenditures are reviewed annually, together with

expectations on the rates used to discount these cash flows. Long-term real discount rates are expected to be 2.4% (2006: 1.6%). Consequently, the carrying amount of these liabilities (in case of environmental provision HUF 29,496 million and HUF 27,374 million, in case of field abandonment provision HUF 82,705 million and HUF 84,534 million as of 31 December 2007 and 2006, respectively, see Note 19) is exposed to uncertainty.

Impairment of non-current assets, including goodwill

The impairment calculation requires an estimate of the 'value in use' of the cash-generating units. Such value is measured based on discounted projected cash flows. The most significant variables in determining cash flows are discount rates, terminal values, the period for which cash flow projections are made, as well as the assumptions and estimates used to determine the cash inflows and outflows. All of these variables are reviewed at least annually. Discount rates in 2007 were derived from the USD-based weighted average cost of capital for the Group (7%), while discount rates in 2006 were derived from the HUF-based weighted average cost of capital for the Group (varying between 10.3% and 8.2%). In each case these rates are adjusted for segment-, country- and project-specific risks, as applicable. Impairment recorded in the consolidated income statement amounts to HUF 14,591 million and HUF 10,662 million in 2007 and 2006, respectively. Carrying amount of goodwill is HUF 59,491 million and HUF 11,484 million as of 31 December 2007 and 2006, respectively (see Note 3).

Availability of taxable income against which deferred tax assets can be recognized

Deferred tax assets are recognized for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying value of recognized tax losses at 31 December 2007 was HUF 6,053 million (see Note 28).

Actuarial estimates applied for calculation of retirement benefit obligations

The cost of defined benefit plans is determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, future salary increases and mortality or fluctuation rates. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty. Provision for retirement benefit is HUF 7,134 million and HUF 4,182 million at 31 December 2007 and 2006, respectively (see Note 19).

Outcome of certain litigations

MOL Group entities are parties to a number of litigations, proceedings and civil actions arising in the ordinary course of business. Management uses estimations when the most likely outcome of these actions is assessed and provision is recognized on a consistent basis. See Note 19 and 32.

3 Intangible assets

	Rights	Software	Exploration costs	Goodwill	Total
	HUF million	HUF million	HUF million	HUF million	HUF million
At 1 January, 2006					
Gross book value	6,698	49,155	10,898	11,104	77,855
Accumulated amortization and impairment	(2,820)	(31,757)	(2,538)	-	(37,115)
Net book value	3,878	17,398	8,360	11,104	40,740
Year ended 31 December, 2006					
- additions	226	7,389	8,911	-	16,526
- acquisition of subsidiary	4,130	-	39,835	-	43,965
- amortization for the year	(960)	(3,963)	-	-	(4,923)
- impairment	(1)	(121)	(1,850)	-	(1,972)
- reversal of impairment	-	7	-	-	7
- disposals	(3)	(4)	-	-	(7)
- sale of subsidiaries	-	(3)	-	-	(3)
- exchange adjustment	27	211	(254)	380	364
- transfers	807	(867)	(5,626)	-	(5,686)
Closing net book value	8,104	20,047	49,376	11,484	89,011
At 31 December, 2006					
Gross book value	12,261	55,721	55,118	11,484	134,584
Accumulated amortization and impairment	(4,157)	(35,674)	(5,742)	-	(45,573)
Net book value	8,104	20,047	49,376	11,484	89,011
Year ended 31 December, 2007					
- additions	856	5,533	12,027	-	18,416
- acquisition of subsidiary	24,200	117	2,919	47,906	75,142
- amortization for the year	(2,026)	(4,779)	-	-	(6,805)
- impairment	(55)	(4)	(6,653)	-	(6,712)
- disposals	(1)	(9)	-	-	(10)
- exchange adjustment	(598)	81	(5,367)	101	(5,783)
- transfers	735	(386)	(3,055)	-	(2,706)
Closing net book value	31,215	20,600	49,247	59,491	160,553
At 31 December, 2007					
Gross book value	37,798	58,526	52,517	59,491	208,332
Accumulated amortization and impairment	(6,583)	(37,926)	(3,270)	-	(47,779)
Net book value	31,215	20,600	49,247	59,491	160,553

Transfers from exploration costs represent expenditures which, upon determination of proved reserves of oil and natural gas are reclassified to property, plant and equipment (see Note 2.3 xv.). Impairment in 2007 related primarily to exploration activities qualified unsuccessful in Yemen and Hungary.

Goodwill

Goodwill acquired in a business combination is allocated, at acquisition, to the cash generating units (CGUs) that are expected to benefit from that business combination. Before recognition of impairment losses, the carrying amount of goodwill had been allocated as follows:

	2007			2006		
	Net book value before impairment	Impairment	Net book value	Net book value before impairment	Impairment	Net book value
	HUF million	HUF million	HUF million	HUF million	HUF million	HUF million
Refining and Marketing	58,921	-	58,921	10,914	-	10,914
- Roth Group	6,038	-	6,038	6,013	-	6,013
- MOL Romania	4,618	-	4,618	4,901	-	4,901
- IES Group	32,470	-	32,470	-	-	-
- Tifon	13,518	-	13,518	-	-	-
- Energopetrol	2,277	-	2,277	-	-	-
Petrochemicals	570	-	570	570	-	570
- TVK Nyrt.	477	-	477	477	-	477
- TVK Polska Sp.Zoo.	93	-	93	93	-	93
Total goodwill	59,491	-	59,491	11,484	-	11,484

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the recoverable value of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

The recoverable amounts of the CGUs are determined from value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and gross margins during the period. Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGUs. The growth rates are based on industry growth forecasts. Gross margins are based on past practices and expectations of future changes in the market.

Acquisition of IES Group, Tifon and Energopetrol (see Note 6 and Note 8) has been closed recently, therefore a provisional determination of goodwill has only been performed. Accordingly, the goodwill has only been allocated provisionally to their cash generating units. Consequently, no impairment test has been performed in connection with these items.

Roth Group

At 31 December 2007 goodwill of HUF 6,038 million was allocated to the wholesale activities of Roth Group operating mainly on the Austrian wholesale market, forming a separate cash generating unit within Refining and Marketing business segment. The Group prepares cash flow forecasts derived from the most recent financial budgets approved by management for

the next three years and extrapolates cash flows for the following years based on an estimated growth rate of 2%. This rate does not exceed the average long-term growth rate for the relevant Austrian markets. The rates used to discount the forecast cash flows reflecting risks specific to the Refining and Marketing segment vary between 7% and 8% in the years considered.

For the wholesale activities of Roth Group, there are reasonably possible changes in key assumptions which could cause the carrying value of the unit to exceed its recoverable amount. The actual recoverable amount for the wholesale activity of Roth Group exceeds its carrying amount by HUF 586 million. The implications of the key assumptions on the recoverable amount are discussed below:

- Gross margins – Management has considered the possibility of lower than budgeted gross margins, which can occur in case the inability of Roth Group to pass higher direct costs to customers. An additional 5.2% decrease of gross margins would reduce Roth Group’s value in use to its carrying value.
- Discount rate assumptions – Management assessed discount rates based on the current and expected risk-free interest rate and the risks specific to the current activities of the unit. An increase of 0.5 percentage points in this rate would give a value in use equal to the carrying amount of Roth Group’s wholesale activities.

MOL Romania

At 31 December 2007 goodwill of HUF 4,618 million was allocated to the Romanian retail network of the Group. For goodwill allocation purposes, the Romanian filling stations’ network as a whole (being a group of cash generating unit) is considered. The Group prepares cash flow forecasts derived from the most recent financial budgets approved by management for the next three years for the whole network and extrapolates cash flows for the average residual useful life of the filling stations assuming no growth rate in gross margin, reflecting a competitive position. The rates used to discount the forecast cash flows reflecting risks specific to retail activities vary between 8.7% and 9.1% in the years considered.

With regard to the assessment of value in use of the Romanian retail network, management believes that no reasonably possible change in any of the key assumptions would cause the carrying value of the unit to materially exceed its recoverable amount.

Exploration expenditures

In addition to the capitalized exploration expenditures shown above, a further HUF 6,706 million and HUF 5,469 million exploration expenses were incurred in 2007 and 2006, respectively. Consistent with the successful effort method of accounting they were charged to various operating cost captions of the consolidated income statement as incurred.

Intangible assets with indefinite useful life

MOL Group has no intangible assets with indefinite useful life other than goodwill.

4 Property, plant and equipment, net

	Land and buildings	Machinery and equipment	Other machinery and equipment	Construction in progress	Total
	HUF million	HUF million	HUF million	HUF million	HUF million
At 1 January, 2006					
Gross book value	961,488	904,308	72,244	46,991	1,985,031
Accumulated depreciation and impairment	(323,437)	(497,248)	(51,368)	(225)	(872,278)
Net book value	638,051	407,060	20,876	46,766	1,112,753
Year ended 31 December, 2006					
- additions and capitalizations	32,098	66,855	5,779	128,019	232,751
- depreciation for the year	(45,859)	(65,445)	(5,937)	-	(117,241)
- impairment	(9,086)	(970)	(62)	(253)	(10,371)
- reversal of impairment	1,395	274	4	1	1,674
- acquisition of subsidiary	16,167	1,737	126	159	18,189
- disposals	(6,262)	(648)	(127)	(17)	(7,054)
- sale of subsidiaries	(111,576)	(10,246)	(701)	(3,649)	(126,172)
- exchange adjustment	14,540	13,459	9	580	28,588
- transfer and capitalizations	13,344	(9,215)	(1,166)	(104,658)	(101,695)
Closing net book value	542,812	402,861	18,801	66,948	1,031,422
At 31 December, 2006					
Gross book value	913,107	948,643	68,514	67,302	1,997,566
Accumulated depreciation and impairment	(370,295)	(545,782)	(49,713)	(354)	(966,144)
Net book value	542,812	402,861	18,801	66,948	1,031,422
Year ended 31 December, 2007					
- additions and capitalizations	57,982	44,368	5,758	134,705	242,813
- depreciation for the year	(45,086)	(68,202)	(5,854)	-	(119,142)
- impairment	(6,169)	(1,337)	(151)	(1,724)	(9,381)
- reversal of impairment	1,318	103	-	81	1,502
- acquisition of subsidiary	53,527	62,382	979	14,231	131,119
- disposals	(795)	(80)	(68)	(287)	(1,230)
- exchange adjustment	1,328	4,292	(162)	120	5,578
- transfer and capitalizations	96	(682)	38	(108,447)	(108,995)
Closing net book value	605,013	443,705	19,341	105,627	1,173,686
At 31 December, 2007					
Gross book value	1,027,053	1,095,116	76,247	105,783	2,304,199
Accumulated depreciation and impairment	(422,040)	(651,411)	(56,906)	(156)	(1,130,513)
Net book value	605,013	443,705	19,341	105,627	1,173,686

When capital projects are completed the carrying value is transferred out of construction in progress and treated as an addition in the respective asset category.

Changes in estimates

In 2007 based on the requirements of IAS 16 the Group has performed an annual revision of useful lives of property, plant and equipment and intangibles, resulting in an increase of HUF 2.084 million in the consolidated profits, net of deferred tax.

Impairment, net of reversal

Impairment expenses of HUF 5,462 million and HUF 6,814 million were recorded with respect to maturing and suspended oil and gas producing fields in 2007 and 2006 respectively. In 2007, additional impairment expenses of HUF 995 million related to the closure of certain facilities of the Tiszaújváros petrochemical plant and the Slovnaft refinery were incurred. In addition, in 2006 certain filling stations to be decommissioned or with below-average throughput in Hungary, Slovakia and Romania were impaired, with a value of HUF 1,794 million. Other, individually non-material impairment loss of HUF 1,422 million and HUF 89 million have been recognized in 2007 and 2006, respectively, net of reversal of impairment.

Leased assets

Property, plant and equipment includes machinery acquired under finance leases:

	2007 HUF million	2006 HUF million
Cost	5,441	1,053
Accumulated depreciation	(1,152)	(485)
Net book value	4,289	568

Borrowing Costs

Property, plant and equipment include borrowing costs incurred in connection with the construction of certain assets. Additions to the gross book value of property, plant and equipment include borrowing costs of HUF 1,551 million and HUF 2,081 million in 2007 and 2006, respectively. In 2007 and 2006 the applicable capitalisation rates were 2.6% and 4.1%, respectively.

Pledged Assets

Assets with an aggregate net book value of HUF 113,126 million have been pledged at the Group of which HUF 14,302 million as collateral for loans utilized by TVK-Erőmű Kft. and Tisza WTP Kft. as of 31 December 2007, HUF 1,657 million at Slovnaft a.s., HUF 1,606 million at Rossi Biofuel Zrt. and HUF 95,405 million at IES S.p.A. (the latter two entities have been acquired in 2007). Value of pledged assets was HUF 15,145 million as of 31 December 2006.

5 Consolidated companies

Company name	Country (Incorporation / Branch)	Range of activity	Ownership 2007	Ownership 2006
Exploration and Production				
BHM OIL-Invest Ltd.	Cyprus	Exploration investment management	100%	100%
Surgut Trading Ltd.	Russia	Trade of crude oil	50%	50%
Geoinform Kft.	Hungary	Hydrocarbon exploration	100%	100%
GES Kft.	Hungary	Geophysical surveying and data processing	100%	100%
Greentrade Ltd.	Cyprus	Exploration investment management	100%	100%
Matjushkinskaya Vertical LLC	Russia	Exploration and production activity	100%	-
Hawasina GmbH	Switzerland / Oman	Exploration and production activity	100%	100%
Kalegran Ltd.	Cyprus	Exploration investment management	100%	-
Lamorak Enterprises Ltd. (former: MOL Tunisia Ltd.)	Cyprus / Tunisia	Exploration and production activity	100%	100%
MOL Caspian Ltd.	Cyprus	Exploration investment management	100%	100%
Ural Group Ltd. (joint venture)	British Virgin Island	Exploration and production activity	28%	28%
Ural Oil Group Ltd. (joint venture)	Kazakhstan	Exploration and production activity	28%	28%
MOL CIS Ltd.	Cyprus	Exploration investment management	100%	100%
ZMB Ltd. (joint venture)	Russia	Exploration and production activity	50%	50%
MOL Pakistan Ltd.	Netherlands / Pakistan	Exploration and production activity	100%	100%
MOL Syria Ltd.	Netherlands / Syria	Exploration and production activity	100%	100%
MOL Yemen Ltd.	Cyprus / Yemen	Exploration and production activity	100%	100%
RUSI Ltd.	Cyprus	Exploration financing	100%	100%
SHM Seven Ltd. (former MOL Greece Ltd.)	Cyprus	Exploration investment management	100%	100%
MOL Western Siberia Ltd. (former NWOG-MOL Ltd.)	Russia	Exploration and production activity	100%	100%
UBA Services Ltd.	Cyprus / Russia	Exploration investment management	100%	100%
USI Ltd.	Cyprus	Exploration investment management	100%	100%
BaiTex LLC	Russia	Exploration and production activity	100%	100%

Natural Gas				
MOL Energiakereskedő Kft.	Hungary	Natural gas trading	100%	-
MOL Földgázellátó Zrt.	Hungary	Natural gas supply and trading	-	a)
MOL Földgázszállító Zrt. (renamed to Földgázszállító Zrt. from January 1, 2008)	Hungary	Natural gas transmission	100%	100%
MOL Földgáztároló Zrt.	Hungary	Natural gas storage	-	a)
MMBF Zrt.	Hungary	Strategic natural gas storage	66%	-

Company name	Country (Incorporation / Branch)	Range of activity	Ownership 2007	Ownership 2006
Refining and Marketing				
Energopetrol d.d. Sarajevo (joint venture)	Bosnia- Hercegovina	Retail trade	34%	-
IES SpA	Italy	Refinery and marketing of oil products	100%	-
Enersol S.c.r.l. (under liquidation)	Italy	Marketing of oil products	81%	-
Nelsa S.r.l.	Italy	Marketing of oil products	74%	-
Panta Distribuzione S.r.l.	Italy	Marketing of oil products	100%	-
Recon S.r.l.	Italy	Marketing of oil products	100%	-
Intermol d.o.o.	Serbia	Retail trade of fuels and lubricants	100%	100%
MK Mineralkontor GmbH	Germany	Trade of oil products	100%	74%
MOL Austria GmbH	Austria	Wholesale trade of lubricants and oil products	100%	100%
MOL-LUB Kft.	Hungary	Production and trade of lubricants	100%	100%
MOL RoComert s.r.l.	Romania	Retail trade of fuels and lubricants	-	b)
MOL Romania PP s.r.l.	Romania	Retail and wholesale trade of fuels and lubricants	100%	100%
MOL Slovenija d.o.o.	Slovenia	Retail trade of fuels and lubricants	100%	100%
MOLTRADE-Mineralimpex Zrt.	Hungary	Importing and exporting energetical products	100%	100%
Moltrans Kft.	Hungary	Transportation services	100%	100%
M.P. Petroleum Distributie s.r.l.	Romania	Retail trade of fuels and lubricants	-	e)
Rossi Biofuel Zrt. (joint venture)	Hungary	Biofuel component production	25%	-
Roth Heizöle GmbH	Austria	Trading of oil products	75%	75%
Alpenkohle Mineralölhandels GmbH	Austria	Trading of oil products	75%	75%
Egon von Lenz GmbH	Austria	Trading of oil products	75%	75%
Heizöl Blitz Stadler GmbH (joint venture)	Austria	Trading of oil products	75%	75%
Rumpold Energie & Brennstoffhandels GmbH	Austria	Trading of oil products	75%	75%
SC Aviation Petroleum s.r.l.	Romania	Wholesale trade	-	e)
Slovnaft a.s.	Slovakia	Refinery and marketing of oil and petrochemical products	98%	98%
Apollo Oil Rohstoffhandels GmbH	Austria	Trading of crude oil	66%	66%
Apollo Rafinéria s.r.o.	Slovakia	Wholesale and retail trade	98%	98%
Meroco a.s. (joint venture)	Slovakia	Production of bio-diesel component (FAME)	25%	25%
MOL Slovensko spol s.r.o.	Slovakia	Wholesale and retail trade	98%	98%
Slovnaft Montáže a opravy a.s.	Slovakia	Repairs and maintenance	98%	98%
Slovnaft Polska S.A.	Poland	Wholesale and retail trade	98%	98%
Slovnaft Trans a.s.	Slovakia	Transportation services	98%	98%
Slovnaft Ukrajina s.r.o.	Ukraine	Wholesale trade	a)	88%
Ukrslovnaft	Ukraine	Retail trade	a)	83%
SWS s.r.o.	Slovakia	Transport support services	50%	50%

Company name	Country (Incorporation / Branch)	Range of activity	Ownership 2007	Ownership 2006
Zväz pre skladovanie zásob a.s.	Slovakia	Wholesale and retail trade, warehousing	98%	98%
Slovnaft VÚRUP a.s.	Slovakia	Research & development	98%	98%
Slovnaft Ceska Republika s.r.o.	Czech Republic	Wholesale and retail	100%	100%
Terméktároló Zrt.	Hungary	Oil product storage	74%	74%
Tifon d.o.o.	Croatia	Retail trade of fuels and lubricants	100%	-

Petrochemicals				
Slovnaft Petrochemicals s.r.o.	Slovakia	Petrochemical production and trading	98%	98%
TVK Nyrt.	Hungary	Petrochemical production and trading	95%	53%
Tisza-WTP Kft.	Hungary	Feed water and raw water supply	0%, d)	0%, d)
TVK-Erőmű Kft.	Hungary	Power plant	25%, d)	14%, d)
TVK France S.a.r.l. (former TVK-MOL-Chem S.a.r.l.)	France	Wholesale and retail trade	95%	53%
TVK Inter-Chemol GmbH	Germany	Wholesale and retail trade	95%	53%
TVK Italia Srl.	Italy	Wholesale and retail trade	95%	53%
TVK Polska Sp.Zoo.	Poland	Wholesale and retail trade	95%	53%
TVK UK Ltd.	England	Wholesale and retail trade	95%	53%
TVK Ukrajna tov.	Ukraine	Wholesale and retail trade	95%	53%

Corporate and other				
Balatongáz Kft.	Hungary	Gas-utility development and management	77%	77%
EMS Management Services Ltd.	Cyprus	Management services	100%	100%
Hermész Kft.	Hungary	Consultancy	100%	100%
Magnolia Finance Ltd.	Jersey	Financial services	0%, d)	0%, d)
MOL Reinsurance Ltd.	Cyprus	Captive insurance	100%	100%
MOL-RUSS Ooo.	Russia	Management services	100%	100%
Petrolszolg Kft.	Hungary	Maintenance services	100%	100%
Slovnaft Rekreacentrum a.s.	Slovakia	Operation of recreation facilities	-	a)
TVK Ingatlankezelő Kft.	Hungary	Real estate management	95%	53%

- a) Sold
b) Merged to MOL Romania PP s.r.l.
c) Liquidated
d) Consolidated as required by SIC-12 Consolidation - Special Purpose Entities
e) Demerged from MOL Romania PP s.r.l. and sold in 2006

6 Business combinations

Acquisitions in 2007

MMBF Zrt.

Pursuant to winning the tender for establishing a gas storage of 1.2 billion m³ strategic and 0.7 billion m³ commercial capacity, the Group acquired 62% ownership in MMBF Zrt. on 3 January 2007 (ownership has been increased to 66% in December 2007), the entity which had been originally established by the Hungarian Hydrocarbon Stockpiling Association (MSZKSZ) to perform the development of the storage facility. The planned facility will be developed from a producing gas field (Szőreg-1) owned by MOL. The development is expected to be completed by 2010. The Szőreg-1 field has 2.4 billion m³ gas reserve. In 2006 the production of the field exceeded 450 million m³ of natural gas and 32 thousand tons of crude oil. The planned investment fits well to MOL's strategy, the return on the investment is in line with MOL's targeted return.

Although the acquisition included a legal entity, the Group has accounted for it as an asset acquisition, considering the exclusive permission for strategic gas storage activity to be the primary asset of the entity.

The carrying and fair values of the assets and liabilities of MMBF Zrt. as of 1 January 2007 were as follows:

	Fair values HUF million	Carrying values HUF million
Intangible assets	2,380	-
Property, plant and equipment	17	17
Other current assets	11	11
Cash and cash equivalents	904	904
Minority interest	(289)	-
Trade and other payables	(23)	(23)
Fair value of net assets	3,000	

Fair values exceeding carrying amounts of intangible assets represent the right for the exclusive strategic gas storage permission granted for 30 years. Consideration relating to the acquisition consisted of the following:

	HUF million
Cost of the acquisition	3,000
Total consideration	3,000

The net cash outflow in respect of the acquisition consisted of the following:

	HUF million
Net cash acquired with the project	904
Cash paid	(3,000)
Net cash outflow	(2,096)

TVK Group

On 27 and 28 February 2007 the Group purchased TVK shares representing 42.25% of TVK's share capital. Following the transaction the influence of MOL in TVK increased to 86.79%, while the influence of Slovnaft remained unchanged at 8.06%. The direct and indirect influence of MOL in TVK thus increased to 94.85%. MOL is not obliged to make a public offering for the remaining shares of TVK. The consideration paid for the minority ownership, including associated transaction costs was HUF 50,150 million. The HUF 14,351 million excess of carrying value of minority interest acquired (HUF 64,501 million) over the consideration has been recorded as other income, see Note 24.

MOL Energiakereskedő Kft.

Hungarian Court of Registry registered MOL Energiakereskedő Kft. (MOL Energy Trading Ltd.), a 100% owned subsidiary of MOL Nyrt. as of 24 April 2007. The registration is based on the gas trading license issued by the Hungarian Energy Office (MEH) for MOL Energy Trading Ltd. as of 21 April 2007. MOL Energy Trading Ltd. aims to commence gas trading activity on the liberalised natural gas market. MOL Energy Trading Ltd. predominantly undertakes the sales of natural gas quantities produced by MOL Nyrt. and natural gas purchase of the MOL Group. In addition, it aims to benefit from the business opportunities emerging from the widening liberalised gas market in the region.

Matjushkinskaya Vertikal LLC

MOL (through its 100%-owned subsidiary, Greentrade Ltd.) purchased 100% of Matjushkinskaya Vertikal LLC in Russia from Russian private individuals. After the receipt of the approval of the Federal Antimonopoly Service of Russia, the transaction was closed on April 24, 2007.

Matjushkinskaya Vertikal LLC owns the license to the subsoil under the Matjushkinskiy block in the Tomsk region of Western Siberia, one of Russia's main oil producing provinces. The block covers 3,231 km² (fifteen times bigger than the area of ZMB and ten times bigger than the Surgut-7 block), the infrastructural provision of the area is good, the block is close to the main Transneft pipeline. Beyond the small proven and probable reserves and current production (6 million barrels of proven and probable reserves, while the average daily production was 600 barrels in 2007), the asset has significant exploration potential. The exploration license is valid until 2010 with a work program commitment of 50 km 2D seismic acquisition and drilling of three exploration wells, while the production license expires in 2029.

Determination of the fair value of assets and liabilities have not yet been fully completed, therefore these values are provisional. No material changes are expected. The carrying and provisional fair values of the assets and liabilities of Matjushkinskaya Vertikal LLC as of 30 April 2007 were as follows:

	Provisional fair values HUF million	Carrying values HUF million
Intangible assets	11,402	256
Property, plant and equipment	4,685	4,238
Inventories	84	84
Trade receivables	8	8
Other current assets	909	909
Cash and cash equivalents	9	9
Provision for liabilities and charges	(6)	(6)
Deferred tax liabilities	(2,782)	-
Trade and other payables	(3,685)	(3,685)
Short-term debt	(1,682)	(1,682)
Provisional fair value of net assets	8,942	

Provisional fair values exceeding carrying amounts of intangible assets and property, plant and equipment represent exploration licence, unproved reserves and proved developed reserves acquired, respectively. Consideration relating to the acquisition consisted of the following:

	HUF million
Cost of the acquisition	8,942
Total consideration	8,942

The net cash outflow in respect of the acquisition consisted of the following:

	HUF million
Net cash acquired with the project	9
Cash paid	(8,942)
Net cash outflow	(8,933)

If the combination had taken place at the beginning of the year, the impact of the acquisition on the net income and revenues of the Group would not have been significant, as the operating activities of Matjushkinskaya Vertikal LLC have been immaterial throughout the period from January 1, 2007 to April 30, 2007.

Italiana Energia e Servizi

On 30 July 2007 MOL signed an agreement to purchase 100% of Italiana Energia e Servizi (IES) after winning a 6-month long competitive auction process. The closing of the transaction was subject to anti-monopoly approval and took place on 15 November 2007. The exact purchase price has been calculated based on a balance sheet prepared as of closing and is subject to several resulting adjustment items.

IES is an Italian refining and marketing company, which owns the 2.6 mtpa Mantova refinery with a favourable location in the middle of the industrialized North-Italian region. The refinery processes heavy crude oil supplied via a 124 km long pipeline owned by IES from the Marghera Port, it has a Nelson Complexity Index of 8.36 and had a utilization rate of 96% in 2006. The company markets 2.5 mt of petroleum products mainly in North-Eastern Italy. As of 31

December 2007 IES Group had 176 retail stations (of which 30 are company owned) located mainly in the supply radius of the refinery. The refinery's production provides a good basis for further retail expansion in the region to enhance downstream integration and increase profitability along the supply chain. The products meet the current EU standards of 10 ppm gasoline and 50 ppm diesel. Investments to comply with 2009 product specifications (10ppm diesel) are currently underway.

Determination of the fair value of assets and liabilities have not yet been fully completed, therefore these values are provisional. No material changes are expected. The carrying and fair values of the assets and liabilities of IES and its subsidiaries as of 15 November 2007 were as follows:

	Provisional fair values HUF million	Carrying values HUF million
Intangible assets	8,936	640
Property, plant and equipment	105,797	52,351
Investments in associated companies	7,338	3,654
Deferred tax assets	717	717
Other non-current assets	2,421	2,421
Inventories	46,976	45,084
Trade receivables	91,961	91,961
Securities	779	779
Other current assets	2,983	1,771
Cash and cash equivalents	3,697	3,697
Minority interests	(398)	(398)
Long-term debt, net of current portion	(16,655)	(16,655)
Provision for liabilities and charges	(5,310)	(2,764)
Deferred tax liabilities	(33,580)	(12,822)
Other non-current liabilities	(199)	(199)
Trade and other payables	(73,107)	(73,107)
Short-term debt	(48,188)	(48,188)
Current portion of long-term debt	(4,659)	(4,659)
Provisional fair value of net assets	89,509	
Goodwill arising on acquisition	32,128	
Total consideration	121,637	

Goodwill acquired on the business combination represents further optimization opportunities in wholesale and retail supply chain management and MOL's contribution of technology know-how, as well as IES's market share and growth potential on mainly the wholesale markets of Northern Italy.

Consideration relating to the acquisition consisted of the following:

	HUF million
Cash consideration (including transaction costs)	118,843
Purchase price difference payable (see Note 21)	2,794
Total consideration	121,637

The net cash outflow in respect of the acquisition consisted of the following:

	HUF million
Net cash acquired with the project	3,697
Cash paid	(118,843)
Net cash outflow	(115,146)

If the combination had taken place at the beginning of the year, the impact of the acquisition on the net income and revenues of the Group would have been HUF 3,348 million and HUF 505,084 million approximately.

Tifon d.o.o.

On 2 August 2007 MOL signed an agreement to purchase 100% of Tifon, a fuel retail and wholesale company in Croatia. Tifon, a respected fuel retailer, currently owns and operates 35 well positioned fuel stations all over Croatia. In addition, the company has more than 20 premium site development projects under implementation, expected to be finished within the next two years. The average throughput per station exceeds 4.2 mlpa and the retail market share of Tifon is approximately 7% at the end of 2007. On 31 October 2007, subsequent to anti-monopoly approval the acquisition process was closed. The final purchase price has been calculated based on a balance sheet prepared as of closing and is subject to several resulting adjustment items. The company is fully consolidated from the same date in the financial statements of the Group.

Determination of the fair value of assets and liabilities have not yet been fully completed, therefore these values are provisional. No material changes are expected. The carrying and provisional fair values of the assets and liabilities of Tifon d.o.o. as of 31 October 2007 were as follows:

	Provisional fair values HUF million	Carrying values HUF million
Intangible assets	4,518	93
Property, plant and equipment	18,488	18,842
Other non-current assets	155	155
Inventories	2,651	2,651
Trade receivables	2,243	2,243
Other current assets	837	837
Cash and cash equivalents	1,188	1,188
Long-term debt, net of current portion	(13,510)	(13,510)
Provision for liabilities and charges	(245)	(245)
Deferred tax liabilities	(1,409)	(595)
Trade and other payables	(5,873)	(5,873)
Short-term debt	(5,559)	(5,559)
Provisional fair value of net assets	3,484	
Goodwill arising on acquisition	13,466	
Total consideration	16,950	

Consideration relating to the acquisition consisted of the following:

	HUF million
Cash consideration	13,083
Purchase price difference payable (see Note 21)	3,867
Total consideration	16,950

The net cash outflow in respect of the acquisition consisted of the following:

	HUF million
Net cash acquired with the project	1,188
Cash paid	(13,083)
Net cash outflow	(11,895)

Acquisitions in 2006

BaiTex LLC

On 28 December 2006, MOL (through its 100%-owned subsidiary, USI Ltd.) acquired 100% ownership interest in BaiTex LLC, Russia from VF-NEFT Development LLC and RusOil LLC, two Texas-based independent oil companies. BaiTex LLC owns the License to the subsoil under the Baituganskoye oil producing field in the Volga-Ural region, one of Russia's main oil producing provinces. The infrastructural provision of the area is good, the field has direct pipeline connection to the main Transneft pipeline system and significant refining capacities are also available by rail or truck.

Surgut-7 project

On 31 October 2006, MOL's Cypriot subsidiary, SHM Seven Ltd. acquired 100% ownership interest in the NWOG-MOL project company. The exploration licence of the Surgut-7 block is the sole property of NWOG-MOL. The Surgut-7 block is located in the central part of Western-Siberia, approximately 10 km to the south-east from the area of the ZMB oilfield. The infrastructural provision of the area is good, the main pipeline passes at 8 km from the border of the block. The surface facilities of the ZMB field may provide synergy in case of a discovery. During 2007 management approved an accelerated exploration work program which contains the details of the 2D seismic as well as the first exploration well to be performed in first quarter of 2008.

Fair value adjustments of assets and liabilities of both business combinations were determined provisionally as at 31 December 2006. During 2007 the valuations have been finalized. In case of Baitex, it resulted in a change primarily in allocating the consideration between the reserve categories (probable, proved undeveloped and proved developed). The 2006 comparative information has been restated to reflect this adjustment. The value of intangible assets decreased by HUF 3,587 million, property, plant and equipment increased by HUF 4,274 million, while deferred tax liabilities increased by HUF 165 million. There was no adjustment to profit or loss.

There was no change in the fair values of the assets and liabilities of NWOG-MOL, compared to the values recorded in 2006.

The carrying and final fair values of the assets and liabilities of BaiTex LLC and NWOG-MOL LLC as of December 31, 2006 and November 30, 2006 respectively were as follows:

	Fair values			Carrying values		
	BaiTex LLC	NWOG-MOL LLC	Total	BaiTex LLC	NWOG-MOL LLC	Total
	HUF million	HUF million	HUF million	HUF million	HUF million	HUF million
Intangible assets	39,691	3,988	43,679	-	2,123	2,123
Property, plant and equipment	15,968	2	15,970	794	2	796
Other non-current assets	66	-	66	66	-	66
Inventories	149	-	149	149	-	149
Trade receivables	544	-	544	544	-	544
Other current assets	321	41	362	321	41	362
Cash and cash equivalents	95	10	105	95	10	105
Provision for liabilities and charges	(323)	-	(323)	(323)	-	(323)
Deferred tax liabilities	(13,176)	(448)	(13,624)	(8)	-	(8)
Trade and other payables	(234)	(46)	(280)	(234)	(46)	(280)
Fair value of net assets	43,101	3,547	46,648			
Financing provided before acquisition	-	2,569	2,569			
Cost of the acquisition paid in 2006	41,589	978	42,567			
Cost of the acquisition paid in 2007	1,512	-	1,512			
Total consideration	43,101	3,547	46,648			

In case of BaiTex LLC fair values exceeding carrying amounts of intangible assets and property, plant and equipment represent probable, proved undeveloped and proved developed reserves acquired, respectively.

7 Disposals

Gas business sales

MOL and E.ON Ruhrgas International AG (ERI) signed an agreement in November 2004 on the sale of a 75% stake less one share in MOL Földgázellátó Zrt. (wholesale, marketing and trading, “WMT”) and in MOL Földgáztároló Zrt. (“Storage”) and 50% stake in Panrusgáz Magyar-Orosz Gázipari Zrt. (“Panrusgáz”). The Panrusgáz sale required the consent of the other Panrusgáz shareholders.

On 12 January 2006, following the approval of the European Commission, MOL and ERI agreed, that the closing of the partial sale of MOL’s midstream gas business would take place on 31 March 2006. Considering also the requirement set by the European Commission to fully divest WMT and Storage, MOL decided to sell 100% stake in WMT and Storage to ERI. The sale of

the additional 25% plus one share stakes had been approved by the Hungarian Energy Office. Due to the requirements set by the European Commission and changes in the industrial and regulatory environment, the parties have modified the original sale and purchase agreement.

The sale was closed on 31 March 2006. The estimated EUR-denominated purchase prices and the payment of loans given by MOL to Storage (the latter being HUF 147,400 million as at the closing date) were paid by ERI at closing based on the forecasted accounts of WMT and Storage as at 31 March 2006. The final purchase prices were dependent on the actual levels of debt and working capital on the date of the closing. In case of WMT the final purchase price was further subject to a number of price adjustment considerations. With respect to these adjustments HUF 39,464 million from the consideration received – being the maximum amount of all future financial exposures of MOL regarding this transaction - was accrued at closing. The payment of these price adjustments take place semi-annually until the end of 2009 (see below).

The purchase price difference on sale of WMT (HUF 11,212 million) and a part of the previously accrued subsequent price adjustment (HUF 12,888 million) were paid by MOL in 2007. Upon cash payment a HUF 105 million foreign exchange gain has been realized.

A difference of HUF 812 million between the estimated and final consideration of Storage was repaid by MOL in 2006. Upon cash payment a HUF 29 million foreign exchange loss has been recognized. The effect of finalization of purchase price based on the difference between the actual and forecast financial position of WMT has been recorded in 2006 but the cash payment has been made in 2007. The amount of the liability derived from the difference between the estimated and final purchase price of WMT was HUF 11,852 million at closing and HUF 11,261 million (see Note 21) as of 31 December 2006.

The total gain on the gas business sale transaction, net of accrued considerations was HUF 82,636 million.

In 2007, additional subsequent purchase price adjustments of HUF 44,268 million were recognized as other income (see Note 24). The subsequent settlement was applied pursuant to the risk allocation mechanism set up in the share purchase agreement in 2006. Based on this mechanism, in case WMT has operating losses during the period from 30 June 2006 to 31 December 2009 (calculated for semi-annual periods) MOL is required to reimburse a portion of the loss to E.ON, while in case of operating profit MOL is entitled to a portion thereof.

The amounts of subsequent settlements potentially payable by MOL in future periods is not dependent on such settlements received in earlier periods and its aggregate amount is capped at HUF 25 billion for the whole period. This aggregate amount has been accrued at the time the results of the gas business sale have been recorded in 2006, as discussed above. The accrual has not been released based on the estimates of the Group for future periods (see Note 21).

Carrying amount of disposed assets and liabilities of WMT and Storage as of 31 March 2006 and analysis of net cash inflow on sales of the subsidiaries is the following:

	HUF million
Intangible assets	3
Property, plant and equipment	119,725
Deferred tax assets	10,460
Other non-current assets	3
Inventories	15,900
Trade receivables	86,031
Other current assets	17,215
Cash and cash equivalents	13,408
Total assets	262,745
Trade and other payables	(119,870)
Provisions	(562)
Total liabilities	(120,432)
Net assets sold	142,313
Net gain realized on disposal (see Note 36)	82,636
Accrued consideration of WMT	39,464
Purchase price difference on sale of WMT payable to ERI	11,852
Realized foreign exchange loss on settlement of price adjustment related to Storage	(29)
Cash consideration including repayment of inter-company loan	276,236

The analysis of net cash inflow on sale of WMT and Storage:

Net cash disposed of during the sale	(13,408)
Cash consideration	276,236
Net cash inflow	262,828

Other disposals in 2007

Slovnaft Ukrajina and Ukrsllovnaft divestment

As at 29 August 2007 the Company signed a sale agreement with Wigro Trade Ukrajina on the sale of its 88% and 83% ownership interest in Slovnaft Ukrajina, s.r.o. and Ukrsllovnaft, s.r.o., respectively. Net book value of assets of the sold investments amounted to zero and therefore proceeds from sale of HUF 54 million equals to profit on sale from these transactions.

Other disposals in 2006

Retail portfolio optimization in Romania

MOL sold 30 retail stations in Romania including the sale of MP Petroleum and MOL's Romanian Aviation business.

Divestment of recreation facilities operator

As at 10 February 2006 MOL Group sold 100% of its interest in Rekreacentrum a.s., a recreation facility operator subsidiary of Slovnaft.

The carrying amounts of assets and liabilities of SC Aviation Petroleum s.r.l., M.P. Petroleum Distributie s.r.l. and Rekreacentrum a.s. derecognized as of 31 October 2006 and 28 February 2006 respectively were as follows:

	SC Aviation Petroleum s.r.l. and M.P. Petroleum Distributie s.r.l. HUF million	Rekreacentrum a.s. HUF million
Intangible assets	1	-
Property, plant and equipment	6,002	440
Other non-current assets	-	-
Inventories	606	13
Trade receivables	232	20
Other current assets	1,547	-
Cash and cash equivalents	1,015	6
Total assets	9,403	479
Trade and other payables	(569)	(82)
Provision	(32)	(7)
Other non-current liabilities	(1,884)	-
Translation reserves	(670)	-
Total liabilities	(3,155)	(89)
Net assets sold	6,248	390
Net gain realised on disposal	3,612	68
Cash consideration	9,860	458
Analysis of net cash inflow on the disposals		
Net cash disposed during the sale	(1,015)	(6)
Cash consideration	9,860	458
Net cash inflow	8,845	452

8 Joint ventures

Joint ventures in 2007

Energopetrol

In March 2007 MOL and INA consortium became 67% owner of Energopetrol through capital increase based on the contract with the government of Bosnia-Herzegovina. The Consortium subscribed for Energopetrol's newly issued shares in an aggregate amount of KM 60 million (EUR 30.7 million). The capital increase mainly used as a resource to repay Energopetrol's debts. MOL-INA Consortium holds 67%, the Federation government keeps 22% while small shareholders hold the rest of the shares.

MOL-INA Consortium transferred KM 10 million (EUR 5.1 million) to the Government of BiH as a consideration of acquiring control over the Company. MOL-INA Consortium will provide resources of KM 150 million (EUR 76.7 million) to Energopetrol in order to finance its investment program in the next three years. The closing of the transaction was subject to several conditions, including the approval of the Competition Office of Bosnia-Herzegovina.

Energopetrol owns and operates 64 filling stations in Bosnia-Herzegovina. MOL and INA are already present in the country's growing wholesale and retail market. The joint operation will result in clear retail leadership in Bosnia-Herzegovina and provides significant synergies in longer term.

MOL's share (33.5%) from the carrying and fair values of the assets and liabilities of Energopetrol as of 31 March 2007 was as follows:

	Fair values HUF million	Carrying values HUF million
Property, plant and equipment	2,034	978
Inventories	157	207
Trade receivables	213	227
Other current assets	13	19
Cash and cash equivalents	2,611	2,611
Provision for liabilities and charges	(395)	(67)
Trade and other payables	(1,592)	(1,592)
Short-term debt	(780)	(780)
Fair value of net assets	2,261	
Goodwill arising on acquisition	2,312	
Total consideration	4,573	

	HUF million
Cost of the acquisition	4,573
Total consideration	4,573

The net cash outflow in respect of the acquisition consisted of the following:

	HUF million
Net cash acquired with the project	2,611
Cash paid	(4,573)
Net cash outflow	(1,962)

Rossi Biofuel Ltd.

In order to ensure the supply of the biodiesel component (fatty-acid-methyl-ester, FAME), MOL acquired 25% plus one share in Rossi Biofuel Ltd. from Rossi Beteiligungs Ltd. on 30 April 2007 via a capital increase issued at nominal value. In addition, MOL has a call option to acquire a further 24% shareholding in Rossi Biofuel Ltd. The entity was to construct a biodiesel component production plant with a nominal capacity of 150 kt per year at a MOL site in Komárom. The test

period operation of the plant has started in late 2007. As MOL and the majority shareholder agreed to exercise joint control over the activities of Rossi Biofuel Ltd., the entity is treated as a joint venture and consolidated proportionally.

There was no material difference between the carrying and fair values of the assets and liabilities acquired. The fair values of the 25% of the assets and liabilities of Rossi Biofuel Ltd. as of 30 April 2007 were as follows:

	Fair / carrying values HUF million
Property, plant and equipment	98
Other non-current assets	283
Other current assets	33
Cash and cash equivalents	359
Long-term debt	(112)
Trade and other payables	(37)
Short-term debt	(274)
Fair value of net assets	350

	HUF million
Cost of the acquisition	350
Total consideration	350

The net cash inflow in respect of the acquisition consisted of the following:

	HUF million
Net cash acquired with the project	359
Cash paid	(350)
Net cash inflow	9

Joint ventures in 2006

Joint venture for bio-diesel component production

In August 2006 the Group entered into a Term sheet for future Co-operation Agreement with the company ENVIEN a.s. the only shareholder of a dormant company Meroco a.s. The Group and ENVIEN a.s. agreed the conversion of the Meroco a.s. into a Joint Venture and the operation of the Joint Venture for the production of fatty-acid-methyl-ester (FAME), a component of bio-diesel. As at 11 October 2006 the Group acquired 25%+1 share ownership interest in Meroco a.s. via a share capital increase of HUF 303 million (of which HUF 94 million were paid in 2006) and concluded a share purchase option to acquire an additional 24% stake in the joint venture in the year 2008. The fair value of identifiable assets, liabilities and contingent liabilities of the Meroco a.s. were immaterial as at the date of acquisition and did not differ materially from their book values.

The group's share of the assets, liabilities, revenue and expenses of the joint ventures

The group's share of the assets, liabilities, revenue and expenses of the joint ventures, which are included in the consolidated financial statements, are as follows at 31 December 2007 and 2006 and for the years then ended:

	2007			2006		
	ZMB	Other	Total	ZMB	Other	Total
	HUF million	HUF million	HUF million	HUF million	HUF million	HUF million
Current assets	13,123	2,087	15,210	9,595	967	10,562
Non-current assets	20,826	4,550	25,376	22,447	1,516	23,963
	33,949	6,637	40,586	32,042	2,483	34,525
Current liabilities	3,474	1,587	5,061	3,773	345	4,118
Non-current liabilities	1,985	2,580	4,565	1,795	132	1,927
	5,459	4,167	9,626	5,568	477	6,045
Net assets	28,490	2,470	30,960	26,474	2,006	28,480
Net sales	78,321	440	78,761	81,437	202	81,639
Cost of sales	(14,507)	(781)	(15,288)	(12,621)	(1,616)	(14,237)
Other expenses	(46,290)	(369)	(46,659)	(50,055)	(410)	(50,465)
Financial (expense) / income, net	32	(37)	(5)	59	(11)	48
Profit before income tax	17,556	(747)	16,809	18,820	(1,835)	16,985
Income tax expense	(4,884)	-	(4,884)	(7,218)	(20)	(7,238)
Net profit / (loss)	12,672	(747)	11,925	11,602	(1,855)	9,747

9 Investments in associated companies

			Ownership	Ownership	Net book value of investment	Net book value of investment
			2007	2006	2007	2006
INA Group	Croatia	Integrated oil and gas company	25%	25%	135,995	130,142
Greengas S.r.l.	Italy	Hydrogen production	49%	-	4,053	-
Mazzola & Bignardi S.r.l.	Italy	Marketing of oil products	50%	-	1,419	-
Mazzola & Bignardi Commerciale S.r.l.	Italy	Marketing of oil products	40%	-	940	-
Messer Sloznaft s.r.o	Slovakia	Production of technical gases	48%	48%	889	680
Batec S.r.l.	Italy	Bitumen production	50%	-	606	-
Other associated companies					852	747
Total					144,754	131,569

INA Group

The Group's interest (25%) in INA Group was as follows:

	2007 HUF million	2006 HUF million
Share of the associate's balance sheet:		
Non-current assets	165,068	150,297
Current assets	68,460	60,447
Non-current liabilities	(41,323)	(24,249)
Current liabilities	(56,210)	(56,353)
Net assets	135,995	130,142
Share of the associate's income statement:		
Total operating revenue	226,613	216,749
Net income attributable to equity-holders	5,116	4,356
Carrying amount of the investment	135,995	130,142

The figures representing the Group's interest in INA Group above has been prepared in accordance with IFRS, using accounting policies which conform to those used by the Group for like transactions and events in similar circumstances.

In December, 2006 through a public offering of 1,500,000 shares of INA (with an over-allotment option of a further 200,000 shares), the company was admitted to the Zagreb Stock Exchange and (in the form of GDRs) to the London Stock Exchange. Based on the 31 December 2007 share price quotations, the fair value of the Group's 25% investment in the company is HUF 240,850 million.

Sale of Panrusgáz in 2006

The sale of the 50% stake of Panrusgáz Zrt. to E.ON Ruhrgas International was closed on 31 October 2006. Estimated purchase price was paid by E.ON at closing based on the forecast 31 October 2006 balance sheet of Panrusgáz. The final purchase price was determined based on the actual level of debt and working capital on the date of the closing. The difference between the estimated and final purchase price is not significant and was settled in 2007. MOL realized HUF 98 million gain on the transaction in addition to Panrusgáz contribution to the net profit of the Group HUF 666 million until its divestiture.

10 Available-for-sale investments

	Net book value of investment 2007 HUF million	Net book value of investment 2006 HUF million
Budapesti Értéktőzsde Zrt.	431	-
Alföldi Koncessziós Autópálya Holding Zrt.	360	360
Agip Hungária Zrt.	58	58
Apollo zdravotná poisťovna a.s.	a)	740
Danuoil	55	55
Other ordinary shares – unquoted	458	384
Total	1,362	1,597

a) Sold in 2007

Available-for-sale investments mainly consist of unquoted equity instruments held in certain non-core entities for which determination of fair value is not practicable at this stage. These investments are carried at cost less accumulated impairment losses.

Apollo zdravotná poisťovna a.s.

A Slovak health insurance company (51% ownership) was not consolidated in the previous years due to strong regulations over the health care sector in the Slovak Republic which prevented the Company from exercising the control. Since no financial benefit was expected from the investment its carrying value was fully impaired. During 2005 following the changes in the legislation it was transformed into a joint stock company. Before the transformation in June 2005 the Company had entered into an agreement of future sale of the shares of the transformed entity. The Company has also entered into call and put options with the same strike price related to all the shares of the transformed entity. As a result of this contractual arrangement the Company did not possess control over the entity and it was excluded from the consolidation. In December 2006 the Company entered into a share sale agreement. The sale transaction became legally valid after Antimonopoly Office approval in May 2007.

The selling price set in the agreement was used as the fair value for the revaluation of the shares in the accompanying financial statements as at 31 December 2006. Net profit from the sale transaction of HUF 751 million is included in financial revenues.

11 Other non-current assets

	2007 HUF million	2006 HUF million
Prepaid mining royalty	15,454	17,635
Advance payments for assets under construction	7,116	1,155
Net receivable from currency risk hedging derivatives (see Note 30 and 31)	6,088	6,013
Loans given	1,855	1,827
Long-term receivables from operating agreements	1,400	-
Prepaid fees of long-term rental agreements	336	-
Zero-coupon treasury notes held to maturity	318	306
Total	32,567	26,936

Mining royalty of HUF 20,000 million in 2005 was prepaid for fixing the level of mining royalty payable in the future and for the extension of exploration rights at certain Hungarian upstream concessions. The prepayment is amortized to the income statement beginning from January 2006 based on the expected production level of the fields until 2020.

12 Inventories

	2007		2006	
	2007 At cost	Lower of cost or net realisable value	2006 At cost	Lower of cost or net realisable value
	HUF million	HUF million	HUF million	HUF million
Purchased natural gas	233	233	-	-
Work in progress and finished goods	192,540	192,158	120,934	120,641
Other raw materials	34,034	33,142	22,908	22,022
Purchased crude oil	67,139	67,139	22,415	22,415
Other goods for resale	25,932	25,932	16,085	15,952
Total	319,878	318,604	182,342	181,030

Due to the national legislation, Slovnaft Polska, a Polish subsidiary is required to maintain a certain level of obligatory stocks of fuel. This level is determined from the volumes imported during the preceding calendar year and was an equivalent of HUF 16,121 million and HUF 11,517 million at 31 December 2007 and 2006, respectively.

In case of IES, the Italian refining and marketing subsidiary it is required to maintain a certain level of obligatory stocks of crude oil and oil products. The value of these stocks represents an amount of HUF 51,177 million at 31 December 2007.

13 Trade receivables, net

	2007 HUF million	2006 HUF million
Trade receivables	369,154	239,853
Provision for doubtful receivables	(15,598)	(9,867)
Total	353,556	229,986

Trade receivables are non-interest bearing and are generally on 30 days' terms.

Movements in the provision for doubtful receivables were as follows:

	2007 HUF million	2006 HUF million
At 1 January	9,867	9,458
Additions	7,559	2,704
Reversal	(1,518)	(1,731)
Amounts written off	(102)	(637)
Currency differences	(208)	73
At 31 December	15,598	9,867

As at 31 December 2007 and 2006 the analysis of trade receivables that were past due but not impaired is as follows:

	2007 HUF million	2006 HUF million
Neither past due nor impaired	321,629	210,847
Past due but not impaired	31,927	19,139
Within 90 days	26,948	17,540
91 - 180 days	1,370	1,000
Over 180 days	3,609	599
Total	353,556	229,986

14 Other current assets

	2007 HUF million	2006 HUF million
Prepaid and recoverable taxes and duties (excluding income taxes)	33,055	21,541
Purchase price adjustment of WMT (see Note 24)	27,691	-
Prepaid excise taxes	7,207	5,757
Advances to suppliers	3,889	2,930
Prepaid rent	2,832	2,134
Prepaid expenses and accrued income	1,741	2,793
Receivables from exploration partners	368	2,550
Interest receivable	361	1,028
Loans receivable	231	1,412
Advance payments for inventories	208	781
Receivables from employees	202	236
Other	4,612	2,566
Total	82,397	43,728

Analysis of loans receivable	2007 HUF million	2006 HUF million
Loans receivable	3,891	3,932
Provision for doubtful receivables	(3,660)	(2,520)
Total	231	1,412

Movements in the provision for doubtful loans receivable were as follows:

Analysis of loans receivable	2007 HUF million	2006 HUF million
At 1 January	2,520	570
Additions	1,145	1,955
Reversal	(5)	(5)
Amounts written off	-	-
Acquisition / (sale) of subsidiaries	-	-
Currency differences	-	-
At 31 December	3,660	2,520

15 Cash and cash equivalents

	2007 HUF million	2006 HUF million
Cash at bank – HUF	38,292	17,369
Cash at bank – EUR	37,131	15,756
Cash at bank – USD	18,113	6,878
Cash at bank – SKK	3,198	8,068
Cash at bank – CZK	7,487	3,957
Cash at bank – PLN	3,042	888
Cash at bank – other currencies	8,031	5,760
Short-term bank deposits – HUF	273	18,931
Short-term bank deposits – EUR	731	239,273
Short-term bank deposits – USD	256	69,917
Short-term bank deposits – SKK	10,315	9,445
Cash on hand – HUF	1,246	2,065
Cash on hand – other currencies	853	690
Cash equivalents	753	107
Total	129,721	399,104

In case of cash at bank (current accounts) and short-term bank deposits in different currencies the usual ranges of interest rates were the following:

	2007	2006
Current accounts		
EUR	3.3% - 3.5%	1.7% - 3.3%
USD	4.1% - 5.7%	3.8% - 5.0%
HUF	6.7% - 7.7%	5.3% - 7.7%
SKK	1.9% - 5.9%	1.5% - 5.8%
Short-term bank deposits		
EUR	2.7% - 4.7%	2.2% - 3.6%
USD	4.0% - 6.2%	2.5% - 5.4%
HUF	6.8% - 9.0%	5.0% - 9.0%
SKK	1.9% - 5.9%	1.6% - 5.9%

16 Share capital

As of 31 December 2007, the issued share capital is HUF 109,676 million, consisting of 109,674,923 series “A”, one series “B” and 578 series “C” shares. As of 31 December 2006, the issued share capital was HUF 109,330 million, consisting of 109,329,797 series “A”, one series “B” and 578 series “C” shares.

Outstanding share capital as of 31 December 2007 and 2006 is HUF 65,950 million and HUF 83,467 million, respectively.

Ordinary shares of the series “A” have a par value of HUF 1,000 and ordinary shares of the series “C” have a par value of HUF 1,001. Every “A” class share with a par value of HUF 1,000 each (i.e. one thousand forint) entitles the holder thereof to have one vote and every “C” class share with a par value of 1,001 each (i.e. one thousand one forint) entitles the holder to have one and one thousandth vote, with the following exceptions. Based on the Articles of Association, no shareholder or shareholder group may exercise more than 10% of the voting rights with the exception of the Hungarian State, the Hungarian State Holding Company (MNV Zrt., formerly ÁPV Zrt.), any of its legal successors, any entity exercising ownership rights on behalf of the Hungarian State, and the organization(s) acting at the Company’s request as depository or custodian for the Company’s shares or securities representing the Company’s shares.

Series “B” share is a voting preference share with a par value of HUF 1,000 that entitles the holder thereof to preferential rights as specified in the present Articles of Association. The “B” series share is owned by MNV Zrt., exercising ownership rights on behalf of the Hungarian State. The “B” series share entitles its holder to one vote in accordance with its nominal value.

The supporting vote of the holder of “B” series of share is required to adopt decisions in the following matters pursuant to Article 12.4. of the Articles of Association: decision on amending the articles regarding the data of B series share, the definition of voting rights and shareholder group, list of issues requiring supermajority at the general meeting as well as Article 12.4. itself.

Based on the authorization granted in the Articles of Association the Board of Directors is entitled to increase the share capital until 27 April 2010 in one or more instalments by not more than 15% of the share capital effective as of the date of the authorization through public issue or private placement of ordinary shares, and the total amount of such capital increase shall not exceed HUF 16,292,816,486. The Board of Directors is entitled to increase the share capital through private placement of new shares within the time and value limits set in this authorization exclusively for the purposes of implementation of its strategic goals through exchange of shares or as consideration for the acquisition of shares and/or assets of other companies.

Share capital increases

Based on the authorization granted in the Articles of Association the Board of Directors is entitled to conditionally increase the share capital until 1 September 2008 by not more than 2% of the share capital, i.e. HUF 2,164,548,000 through the private issuance of convertible bonds convertible into series (or to the supplanter of these series) of registered ordinary “A” shares for the purpose of the implementation of the Company’s long-term incentive scheme. On the basis of the aforementioned

authorizations until 31 December 2007 shares with a par value of HUF 1,448,106,000 and until 31 December 2006 shares with a par value of HUF 1,102,980,000 were issued.

Treasury share transactions

Capital structure optimization program

Understanding shareholders’ expectation for a solution for capital structure optimization, the Group decided to restart a share buy back program in June 2007. As part of this program, MOL signed an agreement to lend 19,690,362 shares held in treasury to OTP Bank Nyrt. and to a subsidiary of the state-owned Hungarian Development Bank Zrt. (MFB Invest Zrt.) This enabled the Group to purchase further treasury shares on the market.

Based on the authorisation of the Annual General Meeting held on 26 April 2007, the Company mandated ING Bank Zrt. and OTP Bank Nyrt., as investment service providers to purchase “A” series treasury shares on the stock exchange. On the next AGM (in April 2008) the Board of Directors intends ask for authorization of cancelling treasury shares and further share buybacks, depending on investment possibilities. However, the Board of Directors intends to maintain the flexibility to use treasury shares as an acquisition currency.

Within the framework of the capital structure optimization program, the Group has repurchased 17,861,856 shares from the market until 31 December 2007. Both repurchased shares and shares lent to third parties are continuing to be recorded as treasury shares as required by IAS 32 – Financial Instruments – Presentation.

Shares held by BNP Paribas

On 23 December 2005 MOL, the Slovnaft’s former owner, the Slovintegra-Slovbena (“SISB”) shareholder group, and BNP Paribas SA (“BNP”) signed an agreement whereby MOL has appointed BNP to exercise its call option on shares held by SISB, and BNP exercises its option to purchase 7,552,874 “A” series MOL shares from SISB. Following completion of the transaction, MOL received an American call option on 7,552,874 “A” series MOL shares from BNP, and BNP received a European put option on the same number of MOL shares from MOL. For both options the expiration date was 18 December 2006 and the exercise price was HUF 7,645 per share. The exercise price was based on option agreements concluded between MOL and SISB in November 2002.

Furthermore, BNP and MOL signed an agreement on 10 April 2006 regarding Series “A” Ordinary Shares of MOL previously held in treasury. According to this agreement, MOL sold 1,404,217 Series “A” Ordinary Shares of MOL to BNP in a stock exchange transaction at market price on the Budapest Stock Exchange. Simultaneously with the share purchase agreement, MOL and BNP entered into option agreements, pursuant to which upon the completion of the transaction MOL received an American call option on these shares from BNP and BNP received a European put option on the same number of MOL shares from MOL. For both options the expiration date was 18 December 2006 and the exercise price was equal to the original selling price.

After extending both option agreements at the end of 2006, BNP and MOL signed further agreements on 13 December 2007 regarding Series “A” Ordinary Shares of MOL held by BNP extending the option rights on MOL shares held by BNP until 18 June 2009. Following completion

of the transaction, MOL received an American call option on 8,957,091 “A” series MOL shares from BNP, and BNP received a European put option on the same number of MOL shares from MOL.

The exercise price for 7,552,874 shares (Tranche A) is USD 34.79 per share, while the exercise price for 1,404,217 shares (Tranche B) is USD 109.84 per share. The exercise prices were based on the original agreements signed on 23 December 2005 (Tranche A) and on 10 April 2006 (Tranche B).

Issuance of exchangeable capital securities

On 13 March 2006, MOL signed a share purchase agreement to sell 6,007,479 Series “A” Ordinary Shares of MOL held in treasury to Magnolia Finance Limited (“Magnolia”), incorporated in Jersey, which thereby acquired 5.58% influence in MOL.

Magnolia announced the sale of up to EUR 610 million of perpetual exchangeable capital securities (the “Capital Securities”), exchangeable into the Series “A” Ordinary Shares of MOL between March 20, 2011 and March 12, 2016 (“Exchange Period”), to international financial investors outside the United States, Canada, Jersey, Japan, Hungary and Poland. Capital Securities were sold at nominal value and with a fixed coupon payment of 4.00 % per annum for the first ten years, based on an exchange rate of HUF 26,670 per share.

MOL, concurrently with the sale of ordinary shares, entered into a swap agreement in principle with Magnolia that gave MOL a call option to buy back all or some of the Series “A” Ordinary Shares of MOL, in certain limited circumstances at a volume - weighted average price during a certain period before exercising the option right. Additionally, in case the Capital Securities holders did not or partially exercised their conversion right, upon expiration of the Exchange Period and quarterly afterwards for the Series “A” ordinary shares which have not been exchanged yet. In case Magnolia redeems the Capital Securities after 2016 and the market price of ordinary MOL shares is below EUR 101.54 per share, MOL will pay the difference.

MOL does not have any direct or indirect equity interest in or control rights over Magnolia, but consolidates Magnolia for IFRS purposes in line with the requirements of SIC 12 – Consolidation: Special Purpose Entities.

The issuance of Capital Securities by Magnolia resulted in an increase of equity attributable to minority interest of HUF 121,164 million, net of transaction costs. Holders of the capital securities of Magnolia received a total coupon payment of HUF 6,128 million and HUF 4,927 million in 2007 and 2006, respectively. The dividend for MOL shares held by Magnolia was also settled the amount of which was HUF 3,052 million in 2007 and HUF 1,929 million in 2006. Both of these have been recorded directly against equity attributable to minority interest.

The conversion option of the holders of Capital Securities has been recorded as Other non-current liability (see Note 20), the fair valuation of which is recognized in income statement. The fair value of the conversion option is determined using investment valuation methods (market values), and depends principally on the following factors:

- Quoted MOL share prices denominated in HUF
- HUF/EUR exchange rate
- Implied volatility of MOL share prices (calculated on EUR basis)
- Investor’s dividend expectations on MOL shares
- EUR-based interest rate
- Subordinated credit spread

The fair value of this derivative financial liability upon inception has been HUF 37,453 million. The fair valuation impact of the option was HUF 12,966 million and HUF 14,131 million in 2007 and 2006 respectively, recorded as financial expense in the accompanying consolidated income statement.

Share purchase from ÁPV Zrt. in 2006

On 1 December 2005 MOL signed call option agreement with ÁPV Zrt. (Hungarian Privatisation and State Holding Company). According to the agreement, MOL was entitled to purchase 10,898,525 “A” Series MOL shares (representing 10% of MOL’s registered capital) owned by ÁPV Zrt. during two option periods between 10 and 30 December 2005 and between 1 May and 27 October 2006. Cost of HUF 692 million associated with the transaction was recognized directly in equity.

MOL exercised its option right on 29 May 2006 and purchased 10,898,525 “A” series MOL ordinary shares from ÁPV Zrt. in a stock exchange transaction. The purchase price was the weighted average stock exchange price of MOL shares for 90 trading days prior to 8 May 2006, equalling HUF 21,760 per share. Following the settlement of the stock exchange transaction (30 May 2006) the ownership of ÁPV Zrt. decreased from 11.74% to 1.74%. Until 31 December 2006 ÁPV Zrt. sold its 1.74% share through a public offering. As a consequence ÁPV Zrt. has only one “A” series MOL ordinary share and the one “B” series voting preference share.

Changes in the number of ordinary, treasury and authorized shares

Series "A" and "B" shares	Number of shares issued	Number of treasury shares	Shares under repurchase obligation	Number of shares outstanding	Authorised number of shares
31 December 2005	108,984,672	(7,411,696)	(7,552,874)	94,020,102	126,655,013
Employee and management benefit plans	-	43,977	-	43,977	-
Sale to Magnolia Finance Ltd.	-	6,007,479	(6,007,479)	-	-
Sale to BNP Paribas	-	1,404,217	(1,404,217)	-	-
Purchase from ÁPV Zrt.	-	(10,898,525)	-	(10,898,525)	-
Other Purchases	-	(43,977)	-	(43,977)	-
Conversion of convertible bonds to "A" series shares	345,126	-	-	345,126	-
31 December 2006	109,329,798	(10,898,525)	(14,964,570)	83,466,703	126,655,013
Treasury shares lend to OTP Bank Nyrt.	-	8,757,362	(8,757,362)	-	-
Treasury shares lend to MFB Invest Zrt.	-	10,933,000	(10,933,000)	-	-
Other Purchases	-	(17,861,856)	-	(17,861,856)	-
Conversion of convertible bonds to "A" series shares	345,126	-	-	345,126	-
31 December 2007	109,674,924	(9,070,019)	(34,654,932)	65,949,973	126,655,013

There were no movements in the number of issued ordinary shares of series "C". All of the 578 shares are held as treasury stock.

17 Dividends

The dividend approved by the shareholders at the Annual General Meeting in April 2007 in respect of 2006 was HUF 50,000 million, equivalent to HUF 507.96 per issued share. The total amount of reserves legally available for distribution based on the statutory company only financial statements of MOL Nyrt. is HUF 1,095,119 million and HUF 918,121 million as of 31 December 2007 and 2006, respectively. Dividend proposed by the Board of Directors to the Annual General Meeting in respect of 2007 will be HUF 85,000 million.

18 Long-term debt

	Weighted average interest rate 2007 (%)	Weighted average interest rate 2006 (%)	Maturity	2007 HUF million	2006 HUF million
Unsecured bonds in EUR	3.96	3.96	2015	190,678	189,771
Unsecured bank loans in EUR	4.49	5.53	2012	146,494	132
Unsecured bank loans in USD	5.75	-	2012	199,571	-
Secured bank loans in EUR	5.77	3.65	2018	30,354	10,798
Convertible bonds in HUF (see Note 38)	8.21	6.61	2008	1,840	3,880
Financial lease payable	7.74	7.29	2012	3,891	384
Other	0.98	3.16	2015	5,445	4,792
Total				578,273	209,757
Current portion of long-term debt				51,281	1,478
Total long-term debt, net of current portion				526,992	208,279

Unsecured bonds in EUR

The EUR 750 million fixed rate bond was issued by MOL Nyrt. in 2005. The notes are due on 5 October 2015, pay an annual coupon of 3.875% and are in the denomination of EUR 50,000 each. The notes are listed on the Luxembourg Stock Exchange.

Secured bank loans in EUR

Secured loans were obtained for specific capital expenditure projects and are secured by the assets financed from the loan.

Financial lease payable

The Group has finance leases or other agreements containing a financial lease element for various items of plant and machinery. These leases have terms of renewal but no purchase options and escalation clauses. Renewals are at the option of the specific entity that holds the lease.

Minimum lease payments and present values of payments as of 31 December 2007 and 2006 respectively are as follows:

	Minimum lease payments	Present value of payments	Minimum lease payments	Present value of payments
	2007 HUF million	2007 HUF million	2006 HUF million	2006 HUF million
Maturity not later than 1 year	260	247	141	140
Maturity two to five years	2,691	2,261	210	203
Maturity over five years	2,318	1,383	51	41
Total minimum lease payments	5,269		402	
Less amounts representing financial charges	(1,378)		(18)	
Present values of financial lease liabilities	3,891	3,891	384	384

19 Provisions for liabilities and charges

	Environ-mental	Redundancy	Long-term employee retirement benefits	Field operation suspension	Legal claims	Other	Total
	HUF million	HUF million	HUF million	HUF million	HUF million	HUF million	HUF million
Balance as of 31 December 2005	27,539	4,810	3,665	81,665	766	1,856	120,301
Acquisition / (sale) of subsidiaries	(64)	-	(51)	285	(324)	(276)	(430)
Additions and revision of previous estimates	1,959	214	349	(1,428)	217	3,524	4,835
Unwinding of the discount	1,260	113	238	4,503	-	-	6,114
Currency differences	628	43	109	(24)	1	58	815
Provision used during the year	(3,948)	(3,146)	(128)	(467)	(177)	(616)	(8,482)
Balance as of 31 December 2006	27,374	2,034	4,182	84,534	483	4,546	123,153
Acquisition / (sale) of subsidiaries	2,646	2,818	-	11	319	176	5,970
Additions and revision of previous estimates	1,265	104	2,879	(4,789)	146	813	418
Unwinding of the discount	1,275	63	264	3,169	-	-	4,771
Currency differences	223	18	153	(46)	(14)	60	394
Provision used during the year	(3,287)	(1,065)	(344)	(174)	(219)	(2,945)	(8,034)
Balance as of 31 December 2007	29,496	3,972	7,134	82,705	715	2,650	126,672
Current portion 2006	5,144	1,441	16	610	381	2,915	10,507
Non-current portion 2006	22,230	593	4,166	83,924	102	1,631	112,646
Current portion 2007	8,242	899	1,024	644	643	998	12,450
Non-current portion 2007	21,254	3,073	6,110	82,061	72	1,652	114,222

Environmental Provision

As of 31 December 2007 provision of HUF 29,496 million has been made for the estimated cost of remediation of past environmental damages, primarily soil and groundwater contamination and disposal of hazardous wastes, such as acid tar, in Hungary and Slovakia. The provision is made on the basis of assessments prepared by MOL's internal environmental audit team. In 2006, an independent environmental auditor firm has reviewed MOL's internal assessment policies and control processes and validated those. The amount of the provision has been determined on the basis of existing technology at current prices by calculating risk-weighted cash flows discounted using estimated risk-free real interest rates.

Provision for Redundancy

As part of the continuing efficiency improvement project initiated in 2005, MOL Nyrt., Slovnaft a.s. and other Group members decided to further optimize workforce. As the management is committed to these changes and the restructuring plan was communicated in detail to parties involved, the Group recognized a provision for the net present value of future redundancy payments and related tax and contribution. The project is in progress and is expected to be finished by 2009. In addition, the acquisition of IES resulted in the recognition of HUF 2,623 million termination indemnity obligation. The closing balance of provision for redundancy is HUF 3,972 million and HUF 2,034 million as of 31 December 2007 and 2006, respectively.

Provision for Field Operation Suspension Liabilities

As of 31 December 2007 provision of HUF 82,705 million has been made for estimated total costs of plugging and abandoning wells upon termination of production. Approximately 7% of these costs are expected to be incurred between 2008 and 2012 and the remaining 93% between 2013 and 2041. The amount of the provision has been determined on the basis of management's understanding of the respective legislation, calculated at current prices and discounted using estimated risk-free real interest rates. Activities related to field suspension, such as plugging and abandoning wells upon termination of production and remediation of the area are performed as a combination of hiring external resources (until 2012) and by establishing such functions within the Group (from 2010 until 2041). Based on the judgment of the management, there will be sufficient capacity available for these activities in the area. As required by IAS 16 – Property, Plant and Equipment, the qualifying portion of the provision has been capitalized as a component of the underlying fields.

Provision for Long-term Employee Retirement Benefits

As of 31 December 2007 the Group has recognized a provision of HUF 7,134 million to cover its estimated obligation regarding future retirement and jubilee benefits payable to current employees expected to retire from group entities. MOL, Slovnaft and TVK operate benefit schemes that provide lump sum benefit to all employees at the time of their retirement. MOL employees are entitled to 3 times of their final monthly salary regardless of the period of service, while TVK and Slovnaft provide a maximum of 2 and 8 months of final salary respectively, depending on the length of service period. None of these plans have separately administered funds, therefore there are no plan assets. An additional increase of HUF 1,967 million in the current service cost is resulted from the change of jubilee benefits payable to employees of MOL and certain subsidiaries, introduced as a new element of the 2008 Collective Bargaining Agreement. The amount of the provision has been determined using the projected unit credit method, based on financial and actuarial variables and assumptions that reflect relevant official statistical data and are in line with those incorporated in the business plan of the Group. Principal actuarial assumptions reflect an approximately 2% difference between the discount rate and the future salary increase.

	2007 HUF million	2006 HUF million
Present value of total defined benefit obligation at the beginning of the year	6,110	5,476
Past service cost not yet recognized at the beginning of the year	1,928	1,811
Balance as of the beginning of the year	4,182	3,665
Acquisitions / (disposals)	-	(51)
Past service cost	126	119
Current service cost	2,858	615
Interest costs	264	238
Provision used during the year	(344)	(128)
Net actuarial gain/(loss)	(105)	(385)
Exchange adjustment	153	109
Balance as at year end	7,134	4,182
Past service cost not yet recognized at year end	1,942	1,928
Present value of total defined benefit obligation at year end	9,076	6,110

The following table summarise the components of net benefit expense recognized in the income statement as personnel expenses regarding Provision for Long-term Employee Retirement Benefits:

	2007 HUF million	2006 HUF million
Current service cost	2,858	615
Provision used during the year	(344)	(128)
Net actuarial gain/(loss)	(105)	(385)
Past service cost	126	119
Net benefit expense (See Note 25)	2,535	221

The following table summarise the main financial and actuarial variables and assumptions based on which the amount of retirement benefits were determined:

	2007	2006
Discount rate in %	6.1 - 8.5	6.1 - 7.0
Average wage increase in %	4.1 - 6.5	4.1 – 5.0
Mortality index (male)	0.06-2.82	0.06-2.82
Mortality index (female)	0.02-1.15	0.02-1.15

Legal and Other Provisions

Legal and other provisions include provision for abandonment costs of fuel stations to be closed for legal disputes (See Note 32) and for other minor future payment obligations.

20 Other non-current liabilities

	2007 HUF million	2006 HUF million
Conversion option of exchangeable capital securities issued by Magnolia Finance Ltd. (See Note 16)	64,550	51,584
Transferred "A" shares with put and call options attached (See Note 16)	68,208	-
Government grants received	4,869	5,148
Long-term incentives payable	193	106
Other	274	43
Total	138,094	56,881

21 Trade and other payables

	2007 HUF million	2006 HUF million
Trade payables	331,563	213,103
Taxes, contributions payable (excluding corporate tax)	92,922	80,769
Accrued consideration of WMT	25,005	37,944
Amounts due to employees	13,382	9,655
Custom fees payable	8,664	3,521
Gas purchase subsidy assigned to E.ON Földgáz Trade Zrt.	7,201	7,359
Advances from customers	6,689	4,015
Transferred "A" shares with put and call options attached (See Note 16)	6,097	79,990
Accrued expenses	5,128	2,572
Discount payable to customers	4,836	4,198
Purchase price difference payable on Tifon acquisition (see Note 6)	3,867	-
Purchase price difference payable on IES acquisition (see Note 6)	2,794	-
Fee payable for strategic inventory storage (MSZKSZ)	2,392	3,606
Bank interest payable	2,362	766
Penalty payable to the Antimonopoly Office of the Slovak Republic	2,262	-
Purchase price difference payable on sale of WMT	-	11,261
Consideration payable on BaiTex acquisition	-	1,512
Other	10,325	7,423
Total	525,489	467,694

Trade payables are non-interest bearing and are normally settled on 30-day terms. Contributions payable mainly include mining royalty, contributions to social security, value added tax and custom duties.

22 Short-term debt

	2007 HUF million	2006 HUF million
Secured bank loans in EUR	30,892	-
Secured bank loans in USD	22,977	-
Unsecured bank loans in EUR	1,267	1,268
Unsecured bank loans in other currencies	-	902
Other	2,840	5
Total	57,976	2,175

23 Net sales by geographical area

	2007 HUF million	2006 HUF million
Hungary	1,064,516	1,336,627
Slovakia	255,696	243,299
Austria	255,692	281,007
Czech Republic	203,499	195,655
Romania	150,135	152,752
Poland	138,329	125,659
Germany	130,320	117,740
Italy	116,041	67,178
Russia	40,345	34,181
Serbia	37,819	27,139
Great-Britain	37,352	54,559
Croatia	34,398	125,708
Rest of Central-Eastern Europe	40,499	42,463
Rest of Europe	66,080	61,867
Rest of the World	23,230	25,227
Total	2,593,951	2,891,061

24 Other operating income

	2007 HUF million	2006 HUF million
Gain on sales of Subsidiaries (See Note 7)	44,323	86,316
Excess of book value of the minority interest acquired over the consideration paid for 42.25% of TVK (see Note 6)	14,351	-
Exchange gains of trade receivables and payables	8,133	6,849
Gain on sales of intangibles, property, plant and equipment	4,042	2,445
Penalties received	944	1,598
Grants and subsidies received	767	556
Discounts received	158	131
Other	2,345	3,193
Total	75,063	101,088

HUF 44,268 million from gain on sales of subsidiaries in 2007 reflects the subsequent settlement from E.ON Ruhrgas International AG in connection with the gas business sales, from which HUF 16,577 million has been received in cash in the third quarter of 2007, while the remaining part will be paid in early 2008 (see Note 14).

25 Personnel expenses

	2007 HUF million	2006 HUF million
Wages and salaries	75,481	72,323
Social security	24,728	22,919
Other personnel expenses	12,607	11,424
Pension costs and post-employment benefits	2,535	221
Expense of share-based payments (See Note 38)	1,909	2,438
Total	117,260	109,325

26 Other operating expenses

	2007 HUF million	2006 HUF million
Mining royalties	120,717	147,651
Taxes and contributions	27,290	29,326
Contribution to strategic inventory storage (MSZKSZ)	16,949	15,529
Rental costs	14,355	13,305
Other external services	8,140	8,101
Provision for doubtful receivables	7,837	3,877
Advertising expenses	5,907	4,471
Insurance	4,934	4,939
Consultancy fees	3,970	7,705
Cleaning costs	3,349	3,107
Outsourced bookkeeping services	3,065	4,148
Site security costs	2,846	3,975
Bank charges	2,023	2,204
Environmental protection expenses, net	1,811	1,547
Environmental provision made during the year	1,265	1,959
Environmental levy	862	991
Damages	307	893
Provision for field abandonment	(2,972)	(1,143)
Provision for legal and other claims	(182)	2,628
Slovnaft penalty	-	1,037
Other	2,625	6,471
Total	225,098	262,721

The Anti-Monopoly Office of Slovak Republic issued a decision at the end of December, 2006 stating that Slovnaft has misused its dominant position through discrimination and has at the

same time imposed a penalty thereon in an amount of HUF 2,182 million. The Group has filed an appeal against the decision, and recorded a provision for the whole amount. On 7 December 2007 the Council of the Antimonopoly Office of the Slovak Republic took the final decision and confirmed that Slovnaft is obliged to pay this penalty, therefore the amount has been reclassified to Trade and other payables at the end of 2007 (see Note 21), while the appeal of the Group is in progress. Slovnaft penalty in 2006 includes a penalty by the Slovak Customs Office of HUF 1,037 million.

27 Financial (income) / expense

	2007 HUF million	2006 HUF million
Interest received	13,370	13,191
Foreign exchange gain on borrowings	4,930	-
Other foreign exchange gain, net	2,705	-
Realized gain on derivative transactions	-	2,437
Net gain on sales of investments	745	1,574
Dividends received	81	55
Other financial income	265	419
Total financial income	22,096	17,676
Other foreign exchange loss, net	-	18,976
Interest on borrowings	16,946	13,427
Fair valuation difference of conversion option (see Note 16)	12,966	14,131
Interest on provisions	4,772	6,113
Realized loss on derivative transactions	2,957	-
Foreign exchange loss on borrowings	-	1,778
Other financial expenses	1,022	869
Total financial expenses	38,663	55,294
Total financial (income) / expense, net	16,567	37,618

28 Income taxes

Total applicable income taxes reported in the consolidated financial statements for the years ended 31 December 2007 and 2006 include the following components:

	2007 HUF million	2006 HUF million
Current corporate income taxes	67,143	21,919
Local trade tax and innovation fee	11,796	14,759
Deferred corporate income taxes	2,914	2,945
Total income tax expense/(benefit)	81,853	39,623

The applicable corporate income tax rate on the taxable income of the companies of the Group operating in Hungary was 16% both in 2007 and 2006. In addition, a solidarity surplus tax of 4% has been introduced by the Hungarian government from 1 September 2006. Tax rate in Slovakia was 19% in both years.

The Group's current income taxes are determined on the basis of taxable statutory profit of the individual companies of the Group. MOL Nyrt. and TVK Nyrt. was entitled to a 100% corporate income tax holiday for its taxable profit of the year 2006 as a result of having made certain investments in manufacturing assets.

There is no dividend withholding tax in Hungary since 1 January 2006 on dividends paid to foreign tax resident legal entities (withholding tax was 20% in 2005 with a possible reduction to zero if the prevailing participation exemption rules were met). In and before 2005, the dividend tax was withheld at source (subject to the provision of double tax treaties and the availability of supporting documentation).

As regards dividend paid to private individuals, a 25% (20% in and before 2004) personal income tax liability arises, also withheld at source.

The deferred tax balances as of 31 December 2007 and 2006 in the consolidated balance sheet consist of the following items:

Breakdown of net deferred tax assets	Balance sheet		Recognized in income statement	
	2007 HUF million	2006 HUF million	2007 HUF million	2006 HUF million
Unrealized gains on inter-group transfers	23,685	25,759	(2,074)	1,360
Provisions	5,855	3,496	1,981	(210)
Depreciation, depletion and amortization	(5,394)	(4,272)	(1,933)	(3,205)
Differences in accounting for domestic oil and gas exploration and development	(3,871)	(3,609)	(263)	(1,345)
Capitalization of certain borrowing costs	(1,523)	(1,433)	(90)	(551)
Embedded derivatives	(1,218)	(1,203)	-	-
Foreign exchange differences	(817)	-	(817)	54
Valuation of financial instruments	(541)	(237)	(304)	675
Capitalized periodic maintenance costs	(506)	(634)	115	(276)
Statutory tax losses carried forward	97	687	(604)	670
Share based payments	-	-	-	(227)
Other	4,395	1,946	2,211	1,046
Deferred tax assets	20,162	20,500		
Breakdown of net deferred tax liabilities				
Fair valuation of assets on acquisitions	(42,441)	(23,860)	2,064	1,223
Depreciation, depletion and amortization	(25,390)	(13,478)	(2,711)	(3,532)
Inventory valuation difference	(7,082)	-	(566)	-
Provisions	3,086	3,214	(111)	936
Statutory losses carried forward	998	883	114	497
Elimination of inter-company transactions	(71)	(60)	(9)	(145)
Foreign exchange differences	(13)	-	165	-
Valuation of financial instruments	-	(140)	-	-
Other	(325)	260	(82)	85
Deferred tax liabilities	(71,238)	(33,181)		
Net deferred tax asset / (liability)	(51,076)	(12,681)		
Deferred tax (expense) / income			(2,914)	(2,945)

Analysis of movements in net deferred tax assets and liabilities during the year were as follows:

	2007 HUF million	2006 HUF million
Net deferred tax asset / (liability) at 1 January	(12,681)	15,776
Recognized in income statement	(2,914)	(2,945)
Recognized directly in fair valuation reserve	126	(620)
Acquisition of subsidiaries (see Note 6)	(37,054)	(13,624)
Sale of subsidiaries (see Note 7)	-	(10,460)
Exchange difference	1,447	(808)
Net deferred tax asset / (liability) at 31 December	(51,076)	(12,681)

The unrealized gains on inter-group transfers contain primarily the results of the gas unbundling. Due to the fact that this gain increased the tax base of the assets, but has been eliminated in the consolidation, the increase in the future depreciation gives rise to a deferred tax asset.

The Group has tax losses which arose in TVK Nyrt. and certain of TVK's subsidiaries in an amount of HUF 6,053 million that are available indefinitely for offset against future taxable profits of the companies in which the losses arose. As the Group estimates that these subsidiaries will have taxable profits available in the future to offset with these tax losses, a deferred tax asset of HUF 1,095 million and HUF 1,570 million has been recognized as of 31 December 2007 and 2006, respectively.

No deferred tax assets have been recognized in respect of such losses elsewhere in the Group as they may not be used to offset taxable profits and they have arisen in subsidiaries that have been loss-making for some time. The amount of such tax losses was HUF 10,894 million and HUF 7,497 million as of 31 December 2007 and 2006, respectively. From the unused tax losses at the end of the period, HUF 4,961 million has no expiry, while HUF 5,334 million can be utilized between 2008 and 2013, HUF 599 million can be utilized after five years.

A numerical reconciliation between tax expense and the product of accounting profit multiplied by the applicable tax rates is as the follows:

	2007 HUF million	2006 HUF million
Profit before tax per consolidated income statement	344,256	377,149
Tax at the applicable tax rate (16%)	55,081	60,344
Solidarity surplus tax and local trade tax	19,924	14,086
Differences not expected to reverse	951	11,485
Effect of different tax rates	5,388	2,719
Losses of subsidiaries not recognized as an asset	2,116	2,667
Adjustment to the period of realization	(391)	(642)
Tax holiday available	-	(34,746)
Non-taxable income	(1,145)	(12,160)
Revaluation of deferred tax assets and liabilities	-	(310)
Impact of changes in Hungarian tax legislation	-	(3,825)
Other	(71)	5
Total income tax expense / (benefit) at the effective income tax rate of 24% (2006: 11%)	81,853	39,623

Differences not expected to reverse primarily include the tax impact of gains on treasury share transactions (see Note 16) which have been realized under Hungarian accounting standards and included in current year tax base. Under IFRS, however these have not and will never be recognized in the consolidated income statement.

29 Earnings per share

Basic earnings per share are calculated by dividing the net profit for the period attributable to ordinary shareholders (net profit for the period less dividends on preference shares) by the weighted average number of ordinary shares outstanding during the period. Diluted earnings per share is calculated considering the dilutive effect of the convertible bonds (see Note 38) and the potentially dilutive effect of the conversion option embedded in the Perpetual Exchangeable Capital Securities in the number of outstanding shares and by excluding the fair valuation difference of the conversion option from the net income attributable to equity holders of the parent.

	Income (HUF million)	Weighted average number of shares	Earnings per share (HUF)
Basic Earnings Per Share 2006	329,483	96,234,537	3,424
Diluted Earnings Per Share 2006	343,968	101,881,644	3,376
Basic Earnings Per Share 2007	257,796	84,322,201	3,057
Diluted Earnings Per Share 2007	271,034	90,910,770	2,981

	2007 HUF million	2006 HUF million
Net profit attributable to ordinary shareholders for basic earnings per share	257,796	329,483
Fair value of conversion option	12,966	14,131
Interest on convertible bonds	272	354
Net profit attributable to ordinary shareholders for diluted earnings per share	271,034	343,968

	2007	2006
Weighted average number of ordinary shares for basic earnings per share	84,322,201	96,234,537
Effect of dilution – Weighted average number of conversion of perpetual exchangeable securities	6,007,479	4,707,230
Effect of dilution – Weighted average number of convertible bonds	581,090	939,877
Adjusted weighted average number of ordinary shares for diluted earnings per share	90,910,770	101,881,644

30 Financial risk management objectives and policies

Financial risk management function is centralized in MOL Group. All risks are integrated and measured at a group level model using Monte Carlo simulation. A monthly Financial Risk Report is submitted to the senior management. As a general approach, risk management considers the business as a well-balanced integrated portfolio and does not hedge particular elements of the commodity exposure.

The financial Risk management policy of MOL is to actively manage its commodity exposures for the following purposes only:

- Corporate Level Objectives – maintenance of financial ratios, protection against large cash transaction exposures etc.
- Business Unit Objectives – To reduce the exposure of a Business Unit's Cash flow to market price fluctuations in case of changes from the normal course of business (ex: planned refinery shutdowns)

Additionally, three different strategies are followed based on the level of Net Gearing (see also Capital management paragraph of this note). In the three various scenarios, Risk Management focuses on the followings:

- In a High Gearing situation, the prime objective of risk management is to reduce the probability of breaching debt covenants, where a breach would seriously impair the company's ability to fund its operations.
- In Moderate Gearing situation, risk management aims to enhance the commitment in maintenance of investment grade credit rating. Having public investment grade credit rating ensures significant financial flexibility as capital market sources are also available at reasonable cost level.
- In Low Gearing status, the focus of risk management shall be directed more toward guarding of shareholder value by maintaining discipline in CAPEX spending, ensuring risk-aware project selection.

In line with MOL's risk management policy, no speculative transactions are allowed. Any derivative transaction the company may enter is under ISDA (International Swaps and Derivatives Association) agreements.

Key Exposures

Group Risk Management identifies and measures the key risk drivers and quantify their impact on the group's performance. MOL uses a bottom-up model for monitoring the key exposures. According to the model, the diesel crack spread, the dated Brent price and gasoline crack spread respectively have the biggest contribution to the cash flow volatility. The cash flow volatility implied by the FX rates, the key refined and petrochemical products also significant. On the whole, the top 10 risk drivers explain circa 80% of the total cash flow volatility.

Commodity Price Risk Management

MOL Group as an integrated oil and gas company is exposed to commodity price risk on both the purchasing side and the sales side. The main commodity risks stem from long crude

oil position to the extent of its group level production, long refinery margin position to the extent of the refined product volume in both MOL and Slovnaft and long petrochemical margin position due to TVK and Slovnaft.

MOL can enter into hedging transactions for the above mentioned Corporate Level Objectives and Business Unit Objectives purposes only.

In 2007 MOL concluded short-term commodity swap transactions for inventory hedging purposes. These transactions are initiated to reduce exposure to potential price movements during the refinery maintenance periods. As of 31 December 2007 and 2006, there were no commodity derivative transactions in effect.

Foreign Currency Risk Management

The Company’s oil business constitutes a long USD cash flow exposure, while its petrochemical business adds a long EUR cash flow position. At group level, the Company has a net long USD, long EUR operating and short HUF, short SKK, short RUB cash flow position.

When MOL is in medium or high gearing status, the Company follows the basic economic currency risk management principle that the currency mix of the debt portfolio should reflect the net operating cash flow position of the Group.

The Company may use cross currency swaps to adjust the currency mix of the debt portfolio. As of 31 December 2007 and 2006, no cross currency transaction was open.

The Company has two long-term international gas transit agreements (both expire in 2018) under which consideration is calculated in SDR. The contractual provisions prescribing price calculation in SDR have been identified as a SDR/USD swap, being an embedded derivative under IAS 39, as the Company considers USD price setting to be closely related to the host contract. This derivative has been separated from the host contract and designated as a cash flow hedge to the host gas transit contract. The fair value of the embedded SDR derivative is a net receivable of HUF 6,088 million (HUF 4,870 million net of deferred tax) as of 31 December 2007 (see Note 11). The corresponding figure as of 31 December 2006 was HUF 6,013 million net receivable (HUF 4,810 million net of deferred tax). The decrease in the fair value of this instrument has been debited to equity.

The Company classifies its forward exchange contracts and currency exchange options either as fair value hedges, in case of debts, or as stand-alone derivatives and carries them at fair value.

As of 31 December 2007 and 2006 there was no open foreign exchange forward transaction.

Interest rate risk management

As an energy company, MOL has limited interest rate exposure. The ratio of fix/floating interest debt is determined by the Board of Directors on the basis of the suggestion of Risk Management time to time.

As result of the successful 750M EUR Bond transaction, the fixed portion of the total debt increased substantially. The level of interest that was fixed with the Eurobond issuance has been the lowest since the transaction. As of 31 December 2007 and 2006, 26.8% and 65.0% of the Company’s debt was at fixed rates respectively.

The Company may use interest rate swaps to manage the relative level of its exposure to cash flow interest rate risk associated with floating interest-bearing borrowings.

As of 31 December 2007 and 2006, there was no open interest rate swap transaction.

Sensitivity analysis for key exposures

In line with the international benchmark, Group Risk Management prepares sensitivity analysis. According to the Financial Risk Management Model, the key sensitivities are the following:

Effect on profit from operations	2007 HUF billion	2006 HUF billion
Brent crude oil price (change by +/- 5 USD/bbl; with fixed crack spreads and petrochemical margin)		
Refining and Marketing	- / + 1.1	- / + 1.4
Exploration and Production	+ / - 7.7	+ / - 10.0
Petrochemical	- / + 5.2	- / + 5.4
Crack spread (change by +/- 10 USD/t)		
Refining and Marketing	+ / - 25.9	+ / - 28.6
Integrated petrochemical margin (change by +/- 10 EUR/t)		
Petrochemical	+ / - 3.0	+ / - 2.8
Exchange rates (change by +/- 10 HUF/USD; with fixed crack spreads)		
Refining and Marketing	+ / - 23.6	+ / - 22.7
Exploration and Production	+ / - 10.2	+ / - 12.4
Petrochemical	- / + 13.6	- / + 11.2
Exchange rates (change by +/- 10 HUF/EUR; with fixed crack spreads / targeted petrochemical margin)		
Refining and Marketing	+ / - 0.7	+ / - 0.9
Petrochemical	+ / - 15.2	+ / - 12.6

Other Exposures

Credit risk

The Company provides a variety of customers with products and services, none of whom, based on volume and creditworthiness, present significant credit risk. Company procedures ensure that sales are made to customers with appropriate credit history and do not exceed an acceptable credit exposure limit.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset, including derivative financial instruments, in the balance sheet, net of any impairment.

Liquidity risk

The Company policy is to maintain sufficient cash and cash equivalents or have available funding through an adequate amount of committed credit facilities to cover the liquidity risk in accordance with its financing strategy. The amount of undrawn credit facilities as of 31 December 2007 consists of the following:

	HUF million
Long - term loan facilities available (general corporate purpose loan facilities)	593,019
Short - term facilities available	48,301
Total loan facilities available	641,320

In October, 2007 MOL signed a new EUR 2.1 billion multi-currency revolving facility agreement with a syndicate of international banks. The new syndicated loan facility was the largest Euroloan transaction for MOL Nyrt.

Above the new facility the main pillars of bank loan funding were the EUR 825 million and the EUR 700 million syndicated multi-currency revolving loan facilities.

The proceeds of the new facility were used for general corporate purposes. The existing debt capital market and bank facilities ensure both sufficient level of liquidity and financial flexibility.

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2007 and 2006 based on contractual undiscounted payments.

31 December 2007	On demand	Less than 1 month	1 to 12 months	1 to 5 years	Over 5 years	Total
	HUF million	HUF million	HUF million	HUF million	HUF million	HUF million
Interest-bearing loans and borrowings:						
Obligations under financial leases	-	2	251	2,675	2,318	5,246
Floating rate long-term bank loans	-	34,271	6,305	406,834	11,534	458,944
Floating-rate other long-term loans	-	-	203	395	-	598
Floating-rate short-term bank loans	-	-	57,513	-	-	57,513
Floating-rate other short-term loans	-	-	2,947	-	-	2,947
Convertible bonds (floating rate)	-	-	4,155	-	-	4,155
Fixed rate bonds	-	-	7,363	29,452	212,101	248,916
Other						
Non-interest bearing long-term liabilities	-	-	442	556	3,520	4,518
Transferred "A" shares with put and call options attached	-	-	6,097	71,973	-	78,070
Trade and other payables (excluding Transferred "A" shares with put and call options attached and taxes and contributions)	7,938	291,491	127,041	-	-	426,470
Total	7,938	325,764	212,317	511,885	229,473	1,287,377

31 December 2006						
Interest-bearing loans and borrowings:						
Obligations under financial leases	-	2	136	200	51	389
Floating rate long-term bank loans	-	-	1,106	5,071	8,131	14,308
Floating-rate short-term bank loans	1,263	902	5	-	-	2,170
Convertible bonds (floating rate)	-	-	328	4,187	-	4,515
Fixed rate bonds	-	-	7,332	29,330	218,555	255,217
Non-interest bearing long-term liabilities	-	-	-	-	4,924	4,924
Transferred "A" shares with put and call options attached	-	-	85,578	-	-	85,578
Trade and other payables (excluding Transferred "A" shares with put and call options attached and taxes and contributions)	1,904	201,345	103,686	-	-	306,935
Total	3,167	202,249	198,171	38,788	231,661	674,036

Capital management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years end 31 December 2007 and 31 December 2006.

The Group monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. Gearing was considered as Moderate and Low in 2007 and 2006, respectively.

	2007	2006
	HUF million	HUF million
Long-term debt, net of current portion	526,992	208,279
Current portion of long-term debt	51,281	1,478
Short-term debt	57,976	2,175
Less: Cash and cash equivalents	129,721	399,104
Net debt	506,528	(187,172)
Equity attributable to equity holders of the parent	792,164	1,079,666
Minority interest	124,902	191,537
Total capital	917,066	1,271,203
Capital and net debt	1,423,594	1,084,031
Gearing ratio (%)	35.6	(17.3)

31 Financial instruments

Financial instruments in the balance sheet include investments, other non-current assets, trade receivables, other current assets, cash and cash equivalents, short-term and long-term debt, other long-term liabilities, trade and other payables. Derivatives are presented as other non-current assets, other non-current liabilities, other current assets and trade and other payables. According to IAS 39 financial assets and conversion option of exchangeable capital securities are carried at fair value and financial liabilities are carried at amortized cost. Fair value of fixed rate bond which is carried at amortized cost is based on market prices.

Carrying amounts and fair values of the financial instruments are the following:

	Carrying amount		Fair value	
	2007	2006	2007	2006
	HUF million	HUF million	HUF million	HUF million
Financial assets				
Net receivable from currency risk hedging derivatives (see Note 11)	6,088	6,013	6,088	6,013
Available-for-sale investments	1,362	1,597	1,362	1,597
Loans given (see Note 11 and 14)	2,086	3,239	2,086	3,239
Trade receivables (see Note 13)	353,556	229,986	353,556	229,986
Other current assets (excluding Loans given and prepaid and recoverable taxes, see Note 14)	41,904	15,018	41,904	15,018
Cash and cash equivalents (see Note 15)	129,721	399,104	129,721	399,104
Financial liabilities				
Interest-bearing loans and borrowings:				
Obligations under financial leases	3,891	384	3,891	384
Floating rate long-term bank loans	376,419	10,798	376,419	10,798
Floating rate other long-term loans	555	-	555	-
Floating rate short-term bank loans	55,136	2,170	55,136	2,170
Floating-rate other short-term loans	2,840	5	2,840	5
Convertible bonds (floating rate)	1,840	3,880	1,840	3,880
Fixed rate bonds	190,678	189,771	160,021	171,223
Non-interest bearing long-term liabilities	4,518	4,924	4,518	4,924
Conversion option of exchangeable capital securities by Magnolia Finance Ltd. (see Note 16)	64,550	51,584	64,550	51,584
Transferred "A" shares with put and call options attached (see Note 16)	74,305	79,990	74,305	79,990
Trade and other payables (excluding Transferred "A" shares with put and call options attached and taxes and contributions)	426,470	306,935	426,470	306,935

32 Commitments and contingent liabilities

Guarantees

The total value of guarantees undertaken to parties outside the Group is HUF 10,329 million.

Capital and Contractual Commitments

The total value of capital commitments as of 31 December 2007 is HUF 256,8 billion, of which HUF 20,4 billion relates to capital and contractual commitments of Slovnaft, HUF 20,6 billion relates to capital and contractual commitments of MOL Pakistan, HUF 63,6 billion relates to capital and contractual commitments of MOL Földgázszállító Zrt. (Gas Transmission), HUF 41,2 billion relates to capital and contractual commitments of IES S.p.A., HUF 71,2 billion MMBF Zrt., HUF 10,8 billion relates to exploration activity in Russia and HUF 8,5 billion relates to MOL Nyrt. (the majority of which will arise in 2008).

With respect to Energopetrol INA-MOL will provide resources of HUF 19,4 billion (EUR 76.7 million) to Energopetrol in order to finance its investment program in the next three years.

Gas Purchases Obligation, Take or Pay Contract

The TVK Erőmű Kft. has concluded a long-term gas purchase contract with E.ON Földgáz Trade Zrt. in order to ensure continuous operation of the power plant. As of 31 December 2007 1,069 million cubic meters of natural gas (of which 727 mcm under take-or-pay commitment) will be purchased during the period ending 2017 based on this contract.

Operating leases

The operating lease liabilities are as follows:

	2007 HUF million	2006 HUF million
Due not later than 1 year	3,415	1,415
Due two to five years	4,753	1,420
Due over five years	510	584
Total	8,678	3,419

Of the outstanding operating lease liabilities as of 31 December 2007 HUF 835 million were contracted by Slovnaft, HUF 1,131 million were contracted by Roth Group and HUF 6,473 million were contracted by MOL Nyrt.

Authority procedures, litigation

Among those procedures which started in the last few years and which might have significant impact on the business conduct or financial position of MOL Group, a constitutional law related complaint issued by MOL Nyrt. is still pending. The Company applied to the Hungarian Constitutional Court in December 2001 to declare unconstitutional the regulation of the Economic Ministry and the relevant provisions of the related Government decision on the setting of the reselling gas price for year 2000. The Company also requested the Hungarian Constitutional Court to state that those provisions of the relevant legal regulations shall not be applicable in the civil law suit rejecting MOL’s claim for damages.

The litigation initiated by the minority owners holding an approximate 23% ownership interest in Balatongáz Kft. against MOL as the majority owner of Balatongáz Kft. to determine that MOL purchased their ownership interests for a total purchase price of HUF 83 million and for damages of HUF 3 billion is still pending. The court passed an interim ruling, on 31 August 2006, by which the court created the purchase agreements of ownership interests between MOL and the plaintiff minority owners with the conditions stipulated in MOL’s bid dated as of 7 May 2001. MOL filed an appeal against this interim ruling. On 13 March 2007, the Table Court set aside the interim ruling, stating that the court failed to investigate the changes in the financial condition of Balatongáz Kft. since MOL’s bid. The Metropolitan Court has decided to hear jointly every claim of the plaintiffs and called for an expert in the procedure on its hearing in February 2008. Next hearing was set for July 2008.

OMV has initiated legal proceedings against MOL on the Budapest Court of Justice in order to nullify certain resolutions of the Annual General Meeting of MOL held on 26 April 2007. In particular, OMV stated that the veto rights attached to the “B” share held by the Hungarian State breach the requirements of Act XXVI of 2007 on golden shares and Act IV of 2006 (Corporate Law), therefore the AGM should have transformed this preferential share to ordinary series “A” share. Furthermore, OMV stated that it is discriminatory to waive certain entities (MNV Zrt. and its legal successors) from the 10% voting limitation imposed by the Articles of Association and challenged that the AGM failed to delete the relevant paragraphs thereof. In addition, OMV stated that the resolution approved by the same AGM which limited the number of members of Board of Directors recallable at any one time to 3 members is contradictory to the Corporate Law. Based on these, OMV requests the legal authorities to oblige MOL’s AGM to take the necessary measures to correct these contradictions. MOL stated that the 90-day non-extendable time period available for OMV, as a shareholder to initiate any procedure against the resolutions of the AGM referred to above has already elapsed, and that OMV has no other legal basis to proceed against these resolutions. First hearing has been held on 29 February 2008 on which the Court obliged OMV to further specify its claim. Next hearing has been set to 13 May 2008.

The Hungarian Financial Supervisory Authority (“HFSA”) in its resolution dated December 11, 2007 imposed a fine on MOL Nyrt. in the aggregate amount of HUF 48 million for the violation of the statutory provisions regulating the prohibition of insider trading, and the obligations to disclose or delay insider information. MOL, claiming the breach of applicable laws, initiated a lawsuit before the Court of Budapest for the judicial supervision of the resolution, and also requested the suspension of the implementation of the resolution. The Court of Budapest, with its decree dated January 30, 2008 rejected the application of MOL for such suspension.

On the basis of this MOL has paid the amount of the fine. The first hearing of the case was scheduled by the court to April 29, 2008.

The Ministry of Finance of the Slovak Republic has initiated a procedure against Slovnaft a.s., a majority subsidiary of MOL, for the review of its costs arising during the years of 2002 and 2003, and the profit included in its fuel prices in 2004. The Ministry of Finance pursued its procedure under the Slovak Price Act that in the opinion of the Ministry entitles the Ministry of Finance to review the costs and profits included in the product prices with retroactive effect. As a consequence of the second instance decision of the Slovak Ministry of Finance Slovnaft had to pay a fine of HUF 8,590 million in October 2005. However, as in Slovnaft's opinion the Ministry's decision was based on arbitrary and economically unfounded calculations concerning the measures of "proportionate profit" it has filed a claim for the invalidation of the Ministry's decision and the suspension of its enforcement. Despite of the fact that the court of first instance ordered the suspension of the enforcement of the Ministry's decision the Ministry refused to pay back the amount of the fine to Slovnaft. The next hearing in the processing mentioned above was sent to 29 March 2007. The Regional Court in Bratislava dismissed the claim. The Company filed an appeal against the decision of the Regional Court in Bratislava on April 27, 2007. The Supreme Court is authorized to decide on the Company's appeal.

On 24 January 2005 the Ministry of Finance of the Slovak Republic initiated another price audit procedure focusing on the adherence of the Slovak Price Act for the period of 4th quarter, 2004 to the day of control completion. This price audit had not been finished as of the date of these financial statements. Based on the Company's demand the Ministry of Finance of the Slovak Republic superseded temporary the price audit exercise on 10 April 2006.

The Russian arbitral court imposed upon Slovnaft, as defendant, a duty to pay to Mende Rossi an amount of USD 15.7 million together with 16% default interest per annum on the amount of USD 9 million from 24 June 1994 until payment and the costs of the proceeding for failing the consideration of the crude oil supplies in its resolution on April of 1996 in the course of the proceeding initiated by plaintiff "Mende-Rossi", Menendelejevsk tartar firm in front of the International Commercial Arbitration Tribunal at the Chamber of Commerce and Industry of the Russian Federation. Considering that the Russian arbitration proceeding violated the rights to impartial proceeding and right to represent of Slovnaft as contending party, as well as because the decision was not supported with adequate evidence the competent courts of Slovak Republic finally refused the enforcement of the decision of the Russian court of arbitration. The "Mende-Rossi" firm also asked the enforcement of the decision of the court of arbitration in Austria in 1997 at the same time with the attempt of the Slovak enforcement and after the final refusal of the Slovak enforcement in the Czech Republic in 2005. Slovnaft filed an appeal against both. The Austrian and Czech proceedings are still going on, but regarding the decision of the competent court of Slovak Republic adopted between years 2002 - 2004 which finds the decision of the court of arbitration illegal as follows not enforceable Slovnaft considers unlikely a failure of lawsuits in front of the Austrian and Czech courts. In the Czech Republic the local court of Prague has finally rejected the claim for enforcement filed by Ashford Technologies Corp. (Mende-Rossi's claim has been transferred to this company), but Ashford Technologies Corp. filed a extraordinary appeal to the Supreme Court.

At present the proceeding against the Company is still going on in the Czech Republic. Probability of a success in the case cannot be quantified, since it concerns an extremely complicated matter both from factual and legal aspects.

The Antimonopoly Office of Slovak Republic, Abuse of Dominant Position Department notified Slovnaft by its letter dated on November 21, 2005 on commencement of administrative proceeding against Slovnaft due to a possible breach of the provisions of the Act No. 136/2001 Coll. on Economic Competition. These administrative proceedings involve a review of the price and the discount policy of the Company with respect to petrol and diesel sales. The Antimonopoly Office brought its decision, within the prolonged procedural deadline, on December 22, 2006. The Office stated in its decision that Slovnaft did not abuse its dominant position regarding its wholesale pricing neither of petrol, nor of diesel. On the other hand, the Office also declared that Slovnaft did abuse its dominant position by applying the discounts in a discriminative manner against its individual customers and also in relation to OMV Slovensko and Shell Slovakia and imposed a penalty of HUF 2,182 million, in respect of which a provision has been recorded (see Note 19). The Group filed an appeal against the decision, on January 10, 2007, to the secondary level decision-making body of the Office, objecting against each statements of the decision regarding the abusive conduct.

The Council of the Antimonopoly Office adopted its final decision on 7 December, 2007 and confirmed obligation of Slovnaft to pay a fine in amount of HUF 2,287 million for violation of Act No. 136/2001 Coll., on Protection of Economic Competition. According to this decision the imposed fine is due and payable within 60 day of the decision being final and conclusive. MOL paid the fine on February 25, 2008.

Slovnaft, as plaintiff filed on January 18, 2008 an Action against decision of the Anti-Monopoly Office of the Slovak Republic to the Regional Court in Bratislava for reviewing the lawfulness of decision the Council of the Antimonopoly office and the procedure precedent to that decision including the first instance decision of the Anti-Monopoly Office of the Slovak Republic.

None of the litigations described above have any impact on the accompanying consolidated financial statements except as explicitly noted. MOL Group entities are parties to a number of civil actions arising in the ordinary course of business. Currently, there exists no further litigation that could have a material adverse affect on the financial condition, assets, results or business of the Group.

The value of litigation where members of the MOL Group act as defendant is HUF 9,596 million for which HUF 715 million provision has been made.

MOL Group has also filed suits, totalling HUF 1,521 million. In 2005, the court of arbitration has recognized MOL's claim for damages against MB Kőolajkutató Rt., the party responsible for the gas explosion at Pusztaszőlős underground gas storage facility in 2000. Liquidation procedure has been started against MB Kőolajkutató Rt. The Group has not recorded any receivable with respect to these claims.

Emission rights

As of 2007 MOL Group has granted 4,289,904 emission quotas for free from Hungarian and Slovak Governments. Based on use of emission rights in 2006, 4,644,950 quotas are available

for the Group in 2007. The total use of emission quotas amounted to 4,264,111 in 2007. Due to the acquisition of IES (on 15 November 2007) the use of emission quotas increased by 51,549 for which the subsidiary had sufficient quota allocated for 2007.

Environmental liabilities

MOL's operations are subject to the risk of liability arising from environmental damage or pollution and the cost of any associated remedial work. MOL is currently responsible for significant remediation of past environmental damage relating to its operations. Accordingly, MOL has established a provision of HUF 29,496 million for the estimated cost as at 31 December 2007 for probable and quantifiable costs of rectifying past environmental damage (see Note 19). Although the management believes that these provisions are sufficient to satisfy such requirements to the extent that the related costs are reasonably estimable, future regulatory developments or differences between known environmental conditions and actual conditions could cause a revaluation of these estimates.

In addition, some of the Group's premises may be affected by contamination where the cost of rectification is currently not quantifiable or legal requirement to do so is not evident. At the Tiszaújváros site the Group has identified potentially significant underground water and surface soil contamination. In accordance with the resolutions of the regional environmental authorities combined for TVK and MOL's Tisza Refinery, the Group is required to complete a detailed investigation and submit the results and technical specifications to the authorities. Based on these results the authorities are expected to specify a future environmental risk management plan and to bring a resolution requiring TVK and MOL to jointly perform this plan in order to manage the underground water contamination. The amount of obligation originating from this plan cannot be estimated currently, but it is not expected to exceed HUF 4 billion.

Furthermore, the technology applied in oil and gas exploration and development activities by the Group's Hungarian predecessor before 1976 (being the year when the act on environmental protection and hazardous waste has become effective) may give rise to future remediation of drilling mud produced. This waste material has been treated and disposed of in line with environmental regulations ruling at that time, however, subsequent changes in legal definitions may result in further re-location and remediation requirements. The existence of such obligation, and consequently the potential expenditure associated with it is dependent on the extent, volume and composition of drilling mud left behind at the numerous production sites, which cannot be estimated currently, but is not expected to exceed HUF 3-5 billion.

33 Events after the balance sheet date

Strategic Alliance with CEZ

CEZ and MOL signed an agreement to create a joint venture in which each party will have 50% equity interest, equal voting rights and similar split of operational decision making. The JV will focus on gas-fired power generation in four countries of Central and South Eastern Europe, including Slovakia, Hungary, Croatia and Slovenia. The first major investment is the planned

construction of combined cycle gas turbine power plants (CCGTs) at the refineries of MOL group in Bratislava (Slovakia) and Százhalombatta (Hungary). In both locations the installed capacity will be 800 MW. In addition, in Bratislava, the current thermal plant will be modernized and its capacity increased to 160 MW. The expected investment by the parties in both projects will be approximately 1.4 billion EUR. As a part of the JV agreement MOL will contribute its current heat plants and all related infrastructure at both sites. The financing plan for the venture is still subject to discussion but is intended to utilize project financing to the maximum extent possible.

To strengthen the strategic alliance, CEZ purchased 7,677,285 pieces of "A" series MOL shares (7% stake) at HUF 30,000 which was financially closed and settled on 23 January 2008. MOL has an American call option for the shares with a strike price of HUF 20,000 per share which can be exercised within 3 years. MOL pays an upfront fee (being the difference between the purchase price and the strike price) and annual option fee of HUF 1,600 per share to CEZ.

Strategic Alliance with OOC

On 8 March 2008 MOL signed a strategic co-operation agreement with Oman Oil Company S.A.O.C. (OOC). Within the framework of the alliance, MOL sells 8,774,040 "A" series of its share, equivalent to 8% of the registered capital of MOL, at a price of USD 145.429 per share to OOC. As part of the strategic co-operation MOL would take over certain international assets and cash from OOC. Final set of cash and assets to be received by MOL can change depending on the necessary consents and waivers on pre-emption rights from the relevant third parties regarding certain assets. In addition, the two partners have agreed in joint development of future business opportunities as strategic partners. Closing of asset transactions will take place not later than 31 December 2008.

BNP-ING option transfer

On 14 March 2008 MOL, BNP Paribas SA ("BNP") and ING Bank N.V. ("ING") signed an agreement whereby MOL has appointed ING to exercise its call option on 1,404,217 "A" series MOL ordinary shares held by BNP, pursuant to which ING purchased these shares from BNP. Following completion of the transaction, MOL received an American call option on 1,404,217 "A" series MOL shares from ING, and ING received a European put option on the same number of MOL shares from MOL. The maturity for both options is 1 year and the exercise price is USD 109.84 per share. The exercise price is based on option agreement concluded between MOL and BNP in December 2007. The transaction has no impact on the accounting treatment of these shares with put and call options attached, see Note 16.

34 Notes to the consolidated statements of cash flows

Analysis of net cash outflow on acquisition of subsidiaries and joint ventures

	2007 HUF million	2006 HUF million
Cash consideration	(200,526)	(42,567)
Cash at bank or on hand acquired	8,768	105
Net cash outflow on acquisition of subsidiaries and joint ventures	(191,758)	(42,462)

Issuance of long-term debt

	2007 HUF million	2006 HUF million
Increase in long-term debts	538,727	432,020
Non cash flow element: unrealised exchange gains / (losses)	6,117	-
Total issuance of long-term debt	544,844	432,020

35 Segmental information

2007	Exploration and Production	Refining and Marketing	Natural Gas	Petro-chemicals	Corporate and other	Inter-segment transfers	Total
	HUF million	HUF million	HUF million	HUF million	HUF million	HUF million	HUF million
Net Revenue							
Sales to external customers	178,804	1,932,290	78,244	398,181	6,432	-	2,593,951
Inter-segment sales	156,002	358,124	12,450	99,435	95,731	(721,742)	-
Total revenue	334,806	2,290,414	90,694	497,616	102,163	(721,742)	2,593,951
Results							
Profit/(loss) from operations	78,864	171,935	38,743	40,892	26,446	(1,375)	355,505
Net finance costs							16,567
Income from associates	-	-	-	-	5,318	-	5,318
Profit before tax							344,256
Income tax expense/(benefit)							81,853
Profit for the year							262,403

2006	Exploration and Production	Refining and Marketing	Natural Gas	Petro-chemicals	Corporate and other	Inter-segment transfers	Total
	HUF million	HUF million	HUF million	HUF million	HUF million	HUF million	HUF million
Net Revenue							
Sales to external customers	162,350	2,006,863	359,934	355,856	6,058	-	2,891,061
Inter-segment sales	227,261	324,391	8,261	95,392	96,976	(752,281)	-
Total revenue	389,611	2,331,254	368,195	451,248	103,034	(752,281)	2,891,061
Results							
Profit/(loss) from operations	122,930	175,337	111,564	23,297	(41,086)	17,530	409,572
Net finance costs							37,618
Income from associates	-	-	-	-	5,195	-	5,195
Profit before tax							377,149
Income tax expense/(benefit)							39,623
Profit for the year							337,526

2007 Assets and liabilities	Exploration and Production	Refining and Marketing	Natural Gas	Petro-chemicals	Corporate and other	Inter-segment transfers	Total
	HUF million	HUF million	HUF million	HUF million	HUF million	HUF million	HUF million
Property, plant and equipment, net	144,960	667,421	100,832	186,426	77,232	(3,185)	1,173,686
Intangible assets, net	61,073	75,725	4,515	7,274	13,706	(1,740)	160,553
Inventories	9,465	284,039	1,262	20,186	7,877	(4,225)	318,604
Trade receivables, net	25,781	297,343	9,134	77,664	31,556	(87,922)	353,556
Investments in associates	-	-	-	-	144,754	-	144,754
Not allocated assets							269,889
Total assets							2,421,042
Trade payables	15,679	279,787	31,499	56,463	37,459	(89,324)	331,563
Not allocated liabilities							1,172,413
Total liabilities							1,503,976
2007 Other segment information							
Capital expenditure:	40,799	64,609	29,259	7,014	11,440	-	153,121
Property, plant and equipment	28,285	63,135	28,899	6,986	7,400	-	134,705
Intangible assets	12,514	1,474	360	28	4,040	-	18,416
Depreciation and amortization	40,572	63,513	7,487	19,415	10,159	(608)	140,538
From this: impairment losses and reversal of impairment recognized in income statement	12,290	1,025	533	629	114	-	14,591

2006 Assets and liabilities	Exploration and Production	Refining and Marketing	Natural Gas	Petro-chemicals	Corporate and other	Inter-segment transfers	Total
	HUF million	HUF million	HUF million	HUF million	HUF million	HUF million	HUF million
Property, plant and equipment, net	152,335	542,008	79,158	196,328	65,155	(3,562)	1,031,422
Intangible assets, net	53,535	13,739	2,287	8,194	13,028	(1,772)	89,011
Inventories	6,916	154,821	906	14,815	6,767	(3,195)	181,030
Trade receivables, net	23,002	176,923	7,100	63,682	25,327	(66,048)	229,986
Investments in associates	-	-	-	-	131,569	-	131,569
Not allocated assets							502,314
Total assets							2,165,332
Trade payables	12,435	182,585	7,761	41,240	35,332	(66,250)	213,103
Not allocated liabilities							681,026
Total liabilities							894,129
2006 Other segment information							
Capital expenditure:	33,509	75,815	14,121	8,927	12,173	-	144,545
Property, plant and equipment	24,349	73,997	13,298	8,658	7,717	-	128,019
Intangible assets	9,160	1,818	823	269	4,456	-	16,526
Depreciation and amortization	36,311	62,514	6,925	18,498	9,356	(778)	132,826
From this: impairment losses and reversal of impairment recognized in income statement	8,147	1,583	381	454	97	-	10,662

The operating profit of the segments 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 subsidiaries of Corporate segment provide maintenance, insurance and other services to the business segments. The internal transfer prices used are based on prevailing market prices. Divisional figures contain the results of the fully consolidated subsidiaries engaged in the respective divisions.

36 Discontinuing operations

As a consequence of the transaction detailed in Note 7 under Gas business sales WMT and Storage qualify for discontinuing operations. Considering that the binding sales agreement has been entered into in November, 2004, with no material subsequent changes in the announced plan to divest the assets and that IFRS 5 Non-current Assets Held for Sale and Discontinued Operations had not been early adopted, the Group applied IAS 35 Discontinuing Operations for the transaction.

The sales, expenses, results of WMT and Storage presented in the consolidated income statement for the 3 month period ended 31 March 2006 were as follows:

	3 month period ended 31 March 2006 HUF million
Net sales	251,873
Other operating income	441
Total operating income	252,314
Raw materials and consumables used	250,762
Personnel expenses	420
Depreciation, depletion, amortisation and impairment	805
Other operating expenses	1,749
Work performed by the enterprise and capitalized	(1,635)
Total operating expenses	252,101
(Loss) / profit from operations	213
Financial (income)/expense, net	111
(Loss) / profit before tax	102
Income tax expense/(benefit)	1,404
(Loss) / profit for the year	(1,302)
Attributable to:	
Equity holders of the parent	(1,302)
Minority interest	-

Balances above do not include the one-off gain of HUF 82,636 million realized on the sale of WMT and Storage (see Note 7).

The cash flows of WMT and Storage for the 3 month period ended 31 March 2006 were as follows:

	3 month period ended 31 March 2006 HUF million
Operating cash flows	110,900
Investing cash flows	(2,245)
Total cash flows	108,655

37 Related party transactions

Transactions with associated companies in the normal course of business

	2007 HUF million	2006 HUF million
Trade receivables due from related parties	2,245	7,719
Trade payables due to related parties	1,827	555
Net sales regarding related parties	12,551	87,221

The Group purchased and sold goods and services with related parties during the ordinary course of business in 2007 and 2006, respectively. All of these transactions were conducted under market prices and conditions.

Remuneration of the members of the Board of Directors and Supervisory Board

Directors’ total remuneration approximated HUF 150 million and HUF 286 million in 2007 and 2006, respectively. In addition, the non-executive directors participate in a long-term incentive scheme details of which are given below. Executive members do not receive any additional remuneration for their participation in the Board in excess of their managerial compensation package. Total remuneration of members of the Supervisory Board approximated HUF 88 million in 2007 and HUF 95 million in 2006.

Non-executive directors are remunerated with the following net amounts in addition to the convertible bond program:

- Non-executive directors 25,000 EUR/year
- Chairman of the Board 41,500 EUR /year

In case the position of the Chairman is not occupied by a non-executive director, it is the non-executive vice Chairman who is entitled for this payment.

Directors who are not Hungarian citizens and do not have permanent address in Hungary are provided with EUR 1,500 on each Board meeting (maximum 15 times) when travelling to Hungary. Directors who are chairmen of the committees are provided with EUR 1,000 per month.

Number of shares held by members of the Board of Directors and Supervisory Board and the management

	2007 Number of shares	2006 Number of shares
Board of Directors	413,798	243,857
Supervisory Board	891	1,935
Senior Management (except executive Board members)	141,497	73,291
Total	556,186	319,083

Transactions with the Officers and Management of the Company

Mr. Csányi, deputy chairman of the Board of Directors is also the Chairman-CEO of OTP Bank Nyrt. MOL Nyrt.and some of its subsidiaries have contractual relationship with the members of OTP Group, including having bank accounts, using credit card and brokerage services and obtaining loan financing. No transactions out of the usual conduct of business, or transactions with significant size has been concluded with OTP in 2006 or 2007, except for the share lending transaction (see Note 16). All of these transactions are on an arm’s-length basis.

Mr. Gábor Horváth, a member of the Board of Directors is the owner of a legal consultancy firm that provided legal services to MOL Group amounting to HUF 4 million in 2006.

A close family member of Mr. Kamarás, member of the Board Of Directors, has direct control over Roff-Petrol Bt, an operator of three fuel stations.

Mrs. Bognár and Mr. Major, members of the Supervisory Board are directors of Fókusz Kom Kht., a non-profit organization founded by the trade unions, which received a loan from MOL Nyrt. amounting to HUF 330 million in 2004. The closing amount of the loan is HUF 270 million as of 31 December 2007. In 2007 and 2006 there was energy supply service provided by MOL Nyrt. to Fókusz Kom Kht. amounting to HUF 125 and HUF 94 million respectively. MOL Nyrt., and MOL-LUB Kft. purchased HUF 2 million training services from Fókusz Kom Kht. in 2006. As at 29 October 2007 Fókusz Kom Kht. was sold to an independent third party and prior directors were recalled. The brother of Mr. Major is the managing director of CSÚCS 94 Kft. which provided maintenance services to Petrolszolg Kft. amounting to HUF 168 and HUF 324 million during 2007 and 2006, respectively. In 2007 and 2006 there was rental service provided by MOL Nyrt. to CSÚCS 94 Kft. amounting to HUF 4 and HUF 3 million, respectively.

Mr. Hatina, member of the Supervisory Board has an indirect interest of a Slovakian company Granitol a.s. through Slovintegra a.s. The Group has sold polyethylene to this company in 2007 and 2006 amounted to HUF 4,484 million and HUF 2,013 million respectively, carried out on usual commercial terms and market prices. Additionally, Mr. Hatina has an indirect interest of a Slovakian company Real–H.M. s.r.o. through BAITEC Group a.s. The Group has sold goods to this company in 2007 in amount of HUF 3,929 million carried out on usual commercial terms and market prices.

The brother of Mr. Ferenc Horváth, managing director of Refining and Marketing is the CEO at Vértes Volán Zrt., which company (in compliance with regulations on public procurement)

regularly purchases fuel from the Group. The value of transactions (which are carried out on usual commercial terms and market prices) was HUF 2,132 million and HUF 2,200 million during 2007 and 2006, respectively.

Mr. József Molnár, Group Chief Financial Officer purchased two perpetual exchangeable capital securities issued by Magnolia Finance Ltd. (see Note 17) at 96% of nominal value on the Luxembourg Stock Exchange in June 2006.

Mr. Oszkár Világi, a member of the Board of Directors in Slovnaft and Slovnaft's Chief Executive Officer is a partner in legal firm Csekcs, Világi, Drgonec & Partners, spol. s.r.o. that provided legal services to the Group in the value of HUF 52 million and HUF 78 million in 2007 and 2006, respectively, and until 31 January 2007 he was a member of the Supervisory Board of OTP Banka Slovensko a.s. Additionally, Mr. Világi was the chairman of the Board of Trustees of Železnice Slovenskej Republiky ("Railways of SR") in 2006. Slovnaft has sold products and services to this company carried out on usual commercial terms and market prices and amounted to HUF 272 million during 2006. Slovnaft has purchased services from this company amounted to HUF 16 million during 2006. All transactions have been carried out on usual commercial terms and market prices.

Mr. Pavol Buday, member of the Supervisory Board in Slovnaft is statutory representative of APOLKA, s.r.o. that provided services to Slovnaft in the value of HUF 7 million and HUF 7 million in 2007 and 2006, respectively.

Mr. Gansperger, the member of the Board of Directors in TVK is the member of the Supervisory Board in Geohidroterv Mérnökgeológiai, Környezetvédelmi és Vízgazdálkodási Kft. an engineering firm that provided services to MOL Nyrt. in the value of HUF 62 million and HUF 395 million in 2007 and 2006 respectively.

Key management compensation

	2007 HUF million	2006 HUF million
Salaries and other short-term employee benefits	1,956	1,095
Termination benefits	-	11
Post-employment benefits	7	9
Other long-term benefits	283	1,136
Share-based payments	392	319
Total	2,638	2,570

Loans to the members of the Board of Directors and Supervisory Board

No loans have been granted to Directors or members of the Supervisory Board.

38 Share-based payment plans

The expense recognized for employee services received during the year is shown in the following table:

	2007 HUF million	2006 HUF million
Expense arising from equity-settled share-based payment transactions	353	613
Expense arising from cash-settled share-based payment transactions	1,556	1,825
Total expense arising from share-based payment transactions	1,909	2,438

The share-based payments are described below.

Convertible bond program

Through a private placement on 9 October 2003 the directors and managers participating in the incentive scheme subscribed bonds convertible to ordinary series "A" shares, financed by bank loans. In the framework of the program a total number of 1,200 convertible bonds were issued having a nominal value of HUF 10 million and being convertible into 1,779 series "A" MOL shares each in equal instalments within five years, at a pre-defined period of the year (in October). The convertible bonds are treated as compound financial instruments in the consolidated financial statements (see Note 2).

The members of the Board of Directors are entitled to subscribe a total number of 25 bonds each, the chairmen of committees to 30 bonds each, the chairman of Board of Directors to 35 bonds (or vice-chairman if the chairman is an executive), while the remaining bonds can be subscribed by selected top managers of the MOL Group.

Details of the share conversion rights outstanding during the year are as follows:

	Number of shares in conversion options	Weighted average exercise price	Number of shares in conversion options	Weighted average exercise price
	2007	2007	2006	2006
	share	HUF/share	share	HUF/share
Outstanding at the beginning of the year	690,252	5,962	1,035,378	5,962
Granted during the year	-	-	-	-
Forfeited during the year	(17,790)	5,621	-	-
Exercised during the year	(345,126)	5,962	(345,126)	5,962
Expired during the year	-	-	-	-
Outstanding at the end of the year	327,336	5,980	690,252	5,962
Exercisable at the end of the year	-	-	-	-

The weighted average share price at the date of exercise for share conversion rights exercised during the year was HUF 5,962 per share. The options outstanding at the end of the year have a

weighted average remaining contractual life of 0.75 years (1.25 years in 2006). In 2006 and 2007 no options were granted.

	2007 HUF million	2006 HUF million
Expense recorded during the year	353	613
Fair value of conversion options not yet expensed	892	1,779
Liability component of the convertible bond	1,840	3,880
Equity component of the convertible bond	2,020	1,940

General Incentive Schemes for management until 2006

The incentive aim involves company and organizational level financial and operational targets, evaluation of the contribution to the strategic goals of the company and determined individual tasks in the System of Performance Management (TMR), and competencies. From the settled incentive scheme based on evaluation of indicators and qualification of individual tasks and competencies, 60% will be paid after the evaluation and 40% will be paid after a two years waiting period. The ratio of the incentive may change according to the individual agreements.

As required by IFRS 2, this share-based compensation scheme was originally accounted for as an equity-settled payment. However, in 2006 a change has been implemented in the scheme, transforming it to a cash-settled plan. Consequently, the accounting treatment has changed to that of cash-settled payment, expensing the fair value of the benefit as determined at the respective balance sheet date during the vesting period recorded as personnel-type expenses with a corresponding increase in Trade and other payables. The management has also decided to cut the vesting period of this General Incentive Scheme and the incentives for 2005 has been paid at the end of 2007. Expenses incurred by this scheme in 2007 were HUF 654 million (net of contributions).

Share-option incentive from 2006

The incentive system based on stock options launched in 2006 ensures the interest of the management of the MOL Group in the long-term increase of MOL stock price.

The incentive stock option is a material incentive disbursed in cash, calculated based on call options concerning MOL shares, with annual recurrence, with the following characteristics:

- covers a 5-year period (3-year vesting and 2-year exercising period) starting annually,
- its rate is defined by the quantity of units specified by MOL job category
- the value of the units is set annually (in 2006 and 2007, 1 unit equals to 100 MOL shares).

It is not possible to redeem the share option until the end of the third year (vesting period); the redemption period lasts from 1 January of the 4th year until 31 December of the 5th year.

The incentive is paid in the redemption period according to the declaration of redemption. The paid amount of the incentive is determined as the product of the defined number and price increase (difference between the redemption price and the initial price) of shares.

Details of the share option rights granted during the year were as follows:

	Number of shares in conversion options	Weighted average exercise price	Number of shares in conversion options	Weighted average exercise price
	2007	2007	2006	2006
	share	HUF/share	share	HUF/share
Outstanding at the beginning of the year	139,412	20,170	-	-
Granted during the year	163,296	21,146	139,412	20,170
Forfeited during the year	(8,724)	20,170	-	-
Exercised during the year	-	-	-	-
Expired during the year	-	-	-	-
Outstanding at the end of the year	293,984	20,712	139,412	20,170
Exercisable at the end of the year	-	-	-	-

As required by IFRS 2, this share-based compensation is accounted for as cash-settled payments, expensing the fair value of the benefit as determined at vesting date during the vesting period. Expense incurred by this scheme in 2007 was HUF 902 million (net of contributions), recorded as personnel-type expenses with a corresponding increase in Trade and other payables.

Fair value as of the balance sheet date was calculated using the binomial option pricing model. The inputs to the model were as follows:

	2007	2006
Weighted average exercise price (HUF / share)	20,712	20,170
Weighted average share price (HUF / share)	24,491	21,300
Expected volatility based on historical data	31.89%	29.31%
Expected dividend yield	2.34%	1.46%
Expected life (years)	3.56	4.0
Risk free interest rate	7.58%	7.54%

Historical Summary Financial Information (IFRS)

Consolidated Income Statements for the Years Ended 31 December

	2003	2004	2005	2006 restated	2007	2007
	HUF millions	HUF millions	HUF millions	HUF millions	HUF millions	USD millions*
Net revenue and other operating income	1,524,039	1,971,956	2,473,614	2,992,149	2,669,014	14,521
Total operating expenses	1,440,968	1,723,185	2,169,178	2,582,577	2,313,509	12,587
Profit from operations	83,071	248,771	304,436	409,572	355,505	1,934
Profit for the year attributable to equity holders of the parent	99,981	208,570	244,919	329,483	257,796	1,403

Consolidated Balance Sheets as at 31 December

	2003	2004	2005	2006 restated	2007	2007
	HUF millions	HUF millions	HUF millions	HUF millions	HUF millions	USD millions**
Non-current assets	1,091,774	1,101,385	1,344,176	1,301,035	1,533,084	8,882
Current assets	440,961	533,495	684,659	864,297	887,958	5,145
Total assets	1,532,735	1,634,880	2,028,835	2,165,332	2,421,042	14,027
Equity attributable to equity holders of the parent	523,869	734,170	983,279	1,079,666	792,164	4,589
Minority interest	155,752	67,955	70,359	191,537	124,902	724
Non-current liabilities	430,995	319,716	427,979	410,987	850,546	4,928
Current liabilities	422,119	513,039	547,218	483,142	653,430	3,786
Total equity and liabilities	1,532,735	1,634,880	2,028,835	2,165,332	2,421,042	14,027

Consolidated Statements of Cash Flows for the Years Ended 31 December

	2003	2004	2005	2006 restated	2007	2007
	HUF millions	HUF millions	HUF millions	HUF millions	HUF millions	USD millions*
Net cash provided by operating activities	203,158	324,381	282,159	529,508	315,506	1,716
Net cash provided by / (used in) investing activities	(298,529)	(224,811)	(259,480)	111,669	(336,978)	(1,833)
Net cash provided by / (used in) financing activities	114,639	(75,657)	(49,472)	(287,481)	(245,951)	(1,338)
(Decrease)/increase in cash and cash equivalents	19,268	23,913	(26,793)	353,696	(267,423)	(1,455)

* 2007 average HUF/USD 183.8 ** 2007 year-end HUF/USD 172.6

Key Group Operating Data

Gross proved developed and undeveloped reserves
(according to SEC rules)*

Major domestic fields and remaining other properties	Natural gas		Crude oil		Combined	
	MCM	Bcf	kt	million bbl	ktoe	million boe
December 31, 2003	32,529.0	1,148.8	9,805.4	74.0	39,007.0	294.5
Revision of previous estimates	(1,306.2)	(46.1)	(135.5)	(1.0)	(262.6)	(2.0)
Extension and discoveries	1,100.1	38.8	71.8	0.5	1,030.5	7.8
Production	(3,076.1)	(108.6)	(1,076.7)	(8.1)	(3,757.0)	(28.4)
Purchase/sale of minerals in place	0	0	0	0	0	0
December 31, 2004	29,246.8	1,032.8	8,665.0	65.4	36,017.9	271.9
Revision of previous estimates	120.0	4.2	(1,801.0)	(13.6)	(2,804.1)	(21.2)
Extension and discoveries	1,243.7	43.9	448.7	3.4	1,838.3	13.9
Production	(3,010.4)	(106.3)	(947.3)	(7.2)	(3,539.1)	(26.7)
Purchase/sale of minerals in place	(105.3)	(3.7)	0	0	(88.0)	(0.7)
December 31, 2005	27,494.8	971.0	6,365.3	48.1	31,425.0	237.3
Revision of previous estimates	534.2	18.9	269.8	2.0	812.5	6.1
Extension and discoveries	44.4	1.6	62.6	0.5	106.5	0.8
Production	(3,224.6)	(113.9)	(885.5)	(6.7)	(3,664.6)	(27.7)
Purchase/sale of minerals in place	0	0	0	0	0	0
December 31, 2006	24,848.8	877.5	5,812.0	43.9	28,679.4	216.5
Revision of previous estimates	(1,483.8)	(52.4)	(18.4)	(0.1)	(1,421.1)	(10.7)
Extension and discoveries	194.9	6.9	0	0	167.5	1.3
Production	(2,620.3)	(92.5)	(838.4)	(6.3)	(3,029.2)	(22.9)
Purchase/sale of minerals in place	(2,261.6)	(79.9)	0	0	(2,245.3)	(17.0)
December 31, 2007	18,678.0	659.6	4,955.3	37.4	22,151.3	167.2

Reserves in abroad	Natural gas		Crude oil		Combined	
	MCM	Bcf	kt	million bbl	ktoe	million boe
December 31, 2003	0.0	0.0	2,825.5	20.5	2,825.5	20.5
Revision of previous estimates	0.0	0.0	0.0	0.0	0.0	0.0
Extension and discoveries	0.0	0.0	0.0	0.0	0.0	0.0
Production	0.0	0.0	(1,148.5)	(8.3)	(1,148.5)	(8.3)
Purchase/sale of minerals in place	0.0	0.0	3,635.5	26.4	3,635.5	26.4
December 31, 2004	0.0	0.0	5,312.5	38.6	5,312.5	38.6
Revision of previous estimates	0.0	0.0	3,313.5	24.1	3,313.5	24.1
Extension and discoveries	0.0	0.0	0.0	0.0	0.0	0.0
Production	0.0	0.0	(1,368.9)	(10.0)	(1,368.9)	(10.0)
Purchase/sale of minerals in place	0.0	0.0	0.0	0.0	0.0	0.0
December 31, 2005	0.0	0.0	7,257.1	52.8	7,257.1	52.8
Revision of previous estimates	0.0	0.0	(18.9)	(0.2)	(18.9)	(0.2)
Extension and discoveries	82.7	2.9	0.0	0.0	69.0	0.6
Production	0.0	0.0	(1,307.7)	(9.5)	(1,307.7)	(9.5)
Purchase/sale of minerals in place	0.0	0.0	863.0	6.0	863.0	6.0
December 31, 2006	82.7	2.9	6,793.5	49.1	6,862.5	49.7
Revision of previous estimates	41.0	0.2	6,531.8	45.7	6,560.2	45.9
Extension and discoveries	0.0	0.0	0.0	0.0	0.0	0.0
Production	(57.6)	(0.3)	(1,305.1)	(9.5)	(1,349.2)	(9.8)
Purchase/sale of minerals in place	0.0	0.0	313.8	2.3	313.8	2.3
December 31, 2007	66.1	2.8	12,334.1	87.7	12,387.3	88.1
Total (domestic+int') hydrocarbon reserves as of Dec 31, 2003	32,529.0	1,148.8	12,630.9	94.6	41,832.5	315.0
Total (domestic+int') hydrocarbon reserves as of Dec 31, 2004	29,246.8	1,032.8	13,977.5	104.0	41,330.4	310.6
Total (domestic+int') hydrocarbon reserves as of Dec 31, 2005	27,494.8	971.0	13,622.4	100.8	38,682.1	290.0
Total (domestic+int') hydrocarbon reserves as of Dec 31, 2006	24,931.5	880.4	12,605.5	93.0	35,541.9	266.2
Total (domestic+int') hydrocarbon reserves as of Dec 31, 2007	18,744.1	662.4	17,289.4	125.1	34,538.6	255.4

*The reserves does not include information about MOL's share proportionate to its ownership from reserves of INA, d.d.

Gross reserves (according to SPE rules)*	Natural gas		Crude oil		Combined	
	MCM	Bcf	kt	million bbl	ktoe	million boe
Proved reserves as of December 31, 2007						
Hungary	18,249.9	644.5	7,768.2	58.6	22,484.6	169.8
Russia, Pakistan	1,787.6	11.8	13,434.8	95.6	14,858.0	107.5
INA d.d. (25%)	7,964.7	281.3	2,447.9	18.1	10,559.3	67.4
Total (domestic+int') hydrocarbon reserves	28,002.2	937.6	23,650.9	172.3	47,901.9	344.7
Proved and probable reserves as of December 31, 2007						
Hungary	23,003.1	812.3	9,477.5	71.6	27,784.8	209.8
Russia, Pakistan	1,947.6	12.9	16,557.6	118.0	18,105.8	130.8
INA d.d. (25%)	11,189.5	395.2	3,198.4	23.6	14,667.9	93.6
Total (domestic+int') hydrocarbon reserves	36,140.2	1,220.4	29,233.5	213.1	60,558.6	434.2

* The reserves include information about MOL's share proportionate to its ownersip from reserves of INA, d.d.. INA, d.d.'s reserves were estimated by MOL based on available public information.

Average production costs	2003	2004	2005	2006	2007
Crude oil					
USD/bbl	6.57	6.11	6.28	6.33	9.98
Natural gas					
USD/MMcf	629.4	858.7	937.7	861.3	936.3
Total USD/boe	5.25	5.73	6.05	5.87	8.03

Exploration and development data	2003	2004	2005	2006	2007
Wells tested	94 (71)	121 (102)	41 (28)	19 (15)	52 (31)
of which exploration wells (of which foreign)	14 (1)	8 (1)	12 (2)	7 (3)	16 (3)
crude oil (of which foreign)	2 (0)	0 (0)	1 (0)	2 (0)	0 (0)
natural gas (of which foreign)	3 (0)	1 (0)	2 (1)	1 (0)	8 (0)
dry / non commercial well (of which foreign)	9 (1)	7(1)	9 (1)	4 (3)	8 (3)
of which development wells (of which foreign)	80 (70)	43 (31)	29 (26)	12 (12)	36 (28)
crude oil (of which foreign)	76 (70)	31 (31)	29 (26)	11 (11)	31 (26)
natural gas (of which foreign)	4 (0)	12 (0)	0 (0)	1 (1)	3 (2)
dry well (of which foreign)	0 (0)	0 (0)	0 (0)	0 (0)	2 (0)

Hydrocarbon production (gross figures) (kt)	2003	2004	2005	2006	2007
Crude oil (domestic)*	1,083	1,024	884	857	799
Crude oil (international)	621	1148	1,369	1,310	1,323
Condensates (domestic)	219	229	206	216	162
Condensates (international)					10
LPG	206	220	206	200	157
Other gas products	50	52	51	43	41

*excluding separated consensate

Natural gas production (net dry) (mcm)	2003	2004	2005	2006	2007
Natural gas production (domestic)*	2,940	3,015	2,966	3,028	2,488
Natural gas production (international)	0	0	31	51	58

* from 2006 excluding original cushion gas production from gas storage due to the sale of Gas storage

Natural gas transmission volume (mcm)	2003	2004	2005	2006	2007
Hungarian transmission	17,393	17,004	17,714	17,278	14,961
Transit	2,044	2,526	2,570	2,386	2,390

Transmission fee	2003	2004	2005	2006	2007
Hungarian transmission fee (HUF/cm)		3.00	3.03	3.16	3.68

Crude oil processing (kt)	2003*	2004	2005	2006	2007**
Domestic crude oil	1,093	980	908	852	800
Imported crude oil	9,395	11,054	11,503	11,673	12,487
Total crude oil processing	10,488	12,034	12,411	12,525	13,287
Condensates processing	220	231	210	214	162
Other feedstock	1,499	1,933	2,433	2,371	2,854
Total throughput	12,207	14,198	15,054	15,110	16,303
Contract and joint processing	0	0	0	0	0
Average distillation capacity used Duna Refinery %	85	86	91	89	91
Average distillation capacity used Slovnaft %	97	94	95	98	98

* MOL Group with Slovnaft from 1 April

** MOL Group with IES from 15 November

Crude oil product sales without LPG and gas product (kt)	2003*	2004	2005	2006	2007**
Domestic sales	4,066	3,892	4,065	4,630	4,701
Gas and heating oils	1,766	1,808	1,919	2,345	2,438
Motor gasolines	1,189	1,159	1,148	1,286	1,331
Fuel oils	478	238	166	132	161
Bitumen	183	165	244	300	163
Lubricants	32	25	26	24	26
Other products	418	497	562	543	582
Sales in Slovakia	1,188	1,408	1,378	1,464	1,524
Gas and heating oils	562	690	719	786	838
Motor gasolines	419	467	420	406	444
Lubricants	18	20	15	11	10
Bitumen	60	58	96	99	85
Other products	129	173	128	162	147
Export sales	4,635	5,836	6,004	5,714	6,576
Gas and heating oils	2,613	3,150	3,264	3,254	3,671
Motor gasolines	1,153	1,554	1,534	1,263	1,365
Lubricants (with base-oil)	80	94	115	113	116
Bitumen	152	167	191	128	300
Other products	637	871	900	956	1124
Total crude oil product sales	9,889	11,136	11,447	11,808	12,801

* MOL Group with Slovnaft from 1 April
** MOL Group with Tifon from 1 November and with IES from 15 November

Petrochemical production (kt)	2003*	2004	2005	2006	2007
Etilén	489	595	796	775	870
LDPE	220	294	284	263	270
HDPE	188	195	353	360	404
PP	330	370	441	496	545

* MOL Group with Slovnaft from 1 April

Petrochemical sales (kt)	2003*	2004	2005	2006	2007
Domestic sales	393	430	468	479	491
Slovakia	79	77	69	72	84
Export sales	621	550	758	819	912
Total product sales	1,093	1,057	1,295	1,370	1,487

* MOL Group with Slovnaft from 1 April

Average headcount (person)	2003*	2004	2005	2006	2007**
Exploration and Production	2,024	1,682	1,502	1,428	1,504
Refining and Marketing	3,160	3,045	2,953	2,796	2,836
Gas	624	10	6	1	0
Corporate Services	531	528	580	504	539
Headquarters and other	709	578	489	461	427
MOL Rt. total	7,048	5,843	5,530	5,190	5,306
Subsidiaries	8,884	10,617	10,056	9,121	9,194
MOL Group	15,932	16,460	15,586	14,311	14,500

* MOL Group with Slovnaft from 1 April
** MOL Group with IES and Tifon

Closing headcount	2003*	2004	2005	2006	2007**
MOL Rt.	6,539	5,546	5,348	5,096	5,305
Subsidiaries	9,327	9,919	9,312	8,765	9,753
MOL Group	15,866	15,465	14,660	13,861	15,058

* MOL Group with Slovnaft from 1 April
** MOL Group with IES and Tifon

Supplementary oil and gas industry disclosures required by FASB 69 (unaudited)

These disclosures do not include information about MOL's share in INA's oil and gas activities, as these disclosures in accordance with FASB 69 were not available on INA's oil and gas activities in 2007 or for previous years.

A) Reserves

Proved reserves are the estimated quantities of oil and gas which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions. Proved developed reserves are those reserves which can be expected to be recovered through existing wells with existing equipment and operating methods. The reserves reported exclude volumes attributable to oil and gas discoveries that are not at present considered proved. Such reserves will be included when technical, fiscal and other conditions allow them to be economically developed and produced.

Oil and gas reserves cannot be measured exactly since estimation involves subjective judgement and arbitrary determinations. Estimates remain subject to revision.

Estimated net proved reserves of crude oil and natural gas at the end of the year and the changes in such reserves during the year are set out below.

	Crude oil and condensate (kt)				
	Consolidated companies			Associated companies	Total
	Hungary	Foreign	Total		
Reserves at 31 December 2005	8,495	5,161	13,656	-	13,656
Revision of previous estimates	(26)	143	117	-	117
Extensions and discoveries	63	4	67	-	67
Improved recovery	-	-	-	-	-
Purchase of minerals	-	601	601	-	601
Sales of minerals	-	-	-	-	-
Production	(1,042)	(938)	(1,980)	-	(1,980)
Reserves at 31 December 2006	7,490	4,971	12,461	-	12,461
Revision of previous estimates	363	4,289	4,652	-	4,652
Extensions and discoveries	9	-	9	-	9
Improved recovery	-	-	-	-	-
Purchase of minerals	-	215	215	-	215
Sales of minerals	(224)	-	(224)	-	(224)
Production	(920)	(1,305)	(2,225)	-	(2,225)
Reserves at 31 December 2007	6,718	8,169	14,887	-	14,887
Proved developed reserves as of					
31 December 2005	5,869	5,161	11,030	-	11,030
31 December 2006	5,089	4,971	10,060	-	10,060
31 December 2007	5,046	2,870	7,915	-	7,915

Foreign crude oil and condensate reserves include reserves in Russia and Pakistan, while foreign natural gas reserves include reserves in Pakistan.

	Natural gas (million m³)				
	Consolidated companies			Associated companies	Total
	Hungary	Foreign	Total		
Reserves at 31 December 2005	17,172	-	17,172	-	17,172
Revision of previous estimates	(1,843)	-	(1,843)	-	(1,843)
Extensions and discoveries	36	72	108	-	108
Improved recovery	-	-	-	-	-
Purchase of minerals	-	-	-	-	-
Sales of minerals	-	-	-	-	-
Production	(1,256)	-	(1,256)	-	(1,256)
Reserves at 31 December 2006	14,109	72	14,182	-	14,182
Revision of previous estimates	(2)	44	42	-	42
Extensions and discoveries	144	-	144	-	144
Improved recovery	-	-	-	-	-
Purchase of minerals	-	-	-	-	-
Sales of minerals	(1,256)	-	(1,256)	-	(1,256)
Production	(987)	(58)	(1,045)	-	(1,045)
Reserves at 31 December 2007	12,008	59	12,067	-	12,067
Proved developed reseves as of 31 December 2005	11,733		11,733	-	11,733
31 December 2006	9,534	72	9,606	-	9,606
31 December 2007	7,652	59	7,711	-	7,711

	Crude oil, condensate and natural gas (thousand tons of oil equivalent)				
	Consolidated companies			Associated companies	Total
	Hungary	Foreign	Total		
Reserves at 31 December 2005	23,343	5,161	28,504	-	28,504
Revision of previous estimates	(1,984)	143	(1,841)	-	(1,841)
Extensions and discoveries	94	61	155	-	155
Improved recovery	-	-	-	-	-
Purchase of minerals	-	601	601	-	601
Sales of minerals	-	-	-	-	-
Production	(2,049)	(938)	(2,987)	-	(2,987)
Reserves at 31 December 2006	19,404	5,028	24,432	-	24,432
Revision of previous estimates	(75)	4,323	4,248	-	4,248
Extensions and discoveries	134	-	134	-	134
Improved recovery	-	-	-	-	-
Purchase of minerals	-	215	215	-	215
Sales of minerals	(1,289)	-	(1,289)	-	(1,289)
Production	(1,691)	(1,349)	(3,040)	-	(3,040)
Reserves at 31 December 2007	16,483	8,216	24,699	-	24,699
Proved developed reseves as of 31 December 2005	15,883	5,161	21,044	-	21,044
31 December 2006	13,007	5,028	18,035	-	18,035
31 December 2007	11,497	2,917	14,414	-	14,414

B) Capitalised costs

The aggregate amount of tangible and intangible fixed assets of Group companies relating to oil and gas exploration and production activities and the aggregate amount of the related depreciation, depletion, amortisation and impairment at December 31 are shown in the table below:

HUF million	Consolidated companies			Associated companies	Total
	Hungary	Foreign	Total		
At 31 December 2005					
Gross value	237,814	46,836	284,650	-	284,650
Proved properties	237,814	46,836	284,650	-	284,650
Unproved properties	-	-	-	-	-
Accumulated DD&A and impairments	157,603	20,461	178,064	-	178,064
FX differences	-	(3,014)	(3,014)	-	(3,014)
Net capitalised costs	80,211	29,390	109,601	-	109,601
At 31 December 2006					
Gross value	316,972	111,743	428,715	-	428,715
Proved properties	316,972	56,939	373,911	-	373,911
Unproved properties	-	54,804	54,804	-	54,804
Accumulated DD&A and impairments	193,088	28,268	221,357	-	221,357
FX differences	-	(1,452)	(1,452)	-	(1,452)
Net capitalised costs	123,884	84,927	208,811	-	208,811
At 31 December 2007					
Gross value	330,286	138,662	468,948	-	468,948
Proved properties	330,286	105,964	436,250	-	436,250
Unproved properties	-	32,698	32,698	-	32,698
Accumulated DD&A and impairments	235,476	41,870	277,346	-	277,346
FX differences	-	1,408	1,408	-	1,408
Net capitalised costs	94,810	95,384	190,194	-	190,194

Capitalised decommissioning costs are included in figures from 2006.

C) Costs incurred

Costs incurred by Group companies during the year in oil and gas property acquisition, exploration and development activities, whether capitalised or expensed directly, are shown in the table below.

HUF million	Consolidated companies			Associated companies	Total
	Hungary	Foreign	Total		
For year ended 31 December 2005					
Acquisition of properties	-	3,935	3,935	-	3,935
Proved	-	-	-	-	-
Unproved	-	3,935	3,935	-	3,935
Exploration	10,207	4,983	15,190	-	15,190
G&G	3,437	2,381	5,818	-	5,818
Drilling	6,738	2,042	8,780	-	8,780
Rental fee, other	32	560	592	-	592
Development	6,797	3,815	10,612	-	10,612
Total costs incurred	17,004	12,733	29,737	-	29,737
For year ended 31 December 2006					
Acquisition of properties	-	43,113	43,113	-	43,113
Proved	-	8,368	8,368	-	8,368
Unproved	-	34,745	34,745	-	34,745
Exploration	8,501	4,892	13,393	-	13,393
G&G	1,332	1,173	2,505	-	2,505
Drilling	7,090	3,009	10,098	-	10,098
Rental fee, other	79	711	789	-	789
Development	16,953	3,563	20,516	-	20,516
Total costs incurred	25,454	51,568	77,022	-	77,022
For year ended 31 December 2007					
Acquisition of properties	-	9,886	9,886	-	9,886
Proved	-	1,338	1,338	-	1,338
Unproved	-	8,548	8,548	-	8,548
Exploration	9,009	7,598	16,607	-	16,607
G&G	1,579	2,814	4,393	-	4,393
Drilling	7,383	3,920	11,303	-	11,303
Rental fee, other	48	864	912	-	912
Development	15,139	10,553	25,692	-	25,692
Total costs incurred	24,148	28,037	52,185	-	52,185

D) Earnings

Earnings of Group companies from exploration and production activities excluding financing costs and related tax effects.

HUF million	Consolidated companies			Associated companies	Total
	Hungary	Foreign	Total		
For year ended 31 December 2005					
Sales	140,270	51,253	191,523	-	191,523
third parties	101,773	51,253	153,026	-	153,026
intra-group	38,497		38,497	-	38,497
Production costs	(19,970)	(1,788)	(21,757)	-	(21,757)
Exploration expense	(8,431)	(4,983)	(13,413)	-	(13,413)
DD&A	(16,268)	(9,084)	(25,352)	-	(25,352)
Other income/(costs)	(2,751)	(13,233)	(15,984)	-	(15,984)
Earnings before taxation	92,850	22,166	115,016	-	115,016
Taxation		(6,441)	(6,441)	-	(6,441)
Earnings from operation	92,850	15,725	108,575	-	108,575
For year ended 31 December 2006					
Sales	167,245	32,547	199,792	-	199,792
third parties	67,922	32,547	100,470	-	100,470
intra-group	99,323		99,323	-	99,323
Production costs	(20,272)	(2,773)	(23,045)	-	(23,045)
Exploration expense	(2,401)	(3,314)	(5,715)	-	(5,715)
DD&A	(28,954)	(7,420)	(36,374)	-	(36,374)
Other income/(costs)	(4,534)	(3,812)	(8,346)	-	(8,346)
Earnings before taxation	111,084	15,228	126,312	-	126,312
Taxation	(1,081)	(7,237)	(8,318)	-	(8,318)
Earnings from operation	110,003	7,991	117,994	-	117,994
For year ended 31 December 2007					
Sales	128,694	39,072	167,766	-	167,766
third parties	43,848	39,072	82,921	-	82,921
intra-group	84,846		84,846	-	84,846
Production costs	(18,899)	(4,620)	(23,519)	-	(23,519)
Exploration expense	(4,507)	(3,691)	(8,197)	-	(8,197)
DD&A	(26,876)	(13,605)	(40,480)	-	(40,480)
Other income/(costs)	(4,543)	543	(4,001)	-	(4,001)
Earnings before taxation	73,870	17,700	91,570	-	91,570
Taxation	(17,602)	(4,657)	(22,259)	-	(22,259)
Earnings from operation	56,268	13,043	69,310	-	69,310

Other income/cost was corrected by the administration cost inside MOL Plc in every year. The impact of capitalised decommissioning costs on DD&A and impairment is included from 2006.

E/1) Standardised measure of discounted future net cash flows

The standardised measure of discounted future net cash flows from production of proved reserves was developed as follows:

1. Estimates are made of quantities of proved reserves and the future periods which they are expected to be produced based on year-end economic conditions.
2. The estimated future cash in-flows from proved reserves are determined based on year-end prices.
3. The future cash flows are reduced by estimated production costs (including transportation costs and production taxes), future development and other, mainly abandonment and maintenance costs. All estimates are based on year-end economic conditions.
4. Future income taxes are computed by applying the year-end statutory tax rate to future net cash flows after allowing for tax deductible items (such as tax written down value of oil and gas producing assets) and future income tax credits.
5. Future net cash flows have been discounted at 10 percent in accordance with FASB 69.

The standardised measure of discounted future net cash flows does not purport nor should it be interpreted to present the fair value of the Company's oil and gas reserves. An estimate of fair value would also take into account, among other things, the recovery of reserves not presently classified as proved, anticipated future changes in prices and costs and a discount factor more representative of the time value of money and risks inherent in reserves estimate.

HUF million	Consolidated companies 2005		
	Hungary	Foreign	Total
Future cash inflows	1,647,975	176,514	1,824,489
Future production costs	(283,637)	(40,502)	(324,139)
Future development and other costs	(136,617)	(9,763)	(146,379)
Future tax expense	(197,566)	(27,835)	(225,401)
Future net cash flows	1,030,155	98,415	1,128,570
Effect of discounting	(459,050)	(35,067)	(494,118)
Standardised measure of discounted future cash flows	571,104	63,347	634,452

HUF million	Consolidated companies 2006		
	Hungary	Foreign	Total
Future cash inflows	1,416,838	149,675	1,566,514
Future production costs	(244,913)	(23,846)	(268,759)
Future development and other costs	(169,122)	(14,306)	(183,428)
Future tax expense	(210,835)	(23,892)	(234,727)
Future net cash flows	791,968	87,631	879,599
Effect of discounting	(325,142)	(32,450)	(357,593)
Standardised measure of discounted future cash flows	466,826	55,181	522,006

HUF million	Consolidated companies 2007		
	Hungary	Foreign	Total
Future cash inflows	1,361,413	377,658	1,739,071
Future production costs	(249,959)	(62,457)	(312,415)
Future development and other costs	(170,634)	(63,130)	(233,764)
Future tax expense	(209,564)	(58,320)	(267,883)
Future net cash flows	731,257	193,751	925,008
Effect of discounting	(262,803)	(104,682)	(367,485)
Standardised measure of discounted future cash flows	468,454	89,069	557,523

E/2) Change in standardised measure of discounted future cash flows

HUF million	Consolidated companies			Associated companies	Total
	Hungary	Foreign	Total		
At 31 December 2005	571,104	63,347	634,452	-	634,452
Net changes in prices and production costs	(37,390)	7,732	(29,658)	-	(29,658)
Sales and transfers of oil and gas, net of production costs during the year	(148,047)	(31,616)	(179,663)	-	(179,663)
Development and other costs incurred during the year	19,967	2,949	22,916	-	22,916
Net cash from extensions, discoveries and improved recovery	3,279	586	3,866	-	3,866
Development and other cost related to future production	(7,147)	(3,230)	(10,377)	-	(10,377)
Purchase/Sale of minerals in place	-	2,940	2,940	-	2,940
Revisions of previous reserve estimate	5,253	(598)	4,655	-	4,655
Accretion of discount	68,092	8,201	76,294	-	76,294
Net change in income tax	(8,287)	4,868	(3,418)	-	(3,418)
At 31 December 2006	466,826	55,181	522,006	-	522,006
Net changes in prices and production costs	78,006	24,855	102,861	-	102,861
Sales and transfers of oil and gas, net of production costs during the year	(110,899)	(32,698)	(143,597)	-	(143,597)
Development and other costs incurred during the year	21,647	(32,626)	(10,978)	-	(10,978)
Net cash from extensions, discoveries and improved recovery	4,730	-	4,730	-	4,730
Development and other cost related to future production	(4,935)	4,165	(770)	-	(770)
Purchase/Sale of minerals in place	(55,370)	796	(54,574)	-	(54,574)
Revisions of previous reserve estimate	16,080	76,266	92,346	-	92,346
Accretion of discount	58,493	7,035	65,528	-	65,528
Net change in income tax	(6,125)	(14,335)	(20,460)	-	(20,460)
At 31 December 2007	468,454	89,069	557,523	-	557,523