ANNUAL REPORT 2008

Economic, social and environmental performance

MOL GROUP

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MOL AT A GLANCE

MOL is a leading integrated oil and gas group in Central and Eastern Europe. We are one of the most efficient Upstream and Downstream players in Europe on a per barrel basis. We are market leaders in each of our core activities in Hungary and Slovakia. Our market capitalisation was at USD 5 bn at the end of 2008. Our shares are listed on the Budapest, Luxembourg and Warsaw Stock Exchanges and the DRs traded on London's International Order Book and on OTC in the US.
Our main objective is to provide sustainable growth in our captive markets and to exploit potential in new markets.

OUR CORE ACTIVITIES IN A SNAPSHOT

Exploration and Production: We have over 70 years of experience in oil and gas exploration and production in Hungary where we are the dominant market player. We have already built a sizeable concentrated international upstream portfolio in the last two decades. Using our core competences, we operate in 10 countries and have recorded several significant discoveries in Hungary, Russia and Pakistan in recent years.

Refining and Marketing: We operate three high complexity refineries with outstanding product yields (Duna, Bratislava and Mantova). Retail and wholesale activities are supported by extensive crude and product pipeline system. We operate a regional filling station network of over 1,000 sites in 10 countries and manage 6 brands within our multi-brand strategy.

Petrochemicals: We are among the top ten polymer market players in Europe. We supply polyethylene and polypropylene mainly to European plastic processing companies. The production facilities are located in Tiszaújváros (TVK Plc.) and Bratislava (Slovnaft Petrochemicals, s.r.o.) and units are operated in integrated manner jointly optimized with refining.

Natural Gas Transmission: FGSZ Ltd. is the exclusive holder of the natural gas transmission licence and the transmission system operator licence in Hungary. The company owns and maintains full operational control of the total domestic high-pressure pipeline system. In addition to domestic natural gas transmission operations, FGSZ also transmits natural gas to Serbia and Bosnia-Herzegovina.

Gas and Power: The activities of this new division enable us to take full advantage of the synergies between oil, gas and power production, which provide further growth opportunities for the MOL Group and enhance the flexibility and diversification of the portfolio. Our power business has commenced with the development of an attractive power portfolio on the basis of the MOL-CEZ strategic partnership.

The EBITDA (excluding special items) contribution of the various segments in 2008 was: Exploration and Production 44%, Refining and Marketing 39%, Gas and Power 14% and Petrochemicals 3%.

AWARDS IN 2008

Downstream Business of the Year
Platts

Healthy employees at healthy workplaces
ENWHP

Healthy Workplace Award
AmCham

Safety Awards – Special Award
DuPont

CSR Best Practice Award
Hungarian PR Association

Best IR by a Hungarian company
IR Magazine

PR team of the year
MTI

HR team of the year
IVM-Bridge

Key Financial and Operating data

Key exploration and Production data	2007	2008	08/07 %
Gross crude oil reserves (MM bbl) [1]	189.5	204.5	7.9
Gross natural gas reserves (MM boe)[1/2]	151.1	147.8	(2.2)
Total gross hydrocarbon reserves (MM boe)[1/2]	340.6	352.3	3.4
Average crude oil production (M bbl/day)[3]	50.1	46.2	(7.8)
Average natural gas production (M boe/day)[3]	40.3	40.1	(0.5)
Total hydrocarbon production (M boe/day)[3]	90.4	86.3	(4.5)
Key Refining and Marketing data	**2007**	**2008**	**08/07 %**
Total refinery throughput (kt)	16,303	18,141	11.3
Total crude oil product sales[4] (kt)	15,501	17,735	14.4
Gas and heating oil fuel yield (%) MOL+SN[5]	39.4	39.2	(0.2)
Gas and heating oil fuel yield (%) IES[5]	48.5	50.6	2.1
Gasoline yield (%) MOL+SN[5]	19.2	19.0	(0.2)
Gasoline yield (%) IES[5]	14.6	14.2	(0.4)
Fuel oil yield (%) MOL+SN[5]	2.3	2.0	(0.3)
Fuel oil yield (%) IES[5]	2.7	2.2	(0.5)
Total number of filling stations[6]	992	1,076	8.5
Key Petrochemical data	**2007**	**2008**	**08/07 %**
Olefin sales (kt)	277	240	(13.4)
Polymer sales (kt)	1,209	1,118	(7.5)
Key Natural Gas data	**2007**	**2008**	**08/07 %**
Hungarian natural gas transmission (m cm)	14,961	15,140	1.2
Transit natural gas transmission (m cm)	2,390	2,427	1.5
Environmental and social performance data	**2007**	**2008**	**08/07 %**
CO_2 emissions under EU ETS[7] (mt)	4.09	6.42	57.0
Lost time injury frequency	1.49	0.97	(34.9)

[1] SPE 2P without INA

[2] Including condensate

[3] Excluding MMBF Ltd. production

[4] Exluding LPG and gas products but including feedstock transfer to Petrochemical segment

[5] In case of the yield, the deviation is in percentage point

[6] Only fully consolidated subsidiaries

[7] The increase in the CO_2 emissions was caused by the start of Duna Refinery steam boiler full operation, and the inclusion of steam crackers in Petrochemical division and the emissions of IES and TVK power plant

Key financial data - IFRS	2007 (HUF bn)	2008 (HUF bn)	08/07 %	2008 (USD mn)
Net revenue	2,594.0	3,535.0	36.3	20,576.3
EBITDA	496.0	351.1	(29.2)	2,043.8
Operating profit	355.5	199.2	(44.0)	1,159.6
Operating profit excluding special items*	299.4	193.9	(35.2)	1,128.8
Profit before tax	344.3	158.0	(54.1)	919.4
Profit for the year attributable to equity holders of the parent	257.8	141.4	(45.2)	823.2
Profit for the year attributable to equity holders of the parent excluding special item*	210.4	137.1	(34.8)	798.3
Operating cash flow	315.5	347.2	10.1	2,021.0
Capital expenditures and investments	363.4	578.9	59.3	3,369.6
Basic EPS - HUF and USD	3,057.0	1,604.0	(47.5)	9.3
Return On Equity (ROE) %	32.5	12.7	(60.9)	-
Return On Capital Employed (ROACE) %**	22.4	10.2	(54.5)	n.a.
Clean ROACE* %**	18.6	9.9	(46.8)	n.a.

*Excluding the one-off gain on the acquisition of TVK shares realised in 2007 (HUF 14.4 bn), the fine imposed by the European Commission in association with paraffin trading (HUF 5.8 bn) realised in 2008, the repayment by the Slovak Ministry of Finance of the unfounded penalty in 2008 (HUF 4.6 bn) as well as the receivable for subsequent settlement from E.ON in connection with the gas business sale for FY 2008 and FY 2007 (HUF 6.4 bn and HUF 44.3 bn, respectively).

**Based on NOPLAT

Net sales revenue (USD bn)

0 10 20

2004
2005
2006
2007
2008

EBITDA (USD bn)

0 1 2

2004
2005
2006
2007
2008

EBITDA - CCS based (USD bn)

0 1 2

2004
2005
2006
2007
2008

Gearing (%)

-20 0 20 40

2004
2005
2006
2007
2008

Market Capitalisation (USD bn)

0 10 20

2004
2005
2006
2007
2008

MOL shares on BSE

2004 2005 2006 2007 2008

35.000 30.000 25.000 20.000 15.000 10.000 5.000 0

12 10 8 6 4 2 0

Closing price (HUF) Turnover (mn pcs)

Letter from the Chairman – CEO and the Group CEO

Dear Shareholders,

2008 was a turbulent year for the world economy and a year of extreme oil price volatility. The global recession has imposed a variety of direct and indirect shocks on the Central European oil and gas industry. Yet, even if MOL faces a tough economic environment, we believe that the MOL Group benefits from a strong competitive advantage over our peers that will serve the Group well, at home and abroad.

MOL is already internationally recognised as one of the best performing integrated companies in Europe. Our refineries are characterized by an outstanding configuration, a favourable middle distillate yield and a stable regional market share, and as such, enjoy a strong position to withstand a fall in market demand. This high efficiency of our refineries continues to prove the key element of our international competitive advantage and in 2008, we were awarded "Downstream Business of the Year" by Platts, the world's leading provider of energy information. We believe this to be a key differentiator and will allow the Group to be better positioned to endure a recession than our peers.

Despite the deteriorating conditions within the industry, our operating profit remained positive, even in Q4 of 2008. In particular, the CCS based operating profit which excludes inventory holding losses, and therefore best describes the underlining performance of the Group increased 15% year-on-year to USD 1.7 billion in 2008.

We have entered 2009 with the financial flexibility to pursue our growth strategy. Our net debt position increased modestly due to the INA transaction, resulting in a gearing ratio at 35.9%. With a strong balance sheet and around EUR 1.5 billion unutilized credit facility and cash deposits, MOL is well prepared to withstand the storm.

We intend to take every possible measure to equip the Group for the current climate by maintaining our strong financial position. Whilst MOL remains committed to investment for the future, we feel it prudent to reduce our capital investment for 2009 to a level that can be financed through operating cash-flow. In addition, our management team is implementing a range of cost reduction measures to extend our efficiency leadership and we expect this to result in broadly flat operating expenditure for next year.

Our medium-term strategy is to establish an even stronger financial position for the Group in order to be ready to exploit the opportunities of the global economic recovery. Our focus will be to continually improve the efficiency of our operations and to benefit from the synergies presented as a result of bringing INA to our operational standards.

Significant growth potential from INA transaction

We became the biggest shareholder of INA (47.16%) with the largest ever single transaction in MOL's history, with a total investment of EUR 873 million in late 2008. The accords signed in January 2009 with the Government of Croatia present a foundation for further development of the MOL-INA partnership. This represents a win-win situation for both parties providing enhanced security of supply for the Croatian Government and operational control for MOL.

The new Shareholders' Agreement with the Government of Croatia also signed in January 2009, together with MOL's track record in operational efficiency; create the potential for INA to deliver significant growth in revenues and profitability. The joint operation of the two companies enables MOL to optimise a larger asset portfolio, provides economies of scale and more flexible operations, as well as the mutual transfer of knowledge. Therefore, MOL is well positioned to deliver superior returns to its shareholders, even in an environment where the opportunity for shareholder value creation through growth is rather limited.

INA's considerable Croatian on-shore and off-shore production further strengthens MOL's Central European core production and reserves and diversifies our portfolio, currently dominated by Hungarian and Russian assets. The exploration potential of Croatia is considerable in the conventional and unconventional plays, as evidenced by recent joint successes along the Croatian-Hungarian border. Furthermore INA's major Syrian development asset in the Hayan block significantly strengthens our Middle-East/Central Asian position, complementing MOL's significant development projects in Pakistan and our exploration assets in the Arabian Gulf. This sizeable, production and development oriented upstream portfolio of INA provides not only a strong cash-flow base but also a growth platform. Increase in reserves and production is expected beyond 2010 from both sides of the portfolio.

Together with INA's Downstream capacity, MOL's regional refining capacity has increased by 40% to 23.5 million tonnes per annum. Our core strategic objective is to operate state-of-the-art, modern and efficient refineries. Therefore, we will continue to support the ongoing upgrade projects at both the Sisak and Rijeka refineries in order to create a competitive asset base for production of refined products in line with all applicable EU quality standards. INA's extensive petrol station network extends the number of our retail outlets to above 1,500 in 10 countries.

MOL is regarded as one of the efficiency leaders in the European Downstream business. MOL is also among the lowest cost producers in the European Upstream sector. MOL's track record in company restructuring, refinery modernisation and the development of market-based commercial policy provides INA with the opportunity to achieve significant performance improvement. It is a top priority for our management team to deliver for INA the efficiency levels which are a MOL hallmark.

The first step in value creation has already been made through the signing of the Gas Master Agreement, permitting INA to exit from loss-making sections of the gas supply value chain, to eliminate the regulatory risk and also to secure significant upside in its upstream business under a stable royalty framework for the next 15 years.

Successful exploration and development activities both in international and domestic upstream

MOL Upstream has concluded another successful year in its domestic and international activities. In Hungary, our success rate in exploration wells was above 80%, whilst our international exploration activities have started to pay off with several important discoveries in blocks in Pakistan, Kazakhstan and in Russia, all of which are operated by MOL. The single most important step was the consolidation of our shareholding position in INA, which is a key regional player in the area of upstream.

Average Group production for the year was 86,300 boe/day, contributing significantly to Group cash flow and profitability. Besides successful exploration we are maintaining our position as industry efficiency leader, a hallmark of MOL in the European upstream arena. Despite lower production, and during years of spiralling industrial and service costs, we managed to keep our unit production costs to a very competitive USD 5.8 per barrel of oil equivalent, through keeping our focus on delivering a sustainable earnings contribution.

We continued our systematic portfolio building with strong focus on new partnerships. We have started up unconventional exploration project with ExxonMobil and TXM in Hungary, laid the groundwork for new tight gas and shale gas projects for the future and also acquired new blocks in Pakistan and India.

Organic growth through downstream integration

Following the acquisition of IES in 2007, we have initiated an upgrade program at the IES Mantova refinery to comply with EU environmental regulations. The Retail Services Division now operates a regional filling station network of over 1,000 sites in 10 countries.

We are strengthening our sustainable development approach with a commitment to increase the ratio of renewable energy in MOL's refinery systems. The development and application of bio-fuels are key aspect of MOL's strategy to maintaining our regional competitiveness.

The strong trend toward diesel in MOL's target market is expected to continue. The high middle-distillate yield provides relative security for the Group considering the remaining shortage in diesel.

Our focus for the year ahead will be to adopt a disciplined and effective approach to costs in order to take best advantage of organic growth opportunities. We are moving forward with the integration of IES. We will transfer our best-in-class operating standards to improve the profitability of IES's refining and retailing activities. For the retail business in particular, MOL will extend its advanced know-how and sale techniques as well as ensuring that full benefit is gained from economies of scale and local brand strengths.

Petrochemicals remain competitive

2008 was exceptionally challenging, with volatile integrated margins as raw material prices reached both record high and low levels in the year. We implemented a successful margin improvement program focused on operational cost control and made significant progress in safety and reliability improvements. Our focus for the year ahead is to extend the competitive advantage afforded by our geographic location and integrated approach and improve efficiency.

Exploiting potential synergies across the energy value chain

We have decided to establish a new division, Gas and Power, in order to focus our attention on entering the energy sector and harvesting the synergy potential within our existing businesses. While satisfying the growth of our electricity and heat demand within the MOL Group, our power business will also address the external market and pursue sales and trade activities with third parties.

The development of the strategic and commercial underground gas storage facility in 2008, proved to be critically important during the gas crisis at the beginning of 2009.

Under the New European Transmission System project initiated by FGSZ Ltd., we are pursuing cooperation on a regional level between the natural gas transmission companies and have had several negotiations with potential partners. We believe NETS will also serve to create a European energy market and our initiative is strongly supported by the European Commission which strengthens our endeavour.

Looking ahead

Dedication and hard work in 2008 have provided a strong foundation for organic growth through the strategic cooperation of INA and our affiliates. This was achieved against the backdrop of a challenging and volatile environment that may continue for the near term.

As it might be noticed, this year we integrated our Sustainable Development Report and Annual Report to provide a more comprehensive overview of MOL's economic, social and environmental performance to our shareholders and stakeholders. Building a best-in-class ethical management system, significantly reducing work related injuries, promoting workplace health, reducing environmental impacts and attracting talents are just examples of our initiatives aiming at reaching long-term corporate sustainability and contributing to sustainable development.

On behalf of management, we would like to thank our employees and shareholders for their dedication and commitment. We look forward to the success of collaborative efforts with our new partners.

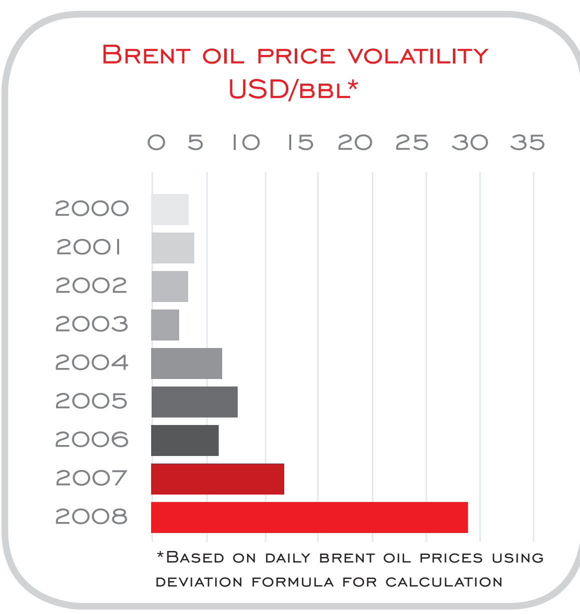
Zsolt Hernádi
Chairman-CEO

György Mosonyi
Group CEO

Overview of the environment

Financial crisis and economic turmoil marked the global economy

2008 was a turbulent year for the world economy. Economic developments in the second half of 2008 were determined by the credit crunch and the resulting systemic financial and real economic crisis. Yearly growth of the global economy slowed



down to around 3% as opposed to the previous years' level of 5%. The close interrelation between the financial sector and the real economy has led to unprecedented interventions by central banks and governments in the form of bailouts and capital injections, as well as fiscal stimulus programs. Their coordinated actions may prevent the global economy from falling into a deep recession, but given the scale of the crisis, a prolonged period of stagnation seems unavoidable.

The bursting of the oil price bubble

2008 was a year of extreme oil price volatility. In the first half of the year, the global oil market was characterized by a seemingly unstoppable bullish sentiment that pushed crude prices to record-highs of just over USD 147 per barrel by July 2008. This trend was driven by the combination of continuing supply-related concerns, a massive inflow of capital into oil futures markets and a belief that growth in emerging markets would remain unaffected by the economic slowdown in the US.

At the same time, however, fundamentals began to erode. Record-high oil prices resulted in a destruction of demand in OECD economies while a significant amount of new OPEC supply capacity was added in 2008. Inventory data also revealed that during a time of perceived shortage of supply, markets, in fact, became oversupplied.

By the third quarter, when the financial crisis entered a new phase, the fundamentals were completely reversed. The sharp slow-down of global economic growth and the rapid decline in oil demand as well as the sudden flight of capital from the oil futures market led to the bursting of the oil price bubble and to the subsequent free fall of oil prices to as low as USD 35 per barrel reached in December.

This extreme volatility seen during 2008 can be explained by the high short-term inelasticity of both supply and demand. As a result of these extremely steep supply and demand curves (and depending on the direction of capital flow in the commodity markets) a very wide range of new equilibrium prices can emerge in the short-term. Similarly high volatility will continue to characterize the oil markets in the foreseeable future.

Markets of petroleum products also affected by the economic slowdown

Oil product markets were also characterized by extreme price volatility. High prices and the economic crisis forced structural changes on the US motor gasoline market, while ethanol blending further added to the decline of demand. As a result of growing inventory levels, limited import need from Europe to the US and falling demand for naphtha, gasoline crack spreads reached very low levels in the second half of the year. Overall, world gasoline consumption stagnated in 2008 as growth in Asia and the Middle East offset the decline in the US and Europe.

Diesel demand growth continued in 2008 primarily driven by sustained economic growth in Asia and the continuing trend of dieselization in Europe. The huge negative imbalance of supply and demand on the European market resulted in high diesel crack spreads throughout the year. Biofuel blending into motor fuels increased in the European Union.

Central Europe affected by the global financial storm

During the first half of 2008, Europe and the emerging markets were expected to remain immune from a US economic downturn. Later, however, it became clear that the crisis would have a strong effect on the European economies as well. Liquidity problems among European companies and the relation between the European and rapidly-slowing US economies resulted in a reduced growth potential and even recession forecasts for Central European countries. Liquidity drought, slowdown of the non-financial sectors, a total freeze of credit in the Central European banking sector and decline of consumption were hurting the economies of Central and Eastern Europe.

The Central European motor fuel market was dominated by high price levels in most of 2008, and demand growth was lower than experienced in recent years. The region's gasoline market contracted by 2.2% in response to higher fuel prices, nevertheless, diesel consumption grew by 4.3 % mainly driven by higher economic growth rates in several countries of the region. The sharp fuel price drop stimulated a slight increase in private fuel consumption by the fourth quarter of 2008, but this could not entirely compensate for the lost demand.

Hungary: Export driven slowdown

The Hungarian economy was strongly affected by the global financial turmoil. Hungary is export oriented and highly exposed to foreign financial sources. Due to growing risk aversion of foreign investors, the sources financing the Hungarian economy have largely dried up, and the yield of the Hungarian state bonds has increased. The substantial credit provided by the IMF, however, decisevely tackled refinancing concerns. The budget deficit target has been achieved despite of weak economic growth. There is no doubt that Hungarian economy suffers the slowdown together with its major European export markets. However, the risk of a systematic financial crisis has been averted. One third of total sales of MOL Group is generated in Hungary. Since fuel consumption relatively rigid, only minor effects on sales were observed, while economic weakness was not reflected in refining activity.

Slightly declining gasoline consumption but significant growth in diesel demand

Total motor fuel consumption growth slowed down as a result of the weak performance of the Hungarian economy and due to a steep increase in fuel prices in the first half of 2008. Gasoline consumption declined by 1.5%, while diesel demand grew by 5.6% attributed mainly to the agricultural and transportation sectors. Following the collapse of oil price in the second half of 2008, both gasoline and diesel prices fell by nearly 30% from record-high levels reached in July.

Slovakia: Excellent progress shattered by the crisis

During 2008, the positive trends of previous years continued in Slovakia. GDP growth maintained excellent dynamics, unemployment rate continued to fall, public deficit was lower than planned and inflation did not exceed Eurozone average. The country remained attractive for business and financial investors. New investments have been initiated, especially in the automotive, electrical appliances and construction sectors. Slovakia was successful in meeting all criteria for adoption of the Euro from 2009. The positive macroeconomic climate and approval for Slovakia to join the Eurozone resulted in further appreciation of the Slovak currency and led to the convergence of short and long- term interest rates with Eurozone levels. The firm anchoring of the country and its currency to the Euro helped to reduce negative effects stemming from the global financial markets turmoil.

Overall positive growth of diesel and gasoline consumption

Diesel consumption grew by around 4.2% in Slovakia, while sales of motor gasoline were up by more than 1.8% in 2008. Favorable economic development, booming production capacities and rising real income all contributed to the demand growth, but high fuel prices somewhat moderated their positive impact on fuel consumption.

Past decision-making and planning has positioned MOL to endure a recession as well as any in our peer group, and this was reflected in the FY 2008 results.

György Mosonyi

Group Chief Executive Officer

OUR BUSINESSES

Exploration and Production

- Significant production with very competitive unit costs
- Intensive field development to put our existing reserves into operation in Hungary, Russia and Pakistan
- Outstanding exploration results with 8 discoveries (67% success rate) in 4 countries, 100% exploration success in Russia and successful joint exploration project with INA
- More robust portfolio - New partnerships in unconventional exploration and in international projects

Highlights

MOL has long tradition and successful track record in hydrocarbon exploration and production activities. We have over 70 years of experience in Hungary, a country with strong geological and production skill base. In the last years, we have also built an international asset portfolio now counting 14 projects in 8 countries (excluding Hungarian and Croatian projects). We choose assets which fit well into our knowledge base and prefer projects with medium/moderate risk level, typically in an onshore environment. In order to combine local knowledge with transferable technical skills, we work in partnership with reputed industry players on certain international projects and some activities in Hungary as well. Eight new discoveries added 38.8 MMboe reserves to our SPE 2P reserve base in 2008, which was 352.3 MMboe as of Dec 31, 2008. We achieved more than 100% reserve replacement based on SPE 2P reserves. The average production rate was 86,300 boe/day with one of the lowest production costs amongst our peers, rendering our Upstream activities one of the most profitable in Europe.

Competitive advantage in terms of unit costs

Despite strong cost inflation driven by record oil prices in H1 and challenging market conditions, we were able to maintain our leading position amongst our peers in 2008. Our continuous technology development and co-operation with leading service companies offering modern technology solutions, resulted in one of the lowest lifting cost per barrel in 2008.

Key Developments in 2008

Significant production from our intensive field developments in Hungary…

Although Upstream faced a challenging market environment due to the world economic crisis and the falling oil prices in Q4 2008, we maintained our field development investments in Hungary almost at 2007 level and we managed to moderate the natural production decline in our mature Hungarian fields. Furthermore, high returns are expected for these projects, as transportation infrastructure and gathering systems are available in their proximity.

In 2008, Hungarian oil and natural gas production fell by 2.1% to an average of 61,700 boe/day. Hungarian crude oil production (without condensate) decreased to 15,300 boe/day and condensate output was 7,300 boe/day while natural gas production (net dry) was stable at 39,100 boe/day.

...in Russia and in Pakistan

In 2008, crude production in our Joint Venture with RussNeft in the West-Siberian Zapadno–Malobalik (ZMB) field, reached 19,900 bbl/day (at 50% MOL share). During 2008, seven new wells were drilled, including three horizontal producers (with extremely high, over 1,400 bbl/day production rates) and one water injection well. The total number of wells in operation in the ZMB field is now 222. During 2009 we plan to further optimize the production by a modified CAPEX program based on well-performing new horizontal wells.

In 2008, we also continued the development of the Baitugan field. An extensive 3D seismic acquisition – covering the whole field territory – was completed and processing and interpretation have commenced. We drilled eight new production wells (including four horizontal wells) and six

horizontal re-entries. The preparation of water injection has been started, the extension and the reconstruction of the surface system continued. The total production of the field was 2,200 bbl/day in 2008 (a 19% increase versus 2007). According to the 2009 work program, 28 new production and injection wells will be drilled and surface facilities will be extended.

In the Matjushkinskaya field three new production wells were put on stream (including one horizontal well), and surface facilities were completed in 2008, allowing us to continue the intensive development of the block. As a result the average annual production increased by 144% to 1,300 bbl/day in 2008.

In our Pakistani Manzalai field located in the Tal Block, an extensive development program was carried out during 2008. Two development wells were drilled while construction of the Central Processing Plant and gathering system progressed. After the commissioning of the surface facility in April 2009 sharp production increase is expected with daily rates of 250 MMscf/day gas and 4,000 bbl/day condensate. In 2009, drilling of further production wells are planned in order to exploit the potential of the field.

Strong performance in Hungarian exploration

In 2008 we achieved again a remarkable success in our Central European exploration activity and successful cooperation with our partners. Five of the six exploration wells tested in 2008 discovered hydrocarbons, while drilling and/or testing activities of a further eight exploration wells have been extended into 2009. One of our discoveries was made as part of our joint exploration activities with Hungarian Horizon Energy in Eastern Hungary and one well drilled in partnership with INA waits for testing, while another well deepened with Hungarian Horizont Energy is scheduled for additional well operations.

100% exploration success and significant reserve additions in Russia, discovering oil and gas in Kazakhstan and third significant discovery in the Pakistani Tal block

In addition to development activities, and in order to exploit the full potential of the Matjushkinskaya block (which covers 3,231 sqkm), two exploration wells were drilled in the Ledovoye and Kvartovoye areas in 2008, one of them resulting in oil discovery, while the latter is waiting for further testing with very promising preliminary test results. Through fast track development, the Ledovoye exploration wildcat was brought into production in August, a few months after the discovery, with production rates of over 700 bbl/day. The SPE 2P reserves of the acreage multipled in 2008, up to 31.2 MMbbl

In the Surgut-7 block, the first exploration well was drilled, and has been tested and determined as productive from several layers. Development of the field is expected to commence after a hydro-fracturing program, which was started in the second half of 2008. The estimated SPE 2P reserve of the block is 9.1 MMbbl.

In Pakistan, MOL has been actively exploring all of its assets, resulting in the third gas and condensate discovery in the Tal block (Mami-Khel). The Makori-2 appraisal well (also in Tal block) failed to substantiate further upside and was suspended.

In the Margala and Margala-North blocks gravity-magnetic and seismic data was acquired in 2008, while in Karak block we prepared for 2009 seismic activities.

In Kazakhstan an oil and gas discovery has been made in the Fedorovskoye Block in 2008. During the testing campaign, the well has produced 8.2 MMscf/day gas and 1,503 bbl/day high quality oil/condensate from the primary targets.

New partnerships in unconventional exploration…

By the end of 2007, MOL conducted a technical study, together with ExxonMobil, identifying areas with unconventional potential in Hungary. Based on the results of the study, MOL and ExxonMobil launched an exploration program in the Makó basin covered by exploration licenses owned by MOL. As a result of the agreement signed with TXM in April 2008, MOL and ExxonMobil have gained a further share of interest covered by TXM's production license in the Makó basin. This increases MOL's stake to 33.5% in the Makó East project in addition to MOL's 50% shareholding in Makó West. The first phase of the drilling activities was launched in Q3 2008 and is expected to be completed in 2009.

…and in international projects

Our focused portfolio-building strategy implemented in recent years, has continued in 2008. The take-over of Tullow Oil's interest in the Ngosso Permit was completed after the approval of the Cameroon government. We partnered with

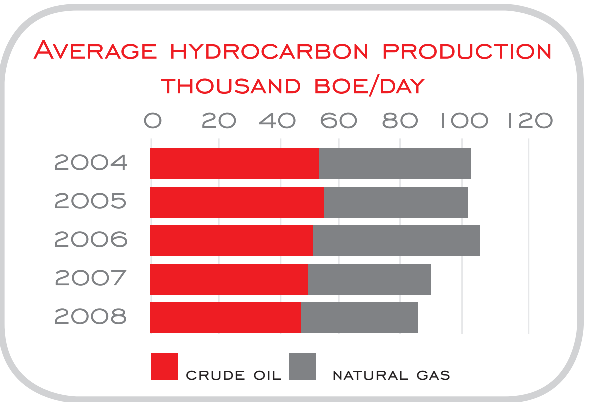
Mari Gas Company for our 25% interest in the Omani block, and in exchange we received a 40% share in the prospective Pakistani Karak Block.
We also entered a new target country in 2008 with a farm-in on Oil and Natural Gas Corporation Limited's (ONGC) HF-ONN-2001/1 block in India, with a 35% interest as part of the Memorandum of Understanding signed between the two parties earlier.

Sustainable development and HSE performance fully in line with industry benchmarks

It is important for us to develop and apply preventive environmental monitoring methods. We implement re-cultivation processes in conjunction with our plans, taking into account the existing natural environment. In addition, we have also implemented several projects in the Eastern and Southern part of Hungary in order to increase energy efficiency.
We have taken several steps to reduce pollution by using associated gas in our international operations. On the Matjushkinskaya field, we have started using gas-operated generators instead of the more prevalent gasoline-based generators, which ensures a lower level of containment and better results in the reduction of gas flaring. Moreover, on the Baitugan field, we provide support for local forestry for re-cultivating and preventing possible harmful processes in the environment.
We also focus on investing in young people in terms of development and retention. A Young Talent Program has been developed and initiated in the E&P division aimed at identifying and monitoring the managerial potential in our employee pool.
In Pakistan, we developed a long-term social welfare and development program and, since 2007, have been offering students Intermediate Scholarships and Technical Training Scholarships.

Focused and accelerated technology development

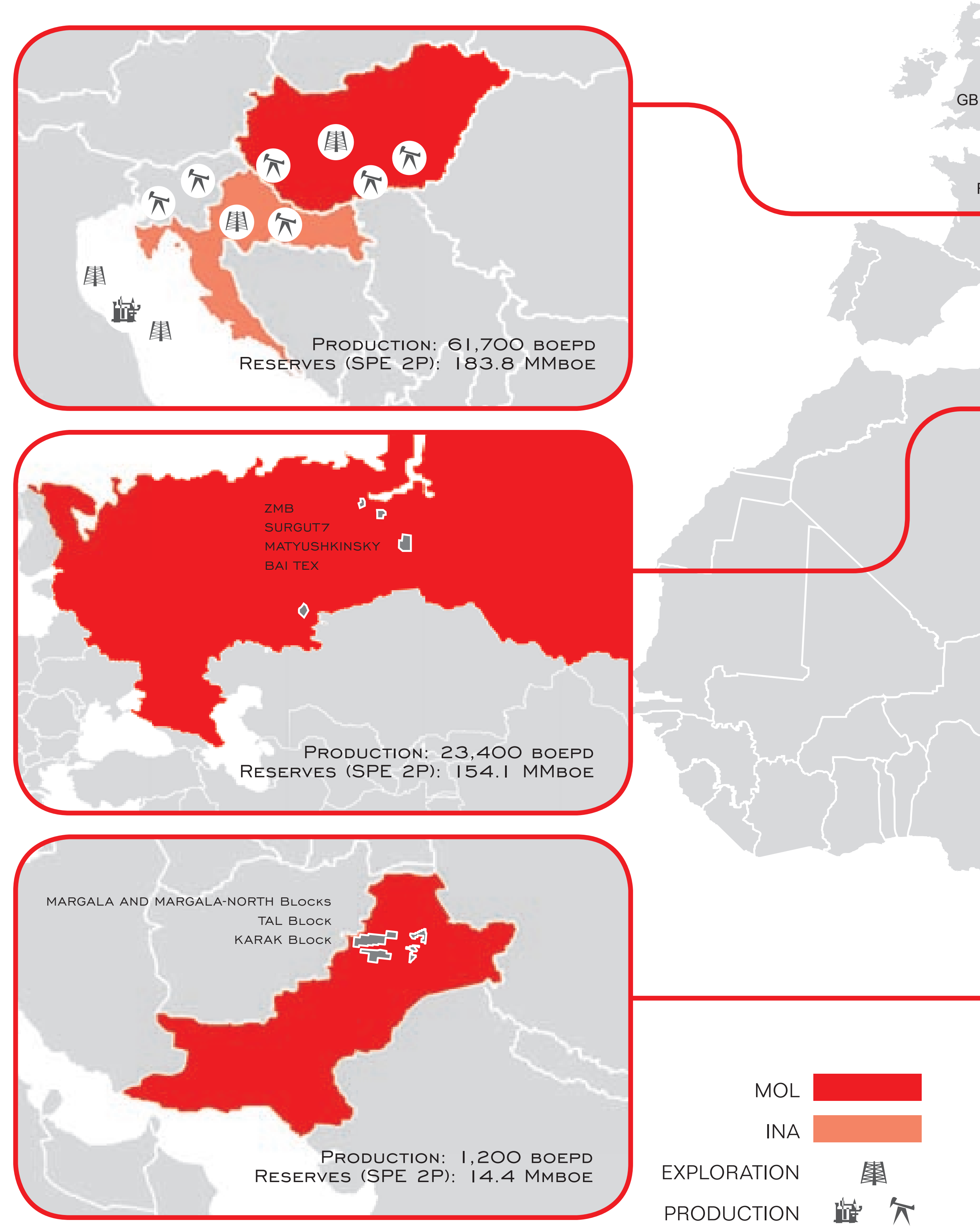
In 2008, our technology development focused on the exploration and development of HC reservoirs in complex geological environments, the investigation of up-to-date exploitation and production technologies, IOR/EOR/EGR solutions and technology development in connection with sustainable development such as protection of the environment and climate change.
As a result of our technology development, we have discovered new, complex HC reservoirs. In cooperation with leading international E&P service companies, significant progress has been made related to the stimulation of multi-layered tight gas reservoirs, which can be utilized in years to come for the development of unconventional fields. In addition, we continued preparation of three-dozen EOR/EGR projects opportunities to realize domestic upside potential. Due to the price sensitivity of these projects their start-up are subject to the development of macro environment.
In cooperation with domestic R&D institutes and universities, significant progress has been made with regards to exploiting application opportunities of CCS (CO_2 capture and storage) technology in Hungary. The applicable technological solutions, target fields and capabilities have been determined a consortium was set up to investigate the Central Europe and North Sea CO_2 value chains within a project called ECCO.

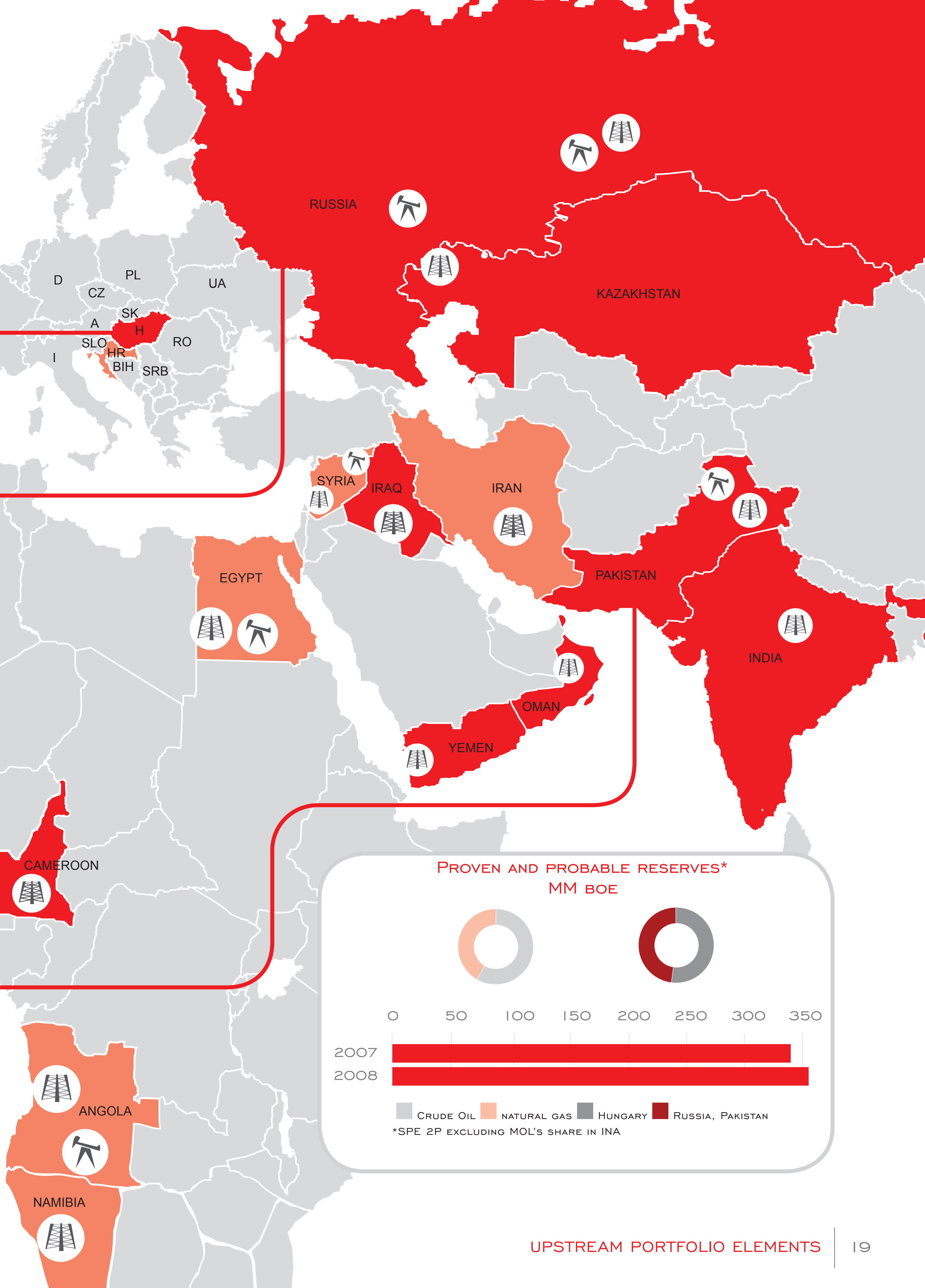


Outlook

Despite strong results in 2008, we changed the focus of E&P activities giving a fast and decisive answer to the changes occurring in the industrial environment and the global financial crisis. In 2009 the main focus is on high value and moderate or low risk development projects to generate cash, while other projects are delayed. Regarding exploration activities the capex program mainly focuses on committed work programs and we are putting even harder emphasis on partnerships to reduce costs and risks and to sustain exploration level. Regarding production, as already recognized one of the most efficient upstream player in Europe we are implementing further cost reduction measures to have a greater strength for the macro challenges.

Upstream portfolio elements

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Refining and Marketing

- IES integration provided further extension of compliance with EU 2009 product quality and environmental regulations and transfer MOL's best-in-class operating standards
- The capital intensive parts of the Hydrocrack project have therefore been re-scheduled due to the optimization of investment plan.
- Project EIFFEL - 'Efficiency Improvement Framework' - has been implemented to strengthen cost consciousness and to ensure and maintain stringent cost control and operational efficiency
- Continuous development of biofuels supports maintaining our regional competitiveness
- New 'Retail Visual Identity' (RVI) is implemented the new retail sites across the region to reflect the company strategy and the 'Value for Money' sales philosophy
- Strengthening awareness of sustainable development ensures operational, environmental and social consciousness

Highlights

MOL possesses three high complexity refineries: Duna with a Nelson complexity index (NCI) of 10.6, Bratislava: 11.5 and IES Mantova: 8.4, with a total refining capacity of 18.6 million tons per annum (mtpa). Our fully integrated supply chain provides top quality products and services. The increasing sales turnover was 18.1 million tons in 2008. Environmental sustainability has become the integrated part of our daily operations.

The Retail Services Division operates a regional filling station network of over 1,000 sites in 10 countries and manages 6 brands within its multi-brand strategy, providing a strong distribution channel for the Downstream business. Retail is also considered as the main brand-holder of the MOL Group, reflecting an image of high quality standards for products and services to the market.

Competitive advantages

We believe that refineries characterized by an outstanding configuration, a favourable middle distillate yield and a stable market position regionally, such as MOL's refineries, are better positioned to endure a recession than their peers.

The refineries of MOL Group are well-known for their exceptional profitability, favourable product slate and outstanding operational excellence, as demonstrated by the 2008 award by Platt's, for "Downstream Business of the year". According to Wood Mackenzie, the net cash margins of our Duna and Bratislava refineries are the highest in Europe.

Duna and Bratislava refineries' fuel quality has complied with the EU 2009 quality requirements since 2005, enabling the Downstream business to sustain and develop its regional market share. The technical infrastructure of refineries also provides MOL with the flexibility to adjust the product yield structure of its fuel sales to adapt accordingly to the changing needs of the market.

The Retail Services Division has taken advantage of market opportunities through the application of advanced micro-market pricing, retail knowledge on mature markets, the introduction of new services, the successful integration of new businesses and a focused investment program in markets with strong organic growth.

Key achievements in 2008

IES integration to comply with EU 2009 product quality and environmental regulations

IES, acquired by MOL in Q4 2007, is an Italian company which owns the Mantova refinery with a refining capacity of 2.6 mtpa, had a chain of 165 retail filling stations, which we further increased to 202 stations during 2008. The operational area is adjacent to MOL's current key territories in Croatia, Austria and Slovenia, which provides MOL with the opportunity to expand its downstream presence in North-East Italy and in the neighbouring markets, and also to supply the Italian market from Rijeka, the INA refinery in Croatia. In 2008, the Mantova refinery launched a program to comply with EU 2009 product quality and environmental regulations. A new gasoil desulphurization unit and a new Claus plant are the key elements of the refinery upgrade project. However, the program will be completed by the end of 2009, the refinery has already been producing 10ppm diesel since November 2008. Knowledge transfer has been started in order to improve operational excellence.

Hydrocrack project capex program was re-scheduled

Despite the global financial crisis, the strong demand for diesel in MOL's target markets is expected to continue over the long term. Investing in a new hydrocracking conversion package at the Duna Refinery is an effective way to respond to the expected demand and achieve organic growth. In 2008, the Basic Design for the Hydrocracking unit was completed and a detailed design and cost estimation was developed to provide a solid basis for entering into the Engineering-Procurement-Construction (EPC) execution phase. In addition, the Basic Design for the Delayed Coker and crude oil processing unit was completed and the EPC contract for a new Hydrogen unit concluded.
After optimising the investment plan, the capital intensive parts of the Hydrocrack project have therefore been re-scheduled. MOL will complete additional design and planning tasks in 2009.

Efficiency Improvement Framework (EIFFEL) project ensures strict cost control

The MOL Group established and launched the Efficiency Improvement Framework (EIFFEL) on 1 January 2008 to support all the three main constituents of its strategy: growth, efficiency and capability. The overall purpose of the EIFFEL initiative is to establish a new, self-improving, knowledge-sharing organization, which is able to adapt continuously to the changing business environment. In this new environment, our colleagues from within and outside the division are encouraged to continuously question whether the current methods, processes, actions are the best possible, and to focus on creative solutions to increase the efficiency of our operations. Ideas are carefully examined and the approved ones are to be implemented.

Bio-fuels – maintaining our regional competitiveness

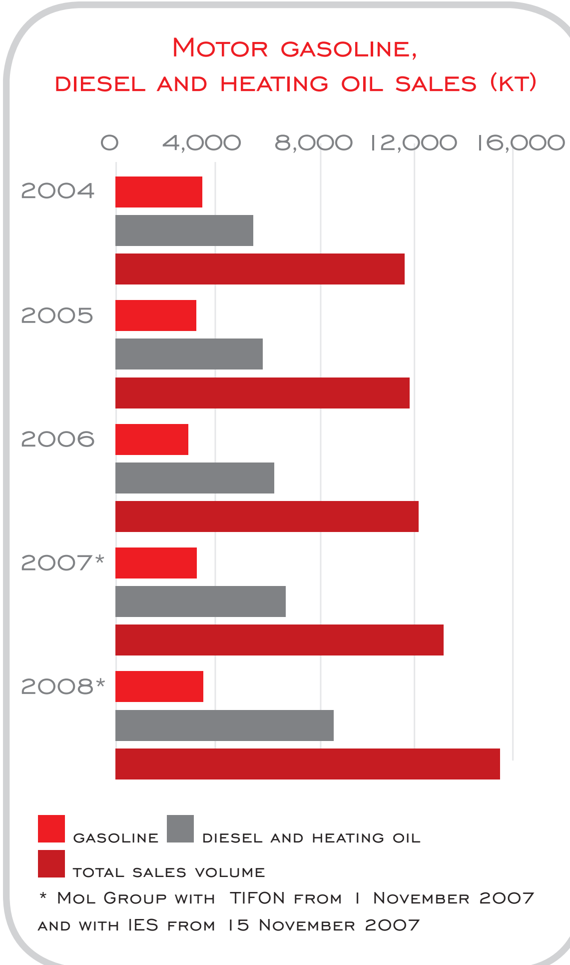
As MOL is a quality leader in the region, the development and application of bio-fuels are key aspects of its strategy. MOL continuously takes into account different bio-legislation requirements and is committed to provide customers with the best quality products. MOL Group has a leading position in the development of second generation bio-fuel research as part of a consortium of the most significant players in the Hungarian agricultural and academic fields, including the Hungarian Academy of Science, University of Pannonia, Agricultural Departments and other professionals.

Increase ratio of renewable energy in MOL refinery systems

R&M Division intends increase the ratio of renewable energy in MOL's refinery systems. This can be achieved by utilizing wind energy, solar energy or by producing biogas from organic waste and other biomass. The project, which commenced in 2008, analyses all three possibilities and implements, all technically and economically feasible options.

Retail network development

MOL's 'Retail Visual Identity' (RVI) has been renewed and introduced at newly-built, refurbished, re-branded filling stations. The new design combines the traditional MOL visual elements with a dynamic refreshing image to reflect the company strategy and MOL's Value for Money sales philosophy. We expect RVI to lead to increased turnover at these sites. In order to provide a premium gastro service at motorway locations, a regional partnership was created between MOL Group and Marché International. Investments are currently planned for Hungary and Croatia. The first restaurants were opened at Hungarian motorway



locations with great success. Results show a boost in fuel sales. The service portfolio of the stations has also become more attractive for customers. MOL also strengthened its sustainable development approach in the retail network through the launch of bio-corners at Retail stations, the introduction of recycled packaging materials and the pilot of a disabled access scheme.

Award of "Downstream Business of the Year" by Platts

In December 2008, MOL was awarded the title of "Downstream Business of The Year" by Platts, the world's leading provider of energy information. MOL was selected from five shortlisted companies by an international jury as the winner for the award which recognizes the achievements of energy companies around the world in several operational areas across 16 categories. The award was given at the 10th annual Platts Global Energy Awards ceremony in New York on 3rd December.

Outlook

The main focus of the Downstream business in 2009 is to adopt a disciplined and effective approach to cost consciousness in order to take best advantage of organic growth opportunities. Flexible contingency plans are in place to address the challenges of the global environment. Disciplined project management and the implementation of the revised approved investment program is a key area of focus. MOL is also moving forward with its strategic partner, INA, to expand operations in South-Eastern European markets. In addition, MOL intends to transfer its best-in-class operating standards to improve the profitability of refining and marketing activities. For the retail business in particular, MOL will extend its advanced know-how and sales techniques as well as ensuring that full benefit is gained from economies of scale and local brand strengths.

Downstream portfolio elements

Refineries

	capacity in Mt/y	NCI index
Duna Refinery	8.1	10.6
Bratislava Refinery	6.1	11.5
Mantova Refinery	2.6	8.4
Rijeka Refinery	4.5	5.8
Sisak Refinery	2.2	6.1

Logistics

Crude Pipelines	Capacity in Mt/y
Friendship I. (owned by Transpetrol)	22.0
Friendship II.	7.9
Adria (Hungarian part)	10.0
Algyő	2.0
Porto Marghera - Mantova	2.6
Adria - JANAF (16% owned by INA)	34.0
Depot	**pcs**
MOL	24
INA	9

Retail network

	Number of filling stations
MOL	539
Slovnaft	239
IES	202
Tifon	40
Roth	34
Energopetrol	22
INA	485

Petrochemicals

Production	Capacity in kt/y
TVK - Olefin	660
TVK - Polymer	797
SPC - Olefin	219
SPC - Polymer	437

Pipelines	Capacity in kt/y
Petrochemical pipeline	2,700
Ethylene (Kazincbarcika)	160
Ethylene (Kalush)	100

Petrochemicals

- Successful internal profit improvement program
- Marketing campaigns to capture higher growth
- Turnaround at SPC olefin and polymer units focusing on safety and reliability improvements
- Reconstruction and development program to ensure the long-term safe operation of the key assets for optimized energy utilization

Highlights

Our petrochemical business is among the top ten players in the European polyolefin market supplying polymers mainly to European plastic processing companies. Our production facilities are located in Tiszaújváros (Tisza Chemical Group Plc., TVK) and Bratislava (Slovnaft Petrochemicals, s.r.o., SPC). We produce commodity polymers in competitive quality, which are fundamental for a wide range of industrial applications and for the production of a vast number of consumer goods that are essential to our everyday lives. Our polyethylene product range includes low density polyethylene (LDPE), as well as high density unimodal and bimodal polyethylene (HDPE). The polypropylene (PP) product range includes homopolymers, random copolymers and impact copolymers.

Competitive advantages

According to our 'crude to plastic' philosophy we optimize our petrochemical and refining production through the whole hydrocarbon value chain, which not only maximizes our profitability but reduces the risk on group level. We exploit synergies from integration to enhance our operational excellence considering coordinated planning, feedstock supply with refining and shared services within MOL Group. These elements provide us significant benefits and flexibility. Our geographical location also provides a competitive advantage, offering low cost access to the fast growing polymer markets of Central Europe. We have a competitive asset base with a well-balanced product portfolio and a highly talented, experienced team to effectively manage our operations in a challenging environment.

Key Developments in 2008

Challenging external environment

Quoted prices and exchange rates, which are fundamental external factors in the petrochemical business, had major negative influence on profitability, especially during Q2 2008 when the sector margin plummeted to its historical low point. Although the market environment changed in favor of petrochemical producers in Q3 2008, we could not exploit fully the market opportunities because of the soaring energy prices and the downtimes. In the last quarter the worsening macroeconomic situation was counterbalanced by huge fall in petrochemical feedstock prices.

Attractive internal profit improvement program

In this difficult external environment it was necessary to apply stringent controls over operating costs and to reduce capital expenditures to a reasonably minimal level. A review of our project pipeline was carried out and based upon detailed risk analysis, certain projects were renegotiated and rescheduled to minimize spend. On the operational level, we achieved significant savings in maintenance costs and were able to increase energy consumption savings with regard to steam and electricity. In addition, a special focus on feedstock structure optimization has had a positive impact on our performance.

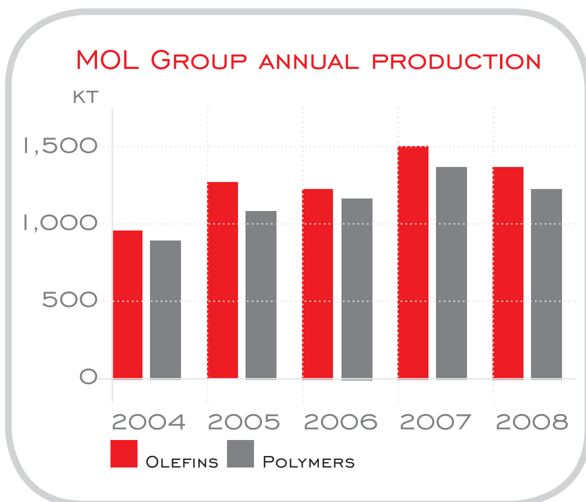
Marketing improvements

Central European markets provide higher growth potential than the European average and therefore our sales and marketing strategy aims to exploit the benefits offered by our favorable geographic position. Whilst the Central Europe region is considered our core target market, we also intend to strengthen important market positions in Western Europe. To deepen further our customers'

loyalty, we invested in improving the standard of our services. We continued our Open Doors program series and improved direct communication to customers.

In the second half of 2008, we successfully maneuvered through the difficulties generated by the global financial crisis and its implications on polymer demand. We worked hard to find the optimum price and volume combination on our markets. As a result of our flexible and fine tuned reaction to market changes we managed to mitigate our losses.

On the basis of an in-depth market analysis and assessment of core competencies we have updated our sales and marketing strategy. Analyzing our competitive position and future prospects, we will focus commercial and development activities in the most promising business segments.



Turnaround at SPC

We completed a general overhaul at SPC olefin and polymer units in April 2008. Despite the extended scope of work mainly focusing on safety and reliability improvements at the Olefin unit, the overhaul was completed on schedule. This well-managed turnaround gives us a good foundation for further developments at SPC.

Reconstruction and development program

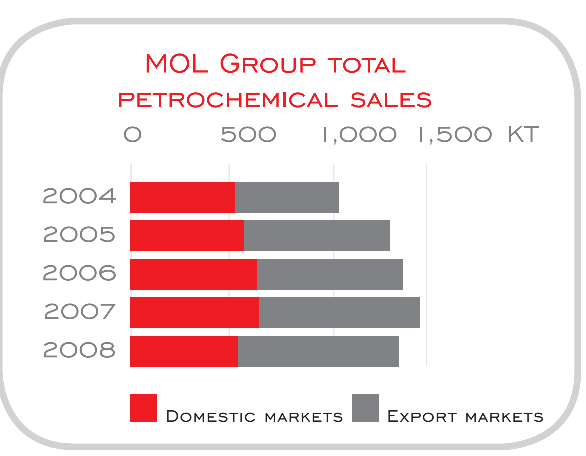
Reconstruction projects have been launched both at TVK and SPC Olefin units in order to enhance energy and cost efficiency and ensure the safe operation of the key assets for a further 15 years:

- We aim to enhance the technical status of SPC olefin units in order to ensure safe operation with optimized energy utilization, to capture competitive performance based on the international benchmarks of our competitors. In 2008, we started the renewal of the furnaces.
- TVK Olefin Reconstruction has been launched to improve the technical status of the unit and ensure efficient operations for the future with higher capacity utilization.

In order to benefit from the dynamic increase in demand for polyethylene in Central Europe and to maximize the group level profitability through the Refining-Petrochemical value chain, we started the basic engineering design package phase for our new LDPE-4 unit in SPC. This development intends to strengthen the competitiveness of our LDPE portfolio as well. Technology licenses and basic engineering design contracts were signed in 2008.

Our commitment to sustainable development

We continued surveying and minimizing the environmental impact of our activities, as well as the use of energy and pollutant emissions through many projects. We are committed to exploring the possibility of producing biodegradable endproducts, a special MOL Petrochemicals grade, in order to decrease their environmental impact. Basic research work is in progress – co-operating with a research company and a university - to develop biodegradable materials through using different additives.



Outlook for 2009 and beyond

Due to the economic crisis and slowdown, the petrochemical industry is facing unprecedented challenges, like most of global industries in the near term. In order to survive the turbulent period characterized by critical conditions (rebound in energy and feedstock prices, difficult trading nvironment), we will double our efforts to maximize profit. We will focus on extending our competitive advantages, improving efficiency and applying more proactive product and customer portfolio management.

Despite the headwinds, we believe there are significant growth opportunities in our core business and target markets. Our long term strategy aims at further improving competitiveness and the timely implementation of planned development projects.

Natural gas transmission

- FGSZ had a key role in managing the 2008/2009 gas crisis in order to restore gas transmission
- The company secured continuous and trouble-free gas transmission throughout the year for domestic consumers and resellers, as well as Bosnian and Serbian partners
- FGSZ continued its capacity expansion projects in order to supply the strategic gas storage with gas and to meet a growth in overall demand from domestic consumption and particularly transit transmission
- Negotiations progressed with regard to the establishment of a new, independent regional gas transmission company for integrating the Central and Southern European natural gas systems in the region (the NETS project)

Highlights

FGSZ Natural Gas Transmission Ltd. (FGSZ) is the exclusive holder of the natural gas transmission licence and the transmission system operator (TSO) licence in Hungary. Both activities are carried out in a regulated market environment. The company owns and maintains full operational control of the total domestic high-pressure pipeline system. In addition to domestic natural gas transmission operations, FGSZ also transmits natural gas to Serbia and Bosnia-Herzegovina in accordance with its strategy to expand transit markets. The company's primary responsibility is to ensure safe access to the high-pressure pipeline system, and to secure reliable, efficient and environmentally friendly operations and transportation from and to natural gas shippers.

Competitive advantages

The operation of the company's 5,300 km long, nationwide high-pressure natural gas transmission pipeline system, together with capacity and auxiliary services under open and competitive market conditions, provide a stable cash flow for the Group. As a result of geographic advantages, FGSZ is also a key player in the regional transit transmission operations.
The technical standard of the company's pipeline system conforms to internationally benchmarked state-of-the-art technology. FGSZ has been operating an officially certified quality assurance system in compliance with ISO 9001 Standard requirements since 1997. The agency certifying the system is SGS, widely recognised in the international oil and gas sector, its Hungarian subsidiary being SGS Hungária Ltd. The Mining Bureau of Hungary and SGS Hungária Ltd. conduct audits of the operations annually and semi-annually, respectively.

Key results in 2008

Capacity expansion projects – implementation of new gas pipelines

The import capacity expansion project reached 90% completion by the end of 2008. This represents an increase of 30 mcm/day for the domestic import transmission pipeline capacity, and should enable the transmission of additional natural gas into Hungary from the third quarter of 2009. The total capex requirement of the project is HUF 69 bn. The new pipelines will expand domestic import capacity by 25%, thereby improving the security of supply, and providing opportunities for a more pro-active role in future natural gas transmission business.

In 2008, the construction of the DN800 gas pipeline was completed between Pilisvörösvár and Százhalombatta, improving the security of supply for Budapest and the region. During the pipeline construction project, FGSZ paid special attention to the protection of wildlife and ecosystems in the affected areas, protection of the environment and conservation of nature, as well as improving the quality of air. During the construction works, the company cooperated with the local population and devoted particular attention to community organisations. FGSZ, in conjunction with the parent company, constructed a forest trekking road with the local social groups along the Pilisvörösvár–Százhalombatta pipeline, in the region of Piliscsaba.

Progressive initiative for establishing a joint regional natural gas transmission company (NETS)

NETS (New European Transmission System) is a large-scale project initiated by FGSZ in December 2007, aiming to create an integrated gas pipeline system in Central and Southern Europe. Negotiations progressed in 2008. The parties (FGSZ from Hungary, Plinacro from Croatia and Transgaz from Romania) agreed on the foundation of a study company. BH-GAS (Bosnia-Herzegovina) intends to participate in this company as an observer. FGSZ also invited other market players from the region to participate in this project.

NETS is aligned with the initiatives advocated by the Second Strategic Energy Revision of the European Commission regarding the security of energy supply of our continent. The implementation of NETS would guarantee a significantly higher level of security of gas supply for consumers, a key issue for Hungary and for the other countries in the region following the 2008/2009 gas price dispute between Russia and the Ukraine.

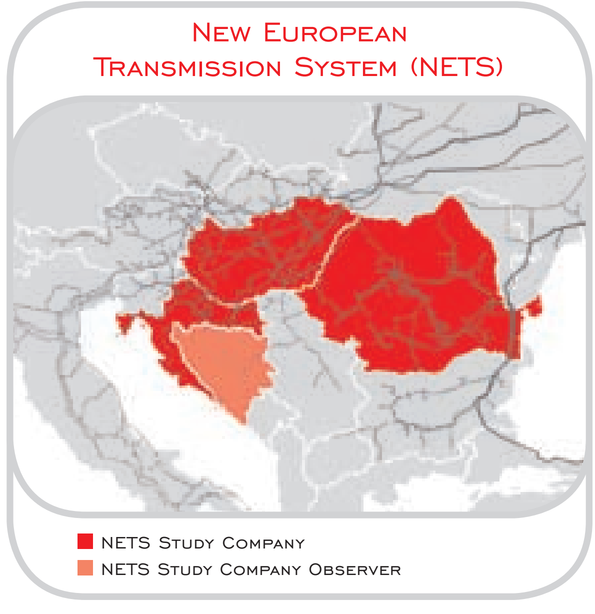
Outlook

Expansion in transit-purpose transmission requires further development of cross-border capacity. The design phase of the Szeged-Arad gas pipeline was completed in 2008. Implementation is now under way, and the planned completion date is December 2009. The Hungarian-Croatian gas pipeline project (Városföld-Slobodnica) is currently in the design phase with a planned completion date of the end of 2011. FGSZ prepared the plans for the facilities to enable the transmission of natural gas to and from both directions.

As a result of implementing inter-connections between the Hungarian-Romanian and Hungarian-Croatian gas transmission networks, security of supply will significantly improve and expand the sources of gas supply. This will improve security for meeting ever-increasing consumption demand. Furthermore, this real diversification will also enhance competition in the gas market.

However the designing of these projects started earlier than the idea of NETS, without them, the implementation of an integrated gas network accessible for all parties would simply be impossible.

New European Transmission System (NETS)



- The preparatory work of the two MOL-CEZ CCGT power plants started in 2008, following the planned schedule at both refinery locations.
- We have established a geothermal energy company together with partners to explore the outstanding potential for geothermal energy utilization in Hungary.
- MMBF Ltd. (72.5% MOL subsidiary) continued the development of the underground gas storage facility.
- MOL Energy Trade Ltd. supplemented its Hungarian, Serbian activities with Austrian trading activities.

Highlights

The Gas and Power Division was formed in 2008 in order to provide reliable, environmentally friendly and efficient natural gas and energy supply within the MOL Group and for external market participants. The decommissioning energy generation capacity for the next five years and the environmental regulations of the EU lead to build up less polluting power generation technologies in CEE. For this reason, MOL, together with its strategic partner – CEZ, the Czech Energy Company – will implement major investments in the Duna and Bratislava refineries including two combined cycle gas turbines (CCGT) and the revamp of the existing thermal power plant. Due to growth in gas consumption in the EU countries and the high level of import dependency, we continued to focus on the diversification of gas source and the development of infrastructure (underground gas storage) while trading natural gas in Hungary, Serbia and Austria. The activities of the new Gas and Power Division enable MOL to take full advantage of the synergies between oil, gas and power production, which provide further growth opportunities for the MOL Group and enhance the flexibility and diversification of the portfolio.

Building Power Business

In 2008, a new business was established within the MOL Group, in order to manage projects related to the electricity market. Our intention is to create an attractive power portfolio in the region based on the strategic cooperation with CEZ and exploiting further synergy opportunities with the other businesses of MOL Group including green energy concepts.

The preparatory work of the two MOL-CEZ CCGT power plants started in 2008

Within the next five years, 15% of the region's energy generation capacity is expected to be decommissioned. As environmental regulations are a key focus for the EU, the need for new and less polluting power generation technologies is inevitable in Central and Eastern Europe.

For this reason, MOL, together with its strategic partner – CEZ, the Czech Energy Company - will implement three major investments – as the first remarkable projects of this joint venture – in the Duna and Bratislava refineries: two combined cycle gas turbine (CCGT) technologies each with an installed capacity of 800 MW which will result in a 58% net electrical efficiency (compared to an average 36% efficiency of gas power plants in Hungary in 2007) and thirdly, the revamp of the existing thermal power plant in the Bratislava refinery. The amount of energy produced will be able to create sufficient steam and energy sources for the Duna and Bratislava refineries. It also enables MOL to enter and gain a significant share of the very attractive energy market.

The new Holding Company was registered under the name of CM European Power International B.V. in June 2008. The joint venture has obtained all necessary rulings from the relevant anti-monopoly authorities. Therefore, in 2008, the partnership moved forward in order to prepare for the project and deliver the tasks assigned to its first year. The investment project is in line with the planned schedule at both refinery locations.

Renewables: Establishment of Geothermal Joint Venture (CEGE)

Building on the outstanding geological potential of the Carpathian Basin and the vast experience of geological exploration of MOL, we established a geothermal energy joint venture together with Icelandic and Australian companies. At the beginning of 2009, MOL and its Australian partner acquired the shareholding of their third partner.

The Central European Geothermal Energy Producing Ltd. (CEGE) will implement exploration both in Hungary and on a regional level. The core activities of the company will be the construction of geothermal power plants and technologies for directly supplying thermal heat and the production and sales of geothermal energy.
MOL understands that the commitment towards exploring, developing and utilizing renewable energy sources is a high priority for the European Union's energy policy. We believe that renewable energy sources, when produced in sufficient amounts, can contribute to the reduction of Hungary's dependence on foreign energy imports and meet objectives set by the Kyoto Protocol on climate change.

ESTABLISHING THE COMMODITY TRADING PLATFORM

In 2008, under the umbrella of the Gas and Power Division, a Commodity Trading Platform was established with the responsibility of managing the commodity price risks of all business units and for realizing the structural potential via derivative businesses in a controlled way.

The Trading Platform will handle the usual inventory and sea-borne cargo hedges and structure risk mitigation derivative deals in connection with physical fixed price sales on oil products and in association with physical gas indexation transactions. The Trading platform will take care of the overall optimization of the MOL Group electricity portfolio and extend this, where possible, in Hungary and the CEE region.

MOL Group is committed to significantly reducing its CO_2 emissions. MOL will optimize and trade the group level carbon-dioxide emission through the Trading Platform. This new approach will help to improve the energy efficiency and incentivize MOL businesses to reduce their CO_2 emissions. Furthermore, MOL Group is actively involved in the study phase of carbon capture and storage (CCS) and biomass utilization projects.
We will continue to focus on building partnerships with other gas and energy market participants in order to combine MOL's regional experience with the complementary skills and most up-to-date know-how of potential partners.

Gas Business

On a national level, the construction of the strategic underground storage and the development of the natural gas trading and sales portfolio strengthen the security of supply in Hungary and provide stable cash flow with healthy returns for the Group.

- In 2006 MOL re-entered into the gas storage business. MOL has several depleted and depleting gas fields in Hungary, which can be converted into potential commercial or strategic storage facilities with a total capacity of up to 10 bcm.
- In addition, MOL, with its energy trading activities, is able to exploit its accumulated market know-how and previous experience in order to realize upside value of new regional gas storage and transmission investments.

On a regional level, the import capacity extension – which will be finalized by the summer of 2009 – and other ongoing regional interconnections offer opportunities for regional expansion for MOL's natural gas trading and sales activities.
On an international level, MOL has continued to participate in and support several infrastructure development projects (Nabucco and MOL-Gazprom cooperation) to diversify supply. In this aspect, the deepening cooperation between MOL and INA opens up further prospects.

Development of the strategic and commercial gas storage

In order to ensure the security of gas supply, MMBF Gas Storage Ltd. – 72.5% subsidiary of MOL – developed the underground gas storage with a strategic mobile capacity of 1.2 bcm and 0.7 bcm commercial capacities. The storage facility, in line with legal provisions, has a daily withdrawal peak capacity of 20 mcm over a period of 45 days for internal activities and an additional 5 mcm/day peak for the commercial part. The gas storage facility functions through an active reservoir, Szőreg-1. The turn-key contractor of the development is MOL. The developement, implemented by MOL Plc, is proceeding according to schedule. The total CAPEX, without the acquisition of mining rights (HUF 67.0 bn), is estimated at HUF 81.5 bn of which HUF 57.0 bn had been spent by the year end. The development is expected to be completed by 2010 for both the

strategic and commercial capacities. As a result of this transaction, MOL is again an active participant in the gas storage business.

Performance of the gas trading company

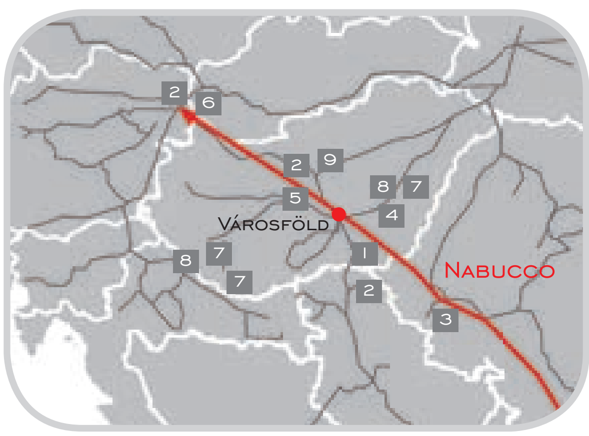
MOL Energy Trade Ltd. concluded its first full business year in 2008. Following the agreed strategy, the company provided a secure and reliable natural gas supply for the MOL Group and signed up to 49 new sales contracts on the Hungarian market in 2008 as well as being active and successful on the Serbian and Austrian trading market. MOL Energy Trade continued to pursue its well established business with the Serbian Gas company. In addition, through the signing of new sale and buy contracts in the Austrian market and initial steps to enter the Romanian market by booking capacity on the Szeged – Arad pipeline, regional expansion was also achieved.

MOL-Gazprom cooperation

Gazprom and MOL have established a joint study company with the aim of examining possible areas for cooperation in gas transit and gas storage in Central and South-Eastern Europe. The parties have reached the final phase of negotiations related to an agreement to establish a gas storage investment in Hungary.

Nabucco project

MOL is taking part in the Nabucco project as 16.66% owner, aimed at transporting natural gas from the Caspian region to Europe, in cooperation with Botas, Bulgargaz, OMV, Transgaz and RWE. The project, which is also supported by the European Union, will result in a 3,300 km long pipeline by the beginning of the next decade, with an initial transmission capacity of 8 bcm per annum, extended to 31 bcm per annum in the future. An engineer company has been selected and started the front end engineering design work in 2008.



GAS AND POWER

Gas	Power	Business Development	Commodity Trading Platform
1. MMBF Plc. (72.5%): Development of the strategic and commercial gas storage	**5. CEZ-MOL European Power International (50%):** Ongoing power plant developments in cooperation with CEZ - at Duna Refinery (800 MW CCGT power plant)	**7. Screening inert gas utilization with partners**	**9. Trading platfrom:** Responsibility of managing the commodity price risks and to realize the structural potential via derivative businesses; CO2 optimization on Group level
2. MOL Energy Trade Ltd. (100%): Trading activities in HU, AUT, RS with the max. available gas source of 4 bcm	**6. CEZ-MOL European Power International (50%):** Ongoing power plant developments in cooperation with CEZ - at Slovnaft Refinery (960 MW CCGT power plant and TPP development)	**8. CEGE (50%):** Screening geothermal energy utilization with the Australian partner, Green Rock Energy	
3. 16.6% share in the Nabucco pipeline project			
4. Cooperation agreement (50-50%) with Gazprom to evaluate opportunities in gas storage			

- Successful co-operation in the past
- Operational control secured for MOL
- Reorganisation of INA's gas business provides near term benefits in the upstream business
- Development and improvement of refineries is on track

Highlights

INA d.d. (INA) is a European integrated oil and gas company, headquartered in Zagreb, Croatia. Beyond playing a key role in Croatia, INA has exploration and production activities underway in Syria, Angola and Egypt. At the end of 2008, INA had 382 million boe P1+P2 hydrocarbon reserves and 58.9 thousand boe/day hydrocarbon production throughout 2008. In addition, Crosco, a company fully owned by INA, provides oil field services in Libya, United Arab Emirates, Qatar, Syria and other countries in Africa and the Middle East. INA owns Croatia's two refineries (in Rijeka and Sisak) with a total throughput capacity of 6.7 mtpa. INA produced a total of 4.1 mt of refined products in 2008. As at December 2008 a total of 413 petrol stations had been operated in Croatia by INA's Retail Services Segment and 22 by Company's fully owned subsidiaries; in addition 50 petrol stations were operated in the region.

Recent developments in the strategic partnership

MOL is INA's largest shareholder with 47.16% of the share capital. The inital package of 25% plus one share was acquired in November 2003 as the first step towards the privatization of the company. In October 2008, MOL raised its stake to the current level via a voluntary public offer. The Republic of Croatia owns 44.84% of INA shares. After the successful public offer, MOL continued discussing the future development and governance of INA with the Croatian Government. As a result, in January 2009 the Amendment to the Shareholders' Agreement and a Gas Master Agreement were signed by MOL and the Croatian Government providing win-win situation for both parties. MOL is securing the management control and the opportunity to improve efficiency and profitability as well as to realize the upside potential. The Croatian Government has protected its strategically important assets with a veto and pre-emptive rights and become responsible for industry and household energy supply. The contracts are also beneficial for development of INA's business via the divestment of the regulated part of the gas business and significantly reducing the regulatory risk.

A History of successful partnership

Following the first phase of privatization in 2003, co-operation between MOL and INA began in several business areas. In 2004, INA introduced the Supply Chain Management process, supported by MOL's know-how. The benefits, such as improved cost control for the whole supply chain and improved customer relations, have since been achieved.

Our successful exploration co-operation with INA in the Dráva basin (Vízvár – Ferdinandovac, Novi Gradac-Potony, Zaláta) has resulted in several discoveries in recent years. Collaborative studies and investment activities in these areas will continue in the coming years, providing a solid basis for further growth.

As part of the consolidated marketing strategy for the South Eastern European region, INA and MOL jointly completed the acquisition of Energopetrol d.d. Sarajevo, the leading petroleum wholesaler and retailer in the Federation of Bosnia and Herzegovina. INA and MOL together hold a 67% ownership.

Furthermore, MOL continues to provide INA with assistance in the development of the implemented integrated SAP-based Enterprise Management System. The changes initiated in business processes, such as the cost-cutting initiative and the introduction of an integrated procurement system at INA, have contributed to improving flexibility and enhancing the transparency of operations.

MOL is committed to increase the shareholders value and INA provides a great potential to achieve this goal. The Amendment to the Shareholders Agreement provides the frame for this objective of MOL via securing controlling position in INA's operation.

As a significant step in the way of value creation, INA's gas business is re-organised in the first half of 2009. As a result, the profitability of the upstream business is enhanced and the regulatory risks are significantly reduced by way of exit from the loss making elements of the gas value chain.

In October 2008, MOL became the largest shareholder of INA after increasing its ownership via a successful voluntary public offer to 47.16%. 2,215,469 shares were sold to MOL during the public offer for a price of HRK 2,800 per share. The Croatian Government and MOL agreed to amend the Shareholders' Agreement to reflect the new ownership structure of INA with regards to the corporate governance of the company.

The major changes of the Shareholders' Agreement are as follows:

- MOL will appoint five out of the nine members in the Supervisory Board and will have a controlling influence over the Management Board.
- The Government will have veto rights ensuring the national security of energy supply and on decisions with respect to INA's strategic assets.
- The Government has requested certain transfer limitations from MOL with respect to INA shares. Thus, MOL has agreed to the following: (1) an additional 5-year lock-up period which is shortened to 2 years in the event that no share swap takes place within that period; (2) following the expiration of the lock-up period, the Government will have a right of first refusal; (3) in case of a non-recommended change of control in MOL, the Government has a right to repurchase the INA shares from MOL.

The stronger ownership links and MOL's controlling position through the new governance structure secure the full consolidation of INA into MOL's financial statements and create the basis for harmonisation of operation, better utilization of economies of scale and acceleration of upside generation between the two companies and increasing efficiency of INA's operation.

The Gas Master Agreement is a frame contract for the separation and sale of gas storage and trading activities of INA together with agreements on long term gas supply to the Croatian market and on royalty of hydrocarbon production:

- Terms have been defined for the unbundling and sale of INA's natural gas trading activity (Gas Trading Company) and underground gas storage activity (Gas Storage Company) to the Government or to its controlled entities.
- These transactions will be priced at fair business value and are to be concluded by 30 January 2009 in case of the gas storage and by 1 July 2009 in case of the gas trading company.
- The Gas Trading Company will take on the supply obligation for Croatian customers and will also take over the gas import activity from INA.
- The Gas Trading Company will sign a long-term gas supply agreement with INA for natural gas to be produced by INA within the territory of Croatia at terms customary in the case of these types of contracts (take-or-pay mechanism).
- The parties have also agreed that the sales price of the natural gas produced by INA will gradually reach import parity over the next five years by 2014, while the Government and INA will also conclude a long-term royalty agreement for hydrocarbon production by INA in Croatia.

Via these agreements, the risks related to future gas price regulation and royalty rate are decreased significantly. In addition, convergence of gas prices to international market prices is secured, providing the necessary stability and clarity for the continuous development and production of natural gas in Croatia.

In addition, in the upstream business we are aiming to realise additional upside potential via optimisation of international presence, utilising economies of scale and accelerating of knowledge transfer (e.g. offshore experiences and practices in enhanced oil recovery programs).

The service provided by INA's own drilling company – Crosco – creates a cost advantage. INA's US portfolio has a 18.8 Reserve/Production ratio which is higher than MOL's 11.2 mainly due to reserves under development in the Adriatic offshore blocks and Syria.

MOL's proven track record in efficient operation will also be at further use of INA.

Development of INA strategically located refineries is on track to provide first-mover advantage in the South- Eastern European region.

INA has a leading role in Croatia and a significant role in South Eastern Europe and the Adriatic region. The company owns two refineries, situated in Rijeka and in Sisak. Both refineries are well positioned from a supply of raw material and marketing perspective. The Rijeka refinery on the Adriatic coast is ideally located to access multiple resources of crude oil and provide exports to other countries.

MOL provides INA with corporate know-how, drawing from its own development experiences, helping the company prepare for forthcoming industry challenges and to be competitive on quality standards in each of the European markets it serves. The refinery upgrade program is the key pillar of Downstream value creation and is being executed in two major phases. As a result of the first phase of the modernization program, INA's petroleum products will comply with the 2009 EU quality standards, while the second phase of the upgrade will lead to product yield improvement and increase overall efficiency and profitability.

Beyond the management of the modernisation we are aiming to further harmonise the operation, maintenance and marketing activities and improve the efficiency in the operation through joint optimisation of, among others, procurement, maintenance and logistics.

Outlook

INA, under MOL's operational control, will be able to achieve significant development of its businesses, improve its profitability and efficiency, whilst both MOL and INA will be able to secure the upside potential from harmonising the operations of the two entities. MOL's strategic plan regarding INA is not just to improve INA's business performance but also to enhance its market position in Croatia, South Eastern Europe and in the Adriatic region. MOL will support INA by investing in INA's own asset base, improving its commercial capabilities and enhancing customer orientation as follows:

- In the exploration and production businesses, MOL plans to use INA's accumulated professional expertise in domestic and international exploration and production projects in order to optimize the oil and gas production potential of INA.
- MOL's core strategic objective is to operate state-of-the-art, modern, and efficient refineries. Therefore, in oil refining, MOL will continue to support the ongoing upgrade projects at both the Sisak and Rijeka refineries in order to create a competitive asset base for production of refined products in line with all applicable EU quality standards. INA and MOL aim to further improve and harmonize these activities to enhance operational efficiency in refining and wholesale, to maintain lower inventory levels, and prepare integrated turnaround and maintenance plans.
- In retail, MOL intends to assist in the development of INA's retail network focusing on efficiency improvement and modernization via the implementation of modern technologies and customer- oriented services.
- In the gas business, MOL is aiming to increase the supply security of the Republic of Croatia by supporting the required and value creating investments.
- In corporate matters, MOL intends to further improve the operation towards a transparent, efficient and stakeholder-oriented company in line with industrial and European best practice.
- MOL believes that the employees currently working for INA vastly contributed to the results achieved by INA so far. Therefore, INA should continue to rely on their expertise in the future and ensure their professional development to enable efficient operations and long-term success. MOL intends to develop INA's employment policy in line with the above mentioned strategic goals. MOL prefers the local sourcing of employees for all functions and at all levels of the organization.

With a strong balance sheet and access to financial headroom of EUR 1.5 bn of undrawn credit facilities, MOL is in a good position. This financial flexibility together with a disciplined capital expenditure plan show our preparation for the lean year. The medium-term objective is to establish an even stronger financial position in order to capture the opportunities presented by global economic recovery.

József Molnár

Executive Vice President of Finance

FINANCIAL AND OPERATIONAL PERFORMANCE

Highlights of the challenges of 2008 and our responses

In 2008, global recession, and a historically unprecedented credit crunch imposed several direct and indirect shocks on the oil and gas industry: economic slowdown depressed the growth rate of fuel and polymer demand, while the sharp drop in crude prices squeezed upstream margins and resulted in huge inventory holding losses for refiners.

Past decision-making and planning has positioned MOL to endure a recession as well as any in our peer group, and this was reflected in the FY 2008 results. High complexity refineries can endure longer periods of depressed margins than simple refineries, while integrated supply chain management is a great competitive advantage in a time of a sudden demand shift. Our prudent decision to retain the gas transmission business in 2006 provides a considerable degree of cash-flow stability.

MOL's sustained effort to improve efficiency is a key differentiator. MOL is one of the lowest cost producers in the European Upstream sector, chiefly as a result of continuous technology development and our partnership strategy. MOL is regarded as the efficiency leader in the European Downstream industry and boasts the "Downstream Business of the Year" award from Platts for 2008.

We were among those companies which reacted immediately following the first signs of the crisis and adjusted our operational activities to cope with the increasingly difficult environment. In October 2008, we implemented a range of cost reduction measures to extend our leadership in efficiency, the benefits of which were reflected as early as the Q4 2008 results.

For FY 2008, CCS-based operating profit, which measures profitability by excluding stock holding gains and losses and reflects the actual cost of supplies incurred during the period, increased by 15% to USD 1,667 mn with strong growth in both of our key businesses, Upstream and Downstream, at a time when the Petrochemical segment was in the red.

We remain committed to stringent cost control and we felt it prudent to reduce capital investment to HUF 220 bn for 2009 (a 35% cut against), a level that can be financed through operating cash flow. In 2009, the Upstream capex focus is on high value and moderate to low risk projects with early cash generation, while other projects are put on hold. The capital intensive parts of the Hydrocrack project at the Duna Refinery have also been re-scheduled.

Hungary appears to be facing a deeper recession than the remainder of our region. Fortunately, due to robust underlying demand in segments like agriculture, railways, public transport, the scope of demand destruction even during severe recession is measured at 10%, which is equivalent to 2% of MOL Group sales. Our integrated supply chain management and logistics system cope comfortably with shifting these volumes to other markets, incurring only limited sales margin erosion.

With a strong balance sheet and access to financial headroom of EUR 1.5 bn of undrawn credit facilities, MOL is well positioned to withstand the current downturn. This financial flexibility together with a disciplined capital expenditure plan show our preparation for the lean year. The medium-term objective is to establish an even stronger financial position in order to capture the opportunities presented by global economic recovery.

In the current external environment which constrain the opportunities for growth, MOL – by gaining management control over the Croatian national oil and gas company, INA – is positioned to deliver superior returns to its shareholders through improving efficiency and optimizing INA's operational activities. The new Shareholders' Agreement, together with MOL's track record in operational efficiency, creates the potential for INA to deliver significant growth in revenues and profitability.

The first step is the new Gas Master Agreement, permitting INA both to exit from regulated, loss-making sections of the gas supply industry and to secure significant gains in its upstream business. It is a top priority for our management team to deliver for INA the efficiency levels which are a MOL hallmark.

Detailed Analysis of 2008 Results

In FY 2008, operating profit, excluding special items, decreased by 31% year-on-year in USD-terms (down by 35% in HUF-terms) primarily as a consequence of the extreme fall in the oil price in H2 2008. Inventory holding losses were USD 538 mn for 2008, compared to inventory holding gains of USD 175 mn in 2007. CCS-based operating profit, which measures profitability by excluding stock holding gains and losses and reflecting the actual cost of supplies incurred during the period, increased by 15% to USD 1,667 mn with strong growth in both of our key businesses, Upstream and Downstream, while Petrochemical segment was in the red in 2008. Net income, excluding special items, decreased by 30% in USD-terms and by 35% in HUF-terms in 2008 year-on-year, due to weak H2 net income from associates, offset by a lower net financial expenses and a lower income tax expense.

- **Exploration & Production** operating profit, excluding non-recurring profit from the sale of the Szőreg-1 field in Q1 2008, increased substantially by 71% year-on-year to USD 732 mn (in HUF terms up 59% to HUF 125.7 bn) year-on-year in FY 2008, as natural gas and crude oil prices were stronger on annual average-terms.
- **Refining & Marketing** CCS-based operating profit, excluding one-off items, increased by 23% in USD-terms to USD 936 mn in FY 2008 year-on-year (up 15% in HUF-terms to HUF 161 bn), due to favourable diesel crack spreads in FY 2008.
- **The Petrochemical** segment reported a USD 44 mn operating loss in FY 2008 (HUF 7.6 bn loss), due to the historic low integrated petrochemical margin in Q2 2008.
- **Gas Transmission** operating profit improved by 6% to USD 178 mn in FY 2008. In HUF terms operating profit decreased by 1% in HUF terms to HUF 30.5 bn as higher operating costs eliminated the revenue increases.
- **Corporate and other** operating loss, excluding one-off items, increased by 22% to HUF 38.3 bn in FY 2008 year-on-year.
- **Net financial expense** decreased moderately from HUF 16.6 bn in FY 2007 to HUF 16.1 bn in FY 2008.
- **Capital expenditure and investments** increased to HUF 578.9 bn (USD 3.4 bn) in FY 2008, compared to the HUF 363.4 bn (USD 2.0 bn) in FY 2007. The main driver of the increase was the INA transaction (HUF 227.3 bn).
- **Net debt position** increased to HUF 689.4 bn, resulting in a gearing ratio of 35.9% at the end of December 2008, compared to a 35.5% at the end of 2007.
- **Operating cash-flow** improved by 10% to HUF 347.2 bn in FY 2008, primarily as a consequence of working capital changes. Operating cash flow before changes in working capital decreased by 14% to HUF 384.2 bn.

Key financial data by business segments

NET SALES REVENUES	2007 (HUF MN)	2008 (HUF MN)	2007 (USD MN)	2008 (USD MN)
Exploration and Production	334,806	428,780	1,822	2,496
Refining and Marketing	2,290,414	3,145,641	12,461	18,310
Gas & Power	90,694	199,124	493	1,159
Petrochemicals	497,616	470,457	2,707	2,738
Corporate and other	102,163	148,703	556	866
TOTAL	3,315,693	4,392,705	18,039	25,569

NET EXTERNAL SALES REVENUES[1]	2007 (HUF MN)	2008 (HUF MN)	2007 (USD MN)	2008 (USD MN)
Exploration and Production	178,804	237,306	973	1,381
Refining and Marketing	1,932,290	2,768,537	10,513	16,115
Gas & Power	78,244	145,726	426	848
Petrochemicals	398,181	366,090	2,166	2,131
Corporate and other	6,432	17,349	35	101
TOTAL	2,593,951	3,535,008	14,113	20,576

OPERATING PROFIT	2007 (HUF MN)	2008 (HUF MN)	2007 (USD MN)	2008 (USD MN)
Exploration and Production	78,864	191,018	429	1,112
Refining and Marketing	171,935	72,450	935	422
Gas & Power	38,743	38,661	211	225
Petrochemicals	40,892	(7,589)	222	(44)
Corporate and other	26,446	(37,697)	144	(220)
Inter-segment transfers[2]	(1,375)	(57,619)	(7)	(335)
TOTAL	355,505	199,224	1,934	1,160

OPERATING PROFIT EXC. SPEC ITEM[3]	2007 (HUF MN)	2008 (HUF MN)	2007 (USD MN)	2008 (USD MN)
Exploration and Production	80,554	125,699	438	732
Refining and Marketing	171,935	67,821	935	395
Gas & Power	38,743	40,764	211	237
Petrochemicals	40,892	(7,589)	222	(44)
Corporate and other	(31,329)	(38,334)	(170)	(224)
Inter-segment transfers[2]	(1,375)	5,597	(7)	33
TOTAL	299,420	193,958	1,629	1,129

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

[2] This line shows the effect on operating profit of the change in the amount of unrealised profit deferred in respect of transfers between segments. Unrealised profits arise where the item transferred is held in inventory by the receiving segment and a third party sale takes place only in a subsequent quarter. For segmental reporting purposes the transferor segment records a profit immediately at the point of transfer. However, at the company level profit is only reported when the related third party sale has taken place. In previous years this unrealised profit effect was not shown separately, but was included in the reported segmental result of the receiving segment. Unrealised profits arise principally in respect of transfers from Exploration & Production to Gas and Power and from Refining & Marketing to Petrochemicals. In FY 2008 the transfer between Exploration & Production and Gas and Power included the sales of Szőreg-1 gas field with an operating profit of HUF 63.2 bn recognized by Exploration & Production which has been eliminated in consolidation.

[3] Operating profit excluding the combined intersegment impact of the one-off gain on sales of Szőreg-1 gas field and the accumulated depreciation thereof (HUF 65.3 bn and HUF (2.1) bn, respectively) realised in FY 2008, the receivable for subsequent settlement from E.ON in connection with the gas business sale for FY 2008 and 2007 (HUF 6.4 bn and HUF 44.3, respectively), the fine imposed by the European Commission in association with paraffin trading (HUF 5.8 bn, recorded in Corporate and other segment) realised in Q3 2008, the repayment of the unfounded penalty by the Slovak Ministry of Finance in Q4 2008 (HUF 4.6 bn, recorded in Refining and Marketing segment) as well as the one-off gain on the acquisition of TVK shares realised in H1 2007 (HUF 14.4 bn, recorded in Corporate and other segment).

Turbulent external environment

Turbulent year for the world economy…

2008 was a turbulent year for the world economy. Financial problems and the gradual economic slowdown seen in 2007 continued in 2008, reaching the emerging and developing countries, and culminating in a credit crunch not seen in decades. The financial crisis emerged from the US subprime security market and quickly spread globally, impacting the housing, credit and commodity markets. Developed economies moved into recession by the third quarter of the year, heavily affecting the developing world, which proved to be closely tied to its export markets, showing that a global decoupling process is still immature. As a result, global economic growth in 2008 is expected around 3% per annum, after 5% in 2007.

…characterized by dramatic volatility in commodity prices

Volatility of commodity prices increased dramatically in the second half of 2008. Oil and other commodities continued their upward trend and the price of oil peaked just over USD 144 /bbl around July, a record-high level. As a consequence, inflation followed a similar pattern. In emerging and developing countries it soared to 10%, while in the advanced economies it also reached its peak at 4.5% in July. However, all these trends turned backwards in the second half of 2008, when oil prices collapsed to USD 34/bbl in December and inflation dropped to 1.6% in developed economies by November, while the US experienced the highest monthly deflation on record, which continued in December at a slower pace. The average inflation rates were still high in 2008, being 3.6% in the advanced economies and 9.4% in the emerging countries.

Higher oil price, mixed crack spreads

Due to record-high prices which carried into September, the average Brent price for 2008 reached USD 97.3/bbl representing a 34.4% increase from 2007 levels. Ural Med, the most relevant blend in terms of MOL's crude oil purchases, averaged USD 94.8/bbl, up 36.6% compared to 2007 (USD 69.4/bbl). Average FOB Rotterdam gasoline and diesel prices rose by 20.2% and 41.4%, respectively. Average USD-denominated crack spreads of FOB Rotterdam gasoline decreased by 31.9% to slightly below the historical average, while diesel crack spreads increased further by 72.7% in 2008 compared to the previous year and remain well above the 5-year average.

Local currencies strengthened vs USD

The Hungarian forint (HUF) strengthened by approximately 7% against the US Dollar in 2008: the average exchange rate in 2008 was 171.8 HUF/USD (183.8 HUF/USD in 2007). The average value of the HUF against the EUR in 2008 was the same as in 2007 (compared to the strengthening by 4.9% in 2007). The Slovak Crown (SKK) strenghtened significantly (by aproximately 7.5%) against the EUR in 2008 continuing the trend of 2007 when it was up 9.3% against the EUR. In addition, the Slovak Crown strengthened against the US Dollar, with an average exchange rate in 2008 of 21.4 SKK/USD (24.7 SKK/USD in 2007).

The **Harmonised Indices of Consumer Prices** (HICP) in Hungary was 6.0% in 2008, compared to 7.9% in 2007. In Slovakia, the average consumer-price inflation increased to 3.9% compared to the 1.9% in 2007. Hungarian GDP growth was 1.5% during Q1-Q3 2008, however, due to the negative impact of the global economic downturn in the fourth quarter, the yearly growth rate was 0.5%. The GDP growth in Slovakia is expected to be 6.4% in 2008 (10.4% in 2007). Across the region, demand for motor gasoline decreased slightly by 2.2%, however, demand for motor gas oil, despite the negative effects of economic downturn in the last quarter, increased by 4.1% in 2008.

MOL's business model is less vulnerable to the crisis

Past decision-making and planning has positioned MOL to endure a recession as well as any in our peer group, and this was reflected in the FY 2008 results. MOL has a well balanced business model including gas transmission providing a considerable degree of cash-flow stability. Operating one of the highest complexity refineries in Europe with integrated supply chain management provide a strong position for our Downstream business.

"Integrated" status – combination of risk and return

Being an "integrated" oil and gas company, with balancedEBITDA from various segments, balances risk and return. (E&P 44%, R&M 39%, Gas & Power 14% and Petrochemicals 3% based on 2008 EBITDA, excluding special items.) Gas transmission is practically immune to recession, while Upstream, being one of the lowest cost producers in the European Upstream sector, faces only crude oil price risk. Wide crude price swings have only a modest impact on MOL's upstream profitability, due to specific tax regimes.

Downstream is protected against significant volume decline

Recession can have an adverse impact on the demand for refined and petrochemical products. Nevertheless, our main markets (Hungary, Slovakia, Austria and Czech Republic) have remained short in diesel and balanced in gasoline in spite of the global supply-demand changes. As these are landlocked markets, they are isolated from the Transatlantic refined products trade, and the import threat is limited. Having one of the highest middle distillate yields in Europe, MOL is well positioned to benefit from the regional diesel shortage. MOL has strong market positions in Hungary and Slovakia (with automotive fuel market coverage of 80-85% and 65%, respectively) and also has solid wholesale market share (15-20%) in the Czech Republic and in Austria. Strong marketing operations supported by extensive logistic systems, give MOL better protection against demand decline.

Efficiency champion

MOL is internationally recognised as one of the most efficient upstream and downstream companies in Europe. In addition, the management team is implementing a range of cost reduction measures to extend our efficiency leadership. We believe this to be a key differentiator

positioning MOL to endure a recession as well as any in our peer group.

Exposure to the Hungarian macro environment

Hungary is facing with a deeper recession versus the region. However, due to our robust underlying demand in segments like agriculture, railways, public transport, the scope of demand destruction even during an extreme recession is measured at 10%, which is equivalent to 2% of MOL Group sales. In 2008, only 37% of net external sales were realised in Hungary, with 29% in Eurozone countries and the remainder realised in other CEE countries. Our integrated supply chain management and logistics system cope effectively with shifting these volumes to other markets incurring only limited sales margin erosion.

Forex movements have a complex impact on MOL's operating cash-flow and net debt position. As MOL's pricing is linked to the commodity prices set in USD for crude and refined products, and in EUR for Petchem products, a weakening HUF is beneficial for the operating cash-flow of MOL. However, a weakening HUF results in unrealised forex losses on the net debt position, as this is predominantly held in EUR and in USD. The currency mix of our debt is in line with the currency mix of free cash-flow, which provides a natural hedge position for MOL.

Changes in the regulatory environment

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 2008. As a result of the tariff change in July 2008, the entry capacity fee was increased by 3.1% and the exit capacity fee was increased by 5.5%. The turnover fee for the year increased by 49.5% as a result of the significant growth (68.5%) in the acknowledged gas price. In addition, the Hungarian Energy Office (HEO) issued odorization tariffs valid from 1 July, 2008 until 30 June, 2009.

Minimal impact from changes to the Mining royalty framework in Hungary…

The Mining Act, which regulates the mining royalty framework in Hungary, was amended in 2007, with changes effective from 8 January, 2008. The modified Mining Act of 2007 and the related by-laws introduced the following key elements:

- Mining royalty rates dependent upon Brent pricing (when the monthly average Brent price exceeds USD 80/bbl, 3 percentage points are added to the base royalty level with an additional 3 - 6 percentage points in total - above USD 90/bbl);
- Production dependent mining royalty rates on production from fields put into operation after 1 January, 2008;
- Increased base royalty level on crude and gas produced from fields put into operation after 1998 (but before 2008) to 30% from 12%;
- An amended calculation of payments to the energy price compensation budget from royalties; and
- A lowered 8% royalty rate on low calorific gases.

These changes had a limited impact on MOL, as production from fields put into operation after 1 January, 2008 accounted for a low share of domestic production. Additionally, the mining royalty rate on the production from fields named in the agreement signed between MOL and the Minister of Economy and Transport remains determined according to regulation effective at the end of 2005. 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 were subject to mining royalty rates regulated by the modified Mining Act of 2007 and the related by-laws.

MOL paid 36% of its crude oil and natural gas revenue as mining royalty to the Hungarian State on the crude oil and natural gas produced in Hungary in 2008. The rate of the mining royalty payable on gas produced from fields put into production before 1998 grew from 64% to 71% as increases in the gas price overcompensated the impact of increase in the acknowledged cost on rate in the predetermined formula. In 2008, HUF 72.7 bn was paid to the energy price compensation budget from royalties resulting from production from these fields. In 2008, the average rate of the mining royalty payable on natural gas produced from fields put into production after 1998 was 14.9 %, while the average rate for crude oil production was 12.4 % (excluding volumes from enhanced oil recovery which represented 13.1 % of production and which are subject to a zero royalty rate in Hungary).

...and in Russia

The extraction tax and export duty in Russia is dependent upon the average Urals blend listed prices and the Russian Rouble/US Dollar exchange rate and are calculated by the formulas set out in the tax legislation. The tax authorities inform the public of the extraction tax rate through official announcements on a monthly basis. The export duty rate is published through official announcement every second month; however, due to the volatility of the crude oil price, the Russian government has lately determined the export duty rate on a monthly basis, based upon the average Urals blend price, and calculated not according to the formula set out in the tax legislation. The extraction tax rate as of 31 December 2008 was USD 6.5/bbl; with an annual average extraction tax rate of 20%, based upon the annual average Urals blend price in 2008. The export duty rate as of 31 December 2008 was USD 26.4/bbl; with an annual average export duty rate of 52.0%, based upon the annual average Urals blend price in 2008.

In addition, the Russian Government decided to increase the threshold of the Mineral Extraction Tax from USD 9/bbl to USD 15/bbl, with effect from 1 January, 2009. Furthermore, the corporate income tax rate has been reduced from 24% to 20% with effect from 1 January, 2009.

Sales, Operating Expenses and Operating Profit

Increase in net sales revenues

In 2008, Group net sales revenues increased by 36% to HUF 3,535.0 bn, primarily reflecting the higher revenue as a result of the combined consolidation of IES and higher average sales prices.

One-off incomes

Other operating income in 2008 contains HUF 6.4 bn receivable for subsequent settlement from E.ON Ruhrgas International AG in connection with the gas business sale for the settlement period of January – June 2008, as well as the repayment by the Slovak Ministry of Finance of HUF 4.6 bn from the unfounded penalty paid by Slovnaft in 2005. The comparative period includes subsequent settlement from E.ON Ruhrgas International AG in connection with the gas business sale of HUF 44.3 bn and the impact of the acquisition of a 42.25% minority interest in TVK (HUF 14.4 bn).

Increase to cost of raw materials

The cost of raw materials and consumables used increased by 43%, considerably above the rate of growth in sales. Raw material costs increased by 45%, primarily as a combined effect of the growth in crude oil import prices (HUF 240.1 bn) and the higher quantity of import crude oil processed (HUF 12.4 bn), as well as the contribution of IES (HUF 260.6 bn). The cost of goods sold increased by 47% to HUF 430.0 bn, due to the performance of IES (HUF 77.9 bn). The value of material-type services used increased by 17% to HUF 153.1 bn, largely as a result of IES's contribution (HUF 11.9 bn).

Other operating expenses

Other operating expenses increased by 24% to HUF 280.0 bn, mainly as a result of the higher mining royalty (HUF 17.6 bn) and the increased value of export duty from the Russian operations (HUF 9.0 bn), due to the higher crude prices and despite a decline in domestic and foreign production volumes. The consolidation of IES also increased our operating expenses (HUF 5.0 bn).

Increase in headcount across the Group

Personnel expenses increased by 19% to HUF 139.7 bn, due to the combined effect of an average salary increase (of 7.4% at the parent company) and a 10.3% increase in average headcount of the Group mainly due to the acquisitions of IES and Tifon in Q4 2007 and of I&C Energo a.s. at the end on June 2008 (HUF 11.1 bn, HUF 1.9 bn and HUF 3.7 bn, respectively).

Of the production costs incurred in 2008, HUF 59.6 bn was attributable to the decrease in the level of finished goods and work in progress due to the performance of IES (HUF 34.0 bn), compared to the increase of HUF 70.2 bn in 2007. In the third and fourth quarters of 2008, processing crude oil purchased in the previous quarter at a higher price significantly increased our production cost.

CCS-based operating profit up 7% y-o-y

Operating profit, excluding special items, decreased by 35% to HUF 194.0 bn in FY 2008, primarily as a consequence of the extreme fall in the oil price in H2 2008. Inventory holding losses were HUF 92.4 bn for 2008, compared to inventory holding gains of HUF 32.1 bn in 2007. The CCS-based operating profit, which measures the profitability by excluding stock holding gains and losses and reflecting the actual cost of supplies incurred during the period, increased by 7% to HUF 286.4 bn, with strong growth in both of our key businesses, Upstream and Downstream, while Petrochemical segment was in the red in 2008.

Exploration and Production Overview

Our main 2008 goals were met with significant exploration success

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 2008 to realise these targets:

- Intensive field development in order to balance production in our cash generating domestic projects.
- Our strong exploration track record continued further, as we claimed 8 discoveries out of a total 12 exploration wells tested in 5 countries.
- Increased total 2P (=P1+P2) reserve base in line with SPE guidelines (excluding 47.16% of INA reserves). New discoveries have added approximately 38.8 MMboe to our SPE 2P reserve base.
- Highly competitive OPEX maintained on Group level.
- Acquiring new exploration assets with strategic fit to enhance our existing portfolio (Cameroon, (Iraq/ Kurdistan).

2009 Outlook: adopting environmental challenges

Giving a fast and decisive answer to the changes occurring in the industrial environment and the global financial crisis, we changed the focus of E&P activities for 2009. We concentrate on high value and moderate or low risk development projects to generate cash, while other projects are delayed. Regarding exploration activities the capex program mainly focuses on committed work programs and we are putting even harder emphasis on partnerships to reduce costs and risks and to sustain exploration level. Regarding production, as already recognized one of the most efficient upstream player in Europe we are implementing further cost reduction measures to have a greater strength for the macro challenges.

Strong operating profit in Upstream

For FY 2008, the operating profit of the E&P segment amounted to HUF 191.0 bn, including a HUF 65.3 bn non-recurring gain from the sale of the Szőreg-1 field. This one-off impact is eliminated from Group figures due to the fact that the buyer of the field was a consolidated subsidiary of the Gas and Power segment, MMBF Ltd.

Robust 59% increase in operating profit, excluding one-off gains

Operating profit, excluding this gain, still showed a robust, 59% growth in HUF-terms to HUF 125.7 bn. In USD-terms, the profit growth was even more impressive at a rate of 71%, from USD 429 mn to USD 732 mn. The annual average Brent oil price was 34% higher year-on-year against a backdrop of extreme crude oil price volatility in 2008. The annual average gas price increased by 57% year-on-year in 2008. The higher realised USD prices were softened by a weaker USD against the HUF in the first half of the year, all combined resulting in an operating profit increase of HUF 54 bn in 2008.

Upstream revenue increased by HUF 161.2 bn to HUF 496.6 bn in 2008 compared to 2007, including the non-recurring revenue of HUF 65.3 bn from the Szőreg disposal, with recurring revenues increasing by 29% year-on-year. Increasing sale prices, supported by higher average realised hydrocarbon and oil product prices, more than compensated for the negative impact of the weaker USD.

Upstream expenditure increased by HUF 49.0 bn to HUF 305.5 bn in 2008 year-on-year. Royalties on Hungarian production were at HUF 108.1 bn, up by HUF 11.0 bn, due to higher prices (of this amount HUF 72.7 bn was the payment to the energy price compensation budget). The mining royalty and export duty paid in Russia increased by HUF 12.5 bn to HUF 57.1 bn in 2008, also due to the higher crude prices.

The natural decline in hydrocarbon production was minimised with stable domestic production

The total hydrocarbon production was 86.3 Mboe/day in 2008, compared to the 90.4 Mboe/day in 2007. Natural gas production was maintained at a stable level of 40.1 Mboe/day, while crude oil production (including condensates) declined by 8% year-on-year to 46.2 Mboe/day. Hungarian assets contributed 72% of the total production, while Russian fields dominated the international production.

In 2008, the average Hungarian hydrocarbon production was 61.7 Mboe/day, compared to 63.0 Mboe/day in 2007. In FY 2008, Hungarian gas production volumes were maintained at a stable level as lower sales, due to a very mild winter in early 2008, were made up through the rest of the year. Hungarian crude oil production, (without condensate) declined by 7% to 15.3 Mboe/day in 2008, compared to 2007.

Intensive field development to put our existing reserves into operation

In 2008, we maintained investment on development of our undeveloped reserves in Hungary almost at the 2007 level spending HUF 6.7 bn in 2008. The returns for such projects are expected to be strong as a result of the proximity of the transportation infrastructure and gathering systems.

EOR/IOR/EGR projects to maximize recovery

In 2008, Enhanced Oil Recovery (EOR) technology was applied at seven fields, representing 13.1% of the 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 2008, we continued preparation of the selected 36 individual EOR project opportunities, to realize the identified domestic upside potential. The start-up of our brownfield development and redevelopment projects (on fields with EOR/IOR/EGR potential) are subject to the changes in macro environment due to the price-sensitivity of these projects.

International production was lower compared to 2007…

International hydrocarbon production decreased by 10% year-on-year to 24.6 Mboe/day in 2008. The decrease in ZMB production is the consequence of natural decline due to the maturing stage of the field and the increased watercut from production wells. In joint efforts with the partnership operator, we have modified the capex program, based upon analysis of well-performing horizontal wells spudded in 2008. These modifications could further optimize production in 2009.

…production from new acquisitions could only partly offset fall from ZMB

Our share of the crude oil production from the ZMB field reached 19.9 Mbbl/day in 2008, a 16.9% decrease compared to the previous year. The Baitugan field (in Russia's Volga-Urals area, with a 100% MOL share) produced 2.2 Mbbl/day and the Matjushkinskaya fields (a 3,231 km^2 block in Tomsk region with a 100% MOL share) provided an additional 1.3 Mbbl/day average production.

Intensive field development in Russia

In the ZMB field, six production wells and one water injection well were drilled during 2008, including three horizontal producers, with extremely high, (above 1,400 bbl/day) production rates.

In the Baitugan field, field development activity continued in 2008. 3D seismic acquisition was carried out covering the whole field area; the processing and interpretation of which has started. 8 new wells (including 4 horizontals) and 6 horizontals re-entries of existing wells have been drilled. The extension and reconstruction of the gathering system was continued and the construction of water injection system has started.

In the Matyushinskaya block, 400 sqkm 3D seismic was acquired in 2008 (including coverage of exploration fields). 3 producing wells, drilled in 2007, were put into production in January. One horizontal and two vertical wells were deepened and put into production during the year. One of the two successful exploration wells, Ledovoye-101, was put into production by a fast track development; High capacity surface facilities were completed. In 2009, development activity will focus on the Ledovoye field development: 4 production wells, 1 water producer well, 1 water injection well will be deepened and related surface facilities will be constructed. A production increase of 114% is planned for the block.

Production in Pakistan expected to rise sharply…

Gas production in Pakistan decreased by 7.8% year-on-year in 2008, but is expected to rise sharply after the commissioning of the Manzalai central processing facility in first half of 2009. Production in the Manzalai and Makori fields in the Tal Block (8.42% MOL share) was around 1.2 Mboe/day (net to MOL) in 2008. 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 Makori-2 appraisal well was unsuccessful, therefore appraisal activity will be continued in 2009.

SEC reserves decreased due to revisions…

According to our reserve review, (excluding MOL's entitlement to 47.16% of INA d.d.'s reserves, but including MMBF Plc's 5.2 MMboe reserves) in line with SEC guidelines, total gross proved developed and undeveloped reserves of the MOL Group at 31 December, 2008

were 155.5 MMboe, consisting of 12.6 bcm (86.4 MMboe) of natural gas (including condensate and gas liquids) and 9.4 million tonnes (69.1 MMboe) of crude oil. The net proved developed and undeveloped reserves at 31 December, 2008 (excluding MOL's entitlement to 47.16% of INA d.d.'s reserves, but including MMBF Plc's 4.3 MMboe reserves) were 130.7 MMboe, consisting of 11.0 bcm (73.5 MMboe) of natural gas and 7.8 million tonnes (57.2 MMboe) of crude oil.

In Hungary, annual production in 2008 reduced our gross proved reserves by 23.0 MMboe. New Hungarian discoveries and field extensions increased MOL's gross proved reserves by 0.3 MMboe, while the revaluation of reserves decreased the gross proved reserves by 33.9 MMboe.

Internationally, reserve revisions resulted in a decrease in gross proved reserves of 34.8 MMboe.

In accordance with SEC guidelines, as at 31 December 2008, MOL's share of gross proved reserves of the ZMB field was 29.5 MMbbls as of 31 December 2008, The Baitugan field had 12.5 MMbbls of proved reserves where economic limit based on Russian prices in December 2008, according to strict SEC rules, cut off all undeveloped reserves and resulted in a 37.6 MMBoe decrease in reserves. Proved reserves of the Matjushkinskaya block were 2.6 MMbbls.

The Manzalai and Makori fields in the Tal Block (Pakistan, 8.42% MOL share) had 13.2 MMboe of proved gas and condensate reserves pertaining to our share, according to the reserve evaluation (prepared in line with SPE guidelines) as of 31 December, 2008. Due to the lack of a long-term gas sale agreement, we booked only 0.3 MMboe of proved reserves, in accordance with SEC guidelines.

SPE 2P reserves increased year-on-year

In parallel to the reserves presentation of proved reserves under SEC guidelines, MOL publishes P1 and P2 reserves according to SPE guidelines. In the opinion of the Company, SPE guidelines provide a more realistic framework for reserves presentation. MOL's 2008 year-end SPE gross proved reserves are 224.5 MMboe, excluding MOL's entitlement to 47.16% of INA d.d.'s reserves, but including MMBF Plc's 5.4 MMboe reserves. SPE P1+P2 figures are at 352.3 MMboe (excluding MOL's entitlement to 47.16% of INA d.d.'s reserves, but including MMBF Plc's 5.4 MMboe reserves), which presents an increase of 11.7 MMboe compared to the previous year.

Highly competitive OPEX maintained

Unit opex, excluding DD&A, rose due to increased costs, mainly as a result of energy and oilfield services costs, compared to the previous year, but remained at a very competitive level of USD 5.8 /boe in 2008 (USD 4.2 /boe in 2007).

We carried out intensive exploration activity in Hungary and we continued with our international exploration projects in Russia, Pakistan, Kazakhstan, Oman and Yemen. In addition, we have started new projects in Cameroon, Kurdistan and India in line with our strategic objectives.

Strong exploration track record with 67% success rate

Our strong exploration track record, already observed in the preceding year, continued further in 2008 as we claimed eight discoveries out of a total 12 exploration wells tested in five countries, leading to a solid 67% success rate at the drill-bit. In Russia, we drilled three exploration wells in 2008, all of them resulted oil discoveries. Our Hungarian successes highlight the attractiveness of our acreage position, where promisingly positive results were encountered: we tested six wells from which five wells have been classified as HC producers and one well has been dry. There were eight wells in drilling or testing phase in Hungary at the close of this report.

Strongest acreage position in Hungary with exploration successes in the year

Our Group has the strongest acreage position in Hungary with 32 exploration licences and total exploration acreage of 37,215 km^2 at the end of 2008. In addition, two new exploration licence permits were underway (2,735 km^2).

In Hungary, out of the six wells tested in 2008, Földes-ÉK-1, Körösújfalu-3 and Dombegyház-DNy-7 wells were classified as gas producers, Sülysáp-É-1 as an oil producer and Őrtilos-1 as a gas and oil producer. Only Jászberény-Ny-4 well was qualified to be dry. There were eight wells in drilling or testing phase. The spudding of Vízvár-S-1 and Zsáka-1 wells, and further three wells drilled in Makó Basin (unconventional gas accumulation) in partnership with ExxonMobil and TXM were in progress at year-end. The Jánoshalma-D-1 well in Hungary and the Dravica-1 well in Croatia (drilled in partnership with INA) are awaiting well tests. Okány-3 well is scheduled for additional well operations (this well was deepened in partnership with Hungarian Horizon Energy).

Active partnerships in conventional exploration…

In order to maximize the skill base and operating focus, as well as to share risks and costs, we have continued the co-operation with partners on several projects, including our strategic partner INA from Croatia and Hungarian Horizon Energy, an affiliate of US-based Aspect Energy. Both co-operations were successful in 2008 as well, evidenced by one successful exploratory drilling and one promising well (well waiting for testing) in the two joint operations.

…and in unconventional exploration

In addition, we continued the partnership with ExxonMobil. In 2008 significant steps were made to evaluate and explore the unconventional exploration potential of Hungary, having significant combined original gas-in-place resource potential. Based on the positive results of a technical study completed by MOL and ExxonMobil by the end of 2007, ExxonMobil launched an unconventional exploration program in the Makó basin covered by exploration licenses owned by MOL. As a result of the agreement signed with TXM in April 2008, MOL and ExxonMobil gained a further share of interests covered by the production license of TXM in the Makó basin. As a consequence, MOL has positions in all acreages of the Makó basin: in Makó-West (MOL-Esso with 50% MOL share) and Makó-East (MOL-Esso-TXM with 33.5% MOL share). Three wells drilled in Makó Basin (unconventional gas accumulation) in partnership with ExxonMobil and TXM were in progress at year-end.

Exploration success in Russia

In Russia, we drilled 3 exploration wells in 2008, all of them resulted oil discoveries. The Ledovaya-101 exploration well in the Matjushkinskaya Block was classified as an oil producer with its discovery announced on 15 May 2008, and production rate from the well was around 700 bbl/day in December. A further well in the same block, Kvartovaya-11 exploration well was drilled successfully, followed by an extended well test. Test production will start in 2009. Expected output is around 220 bbl/day.

The Ayskaya exploration well in the Surgut-7 Block (Russia, 100% MOL share) has been tested as productive from several layers. Hydro-fracturing is planned in 2009, to ascertain a sustainable production level. To determine the further potential of the block 300km^2 3D and 80 km 2D seismic acquisition was completed, processed, and interpreted in 2008. Drilling of the second exploratory well, Atayskaya-2 is expected in 2009.

Further success in Pakistani exploration

In Pakistan, a commercial discovery from a sidetrack from the Mami Khel well in the Tal Block was announced on 19 March 2008. In the same block, the Makori-2 appraisal well failed to substantiate further upside for that field and was suspended. In the Margala and Margala North exploration blocks (70% MOL share.) we are in negotiations regarding a further farm-out of up to 20%, in order to share the risks of the exploration with partners. In 2008, we conducted most of the 2D seismic acquisition.

We are the 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. The Rozhkovsky U-10 drilling was finished in May 2008. During testing, it produced 1,503 bbl/day of oil and 8.2 MMCF/day of gas. Following the announcement of the discovery in June 2008, an appraisal programme has been launched and drilling started at the end of January 2009.

Progress in our exploration projects in Kurdistan (Northern Iraq); Yemen and Oman

In late 2007, MOL entered into two blocks in Northern Iraqi Kurdistan, in partnership with Gulf Keystone Petroleum International Ltd. MOL is the operator of Block Akri-Bijeel with a working interest of 80% and has a 20% non-operated working interest in Block Shaikan. Seismic acquisition was completed in both blocks in 2008. In 2009, one exploration well will be drilled in each block.

In Oman, (75% MOL share) the planned geophysical campaign has been completed in 2008. A farm-out of 25% has been approved by the Government. The new partner is Mari Gas, the operator of Karak Block in Pakistan where MOL has a 40% share. There is an active search for a potential partner to farm into Block 48 (Yemen, 100% MOL share).

New exploration projects in Cameroon…

In Cameroon, we purchased a 40% non-operated interest in the Ngosso Block from Tullow Oil at the end of 2007. The farm-in was approved by the Cameroon Government in July 2008. The first two

exploration drillings (Odiong and Tali) did not find commercial quantity of hydrocarbons. One sidetrack confirmed accumulation of oil and gas, however, as the size of this single discovery was not commercially viable, both exploration wells were plugged and abandoned. The consortium will decide on the future of the discovered accumulation in the light of later exploration results in the block. The work program will continue with seismic acquisition in 2009.

...and in India

In India, MOL farmed into Block HF-ONN-2001/1, operated by ONGC. The 35% working interest in the Himalayan Foothills fold belt awaits approval of the Indian Government. The block is in the second phase of exploration, and an exploratory well is expected to be drilled in 2009.

Refining and Marketing Overview

Main 2008 goals were met

The integration work of IES started last year with the aim of improving the efficiency of the current operations through the intensive transfer of our proven know-how and techniques in crude processing, refinery modernization and product marketing. Furtheremore, we launched an investment program in 2008 focusing on gas oil desulfurization and related environmental standards. A new gasoil desulphuriser unit and a new Claus plant are the key elements of the refinery upgrade project. The program will be completed by the end of 2009, but as of mid-October 2008 all products became compliant to the 10ppm product specifications required as of Jan 2009 in the EU.

Basic design for Hydrocrack

In 2008, the Basic Design for the Hydrocracking unit was completed and an Open Book Estimation was developed to provide a solid basis for entering into the Engineering-Procurement-Construction (EPC) execution phase. In addition, the Basic Design for the Delayed Coker and crude oil processing unit was completed and the EPC contract for a new Hydrogen unit concluded.

Outstanding efficiency maintained…

The refineries of MOL Group are well-known for their exceptional profitability and outstanding operational excellence, as demonstrated by the 2008 award by Platt's, for "Downstream Business of the year." According to Wood Mackenzie, the net cash margin of our Danube and Bratislava refineries are the highest in Europe.

…due to favourable product yield with strong diesel focus

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 (95% of the crude supply in 2008) into a portfolio of highly marketable motor fuel products with the lowest possible residue production. The two high complexity refineries (NCI: Duna 10.6, Slovnaft 11.5) contributed to a white product yield of 80%, and a mere 2% fuel oil yield in 2008. The relatively high complexity of IES (NCI: Mantova 8.4) had a white product yield of 67%. In addition, out of the favourable white product yield, middle distillate yields of our refineries were well above the industry average: Duna

and Slovnaft had a middle distillate yield of 43%, while Mantova had a middle distillate yield of 50% in 2008, allowing us to leverage the dieselisation of the market.

2009 Outlook: adopting environmental challenges

The main focus of the Downstream business in 2009 is to adopt a disciplined and effective approach to cost consciousness in order to weather the storm. Flexible and contingency plans are in place to address the challenges of the global financial crisis. In addition, MOL aims to improve further the profitability of IES's refining and retailing activities by transferring its best-in-class operating standards. For the retail business in particular, MOL will extend its advanced know-how and sales techniques as well as ensuring that full benefit is gained from economies of scale and local brand strengths.

Amendment to Hydrocracker project capex program

Disciplined project management and the implementation of the revised approved investment program is a key area of focus. As announced, in the short-term, due to the turbulent macro environment MOL intends to finance its capital expenditure from its operational cash flow. Following a review of the investment plan, the capital intensive parts of the Hydrocrack project have therefore been rescheduled. MOL will complete additional design and planning tasks in 2009.

Operating profit details	2007	2008
Reported operating profit (HUF bn)	171.9	72.4
Replacement modification (HUF bn)	(32.1)	69.9
Impairment on inventories (HUF bn)	-	22.5
One-off impacts* (HUF bn)	-	(4.0)
Estimated CCS-based operating profit excl. one-off effects (HUF bn)	139.8	160.8
Estimated CCS-based operating profit excl. one-off effects (USD mn)	760.6	936.0

*including loss on the complete planned shut down of IES in September, the repayment of the unfounded penalty by the Slovak Ministry of Finance in Q4 2008 (HUF 4.6 bn)

CCS-based operating profit up 23% in USD-terms and 15% in HUF-terms

R&M CCS-based operating profit increased by 23% in USD-tems to USD 936 mn in 2008 year-on-year. This measure adjusts for impairment on inventories, excluding one-off items, which describes the profitability of the reoccurring operation. The CCS-based operating profit, excluding one-off items, in HUF-terms increased by 15% year-on-year to HUF 160.8 bn for 2008, as local currencies strengthened against the USD.

Inventory loss and impairment on inventory due to the significant fall in the crude oil price

While the inventory holding gain was HUF 32.1 bn in 2007, it turned to an inventory holding loss of HUF 69.9 bn in 2008. The significant inventory loss for 2008 was resulted by a USD 49 /bbl decline in the monthly average Ural crude oil price (from USD 89 /bbl in December 2007 to USD 40 /bbl in December 2008). Furthermore, a HUF 22.5 bn impairment on inventories was recognised in 2008. As a result, the operating profit for the segment decreased by 58% year-on-year to HUF 72.4 bn in 2008.

CCS-based operating profit excluding IES remained stable

The comparable CCS-based operating profit, excluding IES, was maintained in USD-terms in 2008. In 2008, the favourable impact of the USD 12/t improvement in average crack spreads (FOB Rot vs. Brent)

was offset by the following three factors: (1) a significant increase in energy cost, (2) unfavourable change in value of refinery own consumption due to higher crude oil price and (3) fx loss on creditors and vendors due to extremely volatile fx movements in H2 2008.

IES was in line with expectations in 2008

The profit contribution of IES, which was acquired in Q4 2007, was in line with our expectations in the first full year of consolidation, in 2008. IES owns the Mantova refinery with a 2.6 Mtpa capacity in Northern-Italy and has a network of 202 retail stations.

IES fuelled the 11% throughput increase

In 2008, we processed 15.0 Mt of crude oil, compared to 13.3 Mt in the previous year (an increase of 12.8%) supported by the throughput of IES (2.3 Mt). Refinery throughput grew by 11% year-on-year to 18.1 Mt in 2008. At the Duna and Slovnaft refineries, production remained stable at 15.8 Mt on uninterrupted Russian crude supply.

Lower utilisation due to planned shut downs

There was a slight decrease in the utilisation of the Duna and Slovnaft refineries in 2008, due to planned shut downs of some selected residue upgrading units during 2008. By comparison, there were no significant refinery shut downs in 2007. In Q3-Q4 2008 IES had a 4 week shut-down to complete environmental upgrades.

Sales increase fuelled by middle distillates

Aggregate sales volume increased by 19% year-on-year to 15.6 Mt in 2008 (including sales of LPG and gas products, but excluding the chemical raw materials sold to the Petrochemical segment). The sales growth of the higher margin products was considerable: diesel was up by 26%, kerosene by 2% and motor gasoline sales improved by 9%, while the heating oil decreased by 9% year-on-year. The sales volume of the traditional Duna and Slovnaft refineries remained flat. The consolidation of IES added 2.6 Mt to our sales volumes (including 1.4 Mt diesel, 0.4 Mt gasoline and 0.6 Mt bitumen) in 2008.

Leading position in our home markets maintained

We were successful in increasing sales in our most important and closest markets of Hungary, Slovakia and Austria. Hungarian refinery product sales increased by 1% to 4.9 Mt in 2008, of which motor fuel sales increased by 2%, fuelled by a 5% increase in diesel sales in 2008 year-on-year. From the 1st January 2008 only 4.4% (v/v) of biocomponent content motor fuel was sold. Our refinery product sales in Slovakia increased by 7% (to 1.6 Mt), also supported mainly by 8% higher diesel volumes and increase in gasoline sales by 3%. Our Slovakian motor fuel sales grew by 6%, well above the market increase of 3% in 2008.

Growing exports

Our exports increased from 6.7 Mt to 9.0 Mt mainly due to the higher gas and heating oil, gasoline and bitumen exports (up by 37% (1.3 Mt), by 22% (0.3 Mt) and by 195% (0.6 Mt), respectively), partially supported by the acquisitions of IES and Tifon.

Regional demand growth was behind expectations

The Central European motor fuel market was dominated by high price levels in most of 2008. The demand growth was lower than experienced in recent years. The demand for gasoline declined by 2% in response to higher fuel prices. The diesel consumption grew

by 4% driven by high economic growth rates sustaining in several countries of the region.

Demand in Hungary: weaker in gasoline, but further increasing in diesel

The gasoline market in Hungary slightly decreased by 1.5% in 2008 due to private consumers' reaction to the high level of fuel prices. As a response to the large fall in prices in Q4, the demand started to increase at the end of the year. Despite the weak economic growth, diesel consumption increased by over 5% driven by increased performance of the agricultural and freight transportation sectors.

Stable market coverage in Hungary

MOL successfully maintained its favourable market position in Hungary. Diesel refinery coverage remained stable at 85% in 2008 as a result of increased sales quantity in international oil companies (IOC) and end-user segments overcompensating the decline of own retail sales. However, refinery coverage of gasoline slightly declined from 85% to 84% in 2008, caused by a decrease in own retail sales.

Growing fuel demand in Slovakia and Slovakian market coverage successfully increased

The diesel market increased by 4% in Slovakia and motor gasoline consumption was slightly up by 2% year-on-year. Sustained favourable economic growth and rising real income all contributed to the demand growth, however high fuel prices somewhat moderated their positive impact.

The diesel market share significantly improved by 3 percentage points to 65%, due to higher sales to IOCs, transportation, white pumpers, agriculture and industry segments. Refinery coverage of gasoline was successfully increased from 66% to 67% in 2008, due to increased sales volumes to major customers of the IOC segment.

Increased bitumen consumption

After a large drop last year, the demand for bitumen increased in both Hungary and Slovakia driven by highway construction activity, which started earlier this year due to the weather conditions. We successfully managed to increase our market share in Hungary from 71% in 2007 to 78% in 2008. In Slovakia, however, the refinery coverage declined from 63% in 2007 to 58% in 2008, as a result of strengthening import competition.

LPG market share: higher in Slovakia but lower in Hungary

LPG refinery coverage in Hungary slightly decreased from 79% in 2007 to 76% in 2008 and the retail coverage also eroded from 23% in 2007 to 22% in 2008. However, the retail market share in Slovakia was successfully increased from 25% in 2007 to 29% in 2008, as a result of an increasing number of filling stations marketing autogas and through competitive pricing.

Petchem feedstock volume was down 6%

The total transferred volumes to the Petrochemical segment decreased by 154 kt to 2,546 kt in 2008. Of this, naphtha amounted to 1,888 kt and chemical gasoil volumes of 60 kt (1,994 kt and 203 kt, respectively, in 2007). In 2008, our Petrochemical segment supplied 669 kt of by-products to our Refining and Marketing segment for further processing.

Retail

Retail strategy successfully pursued

In 2008, we made further steps to reach our retail strategic goals in the North-Adriatic region. We successfully integrated Tifon, a fuel retail and wholesale company in Croatia, and the IES retail network, which is mainly concentrated in Northern Italy, following the acquistion of both companies during Q4 2007. In addition, we increased our Austrian network with 13 MOL branded stations as a result of our acquisiton activity in Austria. Furthermore, we made significant achievements in network development by building and rebranding 62 service stations during the year. In line with our multibrand approach, we operate six brands in our region, in line with our basic 'Value For Money' sales philosophy.

New RVI providing success

MOL's 'Retail Visual Identity' (RVI) has been renewed and introduced at newly-built, refurbished, re-branded filling stations. The new design combines the traditional MOL visual elements with a dynamic refreshing image to reflect the company's strategy and MOL's 'Value for Money' sales philosophy. A regional partnership was created between the MOL Group and Marché International to provide a premium gastro offering at motorway locations. The first restaurants were opened at Hungarian motorway locations with great success, and have resulted in a boost to fuel sales.

Retail sales up 17%

Aggregate retail sales volumes (incl. LPG and lubricant volumes) increased by 17% to 2.3 Mt in 2008. The main driver of the growth was the acquisition of IES and Tifon, completed in Q4 2007, adding 225.1 kt, and 107.8 kt to retail sales, respectively. Retail fuel sales volumes, excluding IES and Tifon, remained stable, year-on-year, as Hungary eroded slightly while both Slovakia and Romania grew modestly.

Hungarian retail volumes down 2%

In Hungary, our retail fuel sales volumes decreased by 2% year-on-year, mainly due to the competitive environment, while the average throughput per site showed a 2.8% decrease year-on-year. Diesel sales increased by 3%, while gasoline and LPG sales fell by 4% and 6% year-on-year, respectively. Lower gasoline sales reflect the temporary effect of taking 98 octane gasoline out of our portfolio; the continued Hypermarkets' expansion; expiry of franchise contracts; and the highway reconstructions at our high throughput fuel sites. We completed the reconstruction of three sites by the motorways adding Marche restaurants. Our retail fuel market share, according to MÁSZ (Hungarian Petroleum Association), eroded from 37% in 2007 to 36% in 2008. The ratio of fleet card sales to our total fuel sales rose from 34% to 36% while shop sales revenue decreased by 2% in comparison to 2007.

Throughput per site: up 2% in Slovakia

In Slovakia, our retail sales volume slightly increased in 2008, despite the fierce competition. Diesel sales showed a 3% increase year-on-year, while gasoline sales remained on the level of 2007, however showed a 2% increase in Q4 2008. LPG sales grew by 13%, mainly due to the excise duty abolishment as of 1st of July 2008. We increased the average throughput per site by 2.2% in 2008, as a result of our continued efficiency improvement program. Our retail market share in Slovakia eroded from

40% to 38% in 2008 year-on-year. Fleet card sales decreased by 2%, and the proportion of card sales within Slovakian total fuel sales fell by one percentage points to 29% in 2008 year-on-year.

Romanian retail volumes grew by 2%

In Romania, fuel sales volume grew by 2% in 2008, while the turnover increased by 12% in EUR-terms. Fleet card sales increased by 5% due to a strong focus on increasing client card sales and the partnership with the Romanian Road Transporters Union. Shop sales, in EUR-terms, grew by 6%, due to improved category product management. In 2008, our market share decreased from 12.8% to 10.7%, mainly due to the product portfolio revision and withdrawal of Leaded '95 as of the 1st of April. The number of filling stations increased by nine reaching 131, of which six were opened in Q4 2008.

By executing our strategy to expand our network, fuel sales in Serbia increased by 44.4% to 71.1 million litres in 2008.

On track with the strategy realization: over 1000 petrol stations

The group operated 1,076 filling stations as of 31 December 2008, including 357 in our main market of Hungary, 209 in Slovakia, 202 in Italy, 131 in Romania, 47 in Austria, 40 in Croatia and 30 in the Czech Republic.

Petrochemicals Overview

Achievements in an extremely challenging environment

The full year of 2008 was characterised by the crisis management, as the first signs of the recession reached the petrochemicals industry already in April 2008. Given the difficult external environment it was necessary to apply stringent controls over operating costs. We achieved significant savings in maintenance costs, and were able to increase energy consumption savings with regard to steam and electricity. In addition, a special focus on feedstock structure optimization has had a positive impact on our performance.

On the basis of an in-depth market analysis and assessment of core competencies we have updated our sales and marketing strategy. To deepen further our customers' loyalty, we invested in improving the standard of our services. We continued our Open Doors program series and with enhanced direct communication to customers. Furtheremore, we worked hard to find the optimum price and volume combination in our markets. As a result of our flexible and fine tuned reaction to market changes we managed to mitigate our losses.

Further efficiency improvements and capex savings for 2009

In order to survive the turbulent period characterized by critical conditions, we will double our efforts to maximize profits. We will focus on extending our competitive advantage, improving efficiency and apply more proactive product and customer portfolio management. Furtheremore, we intend to reduce capital expenditures to a reasonably minimal level. A review of our project pipeline was carried out and based upon detailed risk analysis, certain projects were renegotiated and rescheduled to minimize spendings.

HUF 7.6 bn operating loss for 2008

The Petrochemical segment reported an operating loss of HUF 7.6 bn for the FY 2008. Significant losses occurred in the first half of the year due to all-time low integrated Petrochemical margins. After the brake even in Q3, significant operating profit of HUF 3.8 bn was achieved in Q4, as a result of a strong recovery in integrated petrochemical margins, cost-cutting and efficiency improvement measures implemented in H1 2008.

2008 was a challenging year

2008 was an exceptionally challenging year with extremely volatile integrated petrochemical margins, as raw material prices reached both record high and low levels, which were only gradually followed by polymer prices. Furthermore, monomer quotations remained fixed on quarterly-basis. In addition energy prices showed a continuous increase and market demand weakened due to recession fears.

19% lower integrated petrochemical margin

The average integrated petrochemical margins declined by 19% in 2008 compared to 2007, as the naphtha quotation increased by 17% in USD-terms, while the polymer quotation decreased between 1-7% in EUR-terms, not offset by the 7% weakening of the USD to the EUR.

7-8% decrease in production volumes

Both monomer and polymer production decreased by 7% and 8%, respectively in 2008, compared to the previous year. Polymer production declined by 97 kt year-on-year in 2008, as a result of the general overhaul carried out in H1, intentional decrease of production due to the sharp margin fall on atmospheric gas oil processing, weak market demand, technical problems which arose in Q3 and process interruptions due to issues in the national electric grid on the 11th of August.

8% decrease in polymer sales volumes

Polymer sales volumes fell by 91 kt (down 8%) in 2008, due to lower production volumes and shrinking market demand. The extent of decrease varied according to product group, as a result of our active product-portfolio management. The sales decline was most significant in the case of HDPE (-10%) and LDPE (-10%) products, mainly due to decreasing production and lower demand. At the same time the sales of PP had a 4% drop in 2008 year-on-year as a reflection of more moderate answer of our PP markets to economic slowdown.

Gas and Power Segment Overview

The operating profit of the Gas and Power segment remained unchanged year-on-year at HUF 38.7bn in 2008. FGSZ Ltd. contributed HUF 30.5 bn (with a revaluated asset value, without revaluation the FGSZ Ltd operating profit amounts to HUF 37.5 bn), while the related gas and power units (MMBF Ltd., MOL Energy Trade Kft., Slovnaft Thermal Power Plant and Duna Boiler Farm and the related head-office organizations) contributed HUF 1.3 bn for 2008.

FGSZ Ltd.

Main 2008 goals were met

FGSZ Ltd. continued the development of the import capacity expansion project, which will give an opportunity to fulfil future domestic demand and allow us to access the gas stocks of the strategic storage facility in the future. In addition, it will enable us to enjoy a more pro-active role in future natural gas transmission businesses. On the expansion of the Hungarian import pipeline entry capacity by 30 Mm^3/day, and the pipeline between the strategic storage and the main nod of the transmission system, FGSZ Ltd. spent HUF 62.2 bn in 2008, out of the total budget of HUF 69 bn and the project will be completed by Q2 2009.

FGSZ continued the negotiation on NETS

FGSZ initiated in December 2007 a large-scale project NETS (New European Transmission System), aiming to create an integrated gas pipeline system in Central and Southern Europe strengthening the securaty of energy supply. Negotiations progressed in 2008, FGSZ, Plinacro from Croatia and Transgaz from Romania agreed on the foundation of a study company. BH-GAS (Bosnia-Hercegovina) intends to participate in this company as an observer. FGSZ also invited other market players from the region to participate in this project.

As part of the NETS launched by FGSZ Ltd. a decision has been made on the interconnection of the Hungarian-Croatian and Hungarian-Romanian natural gas transmission systems in order to improve the security of supply.

Outlook for 2009: new transit connections

Currently no physical connection exists between Hungary and Romania. The pipeline is planned with an initial capacity of 1.75 bcm, to be extended in the future to 4.4 bcm. The overall pipeline length is 109 km with a 47 km section in Hungary and a 62 km section in Romania. A Joint Development Agreement (JDA) has been signed by the Hungarian and Romanian parties. The Open Season procedure was successfully closed. The conclusion of capacity booking contracts is ongoing.

FGSZ Ltd. and Plinacro concluded a Joint Development Agreement for the interconnection of Hungarian and Croatian natural gas transmission systems. The planned pipeline is 210 km long on the Hungarian side, and has capacity of 6.5 bcm per annum.

Stable operating profit contribution of FGSZ Ltd

Operating profit for FGSZ Ltd. was HUF 30.5 bn in FY 2008, HUF 0.4 bn lower year-on-year as higher operating costs, primarily as a consequence of higher compressor usage costs, eliminated the impact of the domestic transmission and transit transmission revenue increase of 7% and 16%, respectively.

Domestic transmission revenue +7%

Revenue from domestic transmission grew by HUF 3.7 bn (7%) to HUF 58.9 bn in FY 2008. The capacity fee revenue increased by HUF 1.6 bn due to the positive impact of the tariff change. Turnover fee revenue, which is dependent upon transmission volume, was HUF 2.1 bn higher year-on-year, due to a 1% volume increase of transmitted natural gas and the favourable impact of the tariff changes effective 1 July , 2008.

Transit revenue +16%

Revenue from transit natural gas transmission was HUF 16.1 bn, being HUF 2.3 bn (16%) higher year-on-year, as a result of higher transmitted volume (2%), as well as the tariff increase.

Operating cost increase offset the revenue growth

Operating costs increased by HUF 7.3 bn (19%) in FY 2008, mainly due to the energy cost increase, as both the price and the volume of natural gas used for operational purpose (mostly to drive compressors) exceeded the basis value. The combined impact of these cost increases, together with the growth of gas cost-based pressure increase fee, resulted in an increase of HUF 4.6 bn. Other operating costs were HUF 2.7 bn higher year-on-year, from which a depreciation surplus of HUF 1.1 bn, related to the asset value growth, was the most significant item.

Gas and Power Division

New division was established in 2008

The Gas and Power Division was formed in order to provide reliable, environmentally friendly and efficient natural gas and energy supply within the MOL Group and for external market participants. MOL reentered to the underground storage business and develops the natural gas trading and sales portfolio strengthening the security of supply in Hungary, providing stable cash flow with healthy returns for the Group. In addition, MOL aims to create an attractive power portfolio in the region based on the strategic cooperation with CEZ and exploiting further synergy opportunities with the other businesses of MOL Group including green energy concepts. The Gas and Power Division started its operation in the summer of 2008 and had an operating profit contribution of HUF 1.3 bn for FY 2008.

Strategic and commercial storage

We have started to rebuild our gas storage business through the establishment of MMBF Ltd. (72.5% subsidiary of MOL). MMBF Ltd. is developing the underground gas storage with a strategic mobile capacity of 1.2 bcm and 0.7 bcm commercial capacity. The storage facility, in line with legal provisions, will have a daily withdrawal peak capacity of 20 mcm over a period of 45 days for strategic (security) activities and an additional 5 mcm/day peak for the commercial part. The gas storage facility functions through an active reservoir, Szőreg-1.

The development, implemented by MOL Plc, is proceeding according to schedule. The total CAPEX, without the acquisition of mining rights (HUF 67.0 bn), is estimated at HUF 81.5, of which HUF 57.0 bn had been spent by the year end. The development is expected to be completed by 2010 for both the strategic and commercial capacities. MMBF Ltd. spent HUF 50.5 bn CAPEX on the development of the storage facility in 2008.

MMBF Ltd. continued the preliminary storage of natural gas and injected 284 mcm gas until the year-end, of the 300 mcm contracted by January 2009. The storage of strategic gas reserves will be completed by the end of 2009. The present infrastructure already enables MMBF Ltd. to provide strategic gas storage services starting from January 2008 and the whole development is expected to be completed by 2010.

JV with CEZ – entry into the electricity market

In 2008, a new business was established within MOL Group, being responsible for managing the projects related to power generation. 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 MOL-CEZ Joint Venture was incorporated under the name of CM European Power International B.V. on 17 July 2008 with an initial capital of EUR 8.3 mn.

The first major investment is the construction of two combined cycle gas turbine power plants (CCGT) (each with 800MW capacity) fuelled primarily by gas at the Bratislava and Duna refinery sites. In addition, in Bratislava, the current thermal power plant will be modernized and its capacity increased to 160MW. The expected investment by the parties, will be approximately EUR 1.4 bn, and the first year of operation is scheduled for 2013. In 2008, cooperation started in order to deliver preparatory works of the project and tasks assigned to its first year. The investment project is in line with the planned schedule at both refinery locations.

MOL Energy Trade

MOL Energy Trade Ltd. is the natural gas trading subsidiary MOL. In addition to the reliable gas supply of MOL Group demand, it seeks to capture the opportunities of the liberalised gas market. The company signed up to 49 new sales contracts in the Hungarian market in 2008, as well as being active and successful in the Serbian and Austrian trading market. All the above activities resulted in EUR 11.0 mn net profit in 2008, for the company, exceeding its plan.

Corporate and Other Segment Overview

22% increase in operating loss (excluding one-off items)

The Corporate and other segment operating loss, excluding one-off items (in 2007, the gain of HUF 14.4 bn on the interest acquisition in TVK, subsequent settlement of HUF 44.3 bn from E.ON in connection with the gas business, and in 2008, HUF 6.4 bn subsequent settlement from E.On and a fine of HUF 5.8 bn imposed by the European Commission in association with paraffin trading) represented a 22% increase, and amounted to HUF 38.3 bn loss in 2008.

The loss increase was driven by the higher operating costs at IES due to the differences in the consolidating period (acquired in Q4 2007), and higher consultancy fees, as a consequence of our capital structure optimization program.

Financial results

Net financial expense decreased by 3%

The net financial expense decreased slightly to HUF 16.1 bn in FY 2008, from HUF 16.6 bn in FY 2007. Interest payable was HUF 37.8 bn in FY 2008, (HUF 16.9 bn in FY 2007, reflecting our lower-than-optimal gearing in the comparative period), while interest received amounted to HUF 19.2 bn in FY 2008 (HUF 13.4 bn in FY 2007). A net foreign exchange loss of HUF 19.9 bn was recognised in FY 2008, compared to the gain of HUF 7.6 bn in FY 2007. The fair valuation gain on the conversion option, embedded in the capital security issued in the monetization of treasury shares by Magnolia Finance Ltd., was HUF 64.6 bn (compared to a loss of HUF 13.0 bn in FY 2007). The gain reflects that the fair value of the conversion option liability has decreased to nil as at 31 December 2008, since the market of the underlying convertible instrument has temporarily become inactive, also the quoted prices of the Capital Securities and of the underlying MOL shares declined significantly. In addition, a non-cash expense of HUF 39.3 bn was incurred on the fair valuation of the call option on MOL shares owned by CEZ in FY 2008. This result also reflects the stressed share prices experienced since the end of the third quarter, and is associated with the worldwide financial crisis.

Loss from associates

INA contributed a loss of HUF 25.5 bn

Loss from associates includes INA's 2008 contribution of HUF 25.5 bn (including MOL's additional 22.16% shareholding from Q4 2008), compared to the income of HUF 5.1 bn in 2007 (reflecting the 25% MOL shareholding owned at that time). The decrease in INA's profit reflects the loss on its discontinued gas trading operation, the weaker downstream contribution and significant financial losses.

Profit before Taxation

As a result of the above-mentioned items, the Group's profit before taxation in FY 2008 was HUF 158.0 bn, compared to HUF 344.3 bn in FY 2007.

Taxation

Income tax expense was lower

Income tax expense decreased by HUF 65.1 bn from the previous year to HUF 16.7 bn in FY 2008. The subsequent impact of MOL share transactions and certain options attached to shares held by third parties is treated differently for IFRS and tax purposes, and resulted in a HUF 33.2 bn decrease in our tax expense. Furthermore, the non-realised gain on the conversion option of our capital securities issued by Magnolia Finance Ltd. did not affect our tax base.

Consolidated Cash Flow	2007	2008
	(HUF mn)	(HUF mn)
Net cash provided by operating activities	315,506	347,203
of which movements in working capital	(61,511)	24,898
Net cash used in investing activities	(336,978)	(474,792)
Net cash provided by/(used in) financing activities	(245,951)	209,070
Net increase/(decrease) in cash and cash equivalents	(267,423)	81,481

Operating cash flow increased by 10%

Operating cash inflow in FY 2008 was HUF 347.2 bn, compared to HUF 315.5 bn in FY 2007. Operating cash flow before movements in working capital decreased by 14%. The change in the working capital position increased funds by HUF 24.9 bn, arising from an increase in other current assets and other payables (of HUF 7.1 bn and HUF 9.6 bn) and decrease in inventories, trade receivables and trade payables (of HUF 77.4 bn, HUF 34.3 bn and HUF 89.3 bn). Income taxes paid amounted to HUF 61.9 bn, due to a cash outflow from the income taxes of MOL Plc., Slovnaft and the ZMB joint venture.

Acquisitions boosted net cash used in investing activities

Net cash used in investing activities was HUF 474.8 bn in FY 2008, compared with net cash of HUF 337.0 bn used in FY 2007. The cash outflow of the current period reflects the combined effect of the increasing capital expenditure mainly on expansion of the Hungarian import pipeline capacity, consideration paid for 22.16% of INA, the purchase price adjustment paid for IES and the consideration paid for I&C Energo. The comparative figure for FY 2007 contains the consideration paid for the acquisition of a minority interest in TVK, the second instalment paid for BaiTex LLC and the consideration of the acquisition of IES, Tifon and Energopetrol. Both periods contain the net settlement of post-closing price adjustment from the sale of MOL Földgázellátó Zrt. to E.ON Ruhrgas International AG. (HUF 28.1 bn received and HUF 7.5 bn paid in FY 2008 and FY 2007, respectively).

Net financing cash inflows from drawdown of long-term loans

Net financing cash inflow amounted to HUF 209.1 bn in FY 2008, primarily as a result of a net drawdown of long-term debt, the dividend payment and issuing shares previously held as treasury stock to CEZ.

Funding overview

The financial position and ability to generate operational of corporates came into the front due to the turbulent financial environment and economic slowdown.

Expectation of a severe economic downturn led to credit rating downgrades across the region…

Due to the expectation of a severe economic downturn, credit rating agencies started to downgrade companies across the region. Standard & Poor's downgraded the long-term corporate credit rating of MOL Plc., from BBB- (with negative outlook) to BB+ (with stable outlook). S&P's decision was made following the downgrade of the sovereign credit rating of the Republic of Hungary to BBB (with negative outlook) in November, reflecting the general expectation of recession in the country and the region. The unfavourable changes in the industry and the financial market outlook influenced this decision significantly.

… however MOL retains its strong liquidity position

This has not changed the fact that MOL has a strong liquidity position. MOL has nearly EUR 1.5 bn undrawn credit facilities and cash deposits, considered as a golden reserve, which provide full financial flexibility in the short and medium term. These financial vehicles together with the disciplined capital expenditure plan show MOL's preparation for the lean year.

No new external funding transaction is necessary until Oct 2010

MOL Group has sufficient external funding for its operations and investments and no new financing is necessary until October 2010. The main pillars of the existing funding are 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 10 year Eurobonds issued 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 can be used for general corporate purposes (including acquisitions).

66% EUR-denominated debt

MOL Group's total debt increased from HUF 636.2 bn at year-end 2007 to HUF 911.5 bn at 31 December 2008, primary as a result of the INA acquisition. The currency composition of total debt was 66.2% EUR, 32.2% USD, 1.6% HUF and other currency as of 31 December 2008. Our net debt amounted to HUF 689.4 bn (EUR 2.6 bn) at the end of 2008.

Our gearing ratio is unchanged

Our gearing ratio (net debt to the sum of net debt and total equity) was 35.9% at 31 December 2008 compared to 35.5% at the end of 2007 which reflects the strong capitalization of MOL Group.

Integrated Risk management

The recent turbulent environment underlined the necessity of an effective and comprehensive risk management

MOL operates a developed risk management function as an integral part of its corporate governance structure. The recent developments on the global economic and financial scene have underlined the necessity of effective and comprehensive risk management as a prerequisite tool of good corporate governance. Besides the turmoil, there are several other requirements of proper risk management at a company, for example IFRS requirements, introduced in 2007, on disclosing information on financial risks and their management, the rating agency focus on implementations of effective Enterprise Risk Management (ERM) frameworks, and the heightened scrutiny on corporate governance practices by investors.

MOL has a four-pillar integrated risk management system for managing a broad variety of risk.

Enterprise Risk Management

Incorporation of the broadest variety of risks into one long-term, comprehensive and dynamic system is arranged by Enterprise Risk Management (ERM) at a group level. ERM integrates financial and operational risks along with a wide range of strategic risks. The most important role of ERM is not just to provide information on the most imperative risks that MOL faces, but to enable top management and the Board of Directors to make more educated decisions on investments, taking into additional consideration, the risk profile of each project.

Financial Risk Management

The main role of the Financial Risk Management is to handle short-term, market related risks. Commodity price, FX and interest rate risks are measured by using a complex model based on the Monte Carlo simulation, which additionally takes into account portfolio effects, and are managed, if necessary, with risk mitigation tools such as swaps, forwards and options.

Insurance Management

The transference of excess operational risk is carried out by Insurance Management through the purchase of insurance, an important risk mitigation tool used to cover the most relevant operational exposures.

Business Continuity Management

Business Continuity Management (BCM) is the process of preparing for unexpected operational events. Proper Business Contingency Plans (BCP), Crisis Management (CM) processes and other risk control programs, such as regular engineering reviews, are crucial for business where operational risk exposure is significant as a result of the chemical and physical processes underlying most of the operations, such as MOL.

The existence of an integrated risk management function enables MOL to exploit the synergies between the above detailed four pillars of risk management.

Capital expenditure program

CAPITAL EXPENDITURES	2007 Restated (HUF mn)	2008 (HUF mn)
Exploration and Production	56,691	73,568
Refining and Marketing*	206,400	119,385
Gas and Power	28,823	129,884
Petrochemicals	7,032	10,227
Corporate and other	64,454	245,837
TOTAL	363,400	578,901

* Including Refining & Marketing, Retail and Lubricants segments

59% increase in CAPEX fuelled by the INA acquisition and investment in Gas and Power

Our Group capital expenditures (CAPEX) including exploration costs, increased from HUF 363.4 bn in 2007 to HUF 578.9 bn in 2008, on the one hand due to the Gas and Power Segment key projects' implementations, and on the other hand, to the higher acquisition spending.

In 2008, we spent HUF 227.3 bn acquiring a further 22.16% stake in INA, via a voluntary public offer. In 2007, we spent a total HUF 207.6 bn for acquisitions including IES, the TVK share purchase, retail network acquisition in Croatia, Tifon and extended interests in Russia.

Excluding these acquisitions, organic CAPEX amounted to HUF 332.2 bn in 2008, up by 113.2% from HUF 155.8 bn in 2007. The Gas Import Capacity Increase and Underground Gas Storage (UGS) projects were the main drivers of the organic CAPEX growth (up by HUF 95.9 bn to HUF 108 bn).

Exploration & Production CAPEX up 30%

Upstream CAPEX and investment increased by HUF 16.9 bn year-on-year to HUF 73.6 bn in 2008 due to intensified international exploration and development activities. Within exploration activities, HUF 11.8 bn (equal to 16% of the total capex) was spent on the acquisition of two exploration blocks in Kurdistan and one in Cameroon. HUF 27.9 bn (equal to 38%) was dedicated to organic exploration, with a spend of HUF 9.7 bn in Hungary, HUF 5.9 bn in Russia, HUF 4.8 bn in Cameroon, and HUF 7.5 bn in other regions. The total development expenditure was HUF 24.7 bn (equal to 34%), of which HUF 7.6 bn was spent in Hungary, whilst in Russia HUF 15.0 bn was invested with focus on Matjushkinskaya (HUF 8.2 bn) and Baitex (HUF 4.0 bn), and further development in ZMB (HUF 2.8 bn). In Pakistan, our share in the development cost of the Manzalai field was HUF 2.1 bn. A further HUF 4.8 bn (equal to 7%) was spent on upgrading the assets of our seismic and well-logging service subsidiaries in order to provide support for our activities and a further HUF 3.5 bn (equal to 5%) on maintenance-type projects.

Refining & Marketing CAPEX down by 42%

R&M CAPEX was HUF 119.4 bn in 2008, down from HUF 206.4 bn in 2007, which included HUF 138.6 bn spent on IES and Tifon acquisitions in Q4 2007. This segment consists of following businesses:

- **Refining and Wholesale** expenditures were HUF 92.6 bn in 2008 versus HUF 170.6 bn in 2007, which included the acquisition of the

Italian Refinery (IES: HUF 121.6 bn). In 2008, Slovnaft spent HUF 27.1 bn on investment projects. The CAPEX of Duna Refinery and the subsidiaries of MOL Plc. was HUF 42.4 bn included the spending on VGO Hydrocrack of HUF 10.6 bn. IES spent HUF 23.1 bn in 2008 on environmental project (Product Quality Development).

- **Retail CAPEX** was HUF 26.4 bn in 2008 including the HUF 8.6 bn spent on network development in Hungary, HUF 3.0 bn in Romania, HUF 4.1 bn at Tifon, HUF 4.4 bn in Serbia and HUF 4.1 bn spent by IES. Retail CAPEX was lower than the basis by HUF 8.8 bn in 2008, which included the HUF 4.6 bn acquisition through capital increase in Bosnia's Energopetrol and HUF 16.9 bn in Tifon's acquisition.
- **Lubricant CAPEX** decreased by 28% year-on-year due to the lower volume of sales and production development.

FGSZ Ltd.
CAPEX up HUF 51.4 bn

CAPEX of FGSZ Ltd. was particularly high in 2008, at HUF 73.8 bn due to strategically important projects (import capacity expansion: HUF 62.2 bn, Pilisvörösvár – Százhalombatta gas pipeline construction: HUF 2.3 bn and Romanian transit: HUF 1.5 bn). A further HUF 7.8 bn was spent on network development, securing the safe and long-term operation of the domestic system.

MMBF Ltd. spent HUF 50.5 bn on the development of the storage facility in 2008. The company developed the underground gas storage with a strategic mobile capacity of 1.2 bcm and 0.7 bcm commercial capacity. The gas storage facility functions through an active reservoir, Szőreg-1.

Gas and Power CAPEX was at HUF 5.6 bn in 2008. We created a strategic alliance and signed a joint venture agreement with CEZ, to create a joint gas-fired power and heat generation business in Central and South Eastern Europe, including Slovakia, Hungary, Croatia and Slovenia.

The first major investment is the construction of two combined cycle gas turbine power plants (CCGT) (each with 800MW capacity) fuelled primarily by gas at the Bratislava and Duna refinery sites. Additionally, in Bratislava, the current thermal plant (TPP) will be modernized and its capacity increased to 160MW. In 2008, the major activities were focused on the preparation of technical studies for the CCGT projects and reconstruction of the TPP.

Petrochemicals segment
CAPEX up HUF 3.2 bn

Petrochemical CAPEX increased by 45% to HUF 10.2 bn year-on-year, fuelled mainly by the key projects of Slovnaft (ECO Vision and SPC development), which focused on the efficiency improvement of production on Steam Cracker and improvement of operating reliability.

Corporate & Other segment
CAPEX up HUF 181.4 bn

Capital expenditures of the **Corporate and Other segment** increased by HUF 181.4 bn year-on year to HUF 245.8 bn, mainly driven by acquisition spending (INA: HUF 227.3 bn and I&C Energo: HUF 7.6 bn). In addition, HUF 4.8 bn was spent on the further development of our Group information system and HUF 2.7 bn on property maintenance.

Outlook on Strategic Horizon: Key Value Driver - INA

Despite the turbulent economic environment…

The global recession has inflicted direct and indirect shocks on the global and Central European oil and gas industry. MOL, however, was among those companies to react immediately following the first signs of the crisis and adjusted its operational activities to cope with an increasingly difficult environment.

…MOL is well positioned to generate superior returns

With a strong balance sheet and access to financial headroom of EUR 1.5 bn of undrawn credit facilities, MOL is well positioned to withstand the current downturn. In an environment where the opportunity for shareholder value creation through growth is rather limited, MOL – by gaining management control over the Croatian national oil and gas company, INA – is well positioned to deliver superior returns to its shareholders through improving efficiency and optimizing INA's operational activities.

Strengthened cooperation with INA

With the largest ever transaction in the company's history (EUR 873 mn), MOL became the biggest shareholder of INA (47.16%) in October 2008. Through the amendment of the Shareholders' Agreement between the Croatian Government and MOL in early 2009, MOL and INA have strengthened their strategic partnership receiving operational control. The amended Shareholders' Agreement provides MOL with management control rights and enables the full accounting consolidation of INA in MOL's financial statements.

INA - solid basis for value creation

The new agreement provides MOL with the opportunity to extract value from MOL and INA's complementary asset base in their respective markets. INA's Upstream portfolio more than doubles the proven and probable reserves of MOL Group, while boosting the hydrocarbon production by 68% (based on 2008 data). Together with INA's Downstream capacity, MOL's regional refining capacity has increased by 40% and the number of retail outlets by 45%. The joint operation of the two companies enables MOL to optimise a larger asset portfolio, provides economies of scale and more flexible operations, as well as the transfer of knowledge.

Value creation through harmonised operations

MOL is regarded as one of the efficiency leaders in the European Downstream business. MOL is also among the lowest cost producers in the European Upstream sector. MOL's track record in company restructuring, refinery modernisation, and the development of market-based commercial policy provides INA with the opportunity to achieve significant performance improvement. The management team is highly committed to elevate the efficiency of INA to MOL's standards.

Gas Master Agreement is first step to realize upside

The first and key step in value creation has already been made through the signing of the Gas Master Agreement in January 2009. The contract allows INA to exit from loss-making sections of the gas supply value chain, eliminates the regulatory risk and also provides significant upside in its upstream business through a stable royalty framework for the next 15 years.

Maintain strong financial position for future recovery

In addition to exploiting the upside potential from INA, MOL intends to take every possible measure for the Group to navigate the current climate by maintaining a strong financial position. MOL's management team is implementing a range of cost reduction measures to extend its leadership in efficiency. A disciplined capex plan will be financed through operating cash flow thus not utilizing available credit lines. The medium-term objective is to establish an even stronger financial position for the Group in order to prepare for the opportunities presented by the global economic recovery.

MOL Hungarian Oil and Gas Plc.
and Subsidiaries

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

31 December 2008

To the Shareholders of MOL Hungarian Oil and Gas Plc.:

1.) We have audited the accompanying financial statements of MOL Hungarian Oil and Gas Plc. and its subsidiaries ("the Group"), which comprise the consolidated balance sheet as at 31 December 2008 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 86-173.

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 2008, 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
19 March 2009

MOL HUNGARIAN OIL AND GAS PLC. AND SUBSIDIARIES

Consolidated financial statements prepared in accordance with International Financial Reporting Standards

31 December 2008

Budapest, 19 March 2009

Zsolt Hernádi	**József Molnár**
Chairman of the Board of Directors	Executive Vice President for Finance
Chief Executive Officer	

Consolidated balance sheet
31 December 2008

	Notes	2008	2007 Restated
ASSETS		HUF million	HUF million
Non-current assets			
Intangible assets	3	191,402	169,190
Property, plant and equipment, net	4	1,417,199	1,180,254
Investments in associated companies	9	338,984	140,701
Available-for-sale investments	10	842	1,362
Deferred tax assets	28	56,223	20,162
Other non-current assets	11	23,249	32,567
Total non-current assets		2,027,899	1,544,236
Current assets			
Inventories	12	222,781	318,604
Trade receivables, net	13	327,484	354,119
Other current assets	14	81,378	82,397
Prepaid taxes		34,797	3,680
Cash and cash equivalents	15	222,074	129,721
Total current assets		888,514	888,521
TOTAL ASSETS		2,916,413	2,432,757
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Share capital	16	72,812	65,950
Reserves	17	898,751	468,418
Profit for the year attributable to equity holders of the parent		141,418	257,796
Equity attributable to equity holders of the parent		1,112,981	792,164
Minority interests		118,419	127,417
Total equity		1,231,400	919,581
Non-current liabilities			
Long-term debt, net of current portion	18	728,735	526,537
Provisions	19	147,528	126,982
Deferred tax liabilities	28	56,206	67,371
Other non-current liabilities	20	10,488	140,812
Total non-current liabilities		942,957	861,702
Current liabilities			
Trade and other payables	21	549,971	523,224
Current tax payable		2,934	6,234
Provisions	19	6,436	12,304
Short-term debt	22	80,918	57,976
Current portion of long-term debt	18	101,797	51,736
Total current liabilities		742,056	651,474
TOTAL EQUITY AND LIABILITIES		2,916,413	2,432,757

The notes are an integral part of these consolidated financial statements.

Consolidated income statement
31 December 2008

	Notes	2008	2007 restated
		HUF million	HUF million
Net revenue	23	3,535,008	2,593,951
Other operating income	24	19,751	75,063
Total operating income		3,554,759	2,669,014
Raw materials and consumables used		2,745,501	1,916,196
Personnel expenses	25	139,745	117,260
Depreciation, depletion, amortisation and impairment		151,908	140,538
Other operating expenses	26	279,976	225,098
Change in inventories of finished goods and work in progress		59,617	(70,181)
Work performed by the enterprise and capitalized		(21,212)	(15,402)
Total operating expenses		3,355,535	2,313,509
Operating profit		199,224	355,505
Financial income	27	114,742	22,096
Of which: Fair valuation difference of conversion option	27	64,550	-
Financial expense	27	130,818	38,663
Of which: Fair valuation difference of conversion option	27	-	12,966
Financial expense, net	27	16,076	16,567
Income from associates		(25,190)	5,318
Profit before tax		157,958	344,256
Income tax expense	28	16,734	81,853
Profit for the year		141,224	262,403
Attributable to: Equity holders of the parent		141,418	257,796
Minority interests		(194)	4,607
Basic earnings per share attributable to ordinary equity holders of the parent (HUF)	29	1,604	3,057
Diluted earnings per share attributable to ordinary equity holders of the parent (HUF)	29	815	2,981

The notes are an integral part of these consolidated financial statements.

Consolidated statement of changes in equity
31 December 2008

	Share capital	Share premium	Fair valuation reserve
	HUF million	HUF million	HUF million
Opening balance 1 January 2007	83,467	(89,830)	4,930
Cash flow hedges, net of deferred tax	-	-	60
Available for sale financial instruments, net of deferred tax	-	-	670
Currency translation differences	-	-	-
Total income and expense for the year recognized directly in equity	-	-	730
Profit for the year	-	-	-
Total income and expense for the year	-	-	730
Transfer to reserves of retained profit for the previous year	-	-	-
Equity dividends	-	-	-
Dividends to minority interests	-	-	-
Net change in balance of treasury shares held	(17,862)	(490,517)	-
Equity recorded for share-based payments	-	-	-
Conversion of convertible bonds	345	1,595	-
Net of capital increase and decrease	-	-	-
Acquisition of subsidiaries	-	-	-
Acquisition of minority interests	-	-	-
Restated closing balance 31 December 2007	65,950	(578,752)	5,660
Cash flow hedges, net of deferred tax	-	-	(2,856)
Available for sale financial instruments, net of deferred tax	-	-	(4,259)
Currency translation differences	-	-	-
Total income and expense for the year recognized directly in equity	-	-	(7,115)
Retained profit for the year	-	-	-
Total income and expense for the year	-	-	(7,115)
Transfer to reserves of retained profit for the previous year	-	-	-
Equity dividends	-	-	-
Dividends to minority interests	-	-	-
Net change in balance of treasury shares held	6,535	184,425	-
Equity recorded for share-based payments	-	-	-
Conversion of convertible bonds	327	1,513	-
Net capital increase and decrease	-	-	-
Acquisition of subsidiaries and minority interests	-	-	-
Closing balance 31 December 2008	72,812	(392,814)	(1,455)

The notes are an integral part of these consolidated financial statements.

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
64,011	(8,074)	695,679	666,716	329,483	1,079,666	191,537	1,271,203
-	-	-	60	-	60	-	60
-	-	-	670	-	670	-	670
2,456	-	-	2,456	-	2,456	247	2,703
2,456	-	-	3,186	-	3,186	247	3,433
-	-	-	-	257,796	257,796	4,607	262,403
2,456	-	-	3,186	257,796	260,982	4,854	265,836
-	-	329,483	329,483	(329,483)	-	-	-
-	-	(42,398)	(42,398)	-	(42,398)	-	(42,398)
-	-	-	-	-	-	(10,499)	(10,499)
-	-	-	(490,517)	-	(508,379)	-	(508,379)
-	-	353	353	-	353	-	353
-	-	-	1,595	-	1,940	-	1,940
-	-	-	-	-	-	2,748	2,748
-	-	-	-	-	-	3,291	3,291
-	-	-	-	-	-	(64,514)	(64,514)
66,467	(8,074)	983,117	468,418	257,796	792,164	127,417	919,581
-	-	-	(2,856)	-	(2,856)	-	(2,856)
-	-	-	(4,259)	-	(4,259)	-	(4,259)
57,613	-	-	57,613	-	57,613	1,154	58,767
57,613	-	-	50,498	-	50,498	1,154	51,652
-	-	-	-	141,418	141,418	(194)	141,224
57,613	-	-	50,498	141,418	191,916	960	192,876
-	-	257,796	257,796	(257,796)	-	-	-
-	-	(64,032)	(64,032)	-	(64,032)	-	(64,032)
-	-	-	-	-	-	(13,043)	(13,043)
-	-	-	184,425	-	190,960	-	190,960
-	-	133	133	-	133	-	133
-	-	-	1,513	-	1,840	-	1,840
-	-	-	-	-	-	2,785	2,785
-	-	-	-	-	-	300	300
124,080	(8,074)	1,177,014	898,751	141,418	1,112,981	118,419	1,231,400

Consolidated cash flow statement
31 December 2008

	Notes	2008 HUF million	2007 restated HUF million
Profit before tax		157,958	344,256
Depreciation, depletion, amortisation and impairment		151,908	140,538
Excess of carrying value of TVK minority interest acquired over the consideration		-	(14,351)
Write-off of inventories, net		30,005	1,369
Increase / (decrease) in provisions		1,274	(1,065)
Net (gain) / loss on sale of property, plant and equipment		(356)	(2,836)
Write-off / (reversal of write-off) of receivables		6,555	7,973
Unrealised foreign exchange (gain) / loss on trade receivables and trade payables		(3,332)	(1,261)
Net gain on sale of subsidiaries		(7,580)	(44,323)
Exploration and development costs expensed during the year		11,105	6,706
Share-based payment		133	353
Interest income		(19,230)	(13,370)
Interest on borrowings		37,841	16,946
Net foreign exchange (gain) / loss excluding foreign exchange differences on trade receivables and trade payables		19,863	(7,635)
Fair valuation difference of conversion option (see Note 27)		(64,550)	12,966
Other financial (gain) / loss, net		35,773	2,887
Share of net profit of associate		25,190	(5,318)
Other non cash items		1,671	2,676
Operating cash flow before changes in working capital		384,228	446,511
Decrease / (increase) in inventories		77,405	(86,011)
Decrease / (increase) in trade receivables		34,318	(36,803)
Decrease / (increase) in other current assets		(7,129)	(2,237)
(Decrease) / increase in trade payables		(89,321)	74,784
(Decrease) / increase in other payables		9,625	(11,244)
Income taxes paid		(61,923)	(69,494)
Net cash provided by operating activities		347,203	315,506
Capital expenditures, exploration and development costs		(323,753)	(158,075)
Proceeds from disposals of property, plant and equipment		2,333	4,532
Acquisition of subsidiaries and minority interests, net cash (see Note 6)	34	(12,158)	(189,805)
Acquisition of joint ventures, net cash (see Note 8)	34	-	(1,953)
Acquisition of associated companies and other investments		(227,262)	(464)
Net cash inflow / (outflow) on sale of subsidiary undertakings (see Note 7)		28,143	(7,468)
Proceeds from disposal of associated companies and other investments		1,221	-
Changes in loans given and long-term bank deposits		(2,621)	21
Changes in short-term investments		-	707
Interest received and other financial income		57,108	14,319
Dividends received		2,197	1,208
Net cash used in investing activities		(474,792)	(336,978)

The notes are an integral part of these consolidated financial statements.

	Notes	2008 HUF million	2007 restated HUF million
Long-term debt drawn down	34	1,097,225	544,844
Repayments of long-term debt		(893,118)	(208,977)
Changes in other long-term liabilities		125	33
Changes in short-term debt		13,899	1,121
Interest paid and other financial costs		(47,190)	(24,528)
Dividends paid to shareholders		(63,737)	(42,342)
Dividends paid to minority interest		(13,116)	(10,471)
Minority shareholders contribution		2,785	2,748
Issuance of treasury shares		137,860	-
Repurchase of treasury shares		(25,663)	(508,379)
Net cash provided by / (used in) financing activities		209,070	(245,951)
(Decrease) / increase in cash and cash equivalents		81,481	(267,423)
Cash and cash equivalents at the beginning of the year		129,721	399,104
Exchange differences of cash and cash equivalents of consolidated foreign subsidiaries		6,576	(1,985)
Unrealised foreign exchange difference on cash and cash equivalents		4,296	25
Cash and cash equivalents at the end of the year		222,074	129,721

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, 2008

1 General

MOL Hungarian Oil and Gas Plc. (hereinafter referred to as MOL Plc., 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 Plc. 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 2008 and 2007 was 17,213 and 15,058, 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 19 March 2009.

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 2008. The Group has not early adopted any IFRS or IFRIC interpretation issued but not yet effective as of this date.

MOL Plc. 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 Plc. 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 – unless the losses indicate impairment of the related assets – 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 accounting policies adopted are consistent with those applied in the previous financial years, apart from some 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.

- Amendments to IAS 39 & IFRS 7 – reclassification of financial assets
- IFRIC 11 IFRS 2 – Group and Treasury Share transactions
- IFRIC 12 Service Concession Arrangements

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:

Amendments to IAS 39 & IFRS 7 – reclassification of financial assets

The changes to IAS 39 permit an entity to reclassify non-derivative financial assets out of the 'fair value through profit or loss' (FVTPL) and 'available-for-sale' (AFS) categories in limited circumstances. Such reclassifications trigger additional disclosure requirements. The Group has not made any reclassification based on this amendment.

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

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.

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:

- IAS 1 (Revised) – Presentation of financial statements
  The revised standard (effective from 1 January 2009) separates owner and non-owner changes in equity. Therefore, the statement of changes in equity will include only details of transactions with owners, with all non-owner changes in equity presented as a single line. In addition, the standard introduces a statement of comprehensive income: presenting all items of income and expense recognised in the income statement, together with all other items of recognised income and expense, either in one single statement, or two linked statement. The group will apply IAS 1 (Revised) from 1 January 2009. It is likely that both the income statement and statement of comprehensive income will be presented as performance statements.

- IFRS 2 Share-based Payment (amendment) – Vesting Conditions and Cancellations
  This amendment to IFRS 2 – Share-based Payment becomes effective for financial years beginning on or after 1 January 2009. It 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 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
  IFRS was issued in November 2006 and becomes effective for financial years beginning on or after 1 January 2009. 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 become effective for financial years beginning on or after 1 January 2009. They 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 13 Customer Loyalty Programmes
  IFRIC 13 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 15 Agreement for the Construction of Real Estate
  IFRIC 15 was issued in July 2008 and becomes effective for financial years beginning on or after 1 January 2009. The interpretation is to be applied retrospectively. It clarifies when and how revenue and related expenses from the sale of a real estate unit should be recognised if an agreement between a developer and a buyer is reached before the construction of the real estate is completed. Furthermore, the interpretation provides guidance on how to determine whether an agreement is within the scope of IAS 11 or IAS 18. IFRIC 15 will not have an impact on the consolidated financial statement because the Group does not conduct such activity.

- IFRIC 16 Hedges of a Net Investment in a Foreign Operation
  The IFRIC 16 was issued in July 2008 and becomes effective for financial years beginning on or after 1 October 2008. This interpretation provides guidance on the accounting for a hedge of a net investment. The interpretation will have no impact on the Group's financial statements, as the Group has not entered in any such hedges.

- IFRIC 17 Distributions of Non-cash Assets to Owners
  IFRIC 17 was issued in November 2008 and becomes effective for financial years beginning on or after 1 July 2009. This interpretation provides guidance on the accounting treatment when an entity distributes assets other than cash as dividends to its shareholders. The dividend should be measured at the fair value of the assets distributed and the difference between this amount and the previous carrying amount of the assets distributed should be recognised in profit or loss when the entity settles the dividend payable. This interpretation has no impact on the Group because dividend is distributed in cash.

- IFRIC 18 Transfers of Assets from Customers
  IFRIC 18 was issued in January 2009 and becomes effective for financial years beginning on or after 1 July 2009. Entities in specific sectors often receive items of property, plant and equipment form their customers, or cash to acquire or construct specific assets. These assets are then used to connect customers to a network and/or provide them with ongoing access to a supply of goods and/or services. This interpretation provides guidance on when and how an entity should recognise such assets. When the item of property, plant and equipment transferred from a customer meets the definition of an asset under the IASB Framework from the perspective of the recipient, the recipient must recognise the asset in its financial statements. If the customer continues to control the transferred item, the asset definition would not be met even if ownership of the asset is transferred to the utility or other recipient entity. This interpretation is expected to have no material effect on the Group's financial statements.

- Improvements to IFRSs
  In May 2008 the Board issued its first collection of amendments to its standards, primarily to remove inconsistencies and clarifying wording. These amendments will be effective from 1 January 2009. The Group has not yet adopted the following amendments but it is anticipated that these changes will have no material effect on the Group's financial statements.

- IAS 1 Presentation of Financial Statements
  Assets and liabilities classified as held for trading in accordance with IAS 39 Financial Instruments: Recognition and Measurement are not automatically classified as current in the balance sheet, so it should be analysed whether the expectations of the period of realisation of financial assets and liabilities differed form the classification of the instrument.

- IAS 8 Accounting Policies, Change in Accounting Estimates and Errors.
  This amendment clarified that only implementation guidance that is an integral part of an IFRS is mandatory when selecting accounting policies.

- IAS 10 Events after the Reporting Period
  This amendment clarified that dividends declared after the end of the reporting period are not obligations.

- IAS 16 Property, Plant and Equipment
  IASB replaced the term "net selling price" with "fair values less costs to sell". Items of property, plant and equipment held for rental that are routinely sold in the ordinary course of business after rental, are transferred to inventory when rental ceases and they are held for sale.

- IAS 18 Revenue
  This amendment replaced the term 'direct costs' with 'transaction costs' as defined in IAS 39.

- IAS 19 Employee Benefits
  This improvement revised the definition of 'past service costs', 'return on plan assets' and 'short-term' and 'other long –term' employee benefits. Amendments to plans that result in a reduction in benefits related to future services should be accounted for as curtailment. The reference to the recognition of contingent liabilities has been deleted to ensure consistency with IAS 37.

- IAS 20 Accounting for Government Grants and Disclosures of Government Assistance
  According to this improvement loans granted in the future with no or low interest rates will not be exempt from the requirement to impute interest. The difference between the amount received and the discounted amount should be accounted for as government grant. Also various terms had been changed in order to be consistent with other IFRS.

- IAS 23 Borrowing Costs
  The definition of borrowing costs is revised to consolidate the two types of items that are considered components of 'borrowing costs' into one – the interest expense calculated using the effective interest rate method calculated in accordance with IAS 39.

- IAS 27 Consolidated and Separate Financial Statements
  According to this amendment, when a parent entity accounts for subsidiary at fair value in accordance with IAS 39 in its separate financial statements, this treatment should continue when the subsidiary is subsequently classified as held for sale.

- IAS 28 Investment in Associates
  If an associate is accounted for at fair value in accordance with IAS 39, only the requirement of IAS 28 to disclose the nature and extent of any significant restrictions on the ability of the associate to the transfer funds to the entity in the form of cash or repayment of loans applies. This amendment has no impact on the Group as it does not account for its associates at fair value in accordance with IAS 39.
  An investment in an associate is a single asset for the purpose of conducting the impairment test. Therefore, any impairment test is not separately allocated to the goodwill included in the investment balance. This amendment has no impact on the Group because this policy was already applied.

- IAS 29 Financial Reporting in Hyperinflationary Economies
  This amendment revised the reference to the exception to measure assets and liabilities at historical cost, such that it notes property, plant and equipment as being example, rather than implying that is a definitive list. Also various terms had been changed in order to be consistent with other IFRS.

- IAS 31 Interest in Joint Ventures
  If a joint venture is accounted for at fair value, in accordance with IAS 39, only the requirements of IAS 31 to disclose the commitments of the venturer and the joint venture, as well as summary financial information about the assets, liabilities, income and expense will apply. This amendment has no impact on the Group because it does not account for its joint ventures at fair value in accordance with IAS 39.

- IAS 34 Interim Financial Reporting
  According to this amendment, earnings per share should be disclosed in interim financial reports if an entity is within the scope of IAS 33.

- IAS 36 Impairment of Assets
  When discounted cash flows are used to estimate 'fair value less cost to sell' additional disclosures required when the discounted cash flows are used to estimate 'value in use'. This amendment will have no immediate impact on the consolidated financial statements of the Group because the recoverable amount of its CGUs is currently estimated using 'value in use'.

- IAS 38 Intangible Assets
  Expenditure on advertising and promotional activities is recognised as an expense when the Group either has the right to access the goods or has received the service. This amendment has no impact on the Group because it does not enter into such promotional activities.

- IAS 39 Financial Instruments: Recognition and Measurement
  According to this improvement, changes in circumstances relating to derivatives are not reclassifications and therefore may be either removed from, or included in, the 'fair value through profit or loss' classification after initial recognition. The reference in IAS 39 to a 'segment', when determining whether an instrument qualifies as a hedge, had been removed. The use of the revised effective interest rate also had been required when remeasuring a debt instrument on the cessation of fair value hedge accounting.

- IAS 40 Investment Property
  This amendment revised the scope such that property under construction or development for future use as an investment property is classified as investment property. If fair value cannot be reliably determined, the investment under construction should be measured at cost until such time as fair value can be determined or construction is complete. Also the amendment revised the conditions for voluntary change in accounting policy to be consistent with IAS 8 and clarified that the carrying amount of investment property held under lease is the valuation obtained increased by any recognised liability.

- IAS 41 Agriculture
  The amendment removed the reference to the use of pre-tax discount rate to determine fair value and replaced the term 'point-of-sale costs' with 'costs to sell'. Also the prohibition to take into account cash flows resulting from any additional transformations when estimating fair value had been removed.

- IFRS 7 Financial Instruments: Disclosures
  This amendment removed the reference of 'total interest income' as a component of financial costs.

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 2008 and 2007, 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 asset takes place when the Group no longer controls the contractual rights that comprise the financial asset, 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 are 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 asset 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 – 20 years
Gas and oil storage and transmission equipment	7 – 50 years
Petrol service stations	5 – 30 years
Telecommunication and automatisation 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

The determination whether an arrangement contains or is a lease depends on the substance of the arrangement at inception date. If fulfilment of the arrangement depends on the use of a specific asset or conveys the right to use the asset, it is deemed to contain a lease element and are recorded accordingly.

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 Plc.

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 39,703 million and HUF 41,457 million, while field abandonment provision amounts to HUF 97,312 million and HUF 82,705 million as of 31 December 2008 and 2007, 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 51,344 million and HUF 49,247 million as of 31 December 2008 and 2007, 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 differ 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) is performed by reference to quoted market prices or, in absence thereof reflects the market's or the 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 and MOL's call option on the 7% shareholding owned by CEZ, volatility of MOL share prices and dividend yield. Considering the recent worldwide financial crisis and the consequent hectic changes on the markets of financial instruments, such fair value measurements contain an increased uncertainty. The management expects this uncertainty to be experienced during the forthcoming reporting period as well. In case of the conversion option embedded in the perpetual exchangeable capital securities, the market of the underlying convertible instrument has temporarily become inactive, together with a significant decline in the market price of MOL shares and of the convertible instrument. Therefore the fair value of the conversion option has decreased to nil as of 31 December 2008. 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 2.0% (2007: 2.4%). Consequently, the carrying amount of these liabilities (in case of environmental provision HUF 39,703 million and HUF 41,457 million, in case of field abandonment provision HUF 97,312 million and HUF 82,705 million as of 31 December 2008 and 2007, respectively, see Note 19) is exposed to uncertainty.

Impairment of non-current assets, including goodwill

The impairment calculation requires an estimate of the recoverable amount of the cash generating units, that is, the higher of fair value less costs to sell and value in use. Value in use is usually determined on the basis of discounted estimated future net 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, including commodity prices, operating expenses, future production profiles and the global and regional supply-demand equilibrium for crude oil, natural gas and refined products. While such cash flows for each non-current asset or investment reflects the management's best estimate for the future, these estimates are exposed to an increased uncertainty as a result of the general economic recession experienced worldwide and also in the Central-Eastern European region where the Group operates. To address

these outlooks, the management revised the business plan of the Group and of its members individually, and adjusted to a more conservative forecast for 2009, reviewing all of the variables described above at the end of the financial year 2008. Discount rates were derived from the USD-based weighted average cost of capital for the Group (2008: 6.7% except for 2009 for which 8% has been used to reflect the increased risk factors in the worldwide recession; 2007: 7%). 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 8,325 million and HUF 14,591 million in 2008 and 2007, respectively. Carrying amount of goodwill is HUF 71,760 million and HUF 68,128 million as of 31 December 2008 and 2007, 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 deferred tax assets at 31 December 2008 was HUF 36,274 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 8,878 million and HUF 7,134 million at 31 December 2008 and 2007, 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, 2007					
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	56,577	83,813
- 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)	67	(5,817)
- transfers	735	(386)	(3,055)	-	(2,706)
Closing net book value	31,215	20,600	49,247	68,128	169,190
At 31 December, 2007					
Gross book value	37,798	58,526	52,517	68,128	216,969
Accumulated amortization and impairment	(6,583)	(37,926)	(3,270)	-	(47,779)
Net book value	31,215	20,600	49,247	68,128	169,190
Year ended 31 December, 2008					
- additions	12,260	7,866	15,894	-	36,020
- acquisition of subsidiary	3,714	51	1	1,033	4,799
- amortization for the year	(4,810)	(5,323)	(62)	-	(10,195)
- impairment	-	(35)	(6,781)	-	(6,816)
- disposals	(1)	(66)	-	-	(67)
- exchange adjustment	2,063	562	(1,818)	2,599	3,406
- transfers	1,413	(1,211)	(5,137)	-	(4,935)
Closing net book value	45,854	22,444	51,344	71,760	191,402
At 31 December, 2008					
Gross book value	57,997	65,436	60,240	71,760	255,433
Accumulated amortization and impairment	(12,143)	(42,992)	(8,896)	-	(64,031)
Net book value	45,854	22,444	51,344	71,760	191,402

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 2008 related primarily to exploration activities qualified unsuccessful in Cameroon 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:

	2008			2007		
	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	71,190	-	71,190	67,558	-	67,558
- Roth Group	6,311	-	6,311	6,038	-	6,038
- MOL Romania	4,341	-	4,341	4,618	-	4,618
- IES Group	43,124	-	43,124	41,259	-	41,259
- Tifon	14,213	-	14,213	13,518	-	13,518
- Energopetrol	2,216	-	2,216	2,125	-	2,125
- I&C Energo	985	-	985	-	-	-
Petrochemicals	570	-	570	570	-	570
- TVK	477	-	477	477	-	477
- TVK Polska	93	-	93	93	-	93
Total goodwill	71,760	-	71,760	68,128	-	68,128

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 I&C Energo (see Note 6) has been closed recently, therefore a determination of goodwill has only been performed as provisional, and it has also not been allocated to cash generating units. Consequently, no impairment test has been performed in connection with this item.

Roth Group

At 31 December 2008 goodwill of HUF 6,311 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 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 6,338 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 12.3% 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 approximately 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 2008 goodwill of HUF 4,341 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 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 9% and 11% 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.

IES Group

At 31 December 2008 goodwill of HUF 43,124 million was allocated to the Italian refining and wholesale activities of the Group. For goodwill allocation purposes, the Mantova refinery and its wholesale activity (being a single cash generating unit) is considered. The Group prepares cash flow forecasts derived from the most recent financial budgets approved by management and extrapolates cash flows for the average residual useful life of the refining assets assuming no increase in the refinery capacity, however, considering the quality improvement of refined products in the sales margins reflecting the in-progress refinery upgrade project. Crack spreads and wholesale margins used in the forecast represent management's assumptions applicable for MOL Group and for the specific Italian wholesale market, respectively. Rates used to discount the forecast cash flows reflecting risks specific to refining and wholesale activities vary between 8% and 6% in the years considered.

With regard to the assessment of value in use of the Italian refining and wholesale activities, 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.

Tifon

At 31 December 2008 goodwill of HUF 14,213 million was allocated to the retail network of Tifon. For goodwill allocation purposes, the Croatian filling stations' network as a whole (being a group of cash generating unit) is considered. Tifon prepares cash flow forecasts derived from the most recent financial budgets approved by management and extrapolates cash flows for the average residual useful life of the filling stations based on an estimated growth rate of 2%. The rates used to discount the forecast cash flows reflecting risks specific to the Retail segment vary between 12% and 10% in the years considered.

For the retail activities of Tifon, 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 retail activity of Tifon exceeds its carrying amount by HUF 3,209 million. The implications of the key assumptions on the recoverable amount are discussed below:

- Retail margins – Management has considered the possibility of lower than budgeted retail margins, which can occur in case of higher-than-expected competition, increase in operating expenses or a decline in fuel demands. An additional 5.28% decrease of average retail margin would reduce Tifon's value in use to its carrying value. An increase of 10.15% of costs would give a value in use equal to the carrying amount of Tifon's retail activities.
- 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 1.5 percentage points in this rate would give a value in use equal to the carrying amount of Tifon's retail activities.

Energopetrol

At 31 December 2008 goodwill of HUF 2,216 million was allocated to the retail network of Energopetrol. For goodwill allocation purposes, the network of 64 filling stations in Bosnia-Herzegovina as a whole (being a group of cash generating unit) is considered. Energopetrol prepares cash flow forecasts derived from the most recent financial budgets approved by management and extrapolates cash flows for the average residual useful life of the filling stations based on an estimated growth rate of 5%. The rates used to discount the forecast cash flows reflecting risks specific to the Retail segment in Bosnia-Herzegovina is constantly 7.5% in the years considered.

For the retail activities of Energopetrol, 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 retail activity of Energopetrol exceeds its carrying amount by HUF 5,417 million. The implications of the key assumptions on the recoverable amount are discussed below:

- Retail margins – Management has considered the possibility of lower than budgeted retail margins, which can occur in case of higher-than-expected competition, increase in operating expenses or a decline in fuel demands. An additional 36% decrease of average retail margin would reduce Energopetrol's value in use to its carrying value. A further 12 percentage points increase of costs would give a value in use equal to the carrying amount of Energopetrol's retail activities.
- 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 2.5 percentage points in this rate would give a value in use equal to the carrying amount of Energopetrol's retail activities.

Exploration expenditures

In addition to the capitalized exploration expenditures shown above, a further HUF 11,105 million and HUF 6,706 million exploration expenses were incurred in 2008 and 2007, 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, 2007					
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	68,950	979	14,231	137,687
- 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	450,273	19,341	105,627	1,180,254
At 31 December, 2007					
Gross book value	1,027,053	1,101,684	76,247	105,783	2,310,767
Accumulated depreciation and impairment	(422,040)	(651,411)	(56,906)	(156)	(1,130,513)
Net book value	605,013	450,273	19,341	105,627	1,180,254
Year ended 31 December, 2008					
- additions and capitalizations	85,063	77,464	6,344	295,612	464,483
- depreciation for the year	(50,298)	(76,573)	(6,503)	-	(133,374)
- impairment	(3,912)	(921)	23	(833)	(5,643)
- reversal of impairment	3,990	94	-	36	4,120
- acquisition of subsidiary	822	417	42	2	1,283
- disposals	(1,171)	(184)	(36)	(15)	(1,406)
- exchange adjustment	22,961	28,682	156	2,993	54,792
- transfer and capitalizations	2,281	3,959	986	(154,536)	(147,310)
Closing net book value	664,749	483,211	20,353	248,886	1,417,199
At 31 December, 2008					
Gross book value	1,143,889	1,239,796	82,890	249,237	2,715,812
Accumulated depreciation and impairment	(479,140)	(756,585)	(62,537)	(351)	(1,298,613)
Net book value	664,749	483,211	20,353	248,886	1,417,199

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 2008 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 354 million (2007: HUF 2,084 million) in the consolidated profits, net of deferred tax.

Impairment, net of reversal

Reversal of impairment income of HUF 438 million and impairment expense of HUF 5,462 million were recorded with respect to maturing and suspended oil and gas producing fields in 2008 and 2007, respectively. Additional impairment expenses of HUF 859 million and HUF 995 million in 2008 and 2007 were incurred, respectively, related to the closure of certain facilities of the Tiszaújváros petrochemical plant and the Slovnaft refinery. Other individually non-material impairment losses of HUF 1,102 million and HUF 1,422 million have been recognized in 2008 and 2007, respectively, net of reversal of impairment.

Leased assets

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

	2008	2007
	HUF million	HUF million
Cost	6,185	5,453
Accumulated depreciation	(1,504)	(1,153)
Net book value	4,681	4,300

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 11,132 million and HUF 1,551 million in 2008 and 2007, respectively. In 2008 and 2007 the applicable capitalisation rates (including the impact of foreign exchange differences) were 7.8% and 2.6%, respectively.

Pledged Assets

Assets with an aggregate net book value of HUF 103,439 million have been pledged at the Group of which HUF 13,474 million as collateral for loans utilized by TVK-Erőmű Kft. and Tisza WTP Kft. as of 31 December 2008, HUF 2,825 million at Slovnaft a.s., HUF 1,619 million at Rossi Biofuel Zrt. and HUF 85,521 million at IES S.p.A. (the latter two entities have been acquired in 2007). Value of pledged assets was HUF 113,126 million as of 31 December 2007.

5 Consolidated companies

Company name	Country (Incorpora- tion /Branch)	Range of activity	Ownership 2008	Ownership 2007
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%
Geophysical Services Middle-East LLC	Oman	Geophysical surveying and data processing	70%	b)
Greentrade Ltd	Cyprus	Exploration investment management	100%	100%
Matjushkinskaya Vertical LLC	Russia	Exploration and production activity	100%	100%
Hawasina GmbH	Switzerland / Oman	Exploration and production activity	100%	100%
Kalegran Ltd	Cyprus	Exploration investment management	100%	100%
Lamorak Enterprises 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 Central Asia B.V. (former MOL Syria Ltd)	Netherlands / Syria	Exploration and production activity	100%	100%
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 Yemen Ltd	Cyprus / Yemen	Exploration and production activity	100%	100%
Pronodar Ltd	Cyprus	Exploration and production activity	100%	100%
Pyrogol Ltd	Cyprus	Exploration and production activity	100%	100%
RUSI Services 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 & Energy				
CEGE Közép-európai Geotermikus Energia Termelő Zrt. (joint venture)	Hungary	Geothermic power plant exploration and development	33%	b)
CM European Power International B.V. (joint venture)	Netherlands	Power plant investment management	50%	b)

Company name	Country (Incorporation /Branch)	Range of activity	Ownership 2008	Ownership 2007
CM European Power International s.r.o. (joint venture)	Slovakia	Operation of thermo-power plant	50%	b)
CM European Power Slovakia s.r.o.	Slovakia	Wholesale and retail	98%	b)
Dunai Gőzfejlesztő Kft.	Hungary	Steam and hot water supply, electricity production	100%	100%
MOL Energiakereskedő Kft.	Hungary	Natural gas trading	100%	100%
FGSZ Földgázszállító Zrt. (former MOL Földgázszállító Zrt.)	Hungary	Natural gas transmission	100%	100%
MMBF Földgáztároló Zrt.	Hungary	Strategic natural gas storage	72%	66%
Refining and Marketing				
Energopetrol d.d. (joint venture)	Bosnia-Hercegovina	Retail trade	34%	34%
IES SpA	Italy	Refinery and marketing of oil products	100%	100%
Enersol S.c.r.l. (under liquidation)	Italy	Marketing of oil products	81%	81%
Greengas S.r.l.	Italy	Hydrogen plant operation	49%, d)	49%, d)
Nelsa S.r.l.	Italy	Marketing of oil products	74%	74%
Panta Distribuzione S.r.l.	Italy	Marketing of oil products	100%	100%
Recon S.r.l.	Italy	Marketing of oil products	100%	100%
Intermol d.o.o.	Serbia	Retail trade of fuels and lubricants	100%	100%
MK Mineralkontor GmbH	Germany	Trade of oil products	100%	100%
MOL Austria GmbH	Austria	Wholesale trade of lubricants and oil products	100%	100%
MOL Tankstellen GmbH	Austria	Retail trade	100%	c)
MOL-LUB Kft.	Hungary	Production and trade of lubricants	100%	100%
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%
Slovnaft Ceska Republika s.r.o.	Czech Republic	Wholesale and retail	100%	100%
Moltrans Kft.	Hungary	Transportation services	100%	100%
Rossi Biofuel Zrt. (joint venture)	Hungary	Biofuel component production	25%	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	Austria	Trading of oil products	75%	75%
Rumpold Energie & Brennstoffhandels GmbH	Austria	Trading of oil products	75%	75%
Slovnaft a.s.	Slovakia	Refinery and marketing of oil and petrochemical products	98%	98%

Company name	Country (Incorporation /Branch)	Range of activity	Ownership 2008	Ownership 2007
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 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)
Ukrslovnaft	Ukraine	Retail trade		a)
SWS s.r.o.	Slovakia	Transport support services	50%	50%
Zväz pre skladovanie zásob a.s.	Slovakia	Wholesale and retail trade, warehousing	98%	98%
Slovnaft VÚRUP a.s.	Slovakia	Research & development	98%	98%
Terméktároló Zrt.	Hungary	Oil product storage	74%	74%
Tifon d.o.o.	Croatia	Retail trade of fuels and lubricants	100%	100%
Petrochemicals				
Slovnaft Petrochemicals s.r.o.	Slovakia	Petrochemical production and trading	98%	98%
TVK Plc.	Hungary	Petrochemical production and trading	95%	95%
Tisza-WTP Kft.	Hungary	Feed water and raw water supply	0%, d)	0%, d)
TVK-Erőmű Kft.	Hungary	Power plant	25%, d)	25%, d)
TVK France S.a.r.l. (former TVK-MOL-Chem S.a.r.l.)	France	Wholesale and retail trade	95%	95%
TVK Inter-Chemol GmbH	Germany	Wholesale and retail trade	95%	95%
TVK Italia Srl.	Italy	Wholesale and retail trade	95%	95%
TVK Polska Sp.zoo.	Poland	Wholesale and retail trade	95%	95%
TVK UK Ltd	England	Wholesale and retail trade	95%	95%
TVK Ukrajna tov.	Ukraine	Wholesale and retail trade	95%	95%
Corporate and other				
Balatongáz Kft. (under liquidation)	Hungary	Gas-utility development and management	77%	77%
EMS Management Services Ltd	Cyprus	Management services	100%	100%
FER Tűzoltóság és Szolgáltató Kft.	Hungary	Fire service, ambulance service	82%	b)
Hermész Kft.	Hungary	Consultancy	100%	100%
I&C Energo a.s.	Czech Republic	Power plant engineering	99%	c)
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 Montáže a opravy a.s.	Slovakia	Repairs and maintenance	98%	98%
TVK Ingatlankezelő Kft.	Hungary	Real estate management	95%	95%

a) Sold
b) Established in 2008
c) Acquired in 2008
d) Consolidated as required by SIC-12 Consolidation - Special Purpose Entities

6 Business combinations

Acquisitions in 2008

I&C Energo a.s.

MOL and CEZ have entered into a share purchase agreement with respect to I&C Energo a.s. The Company is the leading engineering and supplier organisation providing services in particular in the field of instrumentation and control systems, information systems for industry and electric systems including provision of system integration and engineering support in the Czech Republic. The Company is also engaged in design of electric power producing buildings, design for LV and HV electricity grids, consulting in power production and quality control areas, implementing power consumption audits, etc.

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 I&C Energo as of 30 June 2008 were as follows:

	Provisional fair values	Carrying values
	HUF million	HUF million
Intangible assets	3,766	51
Property, plant and equipment	880	880
Available-for-sale investments	49	49
Inventories	288	288
Trade receivables	3,770	3,770
Other current assets	3,390	3,390
Cash and cash equivalents	882	882
Long-term debt, net of current portion	(49)	(49)
Provisions	(54)	(54)
Deferred tax liabilities	(731)	(26)
Other non-current liabilities	(31)	(31)
Trade and other payables	(5,525)	(5,525)
Provisional fair value of net assets	6,635	
Goodwill arising on acquisition	1,033	
Total consideration	7,668	

Provisional fair values exceeding carrying amounts of intangible assets represent the estimated value of internally developed software, order backlog and customer relationship acquired. Goodwill acquired on the business combination represents the excellent technological knowledge base in the field of power generation and transmission which will enable the Group to accelerate building up power business and provide with internal engineering know how capabilities.

Consideration relating to the acquisition consisted of the following:

	HUF million
Cash consideration (including transaction costs)	7,668
Total consideration	7,668

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

	HUF million
Net cash acquired with the project	882
Cash paid	(7,668)
Net cash outflow	(6,786)

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 763 million and HUF 9,285 million approximately.

Acquisitions in 2007

MMBF Zrt.

Pursuant to winning the tender for establishing a gas storage of 1.2 billion m^3 strategic and 0.7 billion m^3 commercial capacity, the Group acquired 62% ownership in MMBF Zrt. on 3 January 2007 (ownership has been increased to 66% in December 2007 and to 72% in June 2008), 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 is being developed from a producing gas field (Szőreg-1). The development is expected to be completed by 2010.

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	Carrying values
	HUF million	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.

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.

The carrying and fair values of the assets and liabilities of Matjushkinskaya Vertikal LLC as of 30 April 2007 were as follows:

	Fair values	Carrying values
	HUF million	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)
Fair value of net assets	8,942	

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) an Italian refining and marketing company, which owns the 2.6 mtpa Mantua refinery. The closing of the transaction took place on 15 November 2007. The exact purchase price has been calculated based on a balance sheet prepared as of closing and was subject to several resulting adjustment items.

Fair value adjustments of assets and liabilities were determined provisionally as at 31 December 2007. During 2008 the valuation has been finalized, which resulted in identifying additional environmental liabilities for certain remediation obligations around the Mantua lakes based on the intent of Ministry of the Environment of Italy. Change in the fair value of the liability amounted to HUF 12,707 million which has been recognized as a provision. Together with the relating decrease in deferred tax liabilities the goodwill acquired increased by HUF 8,824 million. Furthermore, Greengas S.r.l., an entity holding and operating the hydrogen plant of the Mantua refinery, 49% of which is owned by IES has subsequently been identified as a company over which IES exercises operational control. Greengas S.r.l has therefore been consolidated fully, as opposed to the equity method used for the consolidated financial statements of the comparative year. The prior period has been restated accordingly, and the fair value of the investment determined as of the acquisition date has been reclassified to property, plant and equipment, with a corresponding recognition of the fair value attributable thereof to minority interests.

The carrying and fair values of the assets and liabilities of IES and its subsidiaries as of 15 November 2007 were as follows:

	Fair values	Carrying values
	HUF million	HUF million
Intangible assets	8,936	640
Property, plant and equipment	112,365	57,282
Investments in associated companies	3,285	1,238
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	(2,913)	(2,913)
Long-term debt, net of current portion	(16,655)	(16,655)
Provision for liabilities and charges	(18,017)	(18,015)
Deferred tax liabilities	(29,697)	(8,140)
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)
Fair value of net assets	80,685	
Goodwill arising on acquisition	40,952	
Total consideration	121,637	

Fair values exceeding carrying amounts of intangible assets represent the IES brand name, wholesale and retail customer base acquired. 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 in 2007 (including transaction costs)	118,843
Purchase price paid subsequently (see Note 21)	2,794
Total consideration	121,637

In 2008 the consideration for IES was fully settled and resulted in a cash outflow of HUF 2,884 million.

The net cash outflow in respect of the acquisition in 2007 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 in 2007 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. 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 was subject to several resulting adjustment items.

The carrying and fair values of the assets and liabilities of Tifon d.o.o. as of 31 October 2007 were as follows:

	Fair values	Carrying values
	HUF million	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)
Fair value of net assets	3,484	
Goodwill arising on acquisition	13,466	
Total consideration	16,950	

Fair values exceeding carrying amounts of intangible assets represent the Tifon brand name, wholesale and retail customer base acquired.

Consideration relating to the acquisition consisted of the following:

	HUF million
Cash consideration in 2007	13,083
Purchase price difference payable (see Note 21)	3,867
Total consideration	16,950

In 2008 an additional HUF 2,488 million was financially settled from the purchase price difference payable, decreasing the still outstanding amount to HUF 1,743 million (see Note 21).

The net cash outflow in respect of the acquisition in 2007 consisted of the following:

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

7 Disposals

Gas business sales

The sale of 100% stake in MOL Földgázellátó Zrt. (wholesale, marketing and trading, "WMT") and MOL Földgáztároló Zrt. ("Storage") to E.ON Ruhrgas International AG (ERI) was closed on 31 March 2006. In case of WMT the final purchase price was further subject 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.

In 2008 and 2007 HUF 6,400 million and HUF 44,268 million subsequent purchase price adjustments payable by ERI were recognized as other income (see Note 24).

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).

Other disposals in 2007

Slovnaft Ukrajina and Ukrslovnaft 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 Ukrslovnaft, 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.

8 Joint ventures

Joint ventures in 2008

CEGE Central European Geothermal Energy Production Ltd.

MOL signed on July 30, 2008 the Articles of Association with Enex ehf. (Iceland) and Green Rock Energy International Pty. Ltd. (Australia) for the establishment of CEGE Central European Geothermal Energy Production Private Company Limited by Shares. The aim of the new company is exploration, production and sales of geothermal energy, the construction of geothermal power plants and technologies for directly supplying thermal heat. The three founders had an equal one third share in the HUF 6 million share capital of CEGE. In January, 2009 MOL and Green Rock Energy increased their interest to 50% by acquiring the shares owned by Enex.

CM European Power International B.V.
MOL and CEZ has finished the incorporation of their joint venture in line with their agreement signed on 20 December 2007. CM European Power International B.V. is the first entity of MOL-CEZ Joint Operation with initial capital of EUR 8.3 million.
MOL and CEZ signed a strategic alliance agreement in December 2007. A joint venture in which each party has 50% equity interest, equal voting rights and similar split of operational decision making, will focus on gas-fired power generation and related gas infrastructure in 4 countries of Central and South-eastern Europe, including Slovakia, Hungary, Croatia and Slovenia. The first major investment is the planned construction of CCGTs (combined cycle gas turbine power plant) at the refineries of the MOL Group in Bratislava (Slovakia) and Százhalombatta (Hungary). At each location 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 cost in both projects will be approximately EUR 1.4 billion.

Joint ventures in 2007

Energopetrol
In March 2007 MOL and INA consortium became 67% owner of Energopetrol (a company operating 64 own filling stations in Bosnia-Herzegovina) through capital increase based on the contract with the government of the country. The Consortium subscribed for Energopetrol's newly issued shares in an aggregate amount of KM 60 million (EUR 30.7 million). The capital increase was 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. The Consortium transferred KM 10 million (EUR 5.1 million) to the Government of Bosnia-Herzegovina as a consideration of acquiring control over the Company. The Consortium will provide a total of EUR 76.7 million to Energopetrol in order to finance its investment program in the upcoming years, from which EUR 1.3 million has been spent in 2008. The closing of the transaction was subject to several conditions, including the approval of the Competition Office of Bosnia-Herzegovina.

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	Carrying values
	HUF million	HUF million
Property, plant and equipment	2,034	955
Inventories	157	157
Trade receivables	213	213
Other current assets	577	582
Cash and cash equivalents	2,611	2,611
Provision for liabilities and charges	(353)	(353)
Trade and other payables	(2,045)	(2,045)
Short-term debt	(780)	(780)
Fair value of net assets	2,414	
Goodwill arising on acquisition	2,159	
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 Zrt.

In order to ensure the supply of the biodiesel component (fatty-acid-methyl-ester, FAME), MOL acquired 25% plus one share in Rossi Biofuel Zrt from Rossi Beteiligungs GmbH 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 Zrt. 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 Zrt, 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 Zrt 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

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 ZMB and all the other joint ventures (see Note 5), which are included in the consolidated financial statements, are as follows at 31 December 2008 and 2007 and for the years then ended:

	2008			2007		
	ZMB	Other	Total	ZMB	Other	Total
	HUF million	HUF million	HUF million	HUF million	HUF million	HUF million
Current assets	18,934	3,354	22,288	13,123	2,087	15,210
Non-current assets	17,313	6,911	24,224	20,826	4,550	25,376
	36,247	10,265	46,512	33,949	6,637	40,586
Current liabilities	2,682	5,154	7,836	3,474	1,587	5,061
Non-current liabilities	1,099	1,521	2,620	1,985	2,580	4,565
	3,781	6,675	10,456	5,459	4,167	9,626
Net assets	32,466	3,590	36,056	28,490	2,470	30,960
Net sales	74,710	13,438	88,148	78,321	440	78,761
Cost of sales	(12,286)	(13,103)	(25,389)	(14,507)	(781)	(15,288)
Other expenses	(51,716)	(251)	(51,967)	(46,290)	(369)	(46,659)
Financial (expense) / income, net	1,083	(119)	964	32	(37)	(5)
Profit before income tax	11,791	(35)	11,756	17,556	(747)	16,809
Income tax expense	(3,553)	(19)	(3,572)	(4,884)	-	(4,884)
Net profit / (loss)	8,238	(54)	8,184	12,672	(747)	11,925

9 Investments in associated companies

			Ownership 2008	Ownership 2007	Net book value of investment 2008	Net book value of investment 2007
					HUF million	HUF million
INA Group	Croatia	Integrated oil and gas company	47%	25%	334,035	135,995
Mazzola & Bignardi S.r.l.	Italy	Marketing of oil products	50%	50%	1,473	1,419
Messer Slovnaft s.r.o	Slovakia	Production of technical gases	49%	49%	1,025	889
Mazzola & Bignardi Commerciale S.r.l.	Italy	Marketing of oil products	40%	40%	915	940
Batec S.r.l.	Italy	Bitumen production	50%	50%	651	606
Other associated companies					885	852
Total					338,984	140,701

INA Group

The Group's interest (47.16% and 25.00% as of 31 December 2008 and 2007, respectively) in INA Group was as follows:

	2008 HUF million	2007 HUF million
Share of the associate's balance sheet:		
Non-current assets	458,260	165,068
Current assets	122,783	68,460
Non-current liabilities	(104,742)	(41,323)
Current liabilities	(142,266)	(56,210)
Net assets	334,035	135,995
Share of the associate's income statement:		
Total operating revenue	281,674	226,613
Net income attributable to equity-holders	(25,459)	5,116
Carrying amount of the investment	334,035	135,995

The financial data 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.
On 16 October 2008 MOL has increased its ownership in INA to 47.16% via a successful voluntary public offer, for a purchase price of HRK 2,800 per share (equal to HUF 227,262 million for the 22.16% shareholding offered). INA is continued to be consolidated using the equity method. Fair valuation of the net assets of INA Group has not yet been completed as of the authorization of the accompanying financial statements by the Board of Directors, therefore the carrying amount of the net assets (HUF 116,258 million representing MOL's shareholding of 22.16%) has been used to determine the provisional goodwill (HUF 111,004 million), included in the carrying amount of the investment in the associate. Completion of the valuation in 2009 will result in a significantly different amount for the fair value of the net assets of INA Group. For further developments of the INA acquisition, see Note 33.
Based on the 31 December 2008 share price quotations, the fair value of the Group's 47.16% investment in the company is HUF 194,620 million.

10 Available-for-sale investments

	Net book value of investment 2008 HUF million	Net book value of investment 2007 HUF million
Budapesti Értéktőzsde Zrt.	431	431
Danuoil	58	55
Progetto Nuovo S. Anna S. r. l.	48	46
Alföldi Koncessziós Autópálya Holding Zrt.	a)	360
AGIP Hungária Zrt.	a)	58
Other ordinary shares – unquoted	305	412
Total	842	1,362

a) Sold in 2008

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, therefore they are carried at cost less accumulated impairment losses.

Apollo zdravotná poisťovňa a.s.

In December 2006 the Company entered into a share sale agreement on its 51% ownership in a Slovak health insurance company. The sale transaction became legally valid after Antimonopoly Office approval in May 2007. Net profit from the sale transaction of HUF 751 million is included in financial revenues in 2007.

11 Other non-current assets

	2008	2007
	HUF million	HUF million
Prepaid mining royalty	13,247	15,454
Advance payments for assets under construction	3,660	7,116
Loans given	2,781	1,855
Net receivable from currency risk hedging derivatives (see Note 30 and 31)	1,973	6,088
Long-term receivables from operating agreements	1,086	1,400
Zero-coupon treasury notes held to maturity	502	318
Prepaid fees of long-term rental agreements	-	336
Total	23,249	32,567

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. Amortization in 2008 and 2007 was HUF 2,207 million and HUF 2,181 million, respectively, and is expected to maintain a similar, slightly decreasing pattern in the forthcoming years.

12 Inventories

	2008 At cost	2008 Lower of cost or net realisable value	2007 At cost	2007 Lower of cost or net realisable value
	HUF million	HUF million	HUF million	HUF million
Work in progress and finished goods	152,715	138,194	192,540	192,158
Purchased crude oil	41,959	30,674	67,139	67,139
Other raw materials	35,559	34,749	34,034	33,142
Other goods for resale	18,758	18,538	25,932	25,932
Purchased natural gas	626	626	233	233
Total	249,617	222,781	319,878	318,604

Impairment loss of HUF 30,005 million and HUF 1,369 million were recorded in 2008 and 2007, respectively. Losses in the current year were recognized primarily on the purchased crude oil and finished goods inventories owned by IES Group, as a consequence of the sharp decline in crude oil and product prices seen in the last quarter of 2008 and the significant level of inventory acquired prior to this decline due to the scheduled refinery shutdown. Furthermore, it is required by law to maintain a certain level of obligatory stocks of crude oil and oil products. The value of these stocks represents an amount of HUF 20,049 million and HUF 51,177 million at 31 December 2008 and 2007.

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 16,431 million and HUF 16,121 million at 31 December 2008 and 2007, respectively.

13 Trade receivables, net

	2008 HUF million	2007 HUF million
Trade receivables	347,900	369,717
Provision for doubtful receivables	(20,416)	(15,598)
Total	327,484	354,119

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

Movements in the provision for doubtful receivables were as follows:

	2008 HUF million	2007 HUF million
At 1 January	15,598	9,867
Additions	6,507	7,559
Reversal	(1,046)	(1,518)
Amounts written off	(344)	(102)
Currency differences	(299)	(208)
At 31 December	20,416	15,598

As at 31 December 2008 and 2007 the analysis of the recoverable amount of trade receivables that were past due is as follows:

	2008 HUF million	2007 HUF million
Neither past due nor impaired	289,105	322,192
Past due but not impaired	38,379	31,927
Within 90 days	24,427	26,948
91 - 180 days	2,285	1,370
Over 180 days	11,667	3,609
Total	327,484	354,119

14 Other current assets

	2008	2007
	HUF million	HUF million
Prepaid and recoverable taxes and duties (excluding income taxes)	37,236	33,055
Purchase price adjustment of WMT (see Note 7)	6,400	27,691
Advances to suppliers	5,987	3,889
Reimbursement of penalty (see Note 24)	4,426	-
Prepaid expenses and accrued income	4,297	1,741
Prepaid rent	4,152	2,832
Prepaid excise taxes	4,151	7,207
Receivables from exploration partners	3,841	368
Deposit on escrow account	1,955	-
Receivables from foreign exchange forward transactions designated as cash-flow hedge (see Note 30 and Note 31)	545	-
Loans receivable	387	231
Receivables from municipalities	339	35
Receivables from currency exchange options (see Note 31)	328	-
Receivables from employees	287	202
Interest receivable	185	361
Advance payments for inventories	167	208
Receivables from foreign exchange forward transactions (see Note 31)	118	-
Other	6,577	4,577
Total	81,378	82,397

Analysis of loans receivable

	2008	2007
	HUF million	HUF million
Loans receivable	730	3,891
Provision for doubtful receivables	(343)	(3,660)
Total	387	231

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

	2008	2007
	HUF million	HUF million
At 1 January	3,660	2,520
Additions	-	1,145
Reversal	(241)	(5)
Amounts written off	-	-
Change due to reclassification	(3,076)	-
Acquisition / (sale) of subsidiaries	-	-
Currency differences	-	-
At 31 December	343	3,660

15 Cash and cash equivalents

	2008	2007
	HUF million	HUF million
Cash at bank – EUR	25,000	37,131
Cash at bank – HUF	22,525	38,292
Cash at bank – RUB	6,187	550
Cash at bank – SKK	5,303	3,198
Cash at bank – USD	3,641	18,113
Cash at bank – CZK	2,912	7,487
Cash at bank – PLN	635	1,436
Cash at bank – other currencies	2,480	7,481
Short-term bank deposits – EUR	109,976	731
Short-term bank deposits – USD	30,535	256
Short-term bank deposits – SKK	7,002	10,315
Short-term bank deposits – CZK	3,052	-
Short-term bank deposits – HUF	259	273
Short-term bank deposits – PLN	177	1,606
Cash on hand – HUF	1,089	1,246
Cash on hand – other currencies	1,079	853
Cash equivalents	222	753
Total	222,074	129,721

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:

	2008	2007
Current accounts		
EUR	1.1% - 4.3%	3.3% - 3.5%
USD	0.0% - 6.7%	4.1% - 5.7%
HUF	6.8% - 11.4%	6.7% - 7.7%
SKK	1.2% - 4.9%	1.9% - 5.9%
Short-term bank deposits		
EUR	1.2% - 6.5%	2.7% - 4.7%
USD	0.01% - 8.1%	4.0% - 6.2%
HUF	7.1% - 11.8%	6.8% - 9.0%
SKK	1.2% - 4.8%	1.9% - 5.9%

16 Share capital

As of 31 December 2008, the issued share capital was HUF 104,519 million, consisting of 104,518,484 series “A”, one series “B” and 578 series “C” shares. 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. Outstanding share capital as of 31 December 2008 and 2007 is HUF 72,812 million and HUF 65,950 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 changes

Based on the authorization granted in the Articles of Association the Board of Directors was 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 supplement 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 2008 shares with a par value of HUF 1,775,442,000 and until 31 December 2007 shares with a par value of HUF 1,448,106,000 were issued.
As per the decision of the Annual General Meeting held on 23 April 2008, 5,483,775 shares from the treasury stock have been cancelled on 16 October 2008.

Treasury share transactions

Capital structure optimization program

Understanding shareholders' expectation for a solution for capital structure optimization, based on the authorisation of the Annual General Meeting held on 26th April 2007, 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 Plc. and to a subsidiary of the state-owned Hungarian Development Bank Zrt. (MFB Invest Zrt.)
The Company mandated ING Bank Zrt. and OTP Bank Plc., 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 received authorization for cancelling treasury shares in a 5% capital decrease and launching further share buybacks, depending on investment possibilities. Furthermore, 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. During 2008 1,142,677 shares were repurchased from the market and 11,729,729 formerly lent shares were transferred back to MOL being the source of the 7,677,285 shares sold to CEZ (see below) and the 5,483,775 share cancellation; the capital decrease has been registered on 16 October 2008.

Both the remaining repurchased shares and the shares lent to third parties are continuing to be recorded as treasury shares for accounting purposes 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. BNP Paribas Arbritage S.N.C. is the registered owner of these shares. As a consequence of the put option attached to the shares, MOL recognized the present value of the strike price as a payable in the financial statements.

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. The accounting treatment of the transaction was similar to those of the previous agreement, see above.

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 33.42 per share, while the exercise price for 1,404,217 shares (Tranche B) is USD 107.91 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).

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 107.91 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 above or Note 20 and 21).

Strategic Alliance with CEZ

On 20 December 2007 CEZ and MOL signed an agreement to create a joint venture (see Note 8). 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 also purchased an American call option for the shares with a strike price of HUF 20,000 per share which can be exercised within 3 years. The transaction became unconditional upon approval by the relevant competition offices on 18 June 2008. The call option has been recorded as a derivative financial asset, initially measured at its fair value at that time (HUF 39,340 million), determined by applying the binomial valuation model. Spot market price (HUF 21,290 per share), implied volatility (31.88%) and an expected dividend yield of 3.6% have been used as input to the model. As a consequence of the recent crisis on financial markets and the sharp decline in the stock exchanges worldwide, the fair value of the option has decreased to nil as of 31 December 2008, with a corresponding financial loss recognized in the income statement.

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 issued 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 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, and 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 6,143 million and HUF 6,128 million in 2008 and 2007, respectively. The dividend for MOL shares held by Magnolia was also settled, the amount of which was HUF 5,306 million in 2008 and HUF 3,052 million in 2007. 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 on the basis of the fair value of the Capital Securities, 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. Since the market of the Capital Securities has temporarily become inactive, and also the market price of the Capital Securities and the underlying MOL shares has decreased significantly, the fair value of the conversion option was nil as of 31 December 2008. The fair valuation impact of the option was HUF 64,550 million gain and HUF 12,966 million loss in 2008 and 2007, respectively, recorded as financial income and expense in the accompanying consolidated income statement.

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 2006	109,329,798	(10,898,525)	(14,964,570)	83,466,703	126,655,013
Treasury shares lend to OTP Bank Plc.	-	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
Treasury shares sold to CEZ	-	7,677,285	-	7,677,285	-
Treasury shares call back from MFB Invest Zrt.	-	(9,959,729)	9,959,729	-	-
Treasury shares call back from OTP Bank Plc.	-	(1,770,000)	1,770,000	-	-
Treasury shares cancellation	(5,483,775)	-	5,483,775	-	-
Conversion of convertible bonds to "A" series shares	327,336	-	-	327,336	-
Share purchase from stock exchange	-	(1,142,677)	-	(1,142,677)	-
31 December 2008	104,518,485	(14,265,140)	(17,441,428)	72,811,917	120,811,879

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 2008 in respect of 2007 was HUF 85,000 million, equivalent to HUF 883.36 per issued share. The total amount of reserves legally available for distribution based on the statutory company only financial statements of MOL Plc. is HUF 917,810 million and HUF 1,095,119 million as of 31 December 2008 and 2007, respectively.

18 Long-term debt

	Weighted average interest rate 2008 %	Weighted average interest rate 2007 %	Maturity	2008 HUF million	2007 HUF million
Unsecured bank loans in EUR	4.70	4.49	2010 - 2013	319,106	146,494
Unsecured bank loans in USD	3.51	5.75	2010 - 2013	271,771	199,571
Unsecured bonds in EUR	3.96	3.96	2015	199,409	190,678
Secured bank loans in EUR	5.97	5.77	2014 - 2018	31,034	30,354
Convertible bonds in HUF (see Note 31)	-	8.21	-	-	1,840
Financial lease payable	5.53	7.74	2011 - 2026	3,464	3,891
Other	0.54	0.98	2010 - 2015	5,749	5,445
Total				830,533	578,273
Current portion of long-term debt				101,798	51,736
Total long-term debt, net of current portion				728,735	526,537

	2008 HUF million	2007 HUF million
Maturity one to five years	526,736	332,476
Maturity over five years	201,999	194,061
Total	728,735	526,537

Unsecured bank loans

Main elements of unsecured bank loans are the EUR 2.1 billion multi-currency revolving credit facility maturing in October 2010, and also the EUR 700 million and EUR 825 million syndicated multi-currency revolving loan facilities maturing in May, 2012 and in July 2013.

Unsecured bonds in EUR

The EUR 750 million fixed rate bond was issued by MOL Plc. in 2005. The notes are due on 5th 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 2008 and 2007, respectively are as follows:

	2008	2008	2007	2007
	Minimum lease payments HUF million	Present value of payments HUF million	Minimum lease payments HUF million	Present value of payments HUF million
Maturity not later than 1 year	644	639	714	702
Maturity two to five years	2,076	1,674	2,237	1,806
Maturity over five years	1,865	1,151	2,318	1,383
Total minimum lease payments	4,585		5,269	
Less amounts representing financial charges	(1,121)		(1,378)	
Present values of financial lease liabilities	3,464	3,464	3,891	3,891

19 Provisions for liabilities and charges

	Environmental	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 2006	27,374	2,034	4,182	84,534	483	4,546	123,153
Acquisition / (sale) of subsidiaries	14,655	2,818	-	11	661	490	18,635
Additions and revision of previous estimates	1,265	104	2,879	(4,789)	146	813	418
Unwinding of the discount	1,275	63	264	3,170	-	-	4,772
Currency differences	175	18	153	(46)	(16)	59	343
Provision used during the year	(3,287)	(1,065)	(344)	(175)	(219)	(2,945)	(8,035)
Balance as of 31 December 2007	41,457	3,972	7,134	82,705	1,055	2,963	139,286
Acquisition / (sale) of subsidiaries	39	-	-	-	5	57	101
Additions and revision of previous estimates	(805)	27	1,972	10,469	119	878	12,660
Unwinding of the discount	1,479	22	543	4,324	11	-	6,379
Currency differences	1,833	(13)	298	(114)	7	66	2,077
Provision used during the year	(4,300)	(352)	(1,069)	(72)	(114)	(632)	(6,539)
Balance as of 31 December 2008	39,703	3,656	8,878	97,312	1,083	3,332	153,964
Current portion 2007	7,419	899	1,024	644	983	1,335	12,304
Non-current portion 2007	34,038	3,073	6,110	82,061	72	1,628	126,982
Current portion 2008	2,911	478	1,002	461	440	1,144	6,436
Non-current portion 2008	36,792	3,178	7,876	96,851	643	2,188	147,528

Environmental Provision

As of 31 December 2008 provision of HUF 39,703 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, Slovakia and Italy. 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 Plc., 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 closing balance of provision for redundancy is HUF 3,656 million and HUF 3,972 million as of 31 December 2008 and 2007, respectively.

Provision for Field Operation Suspension Liabilities

As of 31 December 2008 provision of HUF 97,312 million has been made for estimated total costs of plugging and abandoning wells upon termination of production. Approximately 10% of these costs are expected to be incurred between 2009 and 2013 and the remaining 90% between 2014 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 2015) and by establishing such functions within the Group (from 2013 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 2008 the Group has recognized a provision of HUF 8,878 million to cover its estimated obligation regarding future retirement and jubilee benefits payable to current employees expected to retire from group entities. These entities 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 in 2007 resulted from the change of jubilee benefits payable to employees of MOL and certain subsidiaries, introduced as a new element of the Collective Bargaining Agreement applicable for 2008. 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.

	2008	2007
	HUF million	HUF million
Present value of total defined benefit obligation at the beginning of the year	9,076	6,110
Past service cost not yet recognized at the beginning of the year	1,942	1,928
Balance as of the beginning of the year	7,134	4,182
Acquisitions / (disposals)	-	-
Past service cost	141	126
Current service cost	1,400	2,858
Interest costs	543	264
Provision used during the year	(1,069)	(344)
Revision	390	226
Net actuarial (gain)/loss	41	(331)
Exchange adjustment	298	153
Balance as at year end	8,878	7,134
Past service cost not yet recognized at year end	501	1,942
Present value of total defined benefit obligation at year end	9,379	9,076

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

	2008 HUF million	2007 HUF million
Current service cost	1,400	2,858
Provision used during the year	(1,069)	(344)
Revision	390	226
Net actuarial (gain)/loss	41	(331)
Past service cost	141	126
Net benefit expense (See Note 25)	903	2,535

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

	2008	2007
Discount rate in %	3.0 - 6.0	6.1 - 8.5
Average wage increase in %	1.0 - 4.0	4.1 - 6.5
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

	2008	2007
	HUF million	HUF million
Government grants received	5,303	4,878
Deferred income	4,805	2,709
Transferred "A" shares with put and call options attached (See Note 16)	-	68,208
Conversion option of exchangeable capital securities issued by Magnolia Finance Ltd (See Note 16)	-	64,550
Other	379	467
Total	10,487	140,812

21 Trade and other payables

	2008	2007
	HUF million	HUF million
Trade payables	274,535	331,563
Taxes, contributions payable (excluding corporate tax)	101,542	92,922
Transferred "A" shares with put and call options attached (see Note 16)	74,963	6,097
Accrued consideration of WMT (see Note 7)	25,005	25,005
Amounts due to employees	14,208	13,382
Custom fees payable	9,180	8,664
Accrued expenses	9,066	3,156
Liabilities against exploration partners	7,875	1,972
Paraffin penalty payable	6,275	-
Advances from customers	6,051	6,689
Fee payable for strategic inventory storage (MSZKSZ)	4,257	2,392
Bank interest payable	4,053	2,362
Discount payable to customers	3,924	4,836
Penalty payable to the Antimonopoly Office of the Slovak Republic	2,637	2,262
Purchase price difference payable on Tifon acquisition (see Note 6)	1,743	3,867
Gas purchase subsidy assigned to E.ON Földgáz Trade Zrt.	-	7,201
Purchase price difference payable on IES acquisition (see Note 6)	-	2,794
Net liabilities from commodity price transactions (see Note 30)	172	-
Liabilities from foreign exchange forward transactions (see Note 30)	170	-
Other	4,315	8,060
Total	549,971	523,224

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.
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 liability for the whole amount.

22 Short-term debt

	2008	2007
	HUF million	HUF million
Unsecured bank loans in EUR	34,688	1,267
Unsecured bank loans in USD	21,356	1
Unsecured bank loans in PLN	5,952	-
Secured bank loans in EUR	18,872	30,892
Secured bank loans in USD	-	22,977
Other	50	2,839
Total	80,918	57,976

23 Net sales by geographical area

	2008	2007
	HUF million	HUF million
Hungary	1,323,729	1,064,516
Italy	471,563	116,041
Austria	326,737	255,692
Slovakia	320,044	255,696
Czech Republic	239,148	203,499
Romania	162,225	150,135
Poland	147,806	138,329
Germany	123,316	130,320
Croatia	98,508	34,398
United Kingdom	48,804	37,352
Russia	42,050	40,345
Serbia	41,356	37,819
Bosnia-Herzegovina	31,425	11,108
Rest of Europe	87,090	66,080
Rest of Central-Eastern Europe	43,543	29,391
Rest of the World	27,664	23,230
Total	3,535,008	2,593,951

24 Other operating income

	2008	2007
	HUF million	HUF million
Gain on sales of Subsidiaries	6,781	44,323
Repayment of the unfounded penalty by the Slovak Ministry of Finance	4,629	-
Gain on sales of intangibles, property, plant and equipment	2,700	4,042
Penalties received	1,430	944
Grants and subsidies received	404	767
Discounts received	154	158
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
Other	3,653	2,345
Total	19,751	75,063

HUF 6,400 million and HUF 44,268 million from gain on sales of subsidiaries in 2008 and 2007 reflects the subsequent settlement from E.ON Ruhrgas International AG in connection with the gas business sales; HUF 16,577 million from the settlement for 2007 has been received in cash in the third quarter of 2007, while the remaining part was paid in early 2008 (see Note 7 and Note 14). The Group also recorded HUF 4,629 million income for the repayment from the Slovak Ministry of Finance of the unfounded penalty paid by Slovnaft in 2005.

25 Personnel expenses

	2008	2007
	HUF million	HUF million
Wages and salaries	91,461	75,481
Social security	29,298	24,728
Other personnel expenses	18,923	12,607
Pension costs and post-employment benefits (see Note 19)	903	2,535
Expense of share-based payments (See Note 37)	(840)	1,909
Total	139,745	117,260

26 Other operating expenses

	2008	2007
	HUF million	HUF million
Mining royalties	138,276	120,717
Taxes and contributions	36,911	27,290
Rental costs	18,102	14,355
Contribution to strategic inventory storage (MSZKSZ)	15,435	16,949
Exchange loss of trade receivables and payables	13,301	-
Other external services	8,655	8,140
Consultancy fees	7,635	3,970
Advertising expenses	6,872	5,907
Provision for doubtful receivables	6,213	7,837
Paraffin penalty	5,763	-
Insurance	4,076	4,934
Cleaning costs	3,948	3,349
Bank charges	3,376	2,023
Outsourced bookkeeping services	3,207	3,065
Site security costs	3,143	2,846
Environmental levy	614	862
Damages	275	307
Provision for legal and other claims	244	(182)
Environmental protection expenses, net	(36)	1,811
Environmental provision made during the year	(805)	1,265
Provision for field abandonment	(1,056)	(2,972)
Other	5,827	2,625
Total	279,976	225,098

27 Financial (income) / expense

	2008	2007
	HUF million	HUF million
Interest received	19,230	13,370
Foreign exchange gain on borrowings	-	4,930
Fair valuation gain on conversion option (see Note 16)	64,550	-
Net gain on sales of investments	77	745
Dividends received	718	81
Other financial income, net	30,167	2,970
Total financial income	114,742	22,096
Interest on borrowings	37,841	16,946
Fair valuation loss on conversion option (see Note 16)	-	12,966
Interest on provisions	6,379	4,772
Fair valuation loss on derivative transactions, net	35,293	2,957
Foreign exchange loss on borrowings	49,259	-
Other financial expenses	2,046	1,022
Total financial expenses	130,818	38,663
Total financial expense, net	16,076	16,567

Other financial income primarily reflects exchange gains incurred on cash and cash equivalents, including bank deposits denominated mainly in EUR. Fair valuation losses on derivative transactions contain HUF 39,340 million loss on the fair valuation of the call option held by the Group on the MOL shares representing 7% of its share capital owned by CEZ (see Note 16).

28 Income taxes

Total applicable income taxes reported in the consolidated financial statements for the years ended 31 December 2008 and 2007 include the following components:

	2008	2007
	HUF million	HUF million
Current corporate income taxes	53,324	67,143
Local trade tax and innovation fee	13,871	11,796
Deferred corporate income taxes	(50,461)	2,914
Total income tax expense/(benefit)	16,734	81,853

The Group's current income taxes are determined on the basis of taxable statutory profit of the individual companies of the Group. The applicable corporate income tax rate on the taxable income of the companies of the Group operating in Hungary was 16% both in 2008 and 2007. In addition, a solidarity surplus tax of 4% has been introduced by the Hungarian government from 1 September 2006 and a further, temporary surplus tax of 8% applicable for 2009 and 2010. Tax rate in Slovakia was 19% in both years, while in Italy 36.9% and 31.4% for 2008 and 2007, respectively. Enacted changes in tax rates are considered when calculating deferred tax assets and liabilities.

There is no dividend withholding tax in Hungary on dividends paid to foreign tax resident legal entities. As regards dividend paid to private individuals, a 10% personal income tax liability arises, also withheld at source.

The deferred tax balances as of 31 December 2008 and 2007 in the consolidated balance sheet consist of the following items:

	Balance sheet		Recognized in income statement	
	2008	2007	2008	2007
	HUF million	HUF million	HUF million	HUF million
Breakdown of net deferred tax assets				
Unrealized gains on inter-group transfers	30,566	23,685	6,880	(2,074)
Provisions	5,884	5,855	(142)	1,981
Depreciation, depletion and amortization	(10,103)	(5,394)	(4,336)	(1,933)
Differences in accounting for domestic oil and gas exploration and development	(4,938)	(3,871)	(1,067)	(263)
Capitalization of certain borrowing costs	(3,178)	(1,523)	(1,655)	(90)
Embedded derivatives	(395)	(1,218)	-	-
Foreign exchange differences	(536)	(817)	281	(817)
Valuation of financial instruments	(509)	(541)	32	(304)
Capitalized periodic maintenance costs	(978)	(506)	(472)	115
Statutory tax losses carried forward	33,090	97	32,931	(604)
Receivables write off	7,505	3,882	3,717	2,041
Other	(185)	513	(725)	170
Deferred tax assets	56,223	20,162		
Breakdown of net deferred tax liabilities				
Fair valuation of assets on acquisitions	(42,741)	(43,237)	1,728	1,268
Depreciation, depletion and amortization	(26,730)	(25,390)	951	(2,711)
Provisions	8,172	7,749	344	685
Statutory losses carried forward	3,184	998	2,168	114
Elimination of inter-company transactions	151	(71)	229	(9)
Receivables write off	417	-	383	-
Capitalization of borrowing costs	(316)	-	(310)	-
Foreign exchange differences	(580)	(13)	(556)	165
Inventory valuation difference	2,081	(7,082)	9,294	(566)
Other	156	(325)	786	(82)
Deferred tax liabilities	(56,206)	(67,371)		
Net deferred tax asset / (liability)	17	(47,209)		
Deferred tax (expense) / income			50,461	(2,914)

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

	2008	2007
	HUF million	HUF million
Net deferred tax asset / (liability) at 1 January	(47,209)	(12,681)
Recognized in income statement	50,461	(2,914)
Recognized directly in fair valuation reserve	823	126
Acquisition of subsidiaries (see Note 6)	(731)	(33,171)
Sale of subsidiaries	-	-
Exchange difference	(3,327)	1,431
Net deferred tax asset / (liability) at 31 December	17	(47,209)

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.

Significant tax losses arose in 2008 at MOL Plc. as a result of the tax-deductible book value of shares cancelled in the capital decrease and the tax-deductible loss on fair valuation of certain options attached to shares held by third parties (see Note 16). These transactions are treated differently for IFRS and tax purposes so do not affect profit before tax presented in these financial statements. Additional tax losses arose in MMBF Zrt., IES S.p.a., TVK Plc. and certain of TVK's subsidiaries in 2008 and 2007. Tax losses are available indefinitely for offset against future taxable profits of the companies in which the losses arose. Since the Group estimates that these companies will have taxable profits available in the future to offset with these tax losses, a deferred tax asset of HUF 36,274 million and HUF 1,095 million has been recognized as of 31 December 2008 and 2007, 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 21,748 million and HUF 10,894 million as of 31 December 2008 and 2007, respectively.

From the unused tax losses at the end of the period, HUF 206,590 million has no expiry, while HUF 15,530 million can be utilized between 2008 and 2013.

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

	2008	2007
	HUF million	HUF million
Profit before tax per consolidated income statement	157,958	344,256
Tax at the applicable tax rate (16%)	25,273	55,081
Solidarity surplus tax and local trade tax	12,450	19,924
Differences not expected to reverse	(26,319)	951
Effect of different tax rates	(8,473)	5,388
Losses of subsidiaries not recognized as an asset	6,459	2,116
Adjustment to the period of realization	-	(391)
Non-taxable income	4,342	(1,145)
Revaluation of deferred tax assets and liabilities	(2,010)	-
Impact of changes in Hungarian tax legislation	5,661	-
Other	(649)	(71)
Total income tax expense / (benefit) at the effective income tax rate of 11% (2007: 24%)	16,734	81,853

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 2007	257,796	84,322,201	3,057
Diluted Earnings Per Share 2007	271,034	90,910,770	2,981
Basic Earnings Per Share 2008	141,418	88,181,688	1,604
Diluted Earnings Per Share 2008	76,979	94,448,532	815

	2008	2007
	HUF million	HUF million
Net profit attributable to ordinary shareholders for basic earnings per share	141,418	257,796
Fair value of conversion option	(64,550)	12,966
Interest on convertible bonds	111	272
Net profit attributable to ordinary shareholders for diluted earnings per share	76,979	271,034

	2008	2007
Weighted average number of ordinary shares for basic earnings per share	88,181,688	84,322,201
Effect of dilution – Weighted average number of conversion of perpetual exchangeable securities	6,007,479	6,007,479
Effect of dilution – Weighted average number of convertible bonds	259,365	581,090
Adjusted weighted average number of ordinary shares for diluted earnings per share	94,448,532	90,910,770

30 Financial risk management objectives and policies

As financial risk management is a centralized function in MOL Group, it is possible to integrate and measure all risks at group level in a 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 its commodity exposure. Therefore, MOL actively manages 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)

MOL follows two different strategies based on the level of Net Gearing. In the two 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 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 quantifies 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 have the biggest contribution to the cash-flow volatility. The cash-flow volatility implied by the FX rates, the key refined and petrochemical products are also significant. On the whole, the top 10 risk drivers explain cca 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 volumes and long petrochemical margin position.

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

In 2008 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 2008 the fair value of open commodity derivative transactions were a net liability of HUF 172 million (see Note 21). As of 31 December 2007 there were no commodity derivative transactions.

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 and short HUF, short SKK, short RUB operating cash flow position.

When MOL is in 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 2008 and 2007, there were no open cross currency transactions.

The Company has two long-term international gas transit agreements (expiring in 2017 and 2019) 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 1,973 million (HUF 1,578 million net of deferred tax) as of 31 December 2008 (see Note 11). The corresponding figure as of 31 December 2007 was HUF 6,088 million net receivable (HUF 4,870 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, as cash-flow hedges in case a designated hedging relationship exist or as stand-alone derivatives and carries them at fair value.

During 2008 MOL Energiakereskedő Kft. entered into foreign exchange forward transactions in order to minimize foreign exchange exposure in its gas purchase contracts. Forward exchange contracts were designated as cash-flow hedges relating to the purchase of minimum quantities negotiated in the underlying contracts. As of 31 December 2008 the notional amount of open forward exchange contracts was USD 24.7 million expiring in 2009. The related asset was HUF 663 million (see Note 14) from which HUF 545 million was recorded directly in equity being the fair value of the cash-flow hedge. The remaining HUF 118 million was recorded as financial income being the fair value of the standalone derivative relating to the volume purchased in excess of minimum quantities.

As of 31 December 2008 the fair value of open currency exchange options was an asset of HUF 328 million (see Note 14) and a liability of HUF 170 million (see Note 21).

As of 31 December 2007 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 Group Risk Management from time to time, based on international best practice.

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 2008 and 2007, 20.2% and 26.8% 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 2008 and 2007, 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	2008 HUF billion	2007 HUF billion
Brent crude oil price (change by +/- 5 USD/bbl; with fixed crack spreads and petrochemical margin)		
Refining and Marketing	- / + 0.0	- / + 1.1
Exploration and Production	+ / - 6.1	+ / - 7.7
Petrochemical	- / + 3.9	- / + 5.2
Crack spread (change by +/- 10 USD/t)		
Refining and Marketing	+ / - 24.7	+ / - 25.9
Integrated petrochemical margin (change by +/- 10 EUR/t)		
Petrochemical	+ / - 2.8	+ / - 3.0
Exchange rates (change by +/- 10 HUF/USD; with fixed crack spreads)		
Refining and Marketing	+ / - 21.5	+ / - 23.6
Exploration and Production	+ / - 9.3	+ / - 10.2
Petrochemical	- / + 14.8	- / + 13.6
Exchange rates (change by +/- 10 HUF/EUR; with fixed crack spreads / targeted petrochemical margin)		
Refining and Marketing	+ / - 1.2	+ / - 0.7
Petrochemical	+ / - 13.3	+ / - 15.2

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.

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 2008 consists of the following:

	HUF million
Long - term loan facilities available (general corporate purpose loan facilities)	394,011
Short - term facilities available	209,861
Total loan facilities available	603,872

In October, 2007 MOL signed a EUR 2.1 billion multi-currency revolving facility agreement with a syndicate of international banks. This syndicated loan facility was the largest Euroloan transaction for MOL Plc. Above this 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 pricing of these facilities is extremely low compared to the pricing of the available funds in the current market environment.
The fixed rate, EUR 750 million Eurobond with ten year maturity represents a stable and significant element of the debt portfolio.

The existing bank facilities ensure both sufficient level of liquidity and financial flexibility considering the current debt capital market situation.
The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2008 and 2007 based on contractual undiscounted payments.

31 December 2008	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	-	40	613	2,086	1,940	4,679
Floating rate long-term bank loans	2,091	84,849	7,182	589,525	7,357	691,004
Floating-rate other long-term loans	-	2	88	90	-	180
Floating-rate short-term bank loans	175	323	66,123	-	-	66,621
Floating-rate other short-term loans	44	-	17,088	-	-	17,132
Fixed rate bonds	-	-	7,695	30,781	213,975	252,451
Other	-	-	-	-	-	-
Non-interest bearing long-term liabilities	-	-	435	1,308	3,598	5,341
Transferred "A" shares with put and call options attached	-	-	75,908	-	-	75,908
Trade and other payables (excluding Transferred "A" shares with put and call options attached and taxes and contributions)	1,613	191,076	158,429	-	-	351,118
Total	3,923	276,290	333,561	623,790	226,870	1,464,434

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	280,435	122,514	-	-	410,887
Total	7,938	314,708	207,790	511,885	229,473	1,271,794

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 2008 and 31 December 2007.

The Group monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt.

	2008	2007
	HUF million	HUF million
Long-term debt, net of current portion	728,735	526,537
Current portion of long-term debt	101,797	51,736
Short-term debt	80,918	57,976
Less: Cash and cash equivalents	222,074	129,721
Net debt	689,376	506,528
Equity attributable to equity holders of the parent	1,112,981	792,164
Minority interest	118,419	127,417
Total capital	1,231,400	919,581
Capital and net debt	1,920,776	1,426,109
Gearing ratio (%)	35.9	35.5

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. 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	
	2008	2007	2008	2007
	HUF million	HUF million	HUF million	HUF million
Financial assets				
Net receivable from currency risk hedging derivatives (see Note 11)	1,973	6,088	1,973	6,088
Available-for-sale investments (see Note 10)	842	1,362	842	1,362
Loans given (see Note 11 and 14)	3,168	2,086	3,168	2,086
Trade receivables (see Note 13)	327,484	354,119	327,484	354,119
Receivables from foreign exchange forward transactions designated as cash-flow hedge (see Note 14)	545	-	545	-
Receivables from currency exchange options (see Note 14)	328	-	328	-
Receivables from foreign exchange forward transactions (see Note 14)	118	-	118	-
Other current assets (excluding derivatives, loans given and prepaid and recoverable taxes, see Note 14)	36,658	41,904	36,658	41,904
Cash and cash equivalents (see Note 15)	222,074	129,721	222,074	129,721
Financial liabilities				
Interest-bearing loans and borrowings:				
Obligations under financial leases	3,464	3,891	3,464	3,891
Floating rate long-term bank loans	621,911	376,419	621,911	376,419
Floating rate other long-term loans	130	555	130	555
Floating rate short-term bank loans	80,868	55,136	80,868	55,136
Floating-rate other short-term loans	44	2,840	44	2,840
Convertible bonds (floating rate)	-	1,840	-	1,840
Fixed rate bonds	199,409	190,678	118,106	160,021
Non-interest bearing long-term liabilities	5,341	4,518	5,341	4,518
Conversion option of exchangeable capital securities by Magnolia Finance Ltd (see Note 16)	-	64,550	-	64,550
Transferred "A" shares with put and call options attached (see Note 16 and 21)	74,963	74,305	74,963	74,305
Net liabilities from commodity price transactions (see Note 21)	172	-	172	-
Liabilities from foreign exchange forward transactions (see Note 21)	170	-	170	-
Trade and other payables (excluding derivatives, Transferred "A" shares with put and call options attached and taxes and contributions, see Note 21)	350,776	410,887	350,776	410,887

32 Commitments and contingent liabilities

Guarantees

The total value of guarantees undertaken to parties outside the Group is HUF 4,347 million.

Capital and Contractual Commitments

The total value of capital commitments as of 31 December 2008 is HUF 201.0 billion, of which HUF 89.8 billion relates to capital and contractual commitments of Földgázszállító Zrt. (Gas Transmission), HUF 26.1 billion relates to capital and contractual commitments of MMBF Zrt, HUF 19.5 billion relates to capital and contractual commitments of IES S.p.A., HUF 17.0 billion relates to capital and contractual commitments of Slovnaft and HUF 24.2 billion relates to MOL Plc. (the majority of which will arise in 2009).

With respect to Energopetrol INA-MOL is to provide resources of HUF 17.6 billion (EUR 66.5 million) to Energopetrol in order to finance its investment program in the next two 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 2008, 963 million cubic meters of natural gas (of which 655 mcm under take-or-pay commitment) will be purchased during the period ending 2017 based on this contract.

Furthermore, the Group also concluded long-term gas purchase contracts in order to ensure continuous operation of Hungarian refinery facilities. As of 31 December 2008, the estimated value of natural gas to be purchased under take-or-pay commitment during the period ending 2015 was HUF 250.2 billion, of which HUF 34.9 billion was due within one year.

Operating leases

The operating lease liabilities are as follows:

	2008	2007
	HUF million	HUF million
Due not later than 1 year	3,391	3,415
Due two to five years	5,267	4,753
Due over five years	1,726	510
Total	10,384	8,678

Out of the outstanding operating lease liabilities as of 31 December 2008 HUF 747 million were contracted by Slovnaft, HUF 1,369 million were contracted by Roth Group and HUF 7,484 million were contracted by MOL Plc.

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 has been finished. 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 Hungarian Constitutional Court dismissed the motion of the Company with its resolution issued on 27 January 2009.

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. The expert's opinion has been completed in February 2009. Next hearing was set for May 2009.

The European Commission had started an investigation in April 2005, based upon the alleged cartel activity of paraffin producers and traders in Europe. The investigation affected some 10 major paraffin producers and traders throughout Europe. The decision was adopted in October 2008 and stated that the companies harmonized their commercial activities on the European (European Economic Area) paraffin market and participated in a continuous cartel infringement. In case of MOL the amount of fine EUR 23.7 million (HUF 5,763 million, see Note 26) which was paid by MOL in early 2009.

There are six pending legal proceedings initiated by OMV Treasury and Clearing GmbH ("OMV") against MOL.

The first proceeding was initiated on the Budapest Court of Justice in order to nullify certain provisions of the Articles of Association of MOL. 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 (Magyar Nemzeti Vagyonkezelő 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 Hungarian Corporate Act.

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 30-day non-extendable time period available for OMV, as a shareholder present at the Annual General Meeting 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. The court of first instance accepted MOL's above arguments and dismissed OMV's claim. The plaintiff has filed an appeal against the part of the judgement considering the resolution of the AGM which limited the number of members of Board of Directors recallable at any one time to 3 members. Other parts of the judgement not affected by the appeal (considering the "B" shares and the 10% voting limitation) have become final and biding. The court of second instance has set aside the appealed part of the judgement and referred the case back to the first instance court.

OMV has filed its second claim with the Budapest Court of Justice in order to nullify the resolutions passed at the Annual General Meeting held on 23 April 2008. The first hearing was held on 21 January 2009 and the next hearing was set for 23 September 2009.

OMV as plaintiff has lodged its subsequent claim against MOL in order to qualify as “treasury share” the shares which are in the ownership of 2-6th degree defendants of the proceeding (Magnolia Finance Limited, BNP Paribas S:A., ING BANK N.V., CEZ MH B.V. and BNP Paribas Arbitrage S.N.C.) and to oblige MOL for the payment of HUF 996 million and HUF 6,029 million as dividend difference considering the paid dividend in years 2007 and 2008. OMV alleges in its statement of claim that according to its point of view the co-defendants have been acting as shareholders on their own name but for the benefit of MOL since acquisition of MOL shares, therefore the MOL shares held by them shall be considered as treasury shares of MOL according to the applicable rules of the Hungarian Company Act (including the prohibition on dividend payment after treasury shares).

The first hearing was planned to be held on 29 January 2009 but due to improper service of the court notice to one of the defendants the first hearing was scheduled to 13 October 2009.

The fourth legal proceeding was initiated by OMV on the Budapest Court of Justice in order to qualify as treasury shares the shares which are in the ownership of OTP Plc. and MFB Invest Zrt. and determine the contracts concluded with these companies null and void. The first hearing was held on 25 February 2009 and the next hearing was set for 15 September 2009.

Two further legal proceedings have been initiated by OMV against MOL on the Municipal Court of Budapest, acting as Court of Registration. The first proceeding was filed in order to determine the provisions of the Articles of Association of MOL considering the “B” shares and the 10% voting limitation unlawful. The second motion of OMV was filed with the same court in order to appoint an auditor in accordance with the rejected request of OMV submitted to the Annual General Meeting held on 23 April 2008. The first instance decision of the court has rejected OMV’s request to appoint an auditor. OMV has the right to appeal such decision.

The Hungarian Financial Supervisory Authority (PSZÁF) imposed a fine of 48 million HUF for MOL with its resolution issued on 11 December 2007. PSZÁF stated in its resolution that MOL has infringed the legal regulations restricting internal dealing. MOL has filed a claim for the invalidation of the PSZÁF’s decision and the suspension of its enforcement at the Budapest Court of Justice. The court dismissed MOL’s claim concerning the suspension of the enforcement with its resolution issued 30 January 2008 and the fine was paid by MOL. The court has accepted MOL’s claim at first instance with its judgement issued on 31 October 2008.

The Ministry of Finance of the Slovak Republic has initiated a procedure against SLOVNAFT a.s., a majority subsidiary of MOL (”Slovnaft”), 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 SKK 1.3 bn in October 2005. Slovnaft has filed a claim for the invalidation of the Ministry’s decision and the suspension of its enforcement. Despite 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 Regional Court in Bratislava dismissed the claim and this decision was appealed by Slovnaft on April 27, 2007. The Supreme Court was authorized to decide on the Company’s appeal. The Supreme Court decided on the Company’s appeal in its judgment of June 12, 2008, changing the Bratislava Regional Court’s decision of 6 July 2006 in conjunction with the Slovak Ministry of Finance decision of September 22, 2005, and imposed on the Company the penalty of SKK 838 million. The difference between this and the initially imposed penalty by the Slovak Ministry of Finance is SKK 504 million. Slovak Ministry of Finance filed on August 18, 2008 an extraordinary remedy to the Bratislava Regional Court contesting the decision of the Supreme Court, but without success. On December 9, 2008 the Supreme Court stopped the court proceeding and this decision was delivered to Slovnaft, on December 23, 2008 and

means definitive and final decision on this case. Slovnaft received the SKK 504 million (HUF 4,629 million, recorded as Other income, see Note 24) in early 2009.

On January 24, 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 April 10, 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. 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. 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.

In the Czech Republic, the following court proceedings are still pending:
The extraordinary appeal (dovolanie) proceedings lodged by Ashford on October 24, 2006 to the Czech Supreme Court have been concluded by the Czech Supreme Court decision of 18 June 2008, which reversed the decision of the Municipal Court in Prague issued on July 14, 2006 (Appeal Court Decision). The Appeal Court of Prague on February 24, 2009 confirmed the execution order issued against of SLOVNAFT, a.s. on September 2005. SLOVNAFT has still valid Decision of the District Court Prague 4 from November 22, 2005 on suspension of the execution (postponement) until the legal effect of decision on the Petition to Stop the Execution. This decision is challenged by appeal of Ashford, but decision of the appeal court has not been adopted yet. Slovnaft filed against Ashford on October 12, 2005 petition to Stop/Close the Execution proceeding. This proceeding has not been launched up today because of waiting for result of open court proceeding on ordering the execution against Slovnaft. All of the agenda held by Municipal Court of Prague shall be forwarded to this open proceeding together with decision adopted by the Municipal Court of Prague on February 24, 2009.

Proceeding concerning the action to nullify the Agreement on the ownership transfer with application for preliminary injunction against MOLTRADE Mineralipmex Zrt. and Slovnaft Česká Republika, spol. s.r.o. is also pending.

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 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. The Group filed an appeal against the decision, on January 10, 2007. 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 Slovnaft paid the fine on February 25, 2008.

Slovnaft 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. That Action was accompanied by a motion to suspend the enforcement of the decision of the Council of the Antimonopoly Office. The obligation of Slovnaft has been suspended until the final and legally binding court decision on the merit of the case and full amount of the penalty was transferred by Antimonopoly office back to Slovnaft on April 8, 2008. The court has not scheduled yet its hearing of this dispute.

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, no further litigation exists 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 13,457 million for which HUF 1,083 million provision has been made.
MOL Group has also filed suits, totalling HUF 1,338 million.

Emission rights

As of 2008 MOL Group has been granted 3,223,244 emission quotas by the Slovak and Italian authorities and expects to be granted an additional 3,298,799 quotas by the Hungarian authority. The total use of emission quotas amounted to 6,420,242 in 2008.

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 39,703 million for the estimated cost as at 31 December 2008 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

Conclusion of an Amendment to the Shareholders' Agreement with the Government of Croatia over INA Group and a Gas Master Agreement

On 30 January 2009 MOL and the Republic of Croatia represented by the Government of Croatia ("Government") signed the Amendment to the Shareholders' Agreement and a Gas Master Agreement, a frame contract for the separation and sale of gas storage and trading activities of INA together with agreements on long-term gas supply to the Croatian market and on royalty of hydrocarbon production.

As a result of the successful voluntary public offer for INA shares MOL has become the largest shareholder of INA in October, 2008 (see Note 9). The parties have agreed to amend the Shareholders' Agreement to reflect the new ownership structure of INA in the corporate governance of the company. After closing the transaction, MOL gains control over the operations of INA. The major changes of the Shareholders' Agreement are as follows:

- MOL will delegate five out of the nine members in the Supervisory Board and will have controlling influence over the Management Board.
- The Government will have veto rights ensuring the national security of energy supply and some decisions with respect to strategic assets of INA.

The Amendment to the Shareholders' Agreement is subject to the completion of competition office proceeding. Upon obtaining the Croatian competition office approval, the shareholders' meeting can be called expectedly in the first half of 2009 to elect the new Supervisory Board of INA. The shareholder's meeting is deemed to be the date when control is passed to MOL, therefore the business combination will be accounted for as of that date.

In the Gas Master Agreement the parties have agreed the following:

- Terms have been defined for the unbundling and sale by INA of its gas trading activity (Gas Trading Company) and the underground storage activity (Gas Storage Company) to the Government or to its controlled entities. The Government nominated Plinacro, the 100% state-owned gas transmission company, as the buyer of the gas storage company.
- The Gas Storage Company has been sold by INA to Plinacro at a price of HRK 514 million within the frame of the Sale and Purchase Agreement concluded on the same day as the Gas Master Agreement, while the agreement on the sale of the gas trading activity is to be concluded by 1 July 2009.
- The Gas Trading Company will take on the supply obligation of Croatian customers and will also take over the gas import activity from INA.
- The Gas Trading Company will sign a long term gas supply agreement with INA for natural gas to be produced by INA within the territory of Croatia at terms customary in case of such type contracts (take-or-pay mechanism).

The parties have also agreed that the sales price of the natural gas produced by INA will gradually reach import parity between 2010 and 2014, while the Government and INA will also conclude a long term royalty agreement for the hydrocarbon production of INA in Croatia.

34 Notes to the consolidated statements of cash-flows

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

	2008	2007
	HUF million	HUF million
Cash consideration	(13,040)	(200,526)
Cash at bank or on hand acquired	882	8,768
Net cash outflow on acquisition of subsidiaries and joint ventures	(12,158)	(191,758)

Issuance of long-term debt

	2008	2007
	HUF million	HUF million
Increase in long-term debts	1,133,043	538,727
Non cash-flow element: unrealised exchange gains / (losses)	(35,818)	6,117
Total issuance of long-term debt	1,097,225	544,844

35 Segmental information

2008	Exploration and Production	Refining and Marketing	Gas & Power	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	237,306	2,768,537	145,726	366,090	17,349	-	3,535,008
Inter-segment sales	191,474	377,104	53,398	104,367	131,354	(857,697)	-
Total revenue	428,780	3,145,641	199,124	470,457	148,703	(857,697)	3,535,008
Results							
Profit/(loss) from operations	191,018	72,450	38,661	(7,589)	(37,697)	(57,619)	199,224
Net finance costs							16,076
Income from associates	-	-	-	-	(25,190)	-	(25,190)
Profit before tax							157,958
Income tax expense/(benefit)							16,734
Profit for the year							141,224

2007	Exploration and Production	Refining and Marketing	Gas & Power	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

2008 Assets and liabilities	Exploration and Production	Refining and Marketing	Gas & Power	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	166,775	749,834	304,323	182,856	80,236	(66,825)	1,417,199
Intangible assets, net	74,981	86,536	5,312	5,928	18,645	-	191,402
Inventories	10,682	186,831	2,461	13,018	17,951	(8,162)	222,781
Trade receivables, net	46,572	228,293	25,743	49,776	26,816	(49,716)	327,484
Investments in associates					338,984	-	338,984
Not allocated assets							431,718
Total assets							2,929,568
Trade payables	17,477	193,803	39,574	24,554	49,494	(50,367)	274,535
Not allocated liabilities							1,423,633
Total liabilities							1,698,168
2008 Other segment information							
Capital expenditure:	62,057	118,433	129,846	10,236	10,859	-	331,431
Property, plant and equipment	34,118	116,737	128,767	8,847	7,210	-	295,679
Intangible assets	27,939	1,696	1,079	1,389	3,649	-	35,752
Depreciation and amortization	36,920	74,912	11,503	19,681	11,072	(2,180)	151,908
From this: impairment losses and reversal of impairment recognized in income statement	5,816	1,471	470	177	477	(86)	8,325

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	673,989	100,832	186,426	77,232	(3,185)	1,180,254
Intangible assets, net	61,073	84,362	4,515	7,274	13,706	(1,740)	169,190
Inventories	9,465	284,039	1,262	20,186	7,877	(4,225)	318,604
Trade receivables, net	25,781	297,906	9,134	77,664	31,556	(87,922)	354,119
Investments in associates	-	-	-	-	140,701	-	140,701
Not allocated assets							269,889
Total assets							2,432,757
Trade payables	15,679	277,522	31,499	56,463	37,459	(89,324)	329,298
Not allocated liabilities							1,183,878
Total liabilities							1,513,176
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

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 Gas and Power 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 Related party transactions

Transactions with associated companies in the normal course of business

	2008	2007
	HUF million	HUF million
Trade receivables due from related parties	5,493	2,245
Trade payables due to related parties	6,181	1,827
Net sales to related parties	67,866	12,551

The Group purchased and sold goods and services with related parties during the ordinary course of business in 2008 and 2007, respectively. All of these transactions were conducted under market prices and conditions. The growth of crude oil sales to INA Group increased Net sales to related parties significantly.

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

Directors' total remuneration approximated HUF 115 million and HUF 150 million in 2008 and 2007, 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 76 million in 2008 and HUF 88 million in 2007.
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

	2008	2007
	Number of shares	Number of shares
Board of Directors	466,441	413,798
Supervisory Board	891	891
Senior Management (except executive Board members)	218,352	141,497
Total	685,684	556,186

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 Plc. MOL Plc.and some of its subsidiaries have contractual relationship with the members of OTP Group, including having bank accounts and deposits, using credit card and brokerage services and obtaining loan financing. No transactions out of the usual conduct of business has been concluded with OTP in 2007 or 2008. All of these transactions are on an arm's-length basis.

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

Mr. Major, member of the Supervisory Board was director of Fókusz Kom Kht., a non-profit organization founded by the trade unions, which received a loan from MOL Plc. amounting to HUF 330 million in 2004. The closing amount of the loan was HUF 270 million as of 31 December 2007. In 2007 there was energy supply service provided by MOL Plc. to Fókusz Kom Kht. amounting to HUF 125 million. 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 20 and HUF 168 million during 2008 and 2007, respectively. In 2008 and 2007 there was rental service provided by MOL Plc. to CSÚCS 94 Kft. amounting to HUF 1 and HUF 4 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 2008 and 2007 amounted to HUF 193 million and HUF 4,484 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 amount of HUF 5,170 million and HUF 3,929 million carried out on usual commercial terms and market prices during 2008 and 2007, respectively.

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 2,057 million and HUF 1,777 million during 2008 and 2007, respectively.

Mr. József Molnár, Group Chief Financial Officer and his close family members are the owners of MoNa -Arbor Kft. The close family members are managing directors of the Kft, which provided services Petroszolg Kft. In 2008 the Group has purchased services from the company in an amount of HUF 2.4 million carried out on usual commercial terms and market prices.

Mr. Oszkár Világi, a member of the Board of Directors in Slovnaft and Slovnaft's Chief Executive Officer is a partner in legal firm Csekes, Világi, Drgonec & Partners, spol. s.r.o. that provided legal services to the Group in the value of HUF 78 million and HUF 52 million in 2008 and 2007, respectively, and until 31 January 2007 he was a member of the Supervisory Board of OTP Banka Slovensko a.s. 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 34 million and HUF 7 million in 2008 and 2007, respectively. In 2008 APOLKA, s.r.o. has also purchased services from Slovnaft in the value of HUF 11 million carried out on usual commercial terms and market prices.

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 Plc. in the value of HUF 62 million in 2007.

Key management compensation

	2008	2007
	HUF million	HUF million
Salaries and other short-term employee benefits	2,451	1,956
Termination benefits	-	-
Post-employment benefits	17	7
Other long-term benefits	-	283
Share-based payments	186	392
Total	2,654	2,638

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.

37 Share-based payment plans

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

	2008	2007
	HUF million	HUF million
Expense arising from equity-settled share-based payment transactions	133	353
Expense / (reversal of expense) arising from cash-settled share-based payment transactions	(973)	1,556
Total (reversal of expense) / expense arising from share-based payment transactions	(840)	1,909

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 were treated as compound financial instruments in the consolidated financial statements (see Note 2).
The members of the Board of Directors were 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 could be subscribed by selected top managers of the MOL Group.
The fifth conversion took place in October, 2008, and at the same time the program has been closed.

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

	Number of shares in conversion options 2008 share	Weighted average exercise price 2008 HUF/share	Number of shares in conversion options 2007 share	Weighted average exercise price 2007 HUF/share
Outstanding at the beginning of the year	327,336	5,980	690,252	5,962
Granted during the year	-	-	-	-
Forfeited during the year	-	-	(17,790)	5,621
Exercised during the year	(327,336)	5,980	(345,126)	5,962
Expired during the year	-	-	-	-
Outstanding at the end of the year	0	0	327,336	5,980
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 5,980 per share. In 2007 and 2008 no options were granted.

	2008 HUF million	2007 HUF million
Expense recorded during the year	133	353
Fair value of conversion options not yet expensed	-	892
Liability component of the convertible bond	-	1,840
Equity component of the convertible bond	-	2,020

Share Option Incentive Schemes for management

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 each year since the initiation of the scheme, 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 2008 share	Weighted average exercise price 2008 HUF/share	Number of shares in conversion options 2007 share	Weighted average exercise price 2007 HUF/share
Outstanding at the beginning of the year	293,984	20,712	139,412	20,170
Granted during the year (2008: denominated in EUR, 2007: denominated in HUF)	178,659	26,432	163,296	21,146
Forfeited during the year	(21,478)	20,783	(8,724)	20,170
Exercised during the year	-	-	-	-
Expired during the year	-	-	-	-
Outstanding at the end of the year	451,165	22,974	293,984	20,712
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. As a consequence of declining share prices, expenses recorded in previous years with respect to this scheme has been reversed in 2008 in a value of HUF 973 million. 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. In addition to these expenses, a further charge of HUF 654 million (net of contributions) has been incurred in 2007 upon closing the previous, also cash-settled incentive plan applicable to the management.

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

	2008	2007
	HUF million	HUF million
Weighted average exercise price (HUF / share)	22,974	20,712
Share price as of 31 December 2008 (HUF / share)	9,898	24,491
Expected volatility based on historical data	40.59%	31.89%
Expected dividend yield	4.81%	2.34%
Estimated maturity (years)	3.12	3.56
Risk free interest rate		
2008: denominated in EUR	2.23%	-
2007: denominated in HUF	9.70%	7.58%

Historical Summary Financial Information (IFRS)

Consolidated Income Statements for the Years Ended 31 December	2003	2004
	HUF millions	HUF millions
Net revenue and other operating income	1,524,039	1,971,956
Total operating expenses	1,440,968	1,723,185
Profit from operations	83,071	248,771
Profit for the year attributable to equity holders of the parent	99,981	208,570

Consolidated Balance Sheets as at 31 December	2003	2004
	HUF millions	HUF millions
Non-current assets	1,091,774	1,101,385
Current assets	440,961	533,495
Total assets	1,532,735	1,634,880
Equity attributable to equity holders of the parent	523,869	734,170
Minority interest	155,752	67,955
Non-current liabilities	430,995	319,716
Current liabilities	422,119	513,039
Total equity and liabilities	1,532,735	1,634,880

Consolidated Stetements of Cash Flows for the Years Ended 31 December	2003	2004
	HUF millions	HUF millions
Net cash provided by operating activities	203,158	324,381
Net cash provided by / (used in) investing activities	(298,529)	(224,811)
Net cash provided by / (used in) financing activities	114,639	(75,657)
(Decrease)/increase in cash and cash equivalents	19,268	23,913

* 2007 average HUF/USD	183.8
** 2007 year-end HUF/USD	172.6
* 2008 average HUF/USD	171.8
** 2008 year-end HUF/USD	187.9

2005 HUF MILLIONS	2006 RESTATED HUF MILLIONS	2007 RESTATED HUF MILLIONS	2007 RESTATED USD MILLIONS*	2008 HUF MILLIONS	2008 USD MILLIONS*
2,473,614	2,992,149	2,669,014	14,521	3,554,759	20,691
2,169,178	2,582,577	2,313,509	12,587	3,355,535	19,532
304,436	409,572	355,505	1,934	199,224	1,160
244,919	329,483	257,796	1,403	141,418	823

2005 HUF MILLIONS	2006 RESTATED HUF MILLIONS	2007 RESTATED HUF MILLIONS	2007 RESTATED USD MILLIONS**	2008 HUF MILLIONS*	2008 USD MILLIONS**
1,344,176	1,301,035	1,544,236	8,947	2,027,899	10,792
684,659	864,297	888,521	5,148	888,514	4,729
2,028,835	2,165,332	2,432,757	14,095	2,916,413	15,521
983,279	1,079,666	792,164	4,590	1,112,981	5,924
70,359	191,537	127,417	738	118,419	630
427,979	410,987	861,702	4,992	942,957	5,018
547,218	483,142	651,474	3,775	742,056	3,949
2,028,835	2,165,332	2,432,757	14,095	2,916,413	15,521

2005 HUF MILLIONS	2006 RESTATED HUF MILLIONS	2007 RESTATED HUF MILLIONS	2007 RESTATED USD MILLIONS*	2008 HUF MILLIONS	2008 USD MILLIONS*
282,159	529,508	315,506	1,716	347,203	2,021
(259,480)	111,669	(336,978)	(1,833)	(474,792)	(2,764)
(49,472)	(287,481)	(245,951)	(1,338)	209,070	1,217
(26,793)	353,696	(267,423)	(1,455)	81,481	474

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, 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	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	62.7	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	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	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	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
Revision of previous estimates	(3,486.4)	(123.1)	(903.5)	(6.8)	(4,489.7)	(33.9)
Extension and discoveries	37.0	1.3	0.0	0.0	38.2	0.3
Production	(2,619.8)	(92.5)	(811.2)	(6.1)	(3,051.4)	(23.0)
Purchase/sale of minerals in place	0.0	0.0	0.0	0.0	0.0	0.0
December 31, 2008	12,608.7	445.3	3,240.6	24.5	14,648.4	110.6

*The reserves does not include information about MOL's share proportionate to its ownership from reserves of INA, d.d., but includes 100% of reserves of MMBF Plc.

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

Reserves in abroad	Natural gas		Crude oil		Combined	
	MCM	Bcf	kt	million bbl	ktoe	million boe
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	1.4	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)	(2.0)	(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	2.3	12,334.1	87.7	12,387.3	88.1
Revision of previous estimates	20.8	0.7	(5,011.4)	(35.0)	(4,994.1)	(34.8)
Extension and discoveries	0.0	0.0	74.8	0.5	74.8	0.5
Production	(53.1)	(1.9)	(1,191.7)	(8.6)	(1,234.5)	(9.0)
Purchase/sale of minerals in place	0.0	0.0	0.0	0.0	0.0	0.0
December 31, 2008	33.8	1.2	6,205.8	44.6	6,233.5	44.9
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	661.9	17,289.4	125.1	34,538.6	255.4
Total (domestic+int') hydrocarbon reserves as of Dec 31, 2008	12,642.5	446.5	9,446.4	69.1	20,881.9	155.5

*The reserves does not include information about MOL's share proportionate to its ownership from reserves of INA, d.d., but includes 100% of reserves of MMBF Plc.

Gross reserves (according to SPE rules)*

Proved reserves	Natural gas		Crude oil		Combined	
	MCM	Bcf	kt	million bbl	ktoe	million boe
Hungary as of December 31, 2007	18,249.9	644.5	7,768.2	58.6	22,484.6	169.8
Revision of previous estimates	(1,552.4)	(54.8)	(3,315.6)	(25.0)	(3,454.6)	(26.1)
Extension and discoveries	50.9	1.8	7.8	0.1	58.1	0.4
Production	(2,619.8)	(92.5)	(811.2)	(6.1)	(3,051.4)	(23.0)
Purchase/sale of minerals in place	0.0	0.0	0.0	0.0	0.0	0.0
Hungary as of December 31, 2008	14,128.6	498.9	3,649.2	27.6	16,036.7	121.1
Russia, Pakistan as of December 31, 2007	1,787.6	63.1	13,434.8	95.6	14,858.0	107.5
Revision of previous estimates	0.0	0.0	230.0	1.9	229.9	1.7
Extension and discoveries	0.0	0.0	448.4	3.3	448.4	3.3
Production	(53.1)	(1.9)	(1,191.7)	(8.6)	(1,234.5)	(9.0)
Purchase/sale of minerals in place	0.0	0.0	0.0	0.0	0.0	0.0
Russia, Pakistan as of December 31, 2008	1,734.5	61.3	12,921.5	92.1	1,4301.8	103.5
INA d.d. (25%) as of December 31, 2007	7,964.7	281.3	2,447.9	18.1	10,559.3	67.4
Revision of previous estimates	113.5	4.0	73.2	0.6	186.4	1.7
Extension and discoveries	0.0	0.0	0.0	0.0	0.0	0.0
Production	(568.3)	(20.1)	(203.2)	(1.5)	(772.4)	(5.4)
Purchase/sale of minerals in place	6,656.8	235.1	2,054.6	15.2	8,840.4	56.5
INA d.d. (47,16%) as of December 31, 2008	14,166.8	500.3	4,372.6	32.3	18,813.8	120.2
Total (domestic+int') hydrocarbon reserves as of December 31, 2007	28,002.2	988.9	23,650.9	172.3	47,901.9	344.7
Total (domestic+int') hydrocarbon reserves as of December 31, 2008	30,029.9	1,060.5	20,943.3	152.0	49,152.3	344.8

* The reserves include information about 100% of MMBF Plc's reserves and MOL's share proportionate to its ownership from reserves of INA, d.d.. In case of INA revision, extensions, discoveries and production figures are calculated by assuming 25% of MOL's share for full year. INA's reserves were estimated by MOL.

Gross reserves (according to SPE rules)*

Proved and probable reserves	Natural gas		Crude oil		Combined	
	MCM	Bcf	kt	million bbl	ktoe	million boe
Hungary as of December 31, 2007	23,003.1	812.3	9,477.5	71.6	27,784.8	209.8
Revision of previous estimates	1,063.4	37.6	(2,457.4)	(18.6)	(676.6)	(5.1)
Extension and discoveries	96.9	3.4	194.3	1.5	285.1	2.2
Production	(2,619.8)	(92.5)	(811.2)	(6.1)	(3,051.4)	(23.0)
Purchase/sale of minerals in place	0.0	0.0	0.0	0.0	0.0	0.0
Hungary as of December 31, 2008	21,543.6	760.8	6,403.3	48.3	24,342.0	183.8
Russia, Pakistan as of December 31, 2007	1,947.6	68.8	16,557.6	118.0	18,105.8	130.8
Revision of previous estimates	0.0	0.0	1,316.1	10.1	1,316.0	9.9
Extension and discoveries	0.0	0.0	5,046.6	36.7	5,046.6	36.7
Production	(53.1)	(1.9)	(1,191.7)	(8.6)	(1,234.5)	(9.0)
Purchase/sale of minerals in place	0.0	0.0	0.0	0.0	0.0	0.0
Russia, Pakistan as of December 31, 2008	1,894.5	66.9	21,728.7	156.1	23,234.0	168.5
INA d.d. (25%) as of December 31, 2007	11,189.5	395.2	3,198.4	23.6	14,667.9	93.6
Revision of previous estimates	989.1	34.9	90.0	0.7	1,127.1	7.4
Extension and discoveries	0.0	0.0	0.0	0.0	0.0	0.0
Production	(568.3)	(20.1)	(203.2)	(1.5)	(772.4)	(5.4)
Purchase/sale of minerals in place	10,291.4	363.4	2,734.8	20.2	13,316.1	84.7
INA d.d. (47,16%) as of December 31, 2008	21,901.7	773.4	5,820.1	43.0	28,338.8	180.3
Total (domestic+int') hydrocarbon reserves as of December 31, 2007	36,140.2	1,276.3	29,233.5	213.1	60,558.6	434.2
Total (domestic+int') hydrocarbon reserves as of December 31, 2008	45,339.8	1,601.2	33,952.0	247.5	75,914.8	532.6

* The reserves include information about 100% of MMBF Plc's reserves and MOL's share proportionate to its ownership from reserves of INA, d.d.. In case of INA revision, extensions, discoveries and production figures are calculated by assuming 25% of MOL's share for full year. INA's reserves were estimated by MOL.

Average production costs	2004	2005	2006	2007	2008*
Crude oil					
USD/bbl	6.11	6.28	6.33	9.98	13.53
Natural gas					
USD/MMcf	858.7	937.7	861.3	936.3	1,347.6
Total USD/boe	5.73	6.05	5.87	8.03	11.16

*excluding MMBF Plc. production

Exploration and development data	2004	2005	2006	2007	2008
Wells tested	121 (102)	41 (28)	19 (15)	52 (31)	32 (24)
of which exploration wells (of which foreign)	8 (1)	12 (2)	7 (3)	16 (3)	12 (6)
crude oil (of which foreign)	0 (0)	1 (0)	2 (0)	0 (0)	2 (1)
natural gas (of which foreign)	1 (0)	2 (1)	1 (0)	8 (0)	6 (2)
dry/non commercial well (of which foreign)	7 (1)	9 (1)	4 (3)	8 (3)	4 (3)
of which development wells (of which foreign)	43 (31)	29 (26)	12 (12)	36 (28)	20 (18)
crude oil (of which foreign)	31 (31)	29 (26)	11 (11)	31 (26)	17 (16)
natural gas (of which foreign)	12 (0)	0 (0)	1 (1)	3 (2)	2 (2)
dry well (of which foreign)	0 (0)	0 (0)	0 (0)	2 (0)	1 (0)

Hydrocarbon production (gross figures) (kt)	2004	2005	2006	2007	2008**
Crude oil (domestic)*	1,024	884	857	799	743
Crude oil (international)	1,148	1,369	1,310	1,323	1,181
Condensates (domestic)	229	206	216	162	163
Condensates (international)	0	0	0	10	11
LPG	220	206	200	157	133
Other gas products	52	51	43	41	33

*excluding separated condensate

**excluding MMBF Plc. production

Natural gas production (net dry) (mcm)	2004	2005	2006	2007	2008
Natural gas production (domestic)*	3,015	2,966	3,028	2,488	2,480
Natural gas production (international)	0	31	51	58	53

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

Natural gas transmission volume (mcm)	2004	2005	2006	2007	2008
Hungarian transmission	17,004	17,714	17,278	14,961	15,140
Transit	2,526	2,570	2,386	2,390	2,427

Transmission fee	2004	2005	2006	2007	2008
Hungarian transmission fee (HUF/cm)	3.00	3.03	3.16	3.68	3.89

Crude oil processing (kt)	2004	2005	2006	2007	2008
Domestic crude oil	980	908	852	800	771
Imported crude oil	11,054	11,503	11,673	12,487	14,259
Total crude oil processing	12,034	12,411	12,525	13,287	15,030
Condensates processing	231	210	214	162	197
Other feedstock	1,933	2,433	2,371	2,854	2,914
Total throughput	14,198	15,054	15,110	16,303	18,141
Contract and joint processing	0	0	0	0	0
Average distillation capacity used Duna Refinery %	86	91	89	91	88
Average distillation capacity used Slovnaft %	94	95	98	98	100

Crude oil product sales (kt)	2004	2005	2006	2007*	2008
Domestic sales	3,892	4,065	4,630	4,701	4,753
Gas and heating oils	1,808	1,919	2,345	2,438	2,577
Motor gasolines	1,159	1,148	1,286	1,331	1,297
Fuel oils	238	166	132	161	75
Bitumen	165	244	300	163	207
Lubricants	25	26	24	26	20
Other products	497	562	543	582	577
Sales in Slovakia	1,408	1,378	1,464	1,524	1,626
Gas and heating oils	690	719	786	838	905
Motor gasolines	467	420	406	444	457
Lubricants	20	15	11	10	8
Bitumen	58	96	99	85	93
Other products	173	128	162	147	163
Export sales	5,836	6,004	5,714	6,576	8,710
Gas and heating oils	3,150	3,264	3,254	3,671	5,013
Motor gasolines	1,554	1,534	1,263	1,365	1,667
Lubricants	94	28**	28**	26**	22**
Bitumen	167	191	128	300	885
Other products	871	987	1,041	1,214	1,123
Total crude oil product sales	11,136	11,447	11,808	12,801	15,189

*Note: MOL Group with TIFON from 1. Nov. and IES from 15. Nov.

** Without base oil

Petrochmical production kt	2004	2005	2006	2007	2008
Ethylene	595	796	775	870	812
LDPE	294	284	263	270	246
HDPE	195	353	360	404	361
PP	370	441	496	545	515

Petrochemical sales kt	2004	2005	2006	2007	2008
Domestic sales	430	468	479	491	447
Slovakia	77	69	72	84	78
Export sales	550	758	819	912	833
Total product sales	1,057	1,295	1,370	1,487	1,358

Average headcount, person	2004	2005	2006	2007*	2008**
Exploration and Production	1,682	1,502	1,428	1,504	1,516
Refining and Marketing	3,045	2,953	2,796	2,836	2,882
Gas	10	6	1	0	17
Corporate Services	528	580	504	539	539
Headquarters and other	578	489	461	427	430
MOL Rt. total	5,843	5,530	5,190	5,306	5,384
Subsidiaries	10,617	10,056	9,121	9,194	10,606
MOL Group	16,460	15,586	14,311	14,500	15,990

* MOL Group with Tifon and IES
**MOL Group with Energopetrol and I&C Energo

Closing headcount	2004	2005	2006	2007*	2008**
MOL Rt.	5,546	5,348	5,096	5,305	5,421
Subsidiaries	9,919	9,312	8,765	9,753	11,792
MOL Group	15,465	14,660	13,861	15,058	17,213

* MOL Group with Tifon and IES
**MOL Group with Energopetrol and I&C Energo

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 2008 or for previous years, but include information about oil and gas producing activities in MMBF Private Limited Company in line with section 14a of FASB 69.

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 liquids 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 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
Revision of previous estimates	(1,794)	(2,520)	(4,314)	-	(4,314)
Extensions and discoveries	10	57	67	-	67
Improved recovery					
Purchase of minerals					
Sales of minerals					
Production	(901)	(822)	(1,724)	-	(1,724)
Reserves At 31 December 2008	4,033	4,884	8,916	-	8,916
Proved developed reserves as of					
31 December 2006	5,089	4,971	10,060	-	10,060
31 December 2007	5,046	2,870	7,915	-	7,915
31 December 2008	3,140	4,020	7,160	-	7,160

Natural gas (millions of cubic meter)					
	Consolidated companies			Associated companies	Total
	Hungary	Foreign	Total		
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
Revision of previous estimates	27	18	45	-	45
Extensions and discoveries	33		33	-	33
Improved recovery				-	
Purchase of minerals				-	
Sales of minerals				-	
Production	(1,422)	(47)	(1,469)	-	(1,469)
Reserves At 31 December 2008	10,646	30	10,676	-	10,676
Proved developed reserves as of					
31 December 2006	9,534	72	9,606	-	9,606
31 December 2007	7,652	59	7,711	-	7,711
31 December 2008	8,361	30	8,391	-	8,391

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

Crude oil, condensate and natural gas (kt equivalent)					
	Consolidated companies			Associated companies	Total
	Hungary	Foreign	Total		
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			0	-	0
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
Revision of previous estimates	(1,854)	(2,505)	(4,395)	-	(4,359)
Extensions and discoveries	36	57	94	-	94
Improved recovery				-	
Purchase of minerals				-	
Sales of minerals				-	
Production	(2,035)	(860)	(2,895)	-	(2,895)
Reserves At 31 December 2008	12,630	4,908	17,538	-	17,538
Proved developed reserves as of					
31 December 2006	13,007	5,028	18,035	-	18,035
31 December 2007	11,497	2,917	14,414	-	14,414
31 December 2008	9,725	4,052	13,777	-	13,777

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 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	0	32,698	32,698	-	32,698
Accumulated DD&A and impairments	235,476	41,870	277,346	-	277,346
FX differences	0	1,408	1,408	-	1,408
Net capitalised costs	94,810	95,384	190,194	-	190,194
At 31 December 2008					
Gross value	356,267	177,536	533,803	-	533,803
Proved properties	356,267	97,379	453,647	-	453,647
Unproved properties	0	80,157	80,157	-	80,157
Accumulated DD&A and impairments	252,024	55,859	307,882	-	307,882
FX differences	0	5,375	5,375	-	5,375
Net capitalised costs	104,244	116,302	220,546	-	220,546

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 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	0	9,886	9,886	-	9,886
Proved	0	1,338	1,338	-	1,338
Unproved	0	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
For year ended 31 December 2008					
Acquisition of properties	0	11,831	11,831	-	11,831
Proved	0	0	0	-	0
Unproved	0	11,831	11,831	-	11,831
Exploration	9,717	19,620	29,337	-	29,337
G&G	3,228	8,698	11,926	-	11,926
Drilling	6,451	9,525	15,976	-	15,976
Rental fee, other	37	1,397	1,434	-	1,434
Development	9,227	17,112	26,339	-	26,339
Total costs incurred	18,943	48,563	67,506	-	67,506

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 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	0	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
For year ended 31 December 2008					
Sales	187,871	30,516	218,386	-	218,386
third parties	85,155	30,516	115,670	-	115,670
intra-group	102,716	0	102,716	-	102,716
Production costs	(22,697)	(7,212)	(29,909)	-	(29,909)
Exploration expense	(4,322)	(10,074)	(14,396)	-	(14,396)
DD&A	(22,543)	(13,913)	(36,456)	-	(36,456)
Other income/(costs)	(5,126)	(5,860)	(10,986)	-	(10,986)
Earnings before taxation	133,182	(6,544)	126,639	-	126,639
Taxation	(24,788)	(972)	(25,760)	-	(25,760)
EARNINGS FROM OPERATION	108,395	(7,516)	100,879	-	100,879

Other income/cost do not include the administration cost inside MOL Plc.

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	2006 Consolidated companies		
	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	2007 Consolidated companies		
	Hungary	Foreign	Total
Future cash inflows	1,361,413	377,568	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

HUF million	2008 Consolidated companies		
	Hungary	Foreign	Total
Future cash inflows	1,183,704	109,576	1,293,280
Future production costs	(177,051)	(41,089)	(218,140)
Future development and other costs	(163,969)	(27,384)	(198,354)
Future tax expense	(217,217)	(8,183)	(225,400)
Future net cash flows	625,466	(32,919)	658,386
Effect of discounting	(170,689)	(10,305)	(180,944)
Standardised measure of discounted future cash flows	454,777	22,615	477,392

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

HUF million	Consolidated companies			Associated companies	Total
	Hungary	Foreign	Total		
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	0	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
Net changes in prices and production costs	265,510	17,892	283,401	-	283,401
Sales and transfers of oil and gas, net of production costs during the year	(166,612)	(21,768)	(188,380)	-	(188,380)
Development and other costs incurred during the year	10,078	19,135	29,213	-	29,213
Net cash from extensions, discoveries and improved recovery	2,646	62	2,708	-	2,708
Development and other cost related to future production	(4,037)	7,730	3,693	-	3,693
Purchase/Sale of minerals in place	0	0	0	-	0
Revisions of previous reserve estimate	(155,452)	(125,012)	(280,464)	-	(280,464)
Accretion of discount	59,269	11,909	71,178	-	71,178
Net change in income tax	(25,078)	23,598	(1,480)	-	(1,480)
At 31 December 2008	454,777	22,615	477,392	-	477,392

Building a best-in-class ethical management system, significantly reducing work related injuries, promoting workplace health, reducing environmental impacts and attracting talents are just examples of our initiatives aiming at reaching long-term corporate sustainability and contributing to sustainable development.

György Mosonyi

Group Chief Executive Officer
Chairman of the
Sustainable Development Committee

SUSTAINABILITY:
NON-FINANCIAL PERFORMANCE

Overview of 2008

In 2008 MOL Group continued to increase its economic, environmental and social performance in order to contribute to sustainable development (SD) and reach long-term corporate sustainability.
The company's main achievements related to its seven strategic SD initiatives are summarized as follows:

1. Strengthen good governance and risk management
- The implementation of our Code of Ethics has been continued, resulting in employees' increasing awareness and trust in the Ethics Council;
- Ethical teaching material and e-learning system have been developed;
- Monitoring system has been launched: our company leaders in the different countries we operate have approved the monitoring system of the Code of Ethics.

2. Concentrate on future portfolio steering
- We have launched our Gas and Power business division focusing on gas trade and power generation as part of our quest to seek new environmentally friendly energy solutions;
- A new joint venture company (CEGE) was established with the aim to produce electricity and heat from geothermal resources;
- We have developed new biodegradable and long-life lubricant products (e.g. MOL Albatros 2T, synthetic engine oil for boats);
- A consortium, led by MOL, aims to develop the new generation biofuels concept (at the end of 2008, an enlarged experimental reactor was set up in Százhalombatta, Hungary);
- Feasibility studies have been conducted on the utilisation of solar and wind energy in Duna Refinery.

3. Focus on internal and external customer relations
- New services have been developed on www.mol.hu: interactive map, route planning program, extended searching for products and services;
- We have defined uniform principles in the customer relationship area and we implemented them at group level in the Retail division;
- We have renewed MOL's retail brand that now appears on 43 key filling stations.

4. Enhance trust & credibility among stakeholders
- We have improved our sustainability reporting by integrating SD into the company's Annual Report and revising the SD related content on our website, allowing us to reach GRI B+ compliance;
- We have introduced the Safe Refuelling Program and Global Road Safety Program for customers;
- We have continued providing access to disabled people at more filling stations;
- We have organised a fuel saving campaign aimed at increasing our customers' awareness of environmental issues in Hungary, Romania and Slovakia;
- We further improved the cooperation with local communities in Refining division (e.g. open days, summer university on SD, common educational projects with schools and universities).

5. Reduce environmental footprint
- We have developed our comprehensive and progressive HSE Management System covering all important areas of Health, Safety and Environment (guidelines and operative regulations);
- We have started to apply risk-based environmental remediation approach which has reduced the MOL Group environmental liabilities by HUF 3.45 billion (the target was HUF 6.0 bn);
- Within the "Global 5" program we enhanced cooperation with our suppliers to apply a more consistent waste management approach;
- We increased the number of selective waste collection points at filling stations in Hungary (289 MOL stations with at least one recycling point).

6. Manage opportunities, risk & liabilities in the value chain

- There were no fatal injuries suffered by MOL Group employees. However two contractors and two third party fatalities were reported (the ultimate target was zero). We registered one occupational illness (the target was zero);
- STEP, our Workplace Health Promotion Programme has been embedded into our company's culture (40% of employees involved in MOL, Slovnaft and TVK; target was also 40%);
- We reached the respected benchmark level with less than 1.0 (0.97) Lost Time Injury per one million worked hours (the "LTIF" target was 1.0);
- With regards to road safety we improved our performance to 1.6 accidents per 1 million km driven (the "RAR" target was 2.3);
- Disciplined application of our incident reporting and investigation system (IRIS): 85% incident inquiry rate was reached (the target was 80%);
- Parallel with international good practice, we further developed our Process Safety Management system;
- We pre-qualified key long-term contractors to comply with MOL Group HSE requirements (30 on-site audits conducted and on-line self-assessment interface launched).

7. Capitalize on human resources

- We continued our New Graduate Program called growww in Hungary, Slovakia and Pakistan, where 148 new graduates were selected to join MOL Group from the 2,000 applicants;
- The latest employee engagement survey indicates that the MOL Group employees' engagement has increased from 44% to 48% since 2006.

Targets for 2009

1. Strengthen good governance and risk management
- Amend supplement Code of Ethics' related processes (trainings, monitoring);
- Launch an e-learning ethics training, planned rate of participants is 70% of MOL Group employees who have intranet access;
- Integrate ethics training into the competency training for managers, employees and special target groups like newcomers and expatriates;
- Integrate reputation risk into our well developed ERM framework in order to further strengthening the awareness towards reputation risk in the company.

2. Concentrate on future portfolio steering
- Increase the market activity in renewable energy utilization in Hungary;
- Investigate new options for the production of renewable fuels and energy sources.

3. Focus on internal and external customer relations
- Maintain a high level of customer satisfaction in all business division.

4. Enhance trust & credibility among stakeholders
- Conduct stakeholder dialogue on MOL Group's sustainability reporting and performance;
- Continue safety campaigns for customers at our filling stations;
- Review and restructure our corporate processes related to donation and sponsorship.

5. Reduce environmental footprint
- Reduce specific CO_2 emissions by 1% as a direct result of greenhouse gas (GHG) reduction initiatives;
- Reduce Group level fresh water intake by 10%;
- Have self–assessment based Declaration of Conformity to Group HSE Management System to be more than 70%;
- Extend our CO_2-strategy to a climate strategy and set up GHG protocol, inventory and workflow for scope 2-3 emissions;
- MOL Group's environmental liabilities as known at the end of 2008 should be reduced by HUF 4.4 bn in 2009;
- Introduction of a new risk-assessment methodology in order to prevent oil spills in pipelines in Hungarian production facilities.

6. Manage opportunities, risk & liabilities in the value chain
- Have the total reportable occupational illness frequency (TROIF) reduced to zero;
- Have each business unit contribute by involving at least 60% of employees in the Workplace Health Promotion program and maintain an Absence Rate of not more than 3.14% (MOL, SN, SPC, TVK);
- Have no work related fatal accidents in MOL Group (staff, contractors and third parties);
- Maintain lost time injury frequency (LTIF) below 1.0;
- Road accident rate (RAR) should not be more than 2.0;
- The incident inquiry rate should reach at least 80%;
- Roll out the Group Contractor HSE Management System to all HSE critical on-site contractors of MOL Group.

7. Capitalize on human resources
- Identify skill mapping and competency development practices within the Group, and launch a pilot project with the aim of defining professional career and competency models in business divisions;
- Establish TVK Chair both at the University of Miskolc and at University of Debrecen, within the Faculty of Technical Science

Climate Change

We have intensively worked on a climate strategy consisting of several separate strategies – energy strategy, greenhouse gas (GHG) strategy, carbon capture and storage (CCS) strategy and an individual GHG trading strategy that focuses on using trading tools for cost effective compliance.

Our strategies focus on further identification and implementation of energy efficiency measures, investigation of carbon capture and storage opportunities and looking for Joint Implementation (JI) and Clean Development Mechanism (CDM) projects, especially at our operations in Russia and Pakistan. In terms of CCS we continued our cooperation within the international consortium established for ECCO project ("European value chain for CO_2") and R&D project with ELGI (Hungarian National Eötvös Loránd Geological Institute) and the University of Miskolc. These projects aim at identifying possibilities to capture CO_2 from industrial emission sources and store them safely in suitable geological formations.

Reducing GHG Emissions

In 2008 the MOL Group installations covered by the European emission trading scheme (ETS) emitted almost 6.42 Mt of CO_2. Comparing to 4.09 Mt in 2007 the increase might seem significant, but it was caused by the start of Duna Refinery steam boiler full operation, the inclusion of additional installations into the scheme for the second trading period as well as new acquisitions. Since 2008, steam crackers of Petrochemicals division are part of the scheme, flaring has been included and also IES Mantova Refinery as a new acquisition has been included. To enable year-on-year comparison, we need to compare only those installations that were part of the scheme in 2007, excluding the steam boiler which operated for just one month in 2007 as such comparison shows only negligible increase of CO_2 emissions by 0.5% (4.26 Mt in 2007 vs. 4.28 Mt in 2008).

Table: CO_2 under ETS by year (2004-2008)

We realised and implemented several projects that contributed to CO_2 emissions reduction. For instance the replacement of steam technology with hot water system had been continued at Exploration and Production Kiskunhalas Main Gathering Station (HU): it had not only reduced basic air pollutants but also the emissions of CO_2, which dropped by 150-200 tons per month. We also increased the capacity of the waste gas utilisation facility at the same station. However we have not limited our efforts to the installations covered by the emission trading scheme: we have decreased flaring of flash gas by the installation of a compressor unit at the Manzalai Gas Plant in Pakistan.

We continued with energy-efficiency efforts at Refining and Marketing as well as Petrochemicals divisions. Even though Petrochemicals division operates only BAT technologies with very small CO_2 reduction potential, several projects are planned to fulfil the strategic objective of the Petrochemicals division for 2008-12 to improve the energy efficiency (e.g. utilization of condensate heat value in TVK Power Plant, further investigation of flare gases utilisation).

Water Management

As part of our water management improvement, last year several studies were made and significant technological developments were accomplished. Thanks to efforts made in previous years we achieved a further reduction in water consumption and wastewater discharge.

Water withdrawal

Total water withdrawal amounted to 112 million m^3 in 2008, where our refineries in Hungary and Slovakia accounted for more than 80% of withdrawal.

Total water withdrawal by source in 2008 [th m^3]:

Source	th m^3
Drinking water consumption	2,444
Surface water withdrawal	73,948
Ground water withdrawal	33,281
Rainwater collected directly and stored	2,103
Wastewater from another organization	735

We have realised that we can reduce the surface water intake from river Danube at Slovnaft Bratislava Refinery by connecting four other units to the circulated cooling water system. An air-cooling system in hydrogenation unit No. 6 was also installed resulting in further decrease of water consumption. The new boiler plant laid 7% extra claim of fresh water of the total consumption at the Duna Refinery in Százhalombatta (HU). At Tisza Refinery in Tiszaújváros (HU) the rainwater collected on site was recycled at a ratio of 65% of the incoming freshwater. At Zala Refinery in Zalaegerszeg (HU) the freshwater demand increased by 9% due to the expanded bitumen raw material processing in the bitumen plant. We voluntary reduced our drinking water intake permitted by the local authority from 1.35 million to 0.7 million m^3 at TVK in Tiszaújváros. Due to an energy rationalisation program launched in 2006 at our Exploration and Production unit we have managed to reduce our energy use and water consumption. We managed to cut down on freshwater intake at the Pakistani exploration and production sites by 25% and we also established a freshwater well in Kazakhstan after acquiring permission from local authorities.

Water discharge

The total volume of water discharged was 91.2 million m^3 in 2008, and it was discharged mainly into surface waters (rivers Danube and Tisza in Hungary are the most affected).

Total water discharge in 2008 [th m^3]:

Division	th m^3
Exploration and Production	5,335
Natural Gas Transmission	9
Refining	79,457
Logistics	1,025
Retail	51
Lubricants	7
Petrochemicals	5,289
Corporate Services and Functional Units	63
Total MOL Group	91,236

As part of the efficiency improvement at the wastewater treatment unit of Slovnaft Refinery a fine bubble aeration system was implemented and basins of mechanical and biological stage were covered. In order to protect the aquatic environment with the stream of river Tisza from accidental contaminations we employ lagoons as a buffer zone and a polishing treatment for effluent discharged from Tisza Refinery. To comply with the future regulations of stricter emission limit for chemical oxygen demand (COD) of discharged effluent in the watershed of Lake Balaton, a technological development was commenced in Zala Refinery.
Quality characterization of refinery final effluents is regularly conducted according to our self-detection plans accepted by the authorities. The total amount of emitted water pollutants was decreased compared to the previous year. In 2008 according to our self-detection in TVK petrochemical plant, all the parameters of the discharged effluent met the emission limits.

At the Exploration and Production units similar to the water consumption recent results show a decrease in wastewater discharge. In compliance with the environmental authorities, we have introduced a more environmental friendly technology providing a separation of associated water from hydrocarbons and a re-injection into the deep reservoirs. To minimise the risk of contamination, we operate about 500 water monitoring wells close to our Hungarian sites and apply satellite technology. This system also enables us to assess impacts of our operations on soil and groundwater.
Whilst preparing for the legal actions to be taken within ten years, Logistics has started the reconstruction of wastewater systems in Pécs and Szajol base depots (HU).
Our Retail division surveyed the possibilities for reduction in water consumption at the filling stations (rainwater recycling, dry urinals), and in order to meet the local legistlative requirements, emergency tanks were installed at 25 filling in Slovakia.

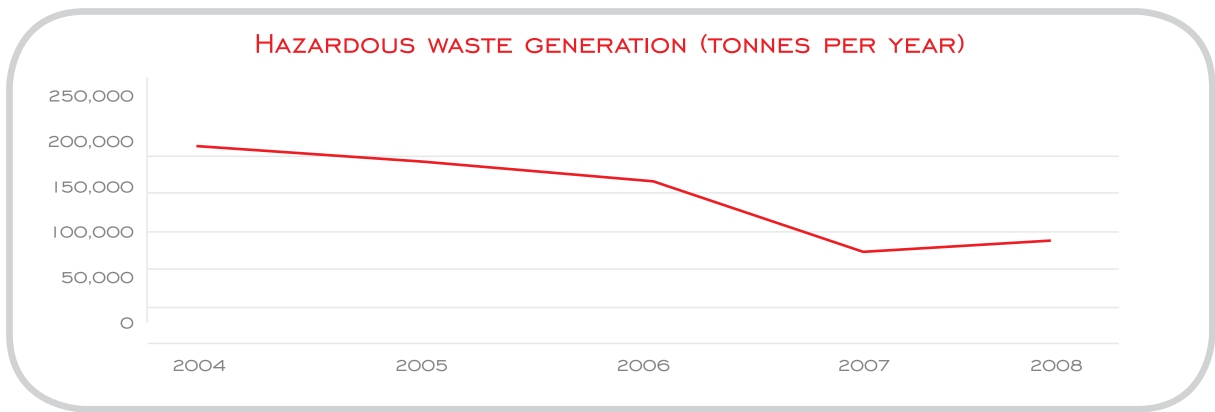
Waste Management

In 2008 we started our "Total Waste Management project" with the purpose of revising our waste management in order to reduce cost, improve efficiency of processes and optimize the waste management in MOL Group by:

- Concluding long-term contracts,
- Increasing the control system of waste management with a special focus on decreasing the volume of disposed waste and increasing the ratio of valued, re-used and re-cycled waste,
- Integrating the sale of waste to MOL Group's waste management strategy.

In addition to the requirements of the local law, we also record waste arising from past operations (e.g. waste from remediation) as well as current operations, which is further divided into the categories of operations/maintenance, emergencies and construction/demolition. This helps us to have a clearer picture of our main waste-generating activities which aids us in our waste management planning.
In 2008 the total amount of hazardous waste from MOL Group operations amounted 98.7 k tonnes, increasing from last year's 87.7 k tonnes. This was mainly due to a remediation program at Slovnaft Logistics (SK) and a similar project at Exploration and Production Hungary.

	2004 (tonnes)	2005 (tonnes)	2006 (tonnes)	2007 (tonnes)	2008 (tonnes)
Hazardous waste generation	196,966	180,885	167,589	87,764	98,791

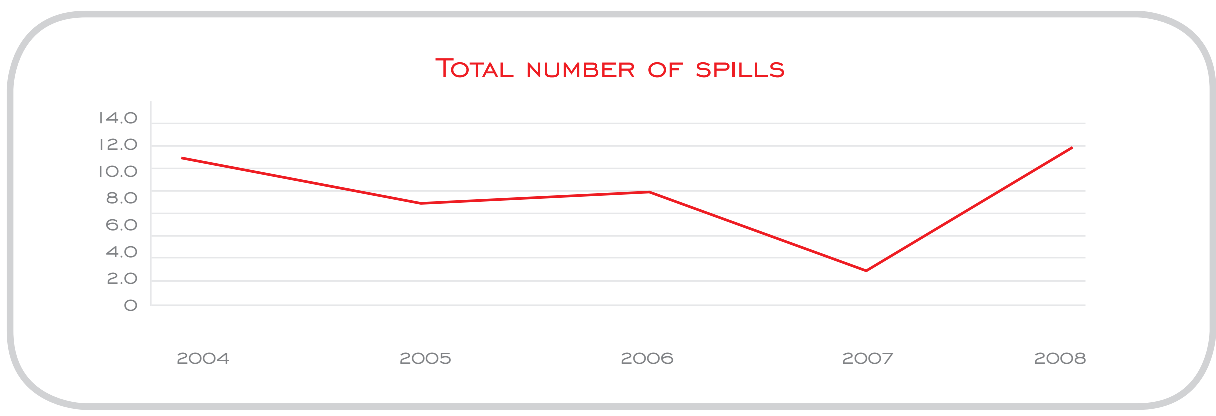


In 2008 we completed our 3-year long program (started in 2006), which aimed to renew the hazardous waste storage facilities of our Logistics division to ensure maximum safety prior to final treatment.
A main part of refinery wastes were handled in our own waste treatment facilities (incinerators, waste-water treatment works) in Duna, Zala and Tisza Refineries. In order to meet legal requirements and increase the efficiency of both Duna and Tisza Refinery waste incinerators, we plan to start a collaboration with the University of Miskolc. We have also incorporated waste reduction methods into our refinery processes in order to:

- To reduce the amount of oily sludge and to reuse them by using the three-phase centrifuge,
- To reduce the amount of biological sludge by using of press filters.

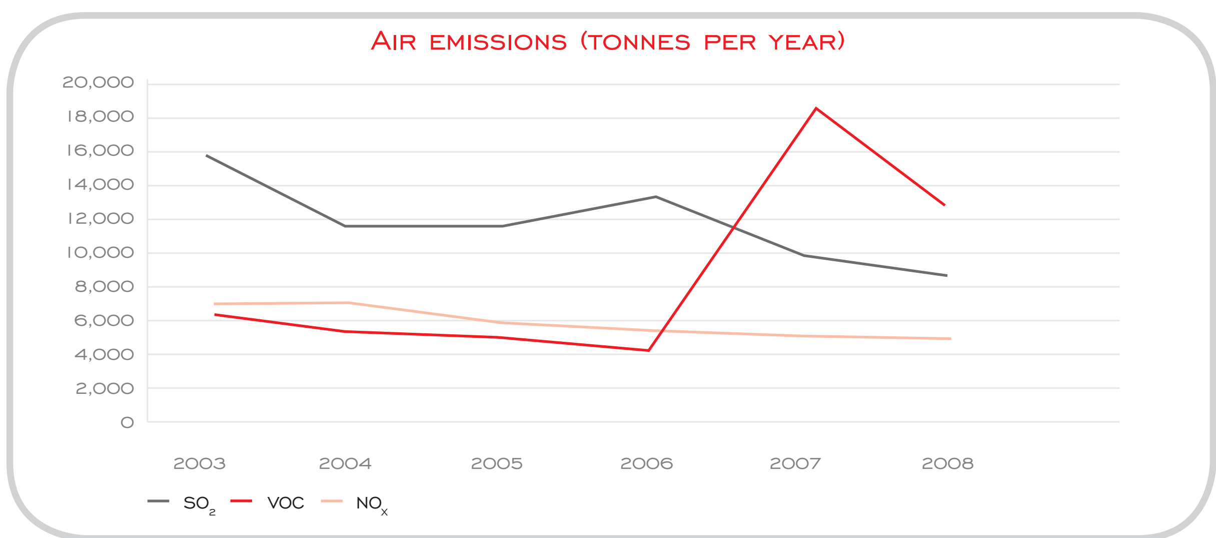
Preventing Spills

In 2008, the number of spills above 1 m^3 increased significantly from 3 to 12, resulting into a total volume of 912.2 m^3. At Slovnaft Refinery (SK) we did not experience any spills above 1 m^3, and at our Hungarian refineries there were three spills in 2008: two in Duna Refinery, one in Tisza Refinery. Most of these spills were at a small scale (under 20 m^3) and were cleaned up immediately by the relevant unit. In our Exploration and Production activities we recorded only three pipeline faults and two damages caused by a third party at our sites, which caused hydrocarbon effluents into the environment with volume higher than 1 m^3. In 2008 we implemented replacements of certain pipeline sections, similarly to practices followed in past years, in order to reduce the number of failures and irregularities.



Air Emissions

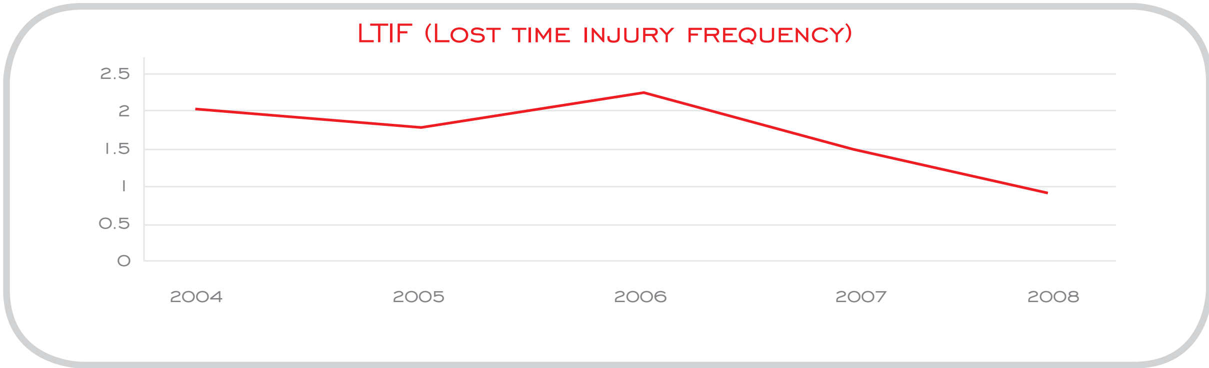
Our overall air emissions dropped by almost 17% compared to previous year thanks to the series of projects aimed at decreasing our environmental impact.
In 2008 the energy rationalisation program at Exploration and Production division continued. Steam heating systems were replaced with hot water boilers and the auxiliary hot water technology units were de-commissioned at certain sites. The Exploration and Production division share in the Group VOC emission reduction has been delivered mostly by its Russian operation ZMB, as a consequence of its decreased oil production compared to 2007. Thanks to the completion of some previously started new investments in Duna Refinery, we have decreased the SO_2 and PM (Particulate Matter) emissions. The main contributors to the reduction were Bitumen Plant reconstruction, construction of ESP (Electrostatic Precipitator) at FCC (Fluid Catalytic Cracking) Plant and increasing the sulphur recovery capacity. We also decommissioned sludge depot in Slovnaft Refinery, which was a significant source of VOC. In 2008 administrative actions were ongoing in Slovnaft for power plant upgrade. VOC emissions at Logistics division were reduced by installation of new vapour recovery units (VRUs) at several depots and by replacement of wet (glycol) technology VRUs by dry technology at Pécs and Szajol base depots in Hungary.
At Petrochemicals division, TVK we have upgraded the quench oil discharger and pre-heater into a closed system to eliminate problems with VOC emissions.
We fight with VOC along the whole production and marketing chain and our retail stations as well. All newly built and reconstructed filling stations have been equipped with 1st and 2nd level vapour recovery unit in order to minimize the VOC emissions generated during storage and sale of fuels.
At Natural Gas Transmission division (FGSZ, Hungary) we operate all gas turbines in the so called solo-NO_X system – with reduced NO_X and CO emissions. For air protection and energy efficiency purposes the reconstruction programme of gas heating technology has been started at approximately 400 gas delivery stations. The heating systems are to be changed to condensing boilers with higher thermal efficiency.



Focusing on People

Safety at Work

In 2008 MOL Group continued to decrease the number of work-related injuries among its employees: the number of Lost Time Injuries (LTI) dropped by 35% from 37 to 24. This means a nearly equivalent drop in relative terms as well: the frequency of LTI cases measured against one million worked hours (an indicator called LTIF) diminished to 0.97 from 1.52, reaching its lowest ever level and being better than our target of 1.0 set for 2008.



Fortunately we have no work-related fatalities among our own staff to report. However, four fatalities happened to MOL Group contractors and related third parties. The causes were due to the violations of safety rules and a road accident. We deeply regret the loss of these lives.

We further improved our performance in terms of contractor safety: our maintenance contractors can pre-qualify on-line on MOL website. An auditing system was also developed to validate compliance with MOL Group HSE requirements: with the help of an internationally recognised external auditor we classify contractors into Basic - Advanced - Excellent level compliance groups (excluding those not meeting the requirements).

We want to ensure that traffic accidents are prevented rather than managed. To reduce the risks our colleagues face on the roads, we have arranged defensive theoretical and practical driving trainings with consecutive personal evaluations for those employees whose work requires regular driving. By the end of 2008 approximately 1,000 employees of MOL Group were trained in this program. In addition we create the possibility of the supplemental driving courses, such as: slippery road, off-road, drive at night. As a result of our efforts, we decreased our road accident rate (RAR) to 1.6 (number of accidents per 1 million km driven).

Health Protection and Promotion

There were significant improvements achieved from programs started in the spirit of the new Occupational Health policy and internal regulation of MOL Group. Examples include: new occupational service providers were contracted in Romania, Slovakia and Serbia, a complete internal investigation system with the scope of overexposure prevention was established in TVK, the most professionally recognized medical investigation methods for cancer prevention were included in MOL Group Health Standards, etc.

Our mid-term targets were achieved as a result of our Workspace Health Promotion Programme ("Take a STEP for your health"). The program received an overwhelming response even though participation was fully voluntary:

- In 2008 more than 40% of employees of MOL, Slovnaft and TVK (4,851 employee) participated at least in one program of STEP;
- A total of 1,992 individual health plans (IHP) were prepared in 2007-2008;
- More than 3,500 screenings were performed in 2008;
- At least 200 MOL employees and 300 family members participated in different self-financed sport activities;
- Nearly 500 employees were involved in different sport programs in Slovakia.

Unfortunately we had to report an occupational illness in 2008 as our colleague working at a logistics depot in Komárom (Hungary), was exposed regularly to harmful chemicals. This means the TROIF calculated for MOL Group in 2008 was 0.04. To prevent the occurrence of similar illnesses in the future we introduced preventive measures: changing the technology where we can into a closed technology, a more detailed risk assessment, establishment of a new air sampling system, rigorous supervision of wearing the personal protective equipment and more frequent trainings of the employees.

Ensuring future workforce

According to the survey "Most Desired Company 2008" in Hungary, MOL was the fourth on the list among economist students and came out sixth among students with an engineering and technical background. This is the best recognition of our long-term efforts to attract and retain our workforce.

We maintain close and regular cooperation with secondary schools and universities. We support 47 vocational schools (chemical, gas vocational schools, mechanical vocational schools and schools for physically and mentally challenged people). In 2008 we offered internships to 50 students with chemical, gas and mechanical background at MOL Plc.
Seven Hungarian universities (University of Pannonia, Eötvös Loránd University, Budapest University of Technology and Economics, Corvinus University of Budapest, University of Szeged, University of Miskolc, University of Debrecen) and four Slovakian universities (Technical University of Bratislava, Slovak Technical University of Košice, Economical University of Bratislava, Comenius University) are working with us as strategic partners in providing opportunities for students. The long term co-operation covers internship program, student communities' support with corporate lectures, and refinery visits, competitions, MOL Group managers contribute to regular education, student projects on corporate issues, diploma assignments and consulting, scholarships, support via foundations, sponsorship, research and development projects.

Internship

Type of school	Person 2007	Person 2008
University	132	202
College	78	55
Vocational school	21	50
Total	231	307

Scholarship

Form of support	Person 2008
Study support	30
PhD	5
Professorship	1
Total	36

Freshhh international on-line recruitment competition

Freshhh is an English language on-line contest ran by MOL Group. We intend to lay down the foundation of a new tradition with this program designed as a genuine challenge for students and also as a channel of recruitment for our growww New Graduate Program. Small working groups - consisting of three members - participate in the contest in a real international environment, since we mobilise graduates from 30 countries. Our intention is to find the best candidates every year, but at the same time to provide a valuable experience for each participant who are interested in a meaningful competition and a better understanding of the exciting world of the oil and gas industry. Last but not least the competition is for valuable prizes.

In 2008 the contest excited a huge interest among student communities. It boosted our “Employer Brand”, generated many questions and queries from potential employees, and contributed to MOL Group’s image as an international company. As a result, the best students were offered job or internship opportunities in our companies and a number of scholarship contracts have been signed with the most talented undergraduate students.

Employee engagement

We conduct Group-level employee engagement survey to identify and analyse the level of engagement of our employees and to identify those factors that hinder or improve their performance. The survey is conducted regularly every second year, in 2008 addressing 13,500 – receiving answer from 6800 - employees of MOL Group from 21 companies of nine countries (Hungary, Slovakia, Austria, Czech Republic, Poland, Italy, Slovenia, Romania and Pakistan). To be able to measure progress we use similar set of questions for each survey. Questionnaires are available on-line and in paper form to all employees. Responding to the survey is anonymous and fully voluntary. Due to systematic efforts made by the management to respond to employee issues raised by former employee surveys, the 2008 response ratio has exceeded 50%.

The 2008 survey revealed that MOL Group employees’ engagement has improved since 2006. Significant steps were made in the areas targeted to boost engagement. Despite the overall improvement, areas with stagnating or decreasing engagement were also identified. MOL Group senior management analysed the results and conclusions in the action planning and implementation circle being restarted.

The most important lesson from the 2006-2008 surveys is that management plays a key role in motivating staff and encourages them to put the maximum effort into their work.

Employee engagement in 2006 and 2008 in MOL Group

Year	Engaged	Partly engaged	Not engaged
2006	44%	42%	14%
2008	48%	38%	14%

Talent Management

In 2007 the Group revised its talent strategy and defined three areas in which a formal program should be provided to accelerate talent development and to build the next generation of leaders and key experts to achieve the long-term goals. These include:

- entry-level program (growww), that focuses on new graduates.
- talent program that includes formal divisional and local programs to prepare the participants for first roles in management within given companies or divisions.
- step that supports the transition from local management positions to international or Group-level roles.

Growww

MOL Group's New Graduate Program, growww has been running for two years in MOL Group and will also be launched in 2009.
Our aim is to offer job opportunities to new graduates in a fast-growing organization that operates in an international environment. We offer compensation above average and international career opportunities for those who are willing to work hard, develop themselves, are goal- and result- oriented, and are loyal to the company.
The program attracted many graduates in 2008. In Hungary, Slovakia and Pakistan there were more than 2,000 applicants, and after the recruitment process a total of 148 fresh graduates were selected to join MOL Group in September.

Segment	Number of new graduates in 2008
Functional Units	47
Refining and Marketing	39
Exploration and Production	39
Petrochemicals	12
Retail	6
Lubricants	3
Natural Gas Transmission	2

The selected graduates are offered a one year fixed term contract. During the program they have a structured introduction to the company and they have allocated mentors who encourage their professional development and support their integration into the new culture.
The one year program serves as a "live Assessment Center", after which the responsible managers and the new graduate can decide on a career in the MOL Group.

Divisional talent programs

These programs were launched to focus on identifying and developing key talents, either as long-term successors or immediate replacements of retiring professionals.
In Exploration and Production division the program was launched in 2006 to prepare the participants for the managerial and professional tasks needed in this segment, as ca. 38% of the „key expert" workforce of the business division will be retired in 10 years.

Group Managerial Talent Program

The participants of the program receive formal business and leadership development training and steer Group-level projects. They also have the opportunity to meet senior management to discuss topics on business, strategy, leadership and the MOL culture.
The first program for 2008 is officially over. 15 participants have finalised and presented their projects to the top management, and received their certificates from the Business School that they had visited for one year. This closing is also a beginning of something new: from now on, these talents can use and share their experiences, learning points, new perspective and ideas within the MOL Group. As a follow up of the program, they still take part in individual coaching. The coaches are internal senior managers who have taken part in an internal coach training program. For our talents this opportunity provides a

1-to-1, focused development opportunity, where learning is built on personal experiences and they can discuss their leadership dilemmas. The next Managerial Talent Program is planned for 2010.

Safeguarding ethical business

Our Code of Ethics is valid for all of our subsidiaries in every country, it contains detailed directions on the lawful and ethical behaviour expected by the Group. Employees who feel that their rights have been violated may appeal to the Ethics Council, the Workers' Councils, or Trade Unions.
In order to increase the ethical awareness of our employees, we publish monthly ethical articles in our corporate magazines in Hungary and Slovakia. We also arrange activities such as family days and other important company events, programs for new graduates and take part in their Assessment Centres. In 2009 we will publish our e-learning materials, ensuring ethical training for particular groups, e.g. expatriates, newcomers, managers, purchasers.
In 2008 our Ethics Council received 20 complaints including investigations, notifications and questions, five of the issues were related to discrimination and the Ethics Council found one ethical misconduct upon their investigation. The increasing number of notifications and questions means that employees now pay more attention to ethical issues and have more trust in the Ethics Council.

The table below highlights the number of questions and issues raised to the Ethics Council in 2008.

Ethical issues	Number of issues in 2008
Questions	7
Notifications	6
Investigations	7
Total number of issues	20

Topics affected by ethical issues in 2008:

Topics	Number of issues	Type of issues
Shareholders	3	Notification
Employees	13	Question, notification, investigation
Health, safety and environment	2	Question, notification
Business partners	2	Notification, investigation

Social Investment

During 2008, we received more than 2,000 applications from individuals, associations, and institutions of all fields of life and we allocated almost 2.99 million EUR only for donation activities at Group-level.

As the saying goes “Money can’t buy you everything”. However, financial support for genuine purposes is of vital importance. Based on the leading role it plays in the economy, MOL Group wishes to be a good corporate citizen, thus it supports, among other things, good causes and the preservation of outstanding human values.

We put outstanding attention to the review of our existing processes related to sponsorship and donations and to the definition of improvement opportunities that will even more support the efficiency of our giving activities and stakeholder relations. As a result, we develop a new internal Group-level operative guideline and also publish our new policy on the website supporting interested parties in the application process.

“May I Help You?” Programme

Since its foundation in 2006, the New Europe Foundation has become an important element of the social investment programme of MOL-Group in Hungary. The Foundation puts special emphasis on supporting programmes related to young talents and children’s health. Therefore, one of its most important activities is the coordination of the “May I help?” programmes, the Talent Support and the Child Healing programmes.

In 2008, thanks to these two initiatives, 132 talented young sportsmen and women and 74 young artists could receive almost EUR 180,000 as a financial support in Hungary. Under the auspices of the Child Healing programme, 32 paediatric organisations, offering rehabilitation programmes to children with long-term disease, were granted more than EUR 160,000. In addition, the Foundation gave teachers and coaches an award for the second time in 2008 recognizing their educational efforts of many decades.

In Slovakia, we help talented children in three categories: sports, science and arts. Under our “Talents of New Europe” programme, in cooperation with the Central European Foundation, we supported 39 young people with more than EUR 66,000 in 2008. In addition, Slovnaft has remained one of the biggest supporters of the Children Cardiology Hospital in Bratislava.

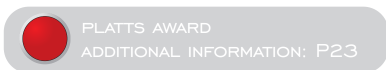
In Romania, in the frame of the „May I help?” programme more than 80 talented young sportsmen and artists were selected and received a total support of 60,000 EUR.

Green Belt Programme

The aim of the “Green Belt Programme” is to contribute to the creation and rehabilitation of local green areas involving non-profit organisations co-operating with schools and municipalities. Projects should be implemented in an environment-friendly way, including the planting of native trees and as a community action following the conditions of the programme announcement.

In 2008, from the 475 applications received in the region, more than 150,000 EUR were allocated to 39 Hungarian, 31 Slovakian and 28 Romanian communities. Based on our experiences, the real value of a programme supported by the company is three-four times the amount allocated to the community for the implementation.

To reward the most successful applicants, MOL founded the Green Belt Award, which is given to applicants creating the most beautiful and environmentally friendly green area in the most efficient way.



DuPont Safety Awards

Nearly 200 representatives delegated from more than 80 companies participated in the management forum „Building the Future of Safety" in Geneva in October 2008. This event is annually organised and the prestigious **"DuPont Safety Awards"** are handed over at this occasion to companies in Europe, Middle East and Africa (EMEA) as recognition of their initiatives towards individual and collective safety. Awards were granted in five categories and MOL received a special award in DuPont Cultural Evolution category.

AmCham Healthy Workplace Award

This was the sixth year when the American Chamber of Commerce invited applications for this competition, where performance in areas of workplace health promotion, healthy food and sport training, mental hygiene and prevention of drug and alcohol consumption at work are evaluated. MOL submitted an application with its "STEP - Take a step for your health" program and received the first prize in the giant company category.

Move Europe

"Move Europe" program was initiated by the European Network of Workplace Health Development (ENWHP) in 2006. The goal of this program is to mobilise companies through an overall campaign: in order that the goal of "Healthy employees at healthy workplaces" can be achieved – both on national and European levels. Two Hungarian companies were awarded in 2008, Unilever and MOL with its STEP program.

IR Magazine award

For the fourth consecutive year, MOL Group received the IR Magazine award for **"Best Investor Relations by a Hungarian company"** within the country category. The winners and nominees were selected during the first half of 2008 via a Continental European investor survey involving some 500 buy-side analysts, sell-side analysts and portfolio managers.

CSR Best Practice 2007

MOL is also featured in the publication **"CSR Best Practice 2007"** which presents a selection of the most exemplary domestic practices in Corporate Social Responsibility in Hungary. The series of CSR Best Practice was launched by the Hungarian Public Relations Association in 2007. The adjudication panel accepted only those applications clearly demonstrating that the applicant had already developed a CSR-strategy, and were able to demonstrate its implementation in their daily operations and in their relations to stakeholder groups.

HR team of the year 2008

MOL won the **"HR team of the year 2008"** competition announced by IVM-Bridge Consultant Ltd. in the category of HR Innovation. MOL has participated with the most beneficial HR innovations of 2008: ESS/MSS and Freshhh. Employee and Management Self Service (ESS/MSS) system is a web based solution which presents all data recorded in the HR database on a user-friendly interface. Employees and their managers are able to see and modify their own personal data in a few steps. Freshhh is an English language on-line contest for students.

PR team of the year

Based on the journalists votes MOL PR team received the award of MTI. The leading Hungarian News Agency aim is to acknowledge once a year all those who are a role model for the public to follow as their mission is to provide authentic information and safeguard the liberty of the press. The honourable mention stressed that MOL PR team has maintained high-quality relations with journalists for years.

Sustainability performance data

We are in a continuous progress in following the guideline of GRI (Global Reporting Initiative), therefore the scope of our disclosed data is extended year by year.

Economic Performance Data

Indicator	Unit	2004	2005	2006	2007	2008
Economic Data						
Employee wages and benefits	bn HUF	123.2	107.9	109.3	117.3	139.7
Payments to governments	bn HUF	107.7	150.3	215.7	227.8	248.8
Financial assistance received from government	bn HUF	0.2	0.9	35.3	0.8	0.4
Biofuel Sales Data						
Total bio-ETBE sales volume*	kt	1.7	10.9	35.8	78.1	84.8
Total bio-Ethanol sales volume	kt	n.a.	n.a.	0.2	28.5	49.5
Total FAME sales volume	kt	n.a.	10.5	53.8	100.6	265.6
Biodiesel sales volume	kt	n.a.	210.1	1,050.3	2,004.2	6,296.2
Biogasoline sales volume	kt	n.a.	n.a.	0.0	1,136.1	1,885.9
Energy Consumption Data in Refining**						
Natural Gas	GJ	n.a.	n.a.	n.a.	n.a.	8,154,661
Other hydrocarbon (fuel, gas, etc.)	GJ	n.a.	n.a.	n.a.	n.a.	28,056,159
Electricity	GJ	n.a.	n.a.	n.a.	n.a.	4,620,384
Other indirect energy (steam, heat, etc.)	GJ	n.a.	n.a.	n.a.	n.a.	8,557,681
Total energy consumption	GJ	n.a.	n.a.	n.a.	n.a.	49,388,885
Energy Consumption Data in Petrochemicals***						
Natural Gas	GJ	n.a.	n.a.	n.a.	n.a.	3,501,282
Other hydrocarbon (fuel, gas, etc.)	GJ	n.a.	n.a.	n.a.	n.a.	23,535,967
Electricity	GJ	n.a.	n.a.	n.a.	n.a.	2,945,576
Other indirect energy (steam, heat, etc.)	GJ	n.a.	n.a.	n.a.	n.a.	2,961,633
Total energy consumption	GJ	n.a.	n.a.	n.a.	n.a.	32,944,458
Customer Satisfaction						
Average Wholesale-customer satisfaction level in MOL	%	84	86	87	88	88
Average Whole sale-customer satisfaction level in Slovnaft	%	86	83	84	83	88
Average Retail-customer satisfaction level****	%	43	44	34	39	38
Average Lubricant-customer satisfaction level*****	scale 1-5	n.a.	4.33	4.36	n.a.	4.48
Petrochemicals customer loyalty index	%	n.a.	9.56	12.96	13.28	14.39

We indicate with "n.a." where we have no data available.
* 2006 and 2007 data has been restated to correct inadvertent overstatements
** 1) Only refineries in HU and SK (no Logistics) and 2) New methodology is used for measuring energy consumption from Y2008 based on GRI recommendation
*** New methodology is used for measuring energy consumption from Y2008 based on GRI recommendation
**** 1) Covers MOL Plc., Slovnaft a.s. and MOL Romania, and 2) Methodologies for measuring customer satisfaction in Wholesale and Retail are different
***** 1) Where best result is 5, and 2) No analysis in 2007

Environmetal Performance Data

Indicator	Unit	2004	2005	2006	2007	2008
Air Emissions						
Carbon Dioxide (CO_2)*	mn t	4.74	5.93	5.92	5.67	6.56
Carbon Dioxide (CO_2) under ETS**	mn t	4.11	4.09	4.00	4.09	6.42
Methane (CH_4)	m^3	n.a.	n.a.	n.a.	n.a.	198,651.5
nitrous Oxide (N_2O)	t	n.a.	n.a.	n.a.	n.a.	0.7
Total Direct GHG	mn t CO_2 ekv	n.a.	n.a.	n.a.	n.a.	6.57
Ozone-Depleting Substances (ODS)	t	n.a.	n.a.	n.a.	n.a.	2.0
Sulphur Dioxide (SO_2)	t	11,768.0	11,333.0	13,455.0	10,059.0	8,804.7
nitrogen Oxide (NO_x)	t	6,915.0	6,027.0	5,555.0	5,450.0	5,094.0
Volatile Organic Compounds (VOC)	t	5,535.0	5,395.0	4,394.0	18,685.0	12,611.9
Hazardous Air Pollutants (HAP)	t	n.a.	n.a.	n.a.	n.a.	133.1
Carbon Monoxide (CO)	t	1,323.0	1,136.0	1,052.0	4,980.0	824.5
Particulate Matter (PM)	t	392.0	405.0	412.0	336.0	930.6
Flared and Vented Gas	t	n.a.	n.a.	n.a.	n.a.	62,173.0
Water						
Total Water Withdrawal	th m^3	n.a.	n.a.	n.a.	n.a.	112,491.4
Drinking Water Consumption	th m^3	2,840.0	2,710.0	3,340.0	3,000.0	2,444.3
Surface Water Withdrawal	th m^3	n.a.	n.a.	n.a.	n.a.	73,948.3
Ground Water Withdrawal	th m^3	n.a.	n.a.	n.a.	n.a.	33,281.0
Rainwater Collected Directly and Stored	th m^3	n.a.	n.a.	n.a.	n.a.	2,103.7
Wastewater from Another Organization	th m^3	n.a.	n.a.	n.a.	n.a.	735.8
Total Water Discharge	th m^3	n.a.	n.a.	n.a.	n.a.	91,236.7
Total Petroleum Hydrocarbons (TPH)	t	151.0	87.0	62.0	36.0	29.8
Chemical Oxygen Demand (COD)	t	2,921.0	3,196.0	2,018.0	1,945.0	1,797.4
Biological Oxygen Demand (BOD)***	t	214.0	522.0	498.0	490.0	377.1
Solid Substances (SS)	t	765.0	657.0	605.0	703.0	775.7

We indicate with “n.a.” where we have no data available.
* The increase in the CO_2 emission was caused by the start of Duna Refinery steam boiler full operation, inclusion of steam crackers in Petrochemical division, and the emission of IES and TVK power plant
** From 2005 figures scrutinised by authorised verifer
*** MOL Plc. and TVK Plc.: data is not available in 2004

Indicator	Unit	2004	2005	2006	2007	2008
Waste						
Hazardous Waste	t	196,966.0	180,885.0	167,589.0	87,764.0	98,791.0
Non-hazardous Waste	t	n.a.	n.a.	n.a.	n.a.	57,619.1
Waste Disposed / Landfilled	t	306,292.0	180,018.0	256,429.0	74,959.0	81,214.1
Waste Reused / Recycled	t	56,911.0	35,261.0	55,016.0	96,324.0	43,006.8
Waste Composted	t	n.a.	n.a.	n.a.	n.a.	2,715.1
Waste Incinerated	t	n.a.	n.a.	n.a.	n.a.	22,315.2
Waste to Deep Well Injection	t	n.a.	n.a.	n.a.	n.a.	2,986.0
Spills and Discharges						
Number of Spills	pcs	11	7	8	3	12
Volume of Spills	m^3	n.a.	n.a.	n.a.	n.a.	912.2
HSE Related Expenditures						
HSE Related Penalties	mn HUF	70.2	95.9	141.0	95.4	92.23
Health	mn HUF	n.a.	n.a.	n.a.	n.a.	563.97
Safety	mn HUF	n.a.	n.a.	n.a.	n.a.	2,862.10
Environmental	mn HUF	n.a.	n.a.	n.a.	n.a.	25,764.91
Fire Protection	mn HUF	n.a.	n.a.	n.a.	n.a.	4,109.98
Others****	mn HUF	n.a.	n.a.	n.a.	n.a.	798.87

We indicate with “n.a.” where we have no data available.

**** Consultancy, trainings, studies, bureaucracy fees

Social Performance Data

Indicator	Unit	2004	2005	2006	2007	2008
Health and Safety						
Lost Time Injury (LTI)		40.0	33.0	58.0	37.0	24.0
Lost Time Injury Frequency (LTIF)		2.00	1.70	2.20	1.52	0.97
Total Reportable Occupational Illnesses Frequency (TROIF)		0.00	0.08	0.00	0.00	0.04
Absentee Rate (AR)*	%	n.a.	n.a.	n.a.	n.a.	2.65
Number of fatalities for emloyees	pcs	n.a.	n.a.	n.a.	n.a.	0
Number of fatalities for contractors and 3rd parties	pcs	n.a.	n.a.	n.a.	n.a.	4
Number of fires	pcs	12	11	19	9	14
Fire damage	mn HUF	99.0	0.1	387.2	26.7	49.4
Employees						
Total workforce**	person	15,465	14,660	13,861	15,058	17,339
Number of full-time employees	person	n.a.	n.a.	n.a.	15,058	17,214
Number of employees laid off***	person	1,051	768	707	1,540	1,136
Employee turnover rate***	%	6.8	5.2	5.1	10.2	6.6
Employee turnover rate / Hungary	%	n.a.	n.a.	n.a.	11.2	5.6
Employee turnover rate / Slovakia	%	n.a.	n.a.	n.a.	5.9	4.5
Employee turnover rate / Other European countries	%	n.a.	n.a.	n.a.	11.9	8.2
Employee turnover rate / Non-European countries	%	n.a.	n.a.	n.a.	18.2	27.2
Employees represented by trade unions*	%	98.97	97.77	97.34	85.50	93.30
Diversity						
Ratio of women in total workforce*	%	27.0	26.0	26.0	24.6	24.8
Ratio of women in managerial position*	%	15.6	11.7	14.1	18.5	19.4
Ratio of women in non-managerial position*	%	n.a.	n.a.	n.a.	n.a.	25.1
Other Social						
Number of ethical issues	pcs	n.a.	n.a.	n.a.	n.a.	20
Ethical misconduct	pcs	n.a.	n.a.	n.a.	n.a.	1
Total training cost / total FTE****	th HUF	n.a.	n.a.	n.a.	n.a.	161
Donations*****	mn HUF	759.4	708.6	665.1	540.2	752.0

We indicate with “n.a.” where we have no data available.

* 1) By 2007 data covers only MOL Plc., TVK Plc., MOL-LUB Ltd., FGSZ Ltd. and Petroszolg Ltd., and 2) From 2008 data covers also Slovnaft a.s, Petroszolg Ltd., MOL Romania, E.M.S. Ltd., Baitex, Geoinform Ltd., GES Ltd., Hawasina GmbH, Intermol d.o.o, MOL Slovenija d.o.o, Moltrans Ltd.

** 1) Not included part-time employees by 2007, and 2) Including full -time and part-time employees from 2008.

*** 2007 data has been restated to correct inadvertment overstatements

**** Covers MOL Plc., TVK Plc., MOL-LUB Ltd., FGSZ Ltd. and Petroszolg Ltd.

***** IES and TIFON not included for 2007

Assurance letter

Deloitte Co. Ltd. has completed the verification of MOL Group's Sustainable Development (SD) disclosure for 2008, which comprises the "Sustainability: Our non-financial performance" section in the Annual Report and the information on the "Corporate sustainability" at www.molgroup.hu ("SD reporting 2008"). The assessment process and the verification took place pursuant to the Global Reporting Initiative (GRI) G3 guidelines.

MOL Group's management approved the "SD reporting 2008" and assumes responsibility for the contents thereof.

Our limited review consisted of the followings:

- review the reporting practice and the work of the organization which was responsible for the preparation of the "SD Reporting 2008",
- survey of the Executive commitment,
- review the completeness and adequate adaptation of the indicators presented in the "SD reporting 2008",
- check data consistency between the financial statements of the company and the "SD reporting 2008",
- review the data registry, collecting and management practice,
- check the self-declared GRI „B" application level.

Our conclusions

MOL Group's Sustainable Development reporting 2008 presents the economic, environmental and social impacts of its activities, following the GRI G3 reporting principles.
The organization, responsible for completing the "SD reporting 2008" is set up and operates ruled by the Group-level governance document.

The reporting practice of "SD reporting 2008" is based on written procedures.
The organization is supported by the Executive Commitment and adapted to the matrix structure of MOL Group's organization.
The economic, environmental and social impacts of MOL Group's activities are supported with performance indicators and MOL Group strives to present the annual changes of its economic, environmental and social indicators.
The financial data presented in the SD reporting 2008 are identical to those disclosed in the audited financial information of the annual report.
The registry, collecting and management processes and practices of the data presented in the "SD reporting 2008" are ruled and control points were built in.
The scope of the information presented in the "SD reporting 2008" complies with the requirements of GRI Application level "B".

Opportunities for improvement, and recommendations

Based on our limited review and our discussions with the employees responsible for the "SD reporting 2008", we make the following recommendations:

- the improvement of the Group-level coordination is recommended regarding the planning and the determination of the divisions` sustainable development projects and actions,
- we suggest increasing the monitoring of the SD programs and actions, strengthening the quantifiability and the involvement of the subsidiaries
- it is necessary to strive to reach the coherent and standard adaptation and interpretation of the performance indicators in all divisions and subsidiaries of MOL Group;
- we suggest for consideration the performing of a sustainability related survey among the stakeholders of the MOL Group.

The above scope does not constitute either an audit or a review made in accordance with National Standards on Auditing therefore we do not express any assurance on the financial data.

Our report is solely for the purpose set forth in the first paragraph of this letter and for your information.

Dr. Péter Oszkó	**Gábor Gion**	**Róbert Reiniger**
CEO Chairman	Partner	Environmental Director
Deloitte Co. Ltd.	Deloitte Ltd.	Deloitte Co. Ltd.

Budapest, April 3, 2009

CORPORATE GOVERNANCE

Corporate Governance

MOL has always recognised the importance of maintaining the highest standards of corporate governance. Among other things, the voluntary approval of the declaration on the Budapest Stock Exchange Corporate Governance Recommendations by the Annual General Meeting in 2006, before the official deadline, served as testament to the Company's commitment to corporate governance. In addition, MOL made a declaration concerning the application of the corporate governance recommendations of the Warsaw Stock Exchange prior to the admission of its shares to the Warsaw Stock Exchange in December 2004. The Company submits its declaration on relevant stock exchange corporate governance recommendations to both markets each year.
MOL's corporate governance meets the requirements of the regulations of the Budapest Stock Exchange, the directives of the Hungarian Financial Supervisory Authority and the relevant regulations of the Capital Market Act. MOL also subjects its policies to regular review to ensure that they take account of continually evolving international best practice in this area. In 2006, MOL approved its Corporate Governance Code, which summarises its approach to shareholders' rights, main governing bodies, remuneration and ethical issues. The Corporate Governance Code has been published on the homepage of the Company.
In 2008 SAM Research AG ranked MOL's corporate governance practice above the oil and gas industry's average in its Dow Jones Sustainability Index and Benchmarking report. SAM Research AG is a Zurich based Investment Group specialized for Sustainability Investment.

Board of Directors

MOL's Board of Directors acts as the highest governance body of the Company and as such has collective responsibility for all corporate operations.

The Board's key activities are focused on achieving increasing shareholder value, improving efficiency and profitability and ensuring transparency in corporate activities. It also aims to ensure appropriate risk management, environmental protection and conditions for safety at work.

Given that MOL and its subsidiaries effectively operate as a single unit, the Board is also responsible for enforcing its aims and policies and for promoting the MOL culture throughout the entire Group.

The principles, policies and goals take account of the Board's specific and unique relationship with MOL's shareholders, the executive management and the Company. The composition of the Board reflects this with the majority (eight of eleven members) made up of non-executive directors. At present, 8 members of the Board of Directors qualify as independent on the basis of its own set of criteria (based on NYSE recommendations) and the declaration of directors.

The members of the Board of Directors and their independence status (professional CVs of the members are available on corporate homepage):

Zsolt Hernádi, Chairman-CEO	non-independent
Dr. Sándor Csányi, Vice Chairman	independent
László Akar	independent
Mulham Al-Jarf (since 24 April 2008)*	independent
Dr. Miklós Dobák	independent
Dr. Gábor Horváth	independent
Miklós Kamarás	independent
Dr. Ernő Kemenes	independent
József Molnár	non-independent
György Mosonyi	non-independent
Iain Paterson	independent

*Before Mulham Al-Jarf, until 23 April 2008 Michel-Marc Delcommune was the member of the Board of Directors with non-independent status.

As well as the member of the Board of Directors was appointed by the Hungarian Energy Office:

Dr. Gyula Dávid*	independent

*The Annual General Meeting on 23 April 2008 appointed him to the member of the Board of Directors in accordance with Natural Gas Supply Law (4/A § of Act XLII of 2003). He does not have the disposal of right of voting due to the determined legal status in this law.

Operation of the Board of Directors

The Board acts and makes resolutions as a collective body.

The Board adopted a set of rules (Charter) to govern its own activities when the company was founded in 1991; these rules are regularly updated to ensure continued adherence to best practice standards.

The Board Charter covers:

- scope of the authority and responsibilities of the Board,
- scope of the committees operated by the Board,
- provision of information to the Board,
- main responsibilities of the Chairman and the Deputy Chairman,
- order and preparation of Board meetings and the permanent items of the agenda, and
- decision-making mechanism and the manner in which the implementation of resolutions is monitored.

In accordance with this Charter, members of the Board have signed a declaration on conflict of interest and that they have reported their position as director in the Board to their employer or principal as regards other key management positions.

For the purpose of the efficient control over MOL's operation the Chairman of the Board also serves as Chief Executive Officer (CEO) of the Company. The Chairman-CEO is the head of the functional units, while the Group Chief Executive Officer (GCEO) is the head of the business units.

The Board of Directors prepares a formal evaluation of its own performance (the Committees evaluate their performance as well) and it reviews continuously its annual activity.

Report of the Board of Directors on its 2008 activities

In 2008, the Board of Directors held 8 meetings with an average attendance rate of 90% (6 ordinary and 2 extraordinary meetings). Alongside regular agenda items, such as reports by the Committees' chairmen on the activities pursued since the last Board meeting, or an overview of capital market developments, the Board of Directors also individually evaluates the performance of each of the company's business units.

In line with the Company's strategic objectives, the Board of Directors decided on strengthening of the strategic cooperation with INA d.d. (MOL Plc. is the largest shareholder with 47.16% by means of acquisition bid); forming the strategic alliance with Oman Oil Company S.A.O.C; development of the Italian refiner IES; as well as launching joint venture company with CEZ a.s. the Czech energy concern, entered into the electric power production industry. Based on the decisions of the Board of Directors, the Company made an agreement on the connection of the Hungarian and Croatian and Hungarian and Romanian natural gas transmission systems; launched unconventional exploration program with subsidiaries of ExxonMobil and Falcon in the Mako Trough, acquired interest of one international exploration block with Oil and Natural Gas Corporation Limited in India; MOL made a decision of strengthening the regional position of Retail (presence with own brand and increase the number of filling stations with swap in Austria) moreover, respectively paid highlighted attention to the treatment of the economic crisis.

Committees of the Board of Directors

Certain specific tasks are carried out by the Board's Committees. These Committees have the right to approve preliminary resolutions concerning issues specified in the Decision-making and Authorities List (LDA), which sets out the division of authority and responsibility between the Board and the executive management.

- The responsibilities of the Committees are determined by the Board of Directors.
- The Chairman of the Board of Directors may also request the Committees to perform certain tasks.

The members and chairs of the Committees are elected by the Board of Directors.
The Board allocates responsibilities to the various Committees as follows:

Finance and Risk Management Committee (previously Audit Committee):

Members and dates of appointment (professional backgrounds of members are available on company homepage):

- Dr. Miklós Dobák – Chairman, 25 October 2002
- László Akar, 25 October 2002
- Dr. Ernő Kemenes, 25 October 2002
- Iain Paterson, 8 September 2000

Responsibilities:

- review of financial and related reports,
- monitoring the efficiency of the internal audit system,
- review of planning, scope and results of the audit,
- ensuring the independence and objectivity of the external auditor.

Corporate Governance and Remuneration Committee:

Members and dates of appointment (professional backgrounds of members are available on company homepage):

- Dr. Sándor Csányi – Chairman, 17 November 2000
- Zsolt Hernádi, 8 September 2000
- Dr. Gábor Horváth, 8 September 2000

- Miklós Kamarás, 25 October 2002
- Mulham Al-Jarf 23 April 2008

Responsibilities:
- analysis and evaluation of the activities of the Board of Directors,
- issues related to Board membership,
- promoting the relationship between shareholders and the Board,
- procedural, regulatory and ethical issues,
- reviewing corporate processes, procedures, organisational solutions and compensation systems and making recommendations on the introduction of best practice standards.

Sustainable Development Committee:
Members and dates of appointment (professional backgrounds of members are available on company homepage):
- György Mosonyi – Chairman, 29 June 2006
- Dr. Ernő Kemenes, 29 June 2006
- Iain Paterson, 29 June 2006
- Michel-Marc Delcommune, 29 June 2006 (until 23 April 2008)

Responsibilities:
- ensuring integrated management of SD (Sustainable Development) issues at MOL Group and at divisional level,
- follow up and verification of the operation and appropriateness of the Sustainable Development Management System (SDMS) compared to rules, regulations and international best practice,
- regular review and evaluation of all proposals for SD audit and evaluation, the objectives set, and the results and report within SDMS extended to the business units,
- annual evaluation of the performance of its own work and that of the SDMS.

Report of the Finance and Risk Management Committee on its 2008 activities
In 2008, the Finance and Risk Management Committee held 5 meetings with a 100% average attendance rate. In addition to the regular items on the agenda, including the audit of all public financial reports, providing assistance with the auditor's work and the regular monitoring of internal audit, the Committee also devoted a considerable amount of time to the following topics:

- Risk management: the Committee reviewed the major risk factors of the Company, considering the changed international financial position and the status reports on risk management actions attached to these factors. The committee discussed further opportunities to apply Enterprise Risk Management (ERM).
- Internal audit: the Committee evaluated the internal audit reports and the accomplishment of the annual audit plan.
- Financial position: the Committee continuously monitored the Company's financial position.
- Other Group-level function: the Committee provide for duties of Slovnaft a.s Audit Committee.

Report of the Corporate Governance and Remuneration Committee on its 2008 activities
In 2008, the Corporate Governance and Remuneration Committee held 9 meetings with a 93% average attendance rate. In addition to the issues of corporate governance, remuneration and the composition of the management, the Committee discussed a number of key strategic and results-related topics prior to their presentation to the Board of Directors for discussion.

Report of the Sustainable Development Committee on its 2008 activities
In 2008, the Sustainable Development Committee held 3 meetings with a 100% attendance rate. The Committee evaluated the accomplishment of the actions in 2008, formed opinion on Sustainable Development Report and decided on 2009 directions and targets. The Committee considered with highlighted attention the achieved results of the Dow Jones Sustainability Evaluation and reports of business units.

Relationship between the Board and the Executive Management

The LDA sets out the manner in which the Board delegates authority and decision-making rights to the Executive Management in order to ensure that business, HSE, ethical, risk management and internal control policies as set forth by the Board can be implemented with maximum efficiency.

Guidelines of the Decision-making and Authorities List (LDA) include the following:
- ensuring the representation and enforcement of shareholders' interests through and by the Board,
- supporting a consistent and more efficient decision-making process at corporate level,
- achieving an appropriate balance between management freedom of decision-making and the strict internal control and performance measurement system requirements,
- decisions should be taken only when information of sufficient detail and quality is available,
- application of transparent decision making mechanism,
- maintaining appropriate post-implementation review and control, and
- implementation of a functional business matrix management system, both at MOL and at subsidiary level.

The system laid down by the LDA is controlled by the internal audit process. Its role is to ensure compliance with, and to prevent deviation from policies and strategies approved by the Board.

The structure of the List covers the Company's management levels, i.e., Management Level 1 denotes the Executive Chairman and CEO and the GCEO. Management Levels II, III and IV represent the business unit and functional managers and the senior managers of the subsidiaries.

The Executive Board (EB) operates as an intermediary between the Board of Directors and the top management levels. Its members are:

Zsolt Hernádi	Chairman-CEO (C-CEO)
György Mosonyi	Group Chief Executive Officer (GCEO)
József Molnár	Group Chief Financial Officer (GCFO)
Lajos Alács (until 14 June 2008)*	Executive Vice President, Strategy and Business Development
Zoltán Áldott	Executive Vice President, Exploration and Production
Ferenc Horváth	Executive Vice President, Refining and Marketing
József Simola	Executive Vice President, Corporate Centre

*Lajos Alács as Executive Vice President of Gas and Power Division has not been member of the EB

The Executive Board is a decision preparation forum where every member has an obligation to express an opinion, on the basis of which the final decision is made by the Chairman-CEO. If there is a difference of opinion between the Group Chief Executive Officer, Group Chief Financial Officer and the Chairman-CEO, the Board of Directors shall make the decision.
In 2008, the Executive Board held 44 meetings and discussed 8 issues on a meeting on average.

Incentives provided for non-executive directors
In addition to fixed remuneration, MOL operates an incentive scheme for non-executive directors, which allows the Company to motivate its directors, supporting the continued improvement in long-term Company performance, and value of the MOL shares. In addition, the aim of the scheme is to ensure that directors' interests remain in line with the interests of the Company's shareholders.

The basis of the effective incentive scheme for non-executive directors was approved by the Extraordinary General Meeting (EGM) on 1st September 2003. Updates and further revision of the scheme were authorised by the subsequent General Meetings (AGMs) in 2004 and 2005.

Elements of the incentive scheme:

● **Convertible bond program:** the amount of available income in this element of the incentive scheme depends on the growth of the MOL share price, thus providing the highest possible alignment between the management's and shareholders' interests.

On 9th October 2003, directors participating in the program and the entitled top managers had a chance to subscribe for bonds convertible to privately issued "A" series ordinary shares, using a bank loan. As part of the program, 1,200 bonds with a 10 million HUF/bond nominal value were issued, with the option to convert to MOL shares in equal proportions within 5 years. The maturity of the convertible bonds is October 2008.

Board members were entitled to subscribe for 25 bonds/person, committee chairmen 30 bonds/person, and the chairman of the Board of Directors (or the deputy chairman if the chairman was an employee) 35 bonds/person, respectively.

Board members, who were not entitled to participate in the initial subscription as a result of certain limitations, had a chance to join the program in accordance with the resolution adopted by the AGM held on 30th April 2004.

Directors who are still unable to participate in the program due to legal restrictions will be compensated by the Company in cash, taking into consideration the profit that other directors are able to realise.

● **Fixed remuneration:** In addition to their rights to subscribe for convertible bonds, as of 1st April 2003, directors are provided with the following fixed net remuneration, following each AGM:

Directors	25,000 EUR/year
Chairman*	41,500 EUR/year

*if the Chairman is not a non-executive director, the deputy chairman (who is a non-executive) is entitled to this remuneration

Other benefits: Directors who are not Hungarian citizens and do not have a permanent address in Hungary are provided with 1,500 EUR for each Board meeting (maximum 15 times) they travel to Hungary for. Directors who act as chairmen of the committees are provided with 1,000 EUR per month.

Incentive system for the top management

The incentive system for the top management in 2008 included the following elements:

1. Incentive (bonus)

The maximum bonus amount is 40-100% of the annual base salary, paid in cash on the basis of the evaluation following the AGM. The elements of the incentive system include:

- Identification and evaluation of corporate and Group level key financial indicators (e.g. ROACE, operating cash flow, Lost time injury frequency, CAPEX efficiency, unit production, processing, operating, logistics costs, etc.).
- Identification and evaluation of particular individual targets related to the responsibilities of the particular manager in the given year.

2. Relative performance incentive

The basis of the relative incentive is 10% of the annual base wage, and is determined on the basis of rank of manager-specific performance ratings.

3. Share option program

The share option program was introduced in 2006, replacing the deferred payment incentive. The aim of the program is to motivate the management of MOL Group to increase the Company's long-term share price. The incentive is calculated on the basis of a MOL share purchase option annually, and is paid out in cash with a term of 5 years.

4. Bond program

Certain members of the Executive Board, top managers of MOL Plc., and some further key managers of MOL Group are also entitled to take part in the new, long-term convertible bond programme approved by the EGM of 1st September 2003. (The participants of this program do not take part in the above-mentioned option program.)

The following bonds were subscribed through the bond program in October 2003:

Members of the Executive Board (4 persons)	335 bonds
Other top managers (4 persons)	220 bonds
Key managers of the MOL Group (8 persons)	250 bonds

In July 2004, 3 other managers joined the program and were entitled to buy a total of 105 bonds from the bond portfolio.

In September 2004, a total of 80 bonds were repurchased from 2 top managers. In October 2004, the Executive Chairman-CEO of the Company approved a purchase of 24 additional bonds by 2 top managers who were already taking part in the bond program. In 2005, the company repurchased 36 bonds from a top manager, whilst there were no changes in the program in 2006.

In September 2007 the company repurchased 5 bonds from a manager and in October 2007 repurchased 5 bonds from member of the Board.

Other Fringe Benefits

These include company cars (also used for private purposes), life insurance, accident insurance, travel insurance, liability insurance, and an annual medical check up.

Supervisory Board

The Supervisory Board is responsible for monitoring and supervising the Board of Directors on behalf of the shareholders. In accordance with MOL's Articles of Association, the maximum number of members is nine (present membership is nine). In accordance with Company Law, three members of the MOL Supervisory Board are elected employee representatives with the other six appointed by the shareholders.

The members of the Supervisory Board and their independence status:

Dr. Mihály Kupa, Chairman	independent
Lajos Benedek	non-independent (employee representative)
John I. Charody	independent
Dr. Attila Chikán, Deputy Chairman	independent
Slavomír Hatina	independent
Attila Juhász	non-independent (employee representative)
Sándor Lámfalussy Prof	independent
János Major	non-independent (employee representative)
István Vásárhelyi	independent

As well as the member of the Supervisory Board was appointed by the Hungarian Energy Office:

István Gergely*	independent

*The Annual General Meeting on 23 April 2008 appointed him to the member of the Supervisory Board in accordance with Natural Gas Supply Law (4/A § of Act XLII of 2003). He does not have the disposal of right of voting due to the determined legal status in this law.

Regular agenda points of the Supervisory Board include the quarterly report of the Board of Directors on company's operations and the reports of Internal Audit and Corporate Security. In addition, the Supervisory Board reviews the proposals for the Annual General Meeting. The Supervisory Board reviews its annual activity during the year.

In 2008 the Supervisory Board held 5 meetings with an 91% attendance rate.

Remuneration of the members of the Supervisory Board

The General Meeting held on April 27, 2005 approved a new remuneration scheme for the Supervisory Board. Under the new scheme, the members of the Supervisory Board receive remuneration of EUR 3,000/month, while the Chairman of the Supervisory Board receives remuneration of EUR 4,000/month. In addition to this monthly fee, the Chairman of the Supervisory Board is entitled to receive EUR 1,500 for participation in each Board of Directors or Board Committee meeting, up to 15 times per annum.

Audit Committee

In 2006, the general meeting appointed the Audit Committee comprised of independent members of the Supervisory Board. The Audit Committee strengthens the independent control over the financial and accounting policy of the Company. The independent Audit Committee's responsibilities include the following activities:

- providing opinion on the report as prescribed by the Accounting Act,
- auditor proposal and remuneration,
- preparation of the agreement with the auditor,
- monitoring the compliance of the conflict of interest rules and professional requirements applicable to the auditor, co-operation with the auditor, and proposal to the Board of Directors or General Meeting on necessary measures to be taken, if necessary,
- evaluation of the operation of the financial reporting system, proposal on necessary measures to be taken, and
- providing assistance to the operation of the Supervisory Board for the sake of supervision of the financial reporting system.

Members of the Audit Committee and dates of appointment (professional backgrounds of members are available on company homepage):

- John I. Charody, 27 April, 2006
- Dr. Attila Chikán 27 April, 2006
- Dr. Mihály Kupa 27 April, 2006

and in case of long-term incapacitation of any of the permanent members, Sándor Lámfalussy Prof.

Report of the Audit Committee on its 2008 activities

In 2008, the Audit Committee held 6 meetings with a 100% average attendance rate. In addition to the regular items on the agenda, including the audit of all public financial reports, providing assistance with the auditor's work and the regular monitoring of internal audit, the Committee also devoted a considerable amount of time to the following topics:

- Risk management: the Committee reviewed the major risk factors of the Company, considering the changed international financial position and the status reports on risk management actions attached to these factors. The committee discussed further opportunities to apply Enterprise Risk Management (ERM).
- Internal audit: the Committee evaluated the internal audit reports and the accomplishment of the annual audit plan.
- Financial position: the Committee continuously monitored the Company's financial position.
- Auditor election: the Committee made a proposal for the appointment of the Auditor for the Annual General Meeting.
- Annual General Meeting: the Committee reviewed the materials of the Annual General Meeting (i.e. financial reports, statements of the Auditor).

External auditors

The MOL Group was audited by Ernst & Young in both 2008 and 2007, excluding the operating company of the Fedorovsky Block in Kazakhstan in both years and I&C Energo which was acquired in 2008 (these entities were audited by PricewaterhouseCoopers and TPA Horwath Notia Audit s.r.o., respectively). INA Group, in which MOL acquired a further 22.16% ownership in October, 2008 in addition to the previously held 25% was audited by Deloitte in 2008 and 2007. INA Group has been consolidated using the equity method in both years.

Within the framework of the audit contract, Ernst & Young performs an audit of statutory financial statements, including interim financial statements of MOL Plc. prepared in accordance with Law C of 2000 on Accounting and the consolidated annual financial statements prepared in accordance with International Financial Reporting Standards (IFRS). Audits of the above mentioned financial statements are carried out in accordance with the Hungarian National Standards on Auditing, the International Standards on Auditing (ISA), the provisions of Accounting Law and other relevant regulations. The auditors ensure the continuity of the audit by scheduling regular on-site reviews during the year, participating in the meetings of MOL's governing bodies and through other forms of consultation. The auditors also review the stock exchange reports issued quarterly; however they do not perform an audit of or issue any opinion on such reports.

Ernst & Young also provided other services to MOL Plc. Summary of the fees paid to the auditors in 2008 and 2007 are as follows (HUF mn):

	2008	2007
Audit fee for MOL Plc (including audit fee for interim financial statements)	182	177
Audit fee for subsidiaries	422	380
Other non-audit services	7	79
Tax advisory services	90	16
Total	701	652

Non-audit services in 2007 mainly related to due diligence services performed for MOL.

The Board of Directors does not believe that non-audit services provided by Ernst & Young compromised their independence as auditors.

Relationship with the shareholders, insider trading

The Board is aware of its commitment to represent and promote shareholders' interests, and recognises that it is fully accountable for the performance and activities of the MOL Group. To help ensure that the Company can meet shareholders' expectations in all areas, the Board continually analyses and evaluates developments, both in the broader external environment as well as at an operational level.

Formal channels of communication with shareholders include the Annual Report and Accounts and the quarterly results reports, as well as other public announcements made through the Budapest Stock Exchange (primary exchange) and the Warsaw Stock Exchange. Regular and extraordinary announcements are published on PSZÁF (Hungarian Financial Supervisory Authority) publication site and on MOL's homepage. In addition, presentations on the business, its performance and strategy are given to shareholders at the Annual General Meeting and extraordinary General Meetings. Roadshow visits are also made to various cities in the UK, the US and Continental Europe where meetings are held with representatives of the investment community, including MOL shareholders and holders of MOL's Global Depository Receipts. Furthermore, investors are able to raise questions or make proposals at any time during the year, including the Company's General Meeting. Investor feedbacks are regularly reported to the Board of Directors.

In 2008 MOL participated in 10 roadshows and investor conferences (2 US and 18 European) having over 100 meetings with potential and existing shareholders.

MOL has an Investor Relations department which is responsible for the organisation of the above activities as well as for the day-to-day management of MOL's relationship with its shareholders (contact details are provided in the "Shareholder Information" section at the end of this report). Extensive information is also made available on MOL's website (www.mol.hu), which has a dedicated section for shareholders and the financial community.

MOL Group is committed to the fair marketing of publicly-traded securities. Insider dealing in securities is regarded as a criminal offence in most of the countries in which we carry out business. Therefore, we require not only full compliance with relevant laws, but also the avoidance of even the appearance of insider securities trading and consultancy.

MOL Group employees:

- should not buy or sell shares in MOL Group or any other company while in possession of insider information
- should not disclose insider information to anyone outside the company, without prior approval.
- should be careful, even with other MOL Group employees, should disclose insider information to a co-worker when they have permission to do so and if it is necessary to do their job.
- should protect insider information from accidental disclosure.

Exercise of shareholders' rights, general meeting participation

Voting rights on the general meeting can be exercised based on the voting rights attached to shares held by the shareholders. Each "A" Series share entitles its holder to one vote. The actual voting power depends on how many shares are registered by the shareholders participating in the general meeting.

A condition of participation and voting at the general meeting for shareholders is that the holder of the share(s) shall be registered in the Share Register. The depositary shall be responsible for registering the shareholders in the Share Register pursuant to the instructions of such shareholders in line with

the conditions set by the general meeting invitation. According to Article 8.6 of Articles of Associations: „Each shareholder, when requesting the registration into the share register, shall declare whether he, or he and any other shareholder belonging to the same shareholder group as specified in Articles 10.1.1 and 10.1.2 holds at least 2% of the Company's shares, together with the shares regarding which he asks for registration." If the conditions described in the previous sentence are met, the shareholder requesting registration is obliged to declare the composition of the shareholder group taking into account Article 10.1.1 and 10.1.2.

According to Article 10.1.1 of Articles of Associations: „No shareholder or shareholder group (as defined below) may exercise more than 10% of the voting rights with the exception of the Hungarian State, the Hungarian Privatization and Asset Holding Company, 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 (the latter shall be exempted only insofar as the ultimate person or persons exercising the shareholder's rights represented by the shares and securities deposited with them do not fall within the limitations specified here below)."

In accordance with the Company Act the shareholders have the right to participate, to request information and to make remarks and proposals at the General Meeting. Shareholders are entitled to vote, if they hold shares with voting rights. The shareholders having at least five per cent of the voting rights may request the Board of Directors to add an item to the agenda. The shareholders having at least one per cent of the voting rights may request the Board of Directors to add supplements to the agenda of the General Meeting. The conditions to participate in the general meeting are published in the invitation to the general meeting. Invitations to the general meeting are published on company homepage. The ordinary general meeting is usually held in late April, in line with the current regulation.

The ordinary general meeting, based on the proposal of Board of Directors approved by the Supervisory Board, shall have the authority to determine profit distribution, i.e. the amount of the profit after taxation to be reinvested into the Company and the amount to be paid out as dividends. Based upon the decision of the general meeting, dividend can be paid in a non-cash form as well.

The starting date for the payment of dividends shall be defined by the Board of Directors in such way as to ensure a period of at least 10 working days between the first publication date of such announcement and the initial date of dividend distribution. Only those shareholders are entitled to receive dividend, who are registered in the share register of the Company on the basis of shareholders identification executed on the date published by the Board of Directors in the announcement on the dividend payment. Such date relevant to the dividend payment determined by the Board of Directors may deviate from the date of general meeting deciding on the payment of dividend.

Integrated risk management function – at work

The recent developments in the global economic and financial scene have again underlined the necessity of an effective and comprehensive risk management as a prerequisite tool of good corporate governance. Besides the turmoil there are several other requirements of a proper risk management at a company, for example IFRS requirements introduced in 2007 on disclosing information on financial risks and their management, rating agency focus on implementations of effective Enterprise Risk Management (ERM) frameworks and the heightened scrutiny on corporate governance practices by investors.

MOL Group can state that it has a developed risk management function as an integral part of its corporate governance structure. This was confirmed by SAM Research AG in its 2008 benchmarking report for Dow Jones Sustainability Index that ranked MOL's risk management as best in class with a 96% performance, 36 percentage points above the sector's average emphasizing MOL's well-defined responsibility for risk and crisis management, our extensive risk definitions, the applications of risk mapping, quantification, stress testing and sensitivity analysis for all financial and non-financial risks and our well-defined risk response strategy.

Four-pillar system for managing a broad variety of risks

Incorporation of the broadest variety of risks into one long-term, comprehensive and dynamic system is arranged by **Enterprise Risk Management** (ERM) on a group level. ERM integrates financial and operational risks along with a wide range of strategic risks. Following identification, different classes of risks are quantified using a unified methodology. The time horizon of the model emphasises long term view (according to strategic horizons): up to 10 years and even beyond, when analysing the variability of net present values. The ERM process identifies the most significant risks to the performance of the company (both on divisional and on group levels) and calls for a decision to be made regarding which risks should be retained and which should be mitigated and how. Some of the risks are managed centrally, while some are dealt with the divisions, overseen by nominated risk owners. Risk Management regularly controls the realization of these risk mitigation actions – in a form of quarterly required reports from the risk owners.

The main role of **Financial Risk Management** (FRM) is to handle short-term, market related risks. Commodity price, FX and interest rate risks are measured by using a complex model based on the Monte Carlo simulation (which takes into account portfolio effects as well) and are managed – if necessary - with risk mitigation tools (such as swaps, forwards and options). This function concentrates on a 12-month time horizon. Reports on compliance with limits linked to strategic and financial objectives of the Group are compiled for the senior management on a monthly basis whereby mitigation action plans are proposed on an ad-hoc basis when required.

Transferring of excess operational risks is done by **Insurance Management** (IM). It means purchase of insurance, which is an important risk mitigation tool used to cover the most relevant operational exposures. The major insurance types are: Property Damage, Business Interruption, Liability, and Control of Well Insurance. Due to the peculiarity of the insurance business major tasks of this function are set around a yearly cycle (i.e. annual renewal of most insurance programs). Since insurance is managed through a joint program for the whole group (including MOL, TVK, Slovnaft and IES), MOL Group is able to exploit considerable synergy effects.

Business Continuity Management (BCM) is the process of preparing for unexpected operational events. Proper Business Contingency Plans (BCP), Crisis Management (CM) processes and other risk control programs (like regular engineering reviews) are crucial in such a business like MOL Group's where operational risk exposure is significant as a result of the chemical and physical processes underlying most of the operations. The quality of both BCP and CM is often measured in financial terms when dealing with insurance agencies during policy placements and regular renewals.

Valuable synergies can be exploited when risk is approached in a comprehensive way

The existence of an integrated risk management function enables MOL to exploit the synergies between the above detailed four pillars of risk management. The methodology and input sources of modeling financial risks are applied in ERM as well. Similarly, the accumulated information on operational risks gained through managing insurances is also an important factor in the ERM development. The results of ERM on operational risks (i.e. the impact hierarchy of operational risks) can give a better direction to insurance management by highlighting which are those areas that shall be covered by insurance as a must and which are those where further analysis is required to make decisions on how to manage the related risks. Both ERM and insurance management produce inputs to BCM as a priority list of key areas to focus on. BCM and insurance management have anyway strong relationship as they both deal with operational risk management. For example an effective BCM can reduce the exposure of MOL Group for business interruption risk and hence reduces the extent of insurance coverage to be bought. Risk awareness culture across the whole organization had already been enhanced as well, especially via the group-wide involvement of the group's divisions and units during ERM and BCM processes.

Decision making support of capital allocation

The most important role of ERM is not just to provide information on which the most imperative risks are that MOL Group faces with, but to enable top management and the Board of Directors to make more educated decisions on investments, taking into consideration the risk profile of each project as well. In order to serve this purpose Group Risk Management is involved in the evaluation of each major project and potential acquisitions and divestitures through the utilization of its ERM capabilities to provide opinion on capital allocation and financial headroom.

Board of Directors

Chairman of the Board of Directors since 7th July, 2000, Chairman and Chief Executive Officer since 11th June, 2001, member of the Board since 24th February, 1999. Member of the Corporate Governance and Remuneration Committee.

Between 1989-1994 he occupied various posts at the Kereskedelmi és Hitelbank Plc., and between 1992-1994 he was its Deputy General Manager. He was CEO of the Central Bank of Hungarian Savings Cooperatives between 1994 and 2001, and a member of its Board of Directors between 1994 and 2002. Between 1995 and 2001, Mr. Hernádi was Board member of the Hungarian Banking Association. Since 2001, he has been a member of the European Round Table of Industrials.

Member of the Board of Directors since 20th October, 2000, and Vice Chairman since 2001. Chairman of the Corporate Governance and Remuneration Committee.

Specializing in finance at university, where he also took doctorate, he later became licensed pricing specialist and a chartered accountant, and his first job was at the Ministry of Finance. He also worked for the Ministry of Food and Agriculture and at the Hungarian Credit Bank. From 1989 to 1992, he was Deputy CEO of the Commercial and Credit Bank (K&H), and since 1992, he has been the Chairman and CEO of the National Savings and Commercial Bank Plc. (OTP Bank Plc.). On 28th April, 2006, a shareholders meeting re-elected him for an other five-year term as Chairman and CEO of OTP Bank Plc. He is European Board member of MasterCard, one of the world's leading payment systems and co-chairman of the National Association of Entrepreneurs and Employers (VOSZ). He is also Chairman of the Supervisory Board of OTP Bank Group members: DSK Bank in Bulgaria. He has been an honorary professor of the University of Western Hungary since 2004. Dr. Sándor Csányi is a member of the International Association of Business Leaders, and of the Institut International d'Etudes Bancaires.

Member of the Board of Directors since 11th October, 2002. Member of the Finance and Risk Management Committee.

Between 1977-1990 he held various positions in the National Planning Office and Ministry of Finance. From 1994 to 1998 he was political state secretary at the Ministry of Finance, secretary of the Government's Economic Committee, and deputy governor of the IMF, representing Hungary. Since 1998 he has been CEO of GKI Economic Research Co., from 2008 he is GCEO. From 2002 till 2007 Chairman of the Supervisory Board of the National Bank of Hungary. In 2005 he won the Farkas Heller prize. In 2006 he received the French Chevalier de l'Ordre National du MériteOrdre.

Mulham Al-Jarf (39)

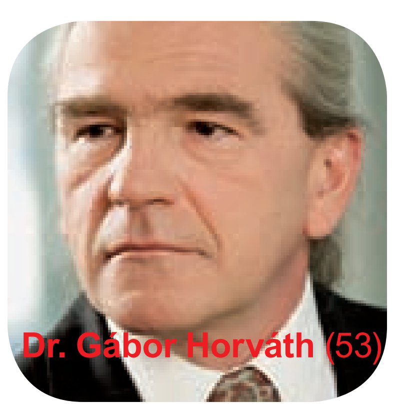
Member of the Board of Directors since 24th April 2008. Member of the Corporate Governance and Remuneration Committee.

He graduated international business and finance from the USA and he is Barrister at Law of the Bar of England and Wales. He is the deputy CEO of Oman Oil Company since 2004. He is member of the board in the following companies: Sohar Aluminium Co. LLC, Oman Arab Bank SAOC Oman Polypropylene LLC., Oman Oil Marketing Co. SAOG, Oman Trading International, and Takamul Investments SAOC. He has work experience in Oman Gas Company, Ministry of Oil and Gas and General telecommunications Co. in Oman. He is a citizen of Oman.

Dr. Miklós Dobák (54)

Member of the Board of Directors since 29th May 1996. Chairman of the Finance and Risk Management Committee.

He is Chairman of the Institute of Management and Professor of the Department of Management and Organisation at Corvinus University. He is an international partner of Horváth and Partners Consulting Company.



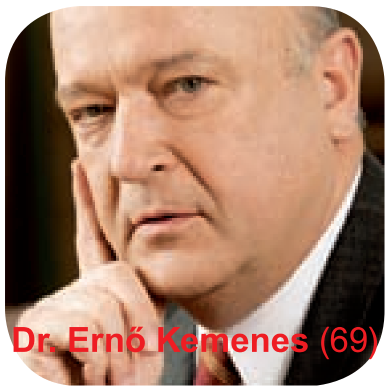
Dr. Gábor Horváth (53)

Member of the Board of Directors since 24th February, 1999. Member of the Corporate Governance and Remuneration Committee.

He has headed up an independent attorney's office since 1990. His main activities cover corporate, corporate financial and company organisations law. He is the Vice president of the Supervisory Board and Chairman of the Audit Committee of OTP Bank Plc.

Member of the Board of Directors since 11th October, 2002. Member of the Corporate Governance and Remuneration Committee.

Between 1972-1990, he held various senior positions at ÉPGÉP Co., finishing as CEO. Between 1995-1998 he was Deputy General Manager of ÁPV Plc. (the Hungarian Privatisation and State Holding Co.). From 1998, Mr. Kamarás was a partner at Deloitte and Touche Hungary and head of several auditor firms. Between 2002-2004, he was CEO of ÁPV Plc., a Board member of ÁPV Plc., and Chairman of the Board of Budapest Airport Plc., until 30th May, 2005. Chairman of the MÁV Plc. until 18th October, 2008.



Member of the Board of Directors since 11th October, 2002. Member of the Finance and Risk Management Committee and the Sustainable Development Committee.

He was lecturer, then head of department at Budapest University of Economic Sciences from 1963. He held various senior positions in the National Planning Office, the Ministry of Education and Culture, and the Office of the Prime Minister between 1968-1997. He was also head of the National Planning Office between 1987-1990. He was head of Deloitte and Touche Hungary and one of the leading managers in the Central and East European Region between 1992-2001. Member of the Council of the Hungarian National Bank between 1992-1998, he is a retired university professor of Budapest University of Economic Sciences and Public Administration. He participates in preparing country reports for the OECD, EU and IMF. He is a Supervisory Board member at Reneal Ltd.

Member of the Board of Directors since 12th October 2007. Group Chief Financial Officer since 3rd September, 2004.

From 1978 to 2001, Mr. Molnar held various management positions at BorsodChem Plc., including Head of Pricing Department from 1982 to 1987, and Head of Controlling Department from 1987 to 1991. Between 1991 and 2001, as Chief Financial Officer and first deputy to the CEO, he contributed to the crisis management and reorganisation of the company, and later to the creation of its vision, and subsequent privatisation. He played a key role in the stock exchange listing of BorsodChem shares. He was CEO of TVK between 2001 and 2003, and MOL Group Planning and Controlling Director until his appointment as Group CFO in September 2004. Since April 2001, he has been a Board member of TVK and between 2004 and 2008 a Board member of Slovnaft a. s.

Group CEO and member of the Board of Directors since 19th July, 1999. Chairman of the Sustainable Development Committee. Chairman of TVK Plc.

From 1974 onwards, he worked for the Hungarian Agency of Shell International Petroleum Co. and from 1986 he held the position of Commercial Director. In 1991 he worked at Shell headquarters, London. Between 1992-1993 he was managing director of Shell-Interag Ltd. and between 1994-1999 Chairman and Chief Executive Officer of Shell Hungary Plc. During this period he became Chairman of Shell's Central and East European Region and CEO of Shell Czech Republic in 1998. Honorary President of the Association of Joint Ventures and vice-chairman of the Hungarian Chamber of Commerce and Industry., vice president of Confederation of Hungarian Employers and Industrialists.

Member of the Board of Directors since 24th February, 1999. Member of the Finance and Risk Management Committee and the Sustainable Development Committee.

From 1970 onwards, he held various positions at British Petroleum Plc. in Great Britain, USA and the Middle East. Between 1984 and 1998, he was with Enterprise Oil Plc. serving from 1991 as a Main Board member with responsibility for international activities. He is currently also Chairman of ITE Group Plc., Chairman of Plebble Loyalty Limited, Chairman of AnTech Limited and a non-executive director of Hunting Plc. Mr. Paterson is a British citizen.

Member of the Board of Directors and the Sustainable Development Committee until 24th April, 2008.

MOL Group Chief Financial Officer between 11th October, 1999 and 1st September, 2004, he was Group Chief Strategic Officer until 1st July 2006. Mr. Delcommune joined the PetroFina Group in 1972. From 1990 he was primarily responsible for Corporate Finance and Insurance as Senior Vice-President and Chief Financial Officer. From 1999, he served, in addition, as Director – Human Resources, and handled the successful merger of PetroFina with Total. Mr. Delcommune is a member of the International Advisory Board of Cornell University Business School and also a Board member of TVK Plc., Slovnaft a. s. and JKX Oil and Gas Plc., Mr. Delcommune is a Belgian citizen.

Executive Board

Chairman of the Board of Directors since 7th July, 2000, Chairman and Chief Executive Officer since 11th June, 2001, member of the Board since 24th February, 1999. Member of the Corporate Governance and Remuneration Committee.

Between 1989-1994 he occupied various posts at the Kereskedelmi és Hitelbank Plc., and from 1992 to 1994 he was its Deputy General Manager. He was CEO of the Central Bank of Hungarian Savings Cooperatives between 1994 and 2001, and a member of its Board of Directors from 1994 to 2002. Between 1995 and 2001 Mr. Hernádi was Board member of the Hungarian Banking Association. Since 2001 he has been a member of the European Round Table of Industrials.

Group CEO and member of the Board of Directors since 19th July, 1999. Chairman of the Sustainable Development Committee. Chairman of TVK Plc.

From 1974 onwards he worked for the Hungarian Agency of Shell International Petroleum Co. and from 1986 he held the position of commercial director. In 1991 he worked at Shell headquarters, London. Between 1992-93 he was managing director of Shell-Interag Ltd. and from 1994 to 1999 Chairman and Chief Executive Officer of Shell Hungary Rt. During this period he became Chairman of Shell's Central and East European Region and CEO of Shell Czech Republic in 1998. Honorary President of the Association of Joint Ventures and vice-chairman of the Hungarian Chamber of Commerce and Industry., vice president of Confederation of Hungarian Employers and Industrialists.

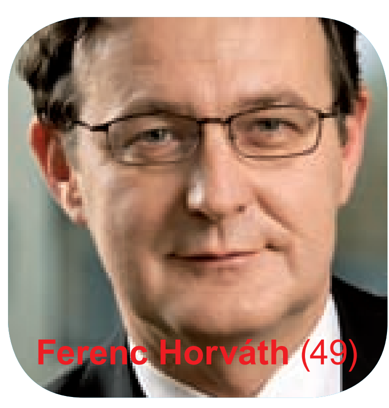
Member of the Board of Directors since 12th October, 2007. Group Chief Financial Officer since 3rd September, 2004.

From 1978 to 2001, Mr. Molnar held various management positions at BorsodChem Plc., including Head of Pricing Department from 1982 to 1987, and Head of Controlling Department from 1987 to 1991. Between 1991 and 2001 as Chief Financial Officer and first deputy to the CEO. He contributed to the crisis management and reorganisation of the company and later to the creation of its vision, and subsequent privatisation. He played a key role in the stock exchange listing of BorsodChem shares. He was CEO of TVK between 2001 and 2003 and MOL Group Planning and Controlling Director until his appointment as Group CFO in September 2004. Since April 2001 he has been a Board member of TVK and between 2004 and 2008 a Board member of Slovnaft a. s.

Zoltán Áldott (41)

Exploration and Production Executive Vice President since September, 2004.

Between 1990 and 1991 he was an associate at Creditum Financial Consulting Ltd. and then, between 1992 and 1995 he held various positions at Eurocorp Financial Consulting Ltd. From 1995 to 1997 he managed the MOL Privatization Department, and from 1997 until 1999 he was director of the Capital Markets. From 1999, Mr. Áldott served as Director of Strategy and Business Development. From November 2000, he acted as Chief Strategy Officer and then, since June 2001, as Group Chief Strategy Officer. Since September 2004, he has been Managing Director of MOL Exploration and Production Division. He is also deputy Chairman of Supervisory Board of INA d.d., and Board member of the Budapest Stock Exchange.


Ferenc Horváth (49)

Executive Vice President of MOL Refining and Marketing Division since November 2003.

From 1984 until 1989, he worked for Mineralimpex, the Hungarian Foreign Trade Company for Oil & Mining Products, in the fields of crude oil and natural gas imports and crude oil product exports. Between 1991 and 1997, he was Managing Director of Allcom Trading Co., the Hungarian Mineralimpex-Phibro Energy joint-venture, dealing with the European trading of crude oil and oil products. He joined MOL Plc. in 1998 as Director of LPG Business Unit and worked from January 2001 onwards as Sales Director, being responsible for the sales of MOL's entire product range. In 2002 he became Commercial Director as sales activities having broadened to encompass the supply of crude oil and raw materials necessary for the refining of crude oil. He is the Chairman of the Board of Directors of IES S.p.A. and member of the Board of Directors of Slovnaft since May, 2007.

József Simola (43)

Corporate Centre Executive Vice President since April 2006.

Between 1991-1992 he worked as an SAP expert at General Electric – Tungsram. After that he was employed as auditor and consultant at Arthur Andersen. In 1995 he participated in the French INSEAD MBA programme. In 1996 he joined the Boston Consulting Group, where he held various managerial positions in Hungary, Germany and Australia. In 2003 Mr. Simola joined MOL Plc., since April 2006 he has been Corporate Centre Executive Vice President. Mr. Simola has been Chairman of the Supervisory Board of Slovnaft a. s. since April 2008. Member of the Board of Directors of IES S.p.A.

Supervisory Board

1. **Dr. Mihály Kupa** (68)
Chairman of the Supervisory Board since 11th October, 2002.
Chairman of the Audit Committee and contributes to the Board and to the Finance and Risk Management Committee work.
Between 1969 and 1975 he held various senior positions in the Statistical Office, between 1975-1984 in the Financial Research Institute, and between 1984-1990 in the Ministry of Finance. Between 1990 and 1993 he was Minister of Finance, and from 1992 to 1993 Vice-President of the EBRD, Vice-president of the Council of Governors and President of the World Bank and IMF in 1993 in Hungary. Since 1991 and again in 1998 he was Independent Member of the Parliament. He is Chairman of the Supervisory Board of the National Theatre Company.

2. **Dr. Attila Chikán** (65)
Member of the Supervisory Board since 30th April, 2004.
Deputy Chairman of the Supervisory Board since 5th December, 2005.
Member of the Audit Committee.
Since 1968 he has been working for Budapest University of Economic Sciences (until 2004 predecessor of Corvinus University of Budapest). Between 1989 and 1998 he was Head of the Business Economics Department and acted as Minister of Economic Affairs in 1998 and 1999. He was Rector of Budapest University of Economic Sciences between 2000 and 2003 and is a Doctor of the Hungarian Academy of Sciences. At present he holds several positions in Hungarian and international professional organisations, and membership of the editorial boards of several international journals. He is Chairman of the Supervisory Board of Richter Gedeon Plc.

3. **Lajos Benedek** (37)
Member of the Supervisory Board since 12th October, 2007, as an Employee Representative.
Mr. Benedek joined MOL in 1996. During the whole employment he has held various positions in the E&P Division, he has been Manager of Reservoir Engineering and Modelling Department since 2006. He has also been member of the MOL Trade Union of Mining Workers and Work Council.

4. **John I. Charody** (82)
Member of the Supervisory Board since 11th October, 2002.
Member of the Audit Committee.
Member of the British Empire and Justice of Peace, he worked in the Geophysical Institute of the Oil Exploration and Development Company between 1953 and 1956. Then he was a director in Australia of various companies including Bridge Oil Ltd., Aurora Minerals, Project Mining and CEO of Winton Enterprises Pty. Ltd. and Galina Investment international consulting company. Fellow of the Institute of Australian Directors since 1971, fellow of the Australian Institute of Management since 1967, Justice of Peace since 1972, he was awarded the Member of British Empire by Her Majesty the Queen for service to Australia in 1973. In 1990 he was appointed Minister of Commerce in Budapest by the Federal Government of Australia with regional responsibilities in 12 countries. In 1997, the President of the Republic of Hungary awarded him the Officer Cross of the Republic of Hungary for his services to fostering Australian-Hungarian financial and commercial relationship. Board Member of Pick Rt. and Csányi Foundation. Consultant of MFB Invest Zrt.

5. **Slavomír Hatina** (62)
Member of the Supervisory Board since 11th October, 2002.
Mr. Hatina joined Slovnaft in 1970, working in various positions. From 1994 to December 2001 he worked for Slovnaft a.s., Bratislava (1994-1998 as CEO, 1998-2001 as President). From 1994 to February 2005, Mr. Hatina was Chairman of the Board of Slovnaft a.s. A Doctorate Honoris Causa was bestowed on Mr. Hatina by the Slovak University of Technology in 2001. He is Chairman of Slovintegra a.s. Mr. Hatina is a citizen of Slovakia.

6. **Attila Juhász** (45)

Member of the Supervisory Board since October 12th, 2007, delegated by the employees.

Joined the Company in 1986. During his total employment held various positions in the Exploration and Production. Chairman of the Kiskunhalas Branch of MOL Trade Union of Production Workers, and member of the Workers Council since its foundation. Presently acting as an observer in the Workers Council.

7. **Prof. Sándor Lámfalussy** (80)

Member of the Supervisory Board since 24th February, 1999.

Between 1955 and 1975 he worked at the Banque de Bruxelles, first as economist, and during the second part of this period as member and later as Chairman of the Management Board. On a leave of absence from his bank he was visiting professor at Yale University during the academic year 1961-1962. In 1976 he joined the Bank for International Settlements as member of the management and Economic Adviser, and became the Bank's CEO from 1984 until 1993. From 1994 until July 1997 he was President of the European Monetary Institute, the forerunner of the European Central Bank. In 2000-2001 he was Chairman of the Committee of Wise Men for the Regulation of European Securities Markets, the recommendations of which was accepted by the European Council, and is now being implemented. At present he is Chairman of a committee advising the Belgian Government on improving the crisis resistance capability of the financial system. He is member of the Board of Directors of CNP Assurances in France. Throughout his professional carrier he was teaching at the Catholique University of Louvain (Belgium), of which he is now a Professor Emeritus. He is a Belgian citizen.

8. **János Major** (57)

Member of the Supervisory Board since 30th November, 1994, as an Employee Representative.

Mr. Major joined MOL (respectively its legal predecessor) in 1970. He has been Secretary of the MOL Trade Union of Chemical Workers since 1994 and co-ordination secretary of MOL Trade Union of the Chemical Industry since 2003. He has also been the Vice Chairman of MOL Trade Union of the Chemical Industry since 2007.

9. **István Vásárhelyi** (58)

Member of MOL Group Supervisory Board since 27th April, 2005.

Between 1978-1989, he held various managerial positions at Budapest Rozmaring MGTSZ (an agricultural co-operative). From 1992 to 1998, he was a trustee of the "Foundation against Cancer for Man and the Future". At the same time he was CEO of Budapest Capital Holding Management Plc. In 1995 he was appointed Managing Director, and since 2000 Director-General, from 2006 Managing Director of ROZA-PORTA Trading Ltd. Between 1994-2000, he was a Board member of Helia Hotels Plc. He was also a member of the Supervisory Board of ÁPV Plc. between 1995-2002 (the State Privatisation Company), and in 2000 was appointed Chairman of the Board of Képcsarnok Plc. (Fine Arts Trading), becoming chairman of the Supervisory Board from 2001 to 2003. Between 2002 and 2004, he was also a Board member of Dunaferr Plc. Since 2002, he had been Vice-Chairman of the Board of ÁPV Plc. and Chairman of the Board of ÁPV Plc. from 1st December 2006 to 30th June 2007. From 2005 he has been member of the Board of Directors of Hitelgarancia Plc. He is member of the Board of Directors of MVM Plc. from 8th January 2008 and Chairman from 14th February to 13th May 2008. He was elected trustee of the Szalmaszál Foundation Endowment for the Homeless from 2006.

Report of the Supervisory Board

The Supervisory Board performed its duties in full accordance with its statutory obligations, held 5 meetings during the year, regular agenda points of the meetings include the quarterly report of the Board of Directors on company's operations and the reports of Internal Audit, Corporate Security and Audit Committee. In addition, the Supervisory Board reviewed the proposals for the Annual General Meeting. The report of the Supervisory Board has been prepared pursuant to the report of the Board of Directors, the opinion of the auditors, the scheduled regular midyear reviews and the work of the Audit Committee. In its meetings during 2008, the Supervisory Board dealt in detail with the business situation of the MOL Group, the strategic development of the Group and its Divisions as well as respectively paid highlighted attention to the treatment of the economic crisis by the company. The Supervisory Board regularly got information about the decisions of the Board of Directors and issues concerning the company.

MOL is the leading integrated oil and gas company in Central and Eastern Europe, the market leader in Hungary, and with the parent company's net sales of HUF 2,223.2 billion and the Group's net sales of HUF 3,535.0 billion according to the International Financial Reporting Standards (IFRS), the largest company in Hungary. In 2008, the weighted average stock exchange price of MOL shares decreased by 32.6% to HUF 16,900 (in 2007 this was HUF 25,089). Similarly to shares of the regional oil companies the stock exchange price decreased during the year and its closing price on 31st December, 2008 was HUF 9,870.

The Company's 2008 financial statements - in accordance with Accounting Law - provide a true and fair picture of its economic activities and were audited by Ernst & Young Kft. The accounting methods applied in developing the financial reports are supported by the report of the Audit Committee, comply with the provisions of the Accounting Act and are consistent with the accounting policies of the Company. All figures in the balance sheet are supported by analytical registration. Assessment and payment of tax obligations were implemented as prescribed by law.

For the MOL Group a total of 91 companies were fully, and a further 18 companies were partially consolidated, using the equity method. Last year the ownership structure changed: at the end of 2008, compared to the end of last year the shareholding of foreign institutional investors reduced from 31.7% to 24.1%, while the ownership of domestic institutional and private investors increased from 6.8% to 10.3%. Shareholders who holding more than 5% OMV reduced shares to 0.65%. OMV transferred its earlier holding shares with so-called repo transaction - will be due in 2009 - to Bayerishe Hypo- and Vereinsbank AG. (16.3%) and Societe Generale (4.4%). At the end of 2008 OTP Bank Plc. held 8.5%, CEZ MH B.V. 7.4%, BNP Paribas Arbitrage 7.3%, OmanOil (Budapest) Limited 7.0% of the shares and Magnolia Finance Ltd. had a 5.8% shareholding in the company. The company held 8.4% treasury shares at the end of December 2008.

Significant advancements have been made in the area of the strategy accomplishment in 2008. The company continued the development of value creating partnerships and the enhancement of mutual synergies. MOL decided on strengthening the strategic cooperation with INA d.d. (the largest shareholder with 47.16% by means of acquisition bid) and forming proprietary alliance with Oman Oil Company S.A.O.C which has 7% shares in MOL Plc. The aim of both companies is to collectively take part in business development projects as strategic partners. As part of the New European Transportation System launched by FGSZ Ltd. - 100% owned subsidiary of MOL - a decision has been made on the interconnection of the Hungarian-Croatian and Hungarian-Romanian natural gas transmission systems in order to improve the security of supply. The company continued strengthening its regional Retail position, it appeared with own brand name and increased the number of the filling stations in a swap transaction in Austria. It launched a joint non-conventional hydrocarbon exploration program with subsidiaries of Exxon-Mobil and Falcon in the Mako Trough. MOL extended its activities, started up a joint venture with CEZ a.s. the Czech energy concern and entered the electric energy production industry. The company came out of the traditional business region, decided on the development of the Italian refinery IES and continued the focused hydrocarbon portfolio building, the acquisition of one exploration block with Oil and Natural Gas Corporation Limited (ONGC) in India. MOL respectively paid highlighted attention to the treatment of the significantly changed external environment, the impacts of the global economic and financial crisis with initiatives of additional efficiency improvement and cost cutting arrangements.

The Supervisory Board endorses the recommendation of the Board of Directors not to pay dividend in 2009 connected to the year ended 31 December 2008 and the total net income shall be booked as retained earnings. The Supervisory Board proposes that the General Meeting approves the audited financial statements of MOL Plc. for 2008, with a balance-sheet total of HUF 2,595 billion, net income for the period of HUF -223 billion, and tie-up reserve of HUF 131 billion and the audited consolidated financial statements of the MOL Group for 2008, with a balance sheet total of HUF 2,916 billion and profit attributable to equity holders of HUF 141 billion.

Budapest, 30th March, 2009

For and on behalf of the Supervisory Board and Audit Committee of MOL Plc:

Dr. Mihály Kupa
Chairman of the Supervisory Board

Corporate and Shareholder Information

Date of foundation of MOL Plc.: 1 October, 1991. Registered by the Budapest Court of Justice acting as Court of Registration on 10 June, 1992 with effect as of 1 October, 1991, under file number 01-10-041683.

Legal predecessor: Országos Kőolaj- és Gázipari Tröszt (OKGT National Oil and Gas Trust) and its subsidiaries.

The effective Articles of Association were accepted at the Annual General Meeting (AGM) held on 23 April, 2008. Access to the Articles of Association can be requested from the Company or electronic version can be downloaded from Company's web site.

On 16 October, 2008 the Court of Registry registered the capital decrease of MOL, which was decided by the AGM held on 23 April 2008. Accordingly, the share capital of MOL decreased from HUF 109,675,502,578 to HUF 104,191,727,578 by cancelling 5,483,775 pieces of registered ordinary shares of the series "A" with a par value of HUF 1,000, owned by the Company.

On 16 October, 2008 the Court of Registration registered the capital increase of MOL, which was made as part of the convertible bond programme approved by the Extraordinary General Meeting held on 1 September 2003. The share capital of the company increased from HUF 104,191,727,578 to HUF 104,519,063,578.

Registered share capital as of 31 December 2008: 104,518,484 registered A series ordinary shares with a par value of HUF 1,000 each, 1 registered B series preferred share with a par value of HUF 1,000 with special preferential rights attached and 578 registered C series ordinary shares with a par value of HUF 1,001 each.

Ownership Structure:

	31.12.2007		31.12.2008	
	Par value of shares (HUF th)	%	Par value of shares (HUF th)	%
Foreign investors	34,833,883	31.7	25,244,656	24.1
Bayerische Hypo-und Vereinsbank AG.	n.a.	n.a.	17,007,802	16.3
Societe Generale	n.a.	n.a.	4,601,059	4.4
OMV Clearing Und Treasury GbmH	22,179,488	20.2	679,492	0.7
CEZ MH B.V.	n.a.	n.a.	7,677,285	7.3
Oman Oil (Budapest) Limited	n.a.	n.a.	7,316,294	7.0
BNP Paribas Arbitrage S.N.C.	9,105,102	8.3	7,600,583	7.3
Magnolia Finance Ltd.	6,007,479	5.5	6,007,479	5.7
MFB Invest Ltd.	10,933,000	10.0	n.a.	n.a.
OTP Bank Plc.	10,072,890	9.2	8,857,438	8.5
Hungarian institutional and private investors	7,473,063	6.8	10,745,032	10.3
MOL Plc. (treasury shares)	9,070,598	8.3	8,781,944	8.4
Total	109,675,503	100.0	104,519,064	100.0

Share Information

MOL share prices are published by the majority of Hungarian daily newspapers and available on BSE web site (www.bet.hu). Indicative bid and ask prices of MOL's GDRs on IOB can be monitored using the RIC code MOLBq.L on Thomson Reuters or MOLD LI on Bloomberg. MOL share prices on the Budapest Stock Exchange can be followed on Thomson Reuters using the RIC code MOLB.BU or on Bloomberg using code MOL HB.

Period	BSE volume (no. of shares)	BSE closing price (HUF/ share)
1st quarter	17,082,884	21,490
2nd quarter	8,867,353	20,145
3rd quarter	16,421,113	15,540
4th quarter	24,117,715	9,870

Treasury shares

During 2008 the following treasury shares transactions happened:

Reasons for change	Number of "A" series shares	Number of "C" shares Shares
Number of Treasury shares on 31 December 2007	9,070,019	578
Share purchase on BSE	1,142,677	
Shares sold to CEZ a.s.	(7,677,285)	
Shares call back from MFB	9,959,729	
Shares call back from OTP	1,770,000	
Decrease of share capital (share cancellation)	(5,483,775)	
Number of Treasury shares on 31 December 2008	8,781,365	578

Changes in organisation and senior management

The Strategy and Business Development department of MOL Group was separated into two departments as of 15 June 2008. The Strategy Development Department reports to the Group Chief Executive Officer while the Corporate Business Development Department reports to the Chairman and Chief Executive Officer. At the same time, in line with our strategy and the strategic partnership with CEZ a Gas and Power division also established.

Lajos Alács is responsible for the Gas and Power Divison from 15 June 2008. Mr. Alács has worked as Strategy and Business Development Executive Vice President since 1 July 2006. His new position qualifies as senior executive position according to the Securities Act.

Ábel Galácz is responsible for the Corporate Business Development Department from 15 June 2008. Mr. Galácz has worked for MOL since 2000, currently as advisor for the Chairman.

László Varró is responsible for the Strategy Development Department from 15 June 2008. Mr. Varró has worked as chief economist since 2005.

The new organisational structure supports the activity of the divisions through the closer cooperation between the strategy and the businesses thus contributing to achieving the strategic targets of the Group.

MOL securities held by Directors and Officers of the company as of 31 December, 2008

Name	Current position	Number of MOL shares
Zsolt Hernádi	Executive Chairman and Chief Executive Officer, member of the Board of Directors	178,951
Dr. Sándor Csányi	member of the Board of Directors, Vice Chairman	5,000
György Mosonyi	Group Chief Executive Officer, member of the Board of Directors	86,420
József Molnár	Executive Vice President of Finance, member of the Board of Directors	58,111
László Akar	member of the Board of Directors	34,146
Mulham Basheer Abdullah Al Jarf	member of the Board of Directors	0
Dr. Miklós Dobák	member of the Board of Directors	33,580
Dr. Gábor Horváth	member of the Board of Directors	20,390
Dr. Ernő Kemenes	member of the Board of Directors	26,053
Iain Paterson	member of the Board of Directors	23,790
Miklós Kamarás	member of the Board of Directors	0
Dr. Gyula Dávid	member of the Board of Directors (MEH)*	0
Dr. Mihály Kupa	Chairman of the Supervisory Board	0
Benedek Lajos	member of the Supervisory Board, representative of the employees	0
John I. Charody	member of the Supervisory Board	0
Dr. Attila Chikán	Deputy Chairman of the Supervisory Board	0
Slavomir Hatina	member of the Supervisory Board	0
Juhász Attila	member of the Supervisory Board, representative of the employees	0
Prof. Sándor Lámfalussy	member of the Supervisory Board	380
János Major	member of the Supervisory Board, representative of the employees	344
István Vásárhelyi	member of the Supervisory Board	167
István Gergely	member of the Supervisory Board (MEH)*	0
Lajos Alács	Executive Vice President Gas and Power	21,368
Zoltán Áldott	Executive Vice President Exploration and Production	86,254
László Geszti	Executive Vice President Retail	21,356
Ferenc Horváth	Executive Vice President Refining and Marketing	58,064
Árpád Olvasó	Senior Vice President Petrochemicals	0
József Simola	Executive Vice President Corporate Centre	31,310

* Delegated by the Hungarian Energy Office (MEH)

Glossary

Average production cost
Total cost of lifting, gathering and processing of crude oil and natural gas.

Biofuels
Biofuels means liquid or gaseous fuel for transport produced from biomass, where "biomass" means the biodegradable fraction of products, waste and residues from biological origin from agriculture (including vegetal and animal substances), forestry and related industries including fisheries and aquaculture, as well as the biodegradable fraction of industrial and municipal waste

Black products
Collective noun for fuel oils and bunker oils.

Boe (barrel of crude oil equivalent)
Volume equivalent obtained after conversion of the heating value of gas to crude oil on the basis of its thermal quantity. In its practical application, 1 boe is, in general, 6000 cubic feet (about 170 normal m3) of gas.

Barrel
Anglo-Saxon unit of measurement applied in the oil sector, one ton crude oil is nearly equal with 7-7,5 barrel. (Conversion rate applied onto crude oil grades in Hungary is 7,55 bbl/ton).

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

Brent-Ural Spread
Difference between Brent and Ural crude oil's international price. The price of Ural type crude oil is quoted in Rotterdam (FOB ROT) and Mediterran (CIF MED) region.

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

Cogeneration plant
Coal or natural gas fuelled power station that is suitable for the simultaneous generation of electric and thermal energy.

Combined cycle gas turbine (CCGT)
In a combined cycle gas turbine (CCGT) plant, a gas turbine generator generates electricity and the waste heat is used to produce steam to generate additional electricity via a steam turbine; this last step enhances the efficiency of electricity generation (average net electric efficiency of new CCGTs is 58%).

Commercial gas storage
Natural gas industry activity, which aims to balance the volatilities in the seasonal natural gas supply and demand as well as business transactions. In Hungary gas storage is an activity unbundled legally from natural gas trade operations, thus the ownership right and operation of the infrastructure are separated from the title and right of disposal of natural gas stored in such storage facilities.

Company
MOL Hungarian Oil and Gas Public Limited Company

Crack Spread
Difference between product's quoted price and crude oil price. The crack spread figures change according to global oil market trends (like consumption seasonality, refinery supply, changes of stocks).

Cracking
Collective noun for operations/technologies aiming at production of a mixture of lighter hydrocarbons (having lower boiling point) by cracking longer carbon chains (through splitting carbon-carbon bonds) of heavier hydrocarbon molecules. Cracking can be purely a thermal process as well as catalytic (in this case the cracking process promoted by using of catalysts).

Distillation capacity utilisation
The utilisation of the primary distillation capacity of a refinery.

Downstream
Refining and Marketing and Retail.

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

Enhanced oil recovery (EOR)
Processes/technologies that can be used to recover more oil relative to the primary and secondary methods.

FAME- Fatty acid methyl esther
Biocomponent blended in dieselgasoil

FCC- Fluid Catalytic Cracking plant
Biocomponent blended in dieselgasoil

Field development
Process of implementing underground and aboveground facilities necessary for the recovery of hydrocarbon reserves.

Geothermal energy
Geothermal energy is energy generated from heat stored in the earth, or the collection of absorbed heat derived from underground.

Geothermal Power Plant
Geothermal Power Plants are intended to utilize geothermal energy by producing power or heat out of it.

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

HDPE
High density polyethylene

Hydrocrack
Cracking of light or heavy gas oils or residue hydrocarbons, mixed with hydrogen, under high pressure and temperature, in the presence of a catalyst, to produce light oils.
Horizontal drilling Drilling at which horizontal or near horizontal range is created in the target layer following the vertical section in order to expand the inflow cross-section.

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

Increased oil recovery (IOR)
A comprehensive term to define increased petroleum recovery methods, which includes all methods or processes other than production based on the energy of and in the reservoir (enhanced oil recovery (EOR), secondary and updated primary methods)

Kyoto Protocol
The Kyoto Protocol is a protocol to the United Nations Framework Convention on Climate Change (UNFCCC or FCCC), an international environmental treaty, which is intended to achieve “stabilization of greenhouse gas concentrations in the atmosphere at a level that would prevent dangerous anthropogenic interference with the climate system.”

Liquified Propane Gas (LPG)
Hydrocarbon gas compound mainly consisiting of propane and buthane, liquified under high pressure, which is sold in cylinders for household purposes. These days the motoric usage of LPG spreads. This fuel is the „autogas”.

LDPE
Low density polyethylene

M bbl
Thousand barrel

MM bbl
Million barrel

M boe
Thousand barrel of crude oil equivalent

MMSCF
Million cubic feet. The key imperial measure used in the natural gas industry. One cubic meter is equivalent to 35.314 cubic feet.

MEH
Hungarian Energy Office.

Mining royalty
In accordance with international practice and the relevant provisions of the Mining Law, the Hungarian State requires to pay a mining royalty after any and all crude oil and natural gas produced in Hungary (except production applying EOR methods). The rate of this royalty has been 12% since January 1, 1998, except the extra mining royalty payable after the natural gas produced from fields developed prior to 1998. The royalty rate was modified from 2006 with multiplier of 1.02-1.05 as per the agreement between MOL and the Minister of Economy and Transport.

MOL filling station operated in franchise
Filling station operated under MOL-logo and with MOL product slate, but not owned by MOL.

Monomers
Basic compounds of polymers (plastics, rubbers), basic elements (links) of polymer chains in high-molecular-weight materials. Nowadays the most important monomers, the basic petrochemicals are short-chained olefins (ethylene, propylene, butadiene) along with their simple derivatives, and the simplest aromatic compound: benzene. Primary sources of all these monomers are the olefin plants

MSZKSZ
Hungarian Hydrocarbon Stockpiling Association responsible for the strategic stockpiling of crude oil, crude oil product, natural gas.

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

NCI
The Nelson complexity index, developed by Wilbur Nelson in 1960, is a measure of the secondary conversion capacity of a petroleum refinery relative to the primary distillation capacity.

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

Net electrical efficiency
The net efficiency of an entity (a device, component, or system) in electronics and electrical engineering is defined as useful power output divided by the total electrical power consumed (a fractional expression) and adjusted with its own consumption.

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

Olefin
This is collective noun for open-chained hydrocarbons including unsaturated double carbon-carbon bond(s). The simplest representatives of these compounds, ethylene and propylene are basic petrochemicals. The most important asset in olefin production is the so-called steam cracker (olefin plant), which converts naphtha, chemical gasoil and other light hydrocarbons to key products as ethylene and propylene by cracking and dehydrogenation.

Polyethylene
This is a kind of thermoplastics produced by polymerisation of ethylene. Today polyethylene has the largest share among commodity plastics. Parameters (such as pressure, temperature, applied additives and catalysts) of industrial processes aiming at production of PE show significant differences, consequently a wide range of products with different characteristics can be produced. All of them can be classified into two groups according to their density: LDPE (low-density polyethylene) and HDPE (high-density polyethylene).There are significant differences at molecular level: LDPE shows inordinate structure, a mixture of heavily branched components resulting in softer, more flexible material, while HDPE is a denser, harder and stronger (with higher tensile strength) plastic due to its more structured hydrocarbon chains.

Polyolefins
This is collective noun for thermoplastics produced by polymerisation (polyaddition) of olefin monomers (e.g. ethylene and propylene). The most important commodity plastics, polyethylene and polypropylene belong to this class.

Polypropylene (PP)
A thermoplastic produced by polymerisation of propylene. Has a significant - and increasing - share among commodity plastics. Parameters (such as pressure, temperature, applied additives and catalysts) of industrial processes aiming at PP production show significant differences, consequently a wide range of products with different characteristics can be produced. Addition of ethylene into the polymerisation process as co-monomer leads to PP copolymers. PP can be used in a wide variety of application sit has good resistance to heat and low water absorption.

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

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

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

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

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

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

Putting into production
Accomplishment of surface and underground facilities necessary for the production of hydrocarbon reserves.

Pyrolysis
Thermal cracking of hydrocarbons at high (usually above 650°C) temperature and low (few bars) pressure, which is the basic process in operation of olefin plants. Process is conducted in the presence of steam in order to minimize coke-formation.

Pyro-naphtha
Mixture of valuable by-products with significant aromatic content, having boiling points within the range of naphtha, arising besides main products (ethylene and propylene) in the course of pyrolysis of petrochemical feedstocks (naphtha, chemical gasoil and other light hydrocarbons) in olefin plants. Can be converted to basic aromatics (benzene, toluene, xylenes, etc.) by further processing, while after appropriate hydrogenation it can also be used as high-quality, high-octane mogas blending component.

Refinery margin
Difference between product's international quoted price and the actual crude oil price. Or: The unit profitability of a (theoretical or actual) refinery, which is determined by crude oil product, as well as unit refining costs.

Refinery complexity – Nelson complexity index
Refinery complexity demonstrates, what white product yield can be achieved from 1 barrel of crude oil. The more complex the refinery, the higher is the white product yield from the same quality crude oil ie. the less fuel oil it produces. One of the best measure for complexity is Nelson index, which calculates complexity from the existence of different refinery plants and from the the ratio of their capacity to distillation capacity.

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

Renewable energy sources
Renewable energy sources are energy sources generated from natural resources — such as sunlight, wind, rain, wood, tides and geothermal

heat — which are naturally replenished, therefore may be considered as infinite source of energy.

Reserve
Estimated volume of crude oil, condensate, natural gas and other components that we assume can be extracted in commercial quantities by using known recovery methods from a known accumulation following a given point in time under the actual economic circumstances and Government regulation.

Residue upgrading
To transform residues (heavy fuel oil) into more valuable white products.

Russian export blend
(API degree: 32.5, sulphur content: 1.25%) Mix of Russian crude oils whose quoted price is considered as a benchmark in the international crude oil markets.

SAPPO
Slovak Association of Petroleum Industry and Trade

Steam cracker (olefin plant)
Technology for production of key basic petrochemical products (olefins: ethylene, propylene, and aromatics: benzene, toluene, xylenes), on the basis of thermal decomposition (cracking) and dehydrogenation of petrochemical feedstocks (naphtha and chemical gasoil) produced by the refineries or lighter saturated hydrocarbons (ethane, propane, butane) in the presence of steam. Main products of the process (ethylene, propylene) are raw-materials of polyethylene and polypropylene production, while the by-products can widely be used in organic chemical industry, plastics and rubber production or as gasoline blending components.

SCM (Supply Chain Management)
Supply Chain Management coordinates the procurement of crude oil, other refinery feedstock and products, refining, logistics related to procurement or sales, as well as the wholesale of crude oil products. It targets to maximise MOL Group profit with optimising through the whole value chain.

SPE based reserve valuation
Method used by the Society of Petroleum Engineers

Spot contract/sales
Short term sales, usually in a contract for one delivery.

Strategic gas storage
The mobile natural gas reserve and the relevant peak withdrawal capacity aiming at implementing the Law XXVI. of 2006 on strategic storage of natural gas. This reserve and capacity can be exclusively used for ensuring the security of natural gas supply in case of supply crisis , under the terms and conditions published in the relevant minister's decree and such reserve shall be replenished.

Thermal Power Plant
A thermal power station is a power plant in which the prime mover is steam driven. Water is heated, turns into steam and spins a steam turbine which drives an electrical generator (regional average net electric efficiency of existing thermal power plants is approximately 35%)

Term contract/sales
Long term contract, usually for one year or longer term.

Toe (tonne of crude oil equivalent)
Mass equivalent received from the heating value of gas following conversion to crude oil on the basis of heat unit. As a rule, 1200 Nm3 gas is equivalent to 1 toe.

Transit
Gas transmission through pipeline, which crosses the border of one member of the European Economic Area and its starting or end-point is outside the European Economic Area.

Upstream
Exploration and Production Segment.

Ural Blend and Brent-Ural spread
Russian, export quality crude oil. Heavy and sour (with high sulphur content) crude oil, therefore the price of Ural Blend is lower than that of light Brent crude oil, which has low sulphur content. Brent-Ural spread is the differential between world market prices of Brent and Ural type crude oils.

The price of Ural crude is quoted in Rotterdam and Mediterranean region.

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

Financial Terms

ADR
American Depository Receipt, depository certificates issued by a foreign depository on the issuers shares, which are deposited with a Hungarian custodian.

CAPEX
Capital Expenditure

Cash Flow at Risk (CF@R)
Methodology to measure the risks of the MOL Group. It takes into account the exposures and the volatilities of the different businesses within the MOL Group portfolio. EBITDA Earnings before interest, tax, depreciation and amortisation. Operating profit plus depreciation and amortisation.

EBITDA margin
Ratio of EBITDA divided by net sales revenues.

EPS
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.

Financial Covenant
It is the rate calculated from specific terms of P&L, Balance Sheet and Cash-Flow. (Eg.: Net Debt per EBITDA, EBITDA per Total Interest Expense) Financial Covenants are primarily applied in loan facility agreements to limit lenders' credit risk.

Gearing
Ratio of net debt to net debt plus equity. Net debt = Long-term debt, net of current portion + short-term debt + current portion of long-term debt – short term investments – cash and cash equivalents.

IFRS
International Financial Reporting Standards, formerly International Accounting Standards (IAS) ISDA International Swap Dealers Association The ISDA Master Agreement is a general agreement between counterparties to provide legal assistance with regards to derivative transactions.

Market capitalisation
Number of shares (issued share capital excluding Treasury stock) multiplied by the actual stock market price.

Net income
Attributable to equity holders of the parent Profit after taxation after the Groups share of associated companies and the deduction of profits due to minority interest.

NOPLAT
Net Operating Profit After Tax.

Operating cash flow
Net cash provided by operating activities to be used for investment activities, interest payments and dividend payments to shareholders.

Return on average capital employed (ROACE)
Operating profit after taxation / average capital employed.
Operating profit after taxation = operating profit x (100% - calculated corporate tax ratio)
Average capital employed = opening capital employed/2 + closing capital employed/2
Capital employed = total assets – long term financial investments – work in progress – cash and cash equivalents – securities – short term liabilities + short term loans and credits.

Return on Equity (ROE)
Net income divided by shareholders equity.

Shareholder's return
Return resulting from the movements of the share price and the amount of dividend paid.

Short position
Exposure to a factor (e.g. commodity price, foreign exchange rate, interest rate) where the profit and/or the cash flow of a company is negatively influenced by an increase of such factor.

Sustainable Development

BOD (Biological Oxygen Demand)
The rate of wastewater pollution expressed by the amount of oxygen required by micro organisms for the biological oxidation of organic waste in a unit volume of waste water.

CCS (Carbon Capture Storage)
A technique to mitigate global warming by capturing carbon dioxide (CO_2) from large point sources such as fossil fuel power plants and storing it in a suitable underground geological formation instead of releasing it into the atmosphere.

CDM (Clean Development Mechanism)
One of the three flexible mechanisms under the Kyoto Protocol that allows industrialised countries with a GHG reduction commitment to invest in emission reduction projects in developing countries to help meet their own emission targets in a more cost effective way.

COD (Chemical Oxygen Demand)
A parameter similar to BOD, differing only in that the oxidation of components in waste water is based on the use of chemicals.

DOC (Declaration of conformity)
The process by which businesses and subsidiaries of MOL Group declares the level of compliance with MOL Group HSE Management System based on conducted self-assessments and audits.

ETS (Emission trading scheme)
The Greenhouse Gas Emission Trading scheme of the European Union is a market based instrument for cost effective reduction of Greenhouse Gas Emissions.

Flared and vented gas
Flaring is burning of gases in a thermal destruction device and includes also the flaring of associated gas from oil production. Venting is the controlled release of gases in the atmosphere. The gases might be natural gas or other hydrocarbon vapours, water vapour and other gases, such as carbon dioxide, separated in the processing of oil or natural gas.

FS
Filling Station

FTE
Full-time employee

GHG (Greenhouse gases)
Gases that contribute to the formation of an undesirable insulating blanket around the Earth by trapping heat from infrared radiation (CO_2, CH_4, N_2O, HFC, PFC, SF_6).

GRI (Global Reporting Initiative)
A multi-stakeholder process and independent institution whose mission is to develop and disseminate globally applicable Sustainability Reporting Guidelines.

HSE
Health, Safety and Environment

Incident inquiry rate
Number of HSE incidents inquired by root cause analyses (TRIPOD approach) per number of all HSE incidents.

JI (Joint Implementation)
One of the three flexible mechanisms under the Kyoto Protocol that allows industrialised countries with a GHG reduction commitment to invest in emission reduction projects that enhance removal by sinks, in another industrialised country, and count the resulting emission reduction units (ERUs) to help meet their own country's emission targets in a more cost effective way.

LTIF (Lost Time Injury Frequency)
The number of incidents of lost time injury (LTI) per one million hours worked.

PM (Particulate Matter)
Particulate matter is finely dispersed solid matter produced by burning and other technological processes; the most dangerous are fractions finer than 10 μm (PM10).

RAR (Road accident rate)
The number of road accidents per 1 million km driven.

Remediation
Preventing, minimising, remedying or mitigating the effects of pollution in relation to contaminated land or water, or restoring such land or water to its former state.

Renewable energy sources
Energy resources that are not depleted when consumed or converted into other forms of energy.

SD (Sustainable Development)
"Development that meets the needs of the present without compromising the ability of future generations to meet their own needs" (source: UN / Brundtland Report).

SS (Solid Substances)
Particles which do not dissolve in water.

TPH (Total Petroleum Hydrocarbons)
Oil substances, a parameter expressing the pollution of surface water by organic oil substances.

VOC (Volatile Organic Compounds)
Any organic compound with a vapour pressure of 0.01 kPa or higher at 293.15 K (20 ºC), or which has similar volatility under the actual conditions of use (methane is not included); most ground-level ozone (smog) results from a reaction between NOX and VOCs.

VRU
Vapour recovery unit.

Work-related injury
Any form of injury or death incurred by an employee independent of his or her own will by a temporary, sudden or violent external factor while carrying out work duties or in direct relation to those duties.

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Announcements
The company publishes its announcements in MOL's website: www.mol.hu and in Budapest Stock Exchange's website: www.bet.hu

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Statement

Undersigned, authorized representatives of MOL Hungarian Oil and Gas Public Limited Company (MOL Plc.) the issuer of MOL ordinary shares, hereby declare that MOL Plc. takes full responsibility for the announced Annual Report of MOL Group for the year ended on 31 December 2008, which has been prepared to the best of our knowledge in accordance with International Financial Reporting Standards as endorsed by the European Union, and give a true and fair view of the assets, liabilities, financial position, and profit of MOL Plc. and its subsidiaries and presents a fair review of the position, development and performance of MOL Plc. and its subsidiaries together with a description of principal risks and uncertainties.

Budapest, 21 April 2009

György Mosonyi
Group Chief Executive Officer

József Molnár
Executive Vice President
of Finance