



# MOL HUNGARIAN OIL AND GAS Co.

## 1998 FIRST HALF RESULTS

This report contains consolidated<sup>1</sup> financial statements for the six months ended 30 June 1998 of MOL Hungarian Oil and Gas Co. as prepared by the management in accordance with International Accounting Standards (IAS) and Hungarian Accounting Standards (HAR). *Please note that quarterly and half-yearly figures in this report are unaudited.*

### Financial Highlights

1997 Full Year		MOL Group financial results (IAS)	H1 1997		H1 1998		98/97 ch.%	
HUF bn	USD m <sup>(1)</sup>		HUF bn	USD m <sup>(1)</sup>	HUF bn	USD m <sup>(1)</sup>	HUF	USD <sup>(1)</sup>
637.0	3,411.9	Net sales revenues	297.0	1,678.0	302.6	1,437.5	+2	-14
581.9	3,116.8	Adjusted net sales revenues <sup>(2)</sup>	273.2	1,543.8	302.6	1,437.5	+11	-7
50.0	267.8	Operating profit	21.5	121.4	31.3	148.7	+46	+23
30.6	163.9	Net income <sup>(3)</sup>	12.5	70.6	29.1	138.2	+132	+96
314.0	1.7	Earnings per share (HUF or USD)	130.0	0.7	298.1	1.4	+129	+95
77.8	416.7	Operating cash flow	51.7	292.1	64.5	306.4	+25	+5

<sup>(1)</sup> In converting HUF financial data into US Dollars, the following average NBH middle rates were used: for the first half of 1997: 176.97 USD/HUF, for 1997: 186.7 USD/HUF, for the first half of 1998: 210.5 USD/HUF <sup>(2)</sup> Net sales have been adjusted to make results comparable after the introduction of the New Excise Tax. <sup>(3)</sup> Net income in accordance with IAS means Net profit attributable to shareholders

IAS consolidated<sup>1</sup> operating profit for the first half of 1998 was HUF 31.3 bn, profit before taxation was HUF 32.8 bn, while net income reached HUF 29.1 bn. Operating profit grew by 46%, while net income was 132% higher over the same period in 1997 and net income contribution was HUF 11.5 bn in the second quarter 1998 alone. Net income increase outpaced the operating profit growth as net financial results reached a profit of HUF 1.5 bn (against a net loss of HUF 5.4 bn in 1H 1997) as a result of the capital gains achieved on the disposal of some minority interests and also more favorable financing conditions enjoyed during this period. Earnings per share for the period was HUF 298.1 bn (showing 129% growth). The strong growth in earnings was recorded despite a significant reduction in crude oil prices (by 5.9 USD/bbl or 30%) and the lower natural gas sales over the same period last year. Unconsolidated operating profit increased by 61% from HUF 15.8 bn to HUF 25.4 bn and profit before taxation grew by 107%, from HUF 15.1 bn up to HUF 31.2 bn, while profit after taxation was up 121% (from HUF 12.9 bn to HUF 28.4 bn). At the same time, the profit contribution from the consolidated subsidiaries fell, chiefly as a result of the decline in the profitability of fertiliser producer Nitrogénművek Rt., as previously projected, where operating profit declined from HUF 3.3 bn in the first half of 1997 to HUF 1.9 bn in the first half of 1998.

Exploration and Production (including fully consolidated subsidiaries engaged in Upstream activities) achieved an IAS operating profit of HUF 23.7 bn while Refining and Marketing (including fully consolidated subsidiaries related to Downstream activities) contributed HUF 13.4 bn to IAS Group operating profit. Corporate and other operating income (including the results of fully consolidated subsidiaries engaged in corporate activities as well as eliminations and IAS adjustments) incurred a net loss of HUF 5.8 bn. The strong operating cash flow reached HUF 64.5 bn in the first half of 1998 and a decline recorded in group net debt levels compared to 1997 year-end levels, thus the net debt to net debt plus equity ratio was 22.4% at the end of the period.

The main IAS adjustments were a decrease in provision for the elimination of past environmental damages, an increase in the accruals for restoration costs of abandoned oil and gas fields and a decrease in the accrual for future refinery maintenance costs. Total IAS adjustments increased net income (after minority interest and other adjustments) in the first half by HUF 0.5 bn. HAR consolidated profit after taxation was lower by this amount and reached HUF 28.6 bn.

<sup>1</sup> Involved in full consolidation in accordance with both HAR and IAS were Rotary Rt., GES Kft., Geoinform Kft, MOL-Chem Kft, MOLTRADE-Mineralimpex Rt., MOL-Lízing Kft., Kumpetrol Kft., Petrolszervíz Kft., Petroszolg Kft., MOLTRANS Kft., Dunafiksz Kft, MOL-Románia Kft., MOL-Szlovákia Kft. (all 100% owned by MOL) as well as Zsámbékgáz Rt (96.16%), Olajterv Rt. (86%), Izobutilén Ltd. (68%), Nitrogénművek Rt., (59.34%), Börzsönygáz Kft. (99.81%), Terméktároló Rt. (74%) and ZAB Rt. (56.15% owned by MOL) were included in full consolidation. MOL-Hotels Rt. (100%) was brought into consolidation from the first quarter of 1998 and MOL-Invest Rt. (100% owned by MOL) was involved in consolidation from the second quarter of 1998.



## Sectoral Performance

### Exploration and Production

1997 Full Year		UPSTREAM Divisional IAS results	H1 1997		H1 1998		98/97 ch. %	
HUF bn	USD m <sup>(1)</sup>		HUF bn	USD m <sup>(1)</sup>	HUF bn	USD m <sup>(1)</sup>	HUF	USD <sup>(1)</sup>
242.1	1,296.7	Net sales	117.2	662.3	138.8	659.4	+18	0
242.1	1,296.7	Adjusted net sales <sup>(2)</sup>	117.2	662.3	138.8	659.4	+18	0
32.5	147.1	Operating profit	14.5	81.9	23.7	112.6	+63	+38
22.1	118.4	Depreciation	10.2	57.6	9.9	47.0	(3)	(18)
161.6	865.6	Tangible assets	147.2	831.8	159.9	759.6	+9	(9)
35.8	191.8	Capital expenditures	7.5	42.4	17.1	81.2	+128	+92

<sup>(1)</sup>Exchange rates used - 1997: 186.7 HUF/USD, 1997 H1: 176.97 HUF/USD, 1998 H1: 210.5 USD/HUF (average NBH middle rates) <sup>(2)</sup> Net sales have been adjusted to make results comparable after the introduction of the New Excise Tax

In the first half of 1998, IAS consolidated net sales revenues (third party sales only) for the Exploration and Production division were HUF 138.8 bn and operating profit was HUF 23.7 bn, representing a 63% profit growth over HUF 14.5 bn in the same period last year (unconsolidated divisional HAR operating profit was HUF 22.6 bn, adjusted in the IAS accounts by a HUF 0.4 bn increase in the accrual for the restoration of abandoned oil and gas production fields and a HUF 0.2 bn decrease in sectoral environmental provisions as well as by the profit contribution of Upstream subsidiaries). The Division spent HUF 17.1 bn on capital expenditures, HUF 4.7 bn on investments and expensed a further HUF 3.7 bn in domestic exploration costs. The strong decline in market price for crude oil, condensates, and LPG and lower natural gas and LPG production and sales volumes caused by milder weather all had a negative impact on the profitability of the Division, which was more than offset by improving returns from the natural gas business, recovering to profits after a loss in H1 1997.

Natural gas sales volumes were 6.0 bcm (0.5 bcm or 8% lower than in the first half of 1997), showing a similar decline to the first quarter of 1998 (7.5%) Import sources of 4.3 bcm secured 72% of natural gas sales (in the same period of 1997 import sources represented 4.2 bcm, which represented 65% of total natural gas sales) and 1.7 bcm was sold from domestic production. Total net dry gas production was 1.8 bcm, showing a 25% decline compared to the same period of 1997 (2.4 bcm). The unfavourable change on the previous period in the ratio of the production and import sources was caused by contractual obligations to take import volumes which led us to restrain domestic production levels. According to valid natural gas regulation, in the first half of 1998, the natural gas business (encompassing natural gas exploration, production, storage, transmission and wholesale activities) had an estimated profit of HUF 4.2 bn, taking into account - as specified in the price regulation - HUF 1.0 bn of allocated interest costs, HUF 3.0 bn of inventory holding costs and HUF 2.8 bn of allocated overhead costs. In contrast, during the first half of 1997, the gas business suffered a loss of HUF 3.8 bn, including HUF 1.2 bn of allocated interest costs, HUF 2.1 bn of inventory holding costs and HUF 1.9 bn of allocated overhead costs. In the second quarter of the year, the profit position of the gas business decreased slightly for seasonal reasons, despite the fact that the gap between average wholesale and import prices disappeared (the difference was as high as 5 HUF/m<sup>3</sup> in the first half of 1997). Average sales price increased by 28.3% and reached (including transmission fee) 19.5 HUF/m<sup>3</sup> (15.2 HUF/m<sup>3</sup> in H1 1997) while the average import parity price decreased by 3.5% from 20.2 HUF/m<sup>3</sup> to 19.5 HUF/m<sup>3</sup> (the decline was 17.4% in dollar terms). We note that MOL Rt. also incurred some 3 HUF/m<sup>3</sup> of additional costs above the import unit costs (transmission, inventory holding, storage, and allocated overhead costs). Falling contractual natural gas import prices were effected by the sharp decline in competing fuel prices, and the full cancellation of the statistical and import duties payable on CIS natural gas imports from the second quarter of 1998, which was moderated by the devaluation of the Forint against US dollar.

Natural gas sales (including transmission revenues) increased by HUF 18.5 bn to HUF 117.7 bn, as a result of higher sales prices and despite lower sales volumes. Natural gas transit volumes slightly decreased from 1.2 bcm in the first half of 1997 to 1.1 bcm in first half of 1998 and revenues reached HUF 3.8 bn (no change compared to first half of 1997). MOL Rt. has signed a 20-year natural gas transit agreement with NIS, the Yugoslavian company, which envisages transiting a total volume of 73 bcm during the period, and another 20-year transit agreement with Energoinvest and BH Gas, the Bosnian oil and gas companies was signed, for which the volumes will reach a total of 9 bcm. Total LPG sales dropped by 14% (from 115 kt to 99 kt) and LPG sales revenues were HUF 4.2 bn, strongly decreased by HUF 1.1 bn over H1 1997. LPG volume declines have been caused by a mild winter. Revenues from other gas products reduced from HUF 2.0 bn to HUF 1.4 bn, and volumes went down from 51 kt to 36 kt. Revenues from condensates sales (at transfer prices) decreased by HUF 1.8 bn to HUF 3.7 bn, while volumes fell from 199 kt to 160 kt as condensates are mainly extracted from the company's natural gas fields. Domestic crude oil production was 635 kt in the first half of 1998 of which 625 kt was transferred to Refining (4% less than in the same period of 1997). Revenues from crude oil (at transfer prices) were HUF 12.5 bn, decreasing by HUF 3.4 bn due to the decline in crude oil production and prices. MOL signed exploration agreements in Albania and Yemen during the first half of 1998.



### Refining and Marketing

1997 Full Year		DOWNSTREAM Divisional IAS results	H1 1997		H1 1998		98/97 ch. %	
HUF bn	USD m <sup>(1)</sup>		HUF bn	USD m <sup>(1)</sup>	HUF bn	USD m <sup>(1)</sup>	HUF	USD <sup>(1)</sup>
421.6	2,258.2	Net sales	176.2	995.6	166.4	790.5	(6)	(21)
366.5	2,132.2	Adjusted net sales <sup>(2)</sup>	152.5	861.7	166.4	790.5	+9	(8)
23.9	128.0	Operating profit	5.6	31.6	13.4	63.6	+139	+101
14.2	76.6	Depreciation	6.3	35.6	7.0	33.3	+11	(7)
125.6	672.7	Tangible assets	100.7	569.0	121.8	578.6	+21	+2
29.3	156.9	Capital expenditures	8.6	48.6	13.5	64.1	+57	+32

<sup>(1)</sup> Exchange rates used - 1997: 186.7 HUF/USD, 1997 H1: 176.97 HUF/USD, 1998 H1: 210.5 USD/HUF (average NBH middle rates) <sup>(2)</sup> Net sales have been adjusted to make results comparable after the introduction of the New Excise Tax

IAS net sales revenues for the Refining and Marketing division for the first half of 1998 were HUF 166.4 bn and operating profit reached HUF 13.4 bn (unconsolidated divisional HAR operating profit was HUF 11.7 bn and was adjusted under IAS for a HUF 0.4 bn decrease in sectoral environmental provision, a HUF 1.0 bn decrease in the accrual for future maintenance costs at the Duna Refinery as well as by the profit contribution of Downstream subsidiaries). Under IAS, the Division spent HUF 13.5 bn on capital expenditures and HUF 1.9 bn on investments. The profitability of the division was improved by increasing domestic demand for higher value oil products, improving overall refining industry margins and the lower purchase price of imported crude oil. These positive impacts have only been partially moderated by the fact that the Division used up and sold inventories reflecting higher purchase costs in the first some months of the period. The Company continued refinery its efficiency improvement (TOP I-II-III), and logistics cost saving (CPR) programmes. Over and above the HUF 11.3 bn efficiency improvement reported during 1997, results for the first half of 1998 have been assessed at a profitability improvement of HUF 4.1 bn from the TOP projects and savings of HUF 2.0 bn from the CPR project, leading to a total efficiency improvement of HUF 6.1 bn in the period and significantly exceeding our original 1998 targets.

During the first six months of 1998, MOL refined 2.8 Mt of imported crude oil (solely Russian Ural Blend type). The crude oil import price declined by 34.7% in dollar terms and by 22.4% in the Forint terms. Domestic demand for refined products increased on the back of a stable market shares, MOL's domestic oil product sales were up 6% to 2578 kt and the export sales were up 3.7% to 893 kt. After a reduction of 6% in first quarter in export volumes, MOL Rt. recorded higher export sales (mainly in gas oils) during the second quarter. Due to increasing domestic demand, sales increased and key product (motoric fuels) sales increased at above the average sale growth. In the first half of 1998, our total motoric gasoline sales increased by 7% (domestic sales increasing by 6% and exports going up by 9%). Total gas and heating oil sales went up by 9% as domestic sales grew by 10% and gas oil exports grew by 8%. Sales of fuel oils increased by 6%. Bitumen sales dynamically increased by 27% due to better export conditions and higher domestic demand caused by milder winter. Lubricants sales increased by 14% chiefly due to improving export sales. Wholesale market share in motoric gasolines was 85% (88% in H1 1997), and for gas and heating oils was 87% (91% in the same period of 1997). The market share in fuel oils went up to 75% (from 63%), while in bitumens MOL kept its market share of 98% and in lubricants a 61% market share was recorded (66% in the same period of 1997). Average wholesale market share reached 82% in 1H 1998 against 79% recorded in 1H 1997. In the first half of 1998, sales revenue contributions of the main product groups were as the follows: motoric gasolines - HUF 92.9 bn (excluding excise duty HUF 35.0 bn), gas and heating oils - HUF 95.5 bn (excluding excise duty: HUF 44.1 bn), fuel oils - HUF 12.1 bn, lubricants - HUF 10.1 bn (excluding product fees HUF 8.4 bn), bitumens, - HUF 3.7 bn, and naphtha - HUF 11.5 bn. Average distillation refinery capacity utilisation of Duna and Tisza refineries in the first half of 1998 was 66.1% (no change was recorded compared to 1H 1997 as there were major overhauls carried out over the first half).

Fuelled by an exceptionally mild weather and improving macroeconomic conditions, domestic retail oil product sales increased sharply during the period: retail sales of motoric gasolines went up by 4% and retail gas oils sales increased by 13%, leading to a strong increase in total retail white products sales of 7.3%. According to data supplied by the Hungarian Petroleum Products Association (MÁSZ) which does not include independent retailers' sales, MOL's retail market share was 40% for both motoric gasolines and gas and heating oils in the first half of 1998 (a further modest development in both categories compared to the same period in 1997), while MOL's retail market share in lubricants was 61%. The ongoing filling station modernisation programme helped us to increase our retail market shares, by the end of the second quarter 191 MOL 2000 stations and all in all 354 MOL stations were in operation in Hungary. We flagged 31 filling stations in the neighbouring countries - 21 own and 10 franchise - at the end of the period (18 in Romania, 9 in Slovakia and 3 in Ukraine and 1 in Croatia). At the end of the year more than 50 MOL stations will be operating in the region.



## Financial Overview

### *Overview of the Business Environment*

During the second quarter, crude oil prices decreased further. In the first quarter average Brent dated price was 14.04 USD/bbl decreasing to an average 13.31 USD/bbl in the second quarter and reaching an average of 13.68 USD/bbl in the first half of 1998 (representing a 30.1% decline over the average of 19.57 USD/bbl in the first half of 1997). Med quoted price of Ural Blend crude (dominating MOL's crude purchases) was 32.4% lower. Gasoline grade 95 prices have shown a decrease of 24.2% whilst gas oil and heavy fuel oil prices were 27.4% and 26.2% lower, respectively (in this calculation, CIF Med quoted product prices were used). Indicative Ural Med complex refining margins averaged 2.47 USD/bbl in the second quarter of 1998 against an average of 1.89 USD/bbl for the first quarter of 1998, and the average of 2.18 USD/bbl calculated for the first half of 1998. The US dollar, MOL's main foreign trading currency, appreciated by an average 18.9% against the Hungarian Forint on H1 1997 (from HUF 177 to HUF 210.5), while the closing exchange rate grew by 17.2% over the same period (from HUF 187 to HUF 219.1). This exceeded the growth in the consumer price index by 14.2% and the 12.3% official devaluation of the Forint by the NBH against the currency basket (70%DEM/30%USD).

### *Revenues, costs and expenditures*

IAS consolidated net sales revenues were HUF 302.6 bn in the first six months of 1998. As a New Excise Tax was introduced from the beginning of 1998 comprising two product tax items previously included in net sales: road fund contribution (which was HUF 21 bn in the first half of 1997 and accounted for the net sales revenues) and the environmental levy on motoric fuels (this was HUF 2.7 bn in the first half of 1997). These two product tax items are no longer shown either in net sales revenues nor deducted under other costs and expenditures. Excluding these two former product tax items from net sales, adjusted net sales revenues were HUF 273.2 bn in the first half of 1997 and with this modifications, 1998 first half sales showed a 11% growth. Export revenues were HUF 50.7 bn, representing 17% of total net sales.

Material expenses increased from HUF 190.1 bn to HUF 204.8 bn, showing a 7.7% increase of which raw material costs decreased to HUF 71.7 bn (mainly reflecting the declining price of crude oil purchased by MOL Rt.) while cost of goods purchased for resale (mainly natural gas) grew to HUF 114.1 bn. Personnel expenses went up by 19% from HUF 21.6 bn to 25.7 HUF bn in the first six months of 1998 compared to the same period of 1997. This increase reflects the personal cost of new subsidiaries brought into full consolidation. At the same time, personnel expenses of MOL Rt. increased from HUF 16.9 bn to HUF 19.2 bn, showing a 13.4% increase. Depreciation was HUF 19.2 bn, HUF 1.8 bn higher than in the same period of 1997. Several reclassification became necessary in the other costs and expenditures categories. With effect from 1 January 1998, the road fund contribution and environmental levy on motoric fuels are no longer shown under these categories and mining royalties (which were HUF 8.1 bn in the first half of 1997 and reduced to HUF 5.2 bn in the same period of 1998) are to be shown under other costs instead of the previous categorisation as an other expense item. Taking into account these reclassifications, other costs were HUF 16.5 bn representing an 8% decline in the first half of 1998. Adjusted other expenditures increased by only 1% from HUF 11.9 bn to HUF 12.0 bn in the first six months of 1998. The Crude Oil and Crude Oil Product Stockpiling Association (KKKSz) fee accounted for in other expenditures increased from HUF 3.7 bn to HUF 6.1 bn. Adjusted total other costs and expenditures decreased by 4.6%.

Including the above mentioned items, IAS operating profit increased from HUF 21.5 bn to HUF 31.3 bn in the first half of 1998, showing a 45.8% growth on the same period last year. Financial income usually consists predominantly of interest receivable. However, in the first half of 1998 it also contained (under other revenues from financial transactions) the capital gain achieved on the sale of our 8.6% minority shareholding in Hungarian cellular operator Pannon GSM Rt., and to a lesser degree, the gain on the sale of MOL's 43% share in PB Gáz Szerviz Kft. Financial income reached HUF 12.7 bn, while financial expenses - consisting of interest payable (HUF 6.9 bn) and exchange losses on foreign currency loans (HUF 3.8 bn) - reached HUF 11.2 bn. IAS consolidated profit before taxation was HUF 32.8 bn, after deducting the share of minority interests from group profits, net income attributable to shareholders was HUF 29.1 bn.



### Summary of main differences between IAS and HAR

- Under IAS provisions are to be made for the elimination of environmental damages caused in the past and in order to comply with known environmental protection legislation. The existing provision was indexed by the relevant inflation figure and the expenses borne in carrying out rehabilitation activities (as specified in previous environmental audits) during the first six months of 1998 have been deducted, resulting in a total net decrease of HUF 0.6 bn in the provision.
- In accordance with IAS, the company accrues abandonment costs of oil and gas producing fields on a unit of production basis. This decreased profits by HUF 0.4 bn in the first six months of 1998.
- Accruals for future maintenance costs at the Duna Refinery was reduced under IAS by HUF 1.0 bn in the first six months of 1998 as a result of general overhauls started in some refinery units.
- Deferred tax increased profits under IAS by HUF 0.5 bn in the first six months of 1998. The final balances of deferred tax are calculated on an annual basis, based on the actual tax rate for the preceeding year as well as the rates expected for future years, while also taking into account the expected size and direction of IAS modifications.

### Cash flow

IAS cash flow from operations in the first six months of 1998 was HUF 64.5 bn, within which a reduction in working capital needs increased the Group's funds by HUF 11.1 bn. The change in working capital was driven by a HUF 19.6 bn decrease in debtors, a HUF 0.4 bn decline in other receivables and a HUF 1.4 bn increase in creditors, while inventories growing by HUF 7.8 bn and other liabilities falling by HUF 2.5 bn decreased funds. Returns on investment and servicing of finance (by HUF 2.0 bn) and corporate tax paid (by HUF 3.7 bn) decreased funds in the first half 1998. Investing cash outflow amounted to a net HUF 36.8 bn (including HUF 31.8 bn capital expenditures, HUF 12.2 bn acquisitions, which were partially offset by cash proceeds of HUF 10 bn from the disposal of investments). Internally generated funds significantly exceeded the financing needs created by capital investments and as a result, the company reduced its net debt position compared to the end of 1997 (this led to a HUF 19.2 financing net cash outflow).

### Balance sheet analysis

IAS total assets amounted to HUF 545.9 bn on 30 June 1998, 22% higher than in the same period of 1997. Tangible fixed assets went up by 17.4% within this, equipment (by 43%), work in progress and advance payments (by 87%) showed a stronger growth. Within long-term financial investments, participations increased by 40% due to MOL's investments and capital increases in its existing investments. Inventories reached HUF 95.7 bn, 23.4% higher than at the end of the first half of 1997 (HUF 77.5 bn) as the value of goods purchased for resale increased from HUF 33.1 bn to HUF 49.4 bn, caused by higher natural gas inventory values. Natural gas inventories increased chiefly due to the significantly lower withdrawal from storage as a response to lower winter sales volume.

Inventories (MOL Rt.)	30 June 1997		30 Sept 1997		31 Dec 1997		31 March 1998		30 June 1998	
	volume	HUF bn	volume	HUF bn	volume	HUF bn	volume	HUF bn	volume	HUF bn
Crude oil (kt)	375.3	7.3	330.2	6.9	319.2	6.5	497.9	8.6	360.5	5.6
Gasolines (kt)	220.4	5.9	208.6	5.1	190.8	5.3	258.2	6.7	237.2	5.8
Gas and heating oils (kt)	232.8	5.9	216.5	5.8	223.3	5.9	304.7	7.6	259.8	6.5
Fuel oil (kt)	275.9	3.8	185.1	2.7	178.9	2.8	94.8	1.6	136.9	2.2
Other refined product (kt)	311.5	7.8	244.6	6.4	256.6	7.1	156.0	5.2	309.6	8.5
<b>Total crude oil products (kt)</b>	<b>1415.9</b>	<b>30.7</b>	<b>1185.0</b>	<b>26.9</b>	<b>1168.8</b>	<b>27.6</b>	<b>1311.6</b>	<b>29.7</b>	<b>1304.0</b>	<b>28.6</b>
Gas (working + cushion, Mm <sup>3</sup> )	2265.2	29.6	3744.7	54.5	2858.2	40.8	1633.7	20.3	3121.9	45.0
<b>Total</b>	-	<b>60.3</b>	-	<b>81.4</b>	-	<b>68.4</b>	-	<b>50.0</b>	-	<b>73.6</b>

Receivables were HUF 75.5 bn, showing a 27.5% increase on 30 June 1997. Within receivables, debtors reached HUF 53.2 bn, 14.5% higher than at the end of June, 1997 and other receivables increased from HUF 12.6 bn to HUF 22.3 bn showing a 76.3% growth. Securities and liquid assets were HUF 20.3 bn on 30 June 1998, by HUF 7.7 bn higher than at the end of the same period last year. Creditors increased from HUF 28.1 bn to HUF 33.5 bn showing a 19% increase. Other short term liabilities were 2% higher than at the end of June 1997 and reached HUF 43.0 bn. This mainly contains taxes payable resulting from normal business operations. Short term debt was HUF 22.6 bn (short term debt contains the short-term portion of long-term debt, i.e. repayable within one year) higher by HUF 5.6 bn than as at 30 June 1997 but lowered by HUF 0.5 bn compared to year-end 1997. Long term liabilities grew by 50% on 30 June 1997 but decreased by HUF 5.7 bn or 5% compared to the end of 1997. Long term debt, which is the largest part of this account, fell by 6.1 bn (8%) over the end of 1997. Due to the favourable cash position, MOL has drawn down only limited amounts of long term loans and even repaid significant amounts within existing facilities. The largest item of the long term liabilities was the accrual for field abandonment costs, increasing to HUF 32 bn by the end of June 1998.



## Key Operating Data

<b>HYDROCARBON PRODUCTION</b>	<b>1996</b>		<b>1997</b>			<b>1998</b>			<b>98/97</b>
<b>(gross figures)</b>	<b>H 1</b>	<b>Q 1</b>	<b>Q 2</b>	<b>H 1</b>	<b>Year</b>	<b>Q 1</b>	<b>Q 2</b>	<b>H 1</b>	<b>Ch. %</b>
Crude oil production, kt	734	334	334	668	1360	319	316	635	95.1
Condensates production, kt	239	128	79	207	388	93	72	165	79.7
LPG production, kt	97	48	40	88	167	44	36	80	90.9
Production of other gas products, kt	57	29	25	54	100	27	19	46	85.2
<b>NATURAL GAS BALANCE</b>	<b>1996</b>		<b>1997</b>			<b>1998</b>			<b>98/97</b>
<b>million m<sup>3</sup></b>	<b>H 1</b>	<b>Q 1</b>	<b>Q 2</b>	<b>H 1</b>	<b>Year</b>	<b>Q 1</b>	<b>Q 2</b>	<b>H 1</b>	<b>Ch. %</b>
Production (net dry)	2539	1404	966	2370	4365	1049	754	1803	76.1
Import	4657	1791	2193	3984	8080	1978	2637	4615	115.9
Movements in storage inventories	(127)	1414	(1066)	348	(247)	1207	(1469)	(262)	n.a.
<b>TOTAL SOURCES</b>	<b>7069</b>	<b>4609</b>	<b>2093</b>	<b>6701</b>	<b>12198</b>	<b>4234</b>	<b>1922</b>	<b>6156</b>	<b>91.9</b>
Sales to Gas Distr. Companies (GDCs)	5323	3799	1368	5167	9094	3451	1127	4579	88.6
Sales to power sector	822	343	315	658	1496	379	467	846	128.6
Sales to industrial and other consumers	686	370	301	671	1226	328	243	571	85.1
<b>TOTAL THIRD PARTY SALES</b>	<b>6831</b>	<b>4512</b>	<b>1984</b>	<b>6496</b>	<b>11816</b>	<b>4158</b>	<b>1838</b>	<b>5996</b>	<b>92.3</b>
Loss and own consumption	239	97	108	205	382	76	85	161	78.5
<b>TOTAL SALES AND LOSSES</b>	<b>7070</b>	<b>4609</b>	<b>2092</b>	<b>6701</b>	<b>12198</b>	<b>4234</b>	<b>1923</b>	<b>6157</b>	<b>91.9</b>
<b>TOTAL LPG SALES</b>	<b>119</b>	<b>62</b>	<b>53</b>	<b>115</b>	<b>231</b>	<b>55</b>	<b>44</b>	<b>99</b>	<b>86.1</b>
<b>REFINING</b>	<b>1996</b>		<b>1997</b>			<b>1998</b>			<b>98/97</b>
<b>thousand tons</b>	<b>H 1</b>	<b>Q 1</b>	<b>Q 2</b>	<b>H 1</b>	<b>Year</b>	<b>Q 1</b>	<b>Q 2</b>	<b>H 1</b>	<b>Ch. %</b>
Processing of domestic crude oil	727	300	354	654	1327	282	311	593	90.7
Processing of imported crude oil	2484	1361	1198	2559	5362	1355	1396	2751	107.5
Processing of condensates	227	119	70	189	363	91	70	161	85.2
Other processing	259	120	124	244	619	188	189	377	154.5
<b>TOTAL REFINERY THROUGHPUT</b>	<b>3697</b>	<b>1900</b>	<b>1746</b>	<b>3646</b>	<b>7671</b>	<b>1916</b>	<b>1966</b>	<b>3882</b>	<b>106.5</b>
<b>REFINED PRODUCT SALES</b>	<b>1996</b>		<b>1997</b>			<b>1998</b>			<b>98/97</b>
<b>Hungary, thousand tons</b>	<b>H 1</b>	<b>Q 1</b>	<b>Q 2</b>	<b>H 1</b>	<b>Year</b>	<b>Q 1</b>	<b>Q 2</b>	<b>H 1</b>	<b>Ch. %</b>
Gas and heating oils	672	314	356	670	1565	340	394	734	109.6
Gasolines	472	232	291	523	1156	246	309	555	106.1
Fuel oils	639	325	291	616	1309	412	238	650	105.5
Special gasoline and naphta	394	193	200	393	737	187	202	389	99.0
Bitumens	73	14	60	74	232	17	75	92	124.3
Lubricants	31	13	15	28	63	13	11	24	85.7
Other products	130	61	66	127	295	55	79	134	105.5
<b>TOTAL</b>	<b>2411</b>	<b>1152</b>	<b>1279</b>	<b>2431</b>	<b>5357</b>	<b>1270</b>	<b>1308</b>	<b>2578</b>	<b>106.0</b>
<b>Other markets (exports), thousand tons</b>									
Gasolines	558	203	207	410	830	194	250	444	108.3
Gasolines	169	86	81	167	411	86	94	180	107.8
Lubricants	42	19	18	37	85	21	29	50	135.1
Bitumens	28	6	30	36	99	17	31	48	133.3
Other products	200	115	96	211	369	85	86	171	81.0
<b>TOTAL EXPORT</b>	<b>997</b>	<b>429</b>	<b>432</b>	<b>861</b>	<b>1794</b>	<b>403</b>	<b>490</b>	<b>893</b>	<b>103.7</b>
<b>TOTAL PRODUCT SALES</b>	<b>3408</b>	<b>1581</b>	<b>1711</b>	<b>3292</b>	<b>7151</b>	<b>1673</b>	<b>1798</b>	<b>3471</b>	<b>105.4</b>
<b>HEADCOUNT</b>	<b>1996</b>		<b>1997</b>			<b>1998</b>			<b>98/97</b>
<b>(full-time employees only)</b>	<b>H 1</b>	<b>Q 1</b>	<b>H 1</b>	<b>Year</b>	<b>Q 1</b>	<b>H 1</b>	<b>Ch. %</b>		
<b>Total average headcount</b>	<b>15915</b>	<b>14607</b>	<b>14466</b>	<b>14344</b>	<b>13911</b>	<b>13910</b>	<b>96.2</b>		
<b>TOTAL CLOSING HEADCOUNT</b>	<b>15786</b>	<b>14519</b>	<b>14118</b>	<b>14059</b>	<b>13911</b>	<b>13946</b>	<b>98.8</b>		



## Changes in MOL's Ownership Structure

The table below shows the changes in the ownership structure of MOL in accordance with the Company's share register. Unregistered holding were accounted for in the other category. We note that under Hungarian legislation, the Share Register does not fully reflect the ownership structure, as registration is not mandatory.

Shareholder Groups	30 June 1997	30 Sept 1997	31 Dec 1997	31 March 1998	30 June 1998
ÁPV Rt. (Hungarian State Privatisation and Holding Co.)	36.2%	36.2%	36.2%	25.0%	25.0%
Foreign investors (mainly institutional)	46.0%	44.5%	45.1%	56.5%	51.2%
Employees and management	3.7%	3.7%	3.7%	4.6%	4.6%
Hungarian private and institutional investors and other	12.0%	13.6%	13.0%	11.8%	17.6%
Municipalities	1.2%	1.1%	1.1%	1.1%	0.7%
MOL Rt.	0.9%	0.9%	0.9%	1.0%	0.9%

According to the Share Register MOL Rt. had two shareholders whose ownership in the ordinary shares exceeded 5%, the ÁPV Rt. which owned 25% of the shares, while MOL's depository bank for its GDR programmes, The Bank Of New York, which had 38.2% of the shares registered under its name. We note that these figures changed reflecting the results of the recent privatisation transaction carried out in March 1998. The number of treasury shares held by MOL Rt. decreased by 142,897 from 1,007,019 to 864,122 as a result of the company's share incentive schemes.

## Major Extraordinary Announcements During the Second Quarter of 1998

MOL announced on 1 April 1998, its participation in the capital increase of PanTel Rt. Following the transaction, MOL's interest in PanTel Rt. has increased to 20.9%. (PanTel Rt. is a telecommunications company which was established to provide telecommunication services as an alternative carrier in the Hungarian market). On 9 April the Company announced its final audited, consolidated financial results for the 1997 financial year which have been prepared in accordance with International Accounting Standards (IAS) and Hungarian Accounting Regulation (HAR). The Company announced on 23 April 1998 that it had signed a 20-year natural gas transit agreement with Energoinvest and BH GAS, the Bosnian oil and gas companies. According to the contract, MOL is expected to transit a total of 9 bcm natural gas into the country until the year 2018. On 27 April 1998, MOL signed a Transfer and Joint Operating Agreement for onshore Velca Block in Albania as a member of a consortium. On 30 April, MOL announced the resolutions of the Annual General Meeting held on 29 April. MOL announced on 29 May that it has participated in a capital increase for DDGÁZ Rt., a Hungarian Regional gas Distributor, and obtained a 10% shareholding in it. On 16 June, MOL issued that it has sold its 43% minority stake in PB Gáz Szerviz Kft, a Hungarian LPG retailer. The transaction will enable MOL to intensify its activity and to launch its direct participation in the Hungarian LPG retailing business.

During the first half of 1998, there were no changes in MOL share ownership of senior management, the members of the Board of Directors and the Supervisory Board, except for a change in the shareholding of Senior Vice President for Strategy and Controlling. There were no significant changes in the corporate structure.

Budapest 14 August 1998



## APPENDIX I.

**CONSOLIDATED PROFIT & LOSS ACCOUNTS FOR THE GROUP  
FOR THE SIX MONTHS ENDED 30 JUNE 1998**

Unaudited figures (in HUF 000's)

	<u>HAR consolidated</u>		<u>IAS consolidated</u>		ch. %
	H1 1997	H1 1998	H1 1997	H1 1998	
Net domestic sales revenues	249 837 099	251 892 398		251 892 398	
Adjusted net domestic sales revenues (*)					
Net export sales revenues	46 502 282	49 825 378		50 723 086	
<b>NET SALES REVENUES</b>	<b>296 339 381</b>	<b>301 717 776</b>	<b>296 955 959</b>	<b>302 615 484</b>	<b>1.9</b>
<b>ADJUSTED NET SALES REVENUES (*)</b>	<b>272 691 595</b>	<b>301 717 776</b>	<b>273 248 173</b>	<b>302 615 484</b>	<b>10.7</b>
<b>Other revenues</b>	<b>7 370 641</b>	<b>6 091 090</b>	<b>4 948 661</b>	<b>2 617 581</b>	<b>(47.1)</b>
Different increasing consolidated profit		10 695		10 695	
Capitalised value of own produced assets	9 007 356	14 914 331		4 249 802	
Changes of own produced inventories	5 969 810	3 043 357		0	
<b>Capitalised value of own performance</b>	<b>14 977 166</b>	<b>17 957 688</b>	<b>2 235 432</b>	<b>4 249 802</b>	<b>90.1</b>
Raw material costs	86 488 282	84 509 747		71 674 612	
Value of material-type services used	13 868 702	12 146 536		11 146 536	
Cost of goods purchase for resale	94 899 099	114 098 605		114 098 605	
Value of subcontractor's performance	6 291 311	7 844 024		7 844 024	
<b>Material-type expenditures</b>	<b>201 547 394</b>	<b>218 598 912</b>	<b>190 078 101</b>	<b>204 763 777</b>	<b>7.7</b>
Wages and salaries	12 439 798	14 374 675		14 374 675	
Other payment to personnel	3 279 858	4 095 862		4 302 844	
Social insurance contribution	5 746 434	7 012 011		7 012 011	
<b>Personnel expenditures</b>	<b>21 466 090</b>	<b>25 482 548</b>	<b>21 568 685</b>	<b>25 689 530</b>	<b>19.1</b>
<b>Depreciation and amortisation</b>	<b>17 458 673</b>	<b>19 155 608</b>	<b>17 451 996</b>	<b>19 210 151</b>	<b>10.1</b>
<b>Other costs</b>	<b>12 421 048</b>	<b>17 873 927</b>	<b>9 766 499</b>	<b>16 462 966</b>	
Adjusted other costs (*)	17 789 262	17 873 927	17 867 899	16 462 966	(7.9)
<b>Other expenditures</b>	<b>45 976 302</b>	<b>18 453 266</b>	<b>43 791 964</b>	<b>12 041 276</b>	
Adjusted other expenditures (*)	16 900 302	18 453 266	11 982 788	12 041 276	1.0
Different decreasing consolidated profit	40 870	0			
<b>OPERATING PROFIT</b>	<b>19 776 811</b>	<b>26 212 988</b>	<b>21 482 807</b>	<b>31 325 862</b>	<b>45.8</b>
Interest received and interest-related revenues	937 261	4 746 525		4 746 525	
Dividend and profit-sharing received	803 540	379 596		340 901	
Other revenues from financial transactions	1 505 760	7 573 123		7 573 123	
<b>Financial income</b>	<b>3 246 561</b>	<b>12 699 244</b>	<b>2 840 624</b>	<b>12 660 549</b>	<b>345.7</b>
Interest paid and interest-related payments	3 517 230	6 974 516		6 974 516	
Write-off of financial investments	33 291	448 424		354 000	
Other expenditures on financial transaction	425 083	77 434		3 837 635	
<b>Financial expense</b>	<b>3 975 604</b>	<b>7 500 374</b>	<b>8 234 973</b>	<b>11 166 151</b>	<b>35.6</b>
<b>FINANCIAL RESULT/LOSS</b>	<b>(729 043)</b>	<b>5 198 870</b>	<b>(5 394 349)</b>	<b>1 494 398</b>	
<b>PROFIT BEFORE TAXATION AND EXTRAORD. ITEMS</b>	<b>19 047 768</b>	<b>31 411 858</b>	<b>16 088 458</b>	<b>32 820 260</b>	<b>104.0</b>
Extraordinary income	592 524	1 599 427		0	
Extraordinary expense	722 801	1 149 004		0	
<b>EXTRAORDINARY RESULT</b>	<b>(130 277)</b>	<b>450 423</b>	<b>0</b>	<b>0</b>	
<b>PROFIT BEFORE TAXATION</b>	<b>18 917 491</b>	<b>31 862 281</b>	<b>16 088 458</b>	<b>32 820 260</b>	<b>104.0</b>
Tax payable	3 241 517	3 850 902	2 552 705	3 398 377	33.1
Latent tax from consolidation (+/-)	(117 447)	( 573 981)		0	
<b>PROFIT AFTER TAXATION</b>	<b>15 793 421</b>	<b>28 585 360</b>	<b>13 535 753</b>	<b>29 421 883</b>	<b>117.4</b>
Share of profit of associated companies			241 883	228 822	(5.4)
Minority interests			1 233 104	591 603	(52.0)
<b>NET PROFIT ATTRIBUTABLE TO SHAREHOLDERS</b>			<b>12 544 532</b>	<b>29 059 102</b>	<b>131.6</b>
<b>NET PROFIT FOR THE YEAR</b>	<b>15 793 421</b>	<b>28 585 360</b>	<b>12 544 532</b>	<b>29 059 102</b>	<b>131.6</b>

(\*) Adjustments have been carried out due to the introduction of New Excise Tax in 1998.



## APPENDIX II.

**CONSOLIDATED BALANCE SHEETS FOR THE GROUP**  
**FOR THE SIX MONTHS ENDED 30 JUNE 1998**  
 Unaudited figures (in HUF 000's)

	<u>HAR consolidated</u>		<u>IAS consolidated</u>		ch. %
	30 June 1997	30 June 1998	30 June 1997	30 June 1998	
<b>FIXED ASSETS</b>	<b>274 597 604</b>	<b>329 982 190</b>	<b>281 887 098</b>	<b>349 244 173</b>	<b>23.9</b>
<b>INTANGIBLE FIXED ASSETS</b>	<b>5 880 056</b>	<b>6 250 566</b>	<b>5 880 469</b>	<b>6 489 048</b>	<b>10.4</b>
Rights, representing assets	337 103	484 979	337 103	484 979	43.9
Goodwill	200	100	200	100	(50.0)
Intellectual property	1 392 952	1 873 051	1 393 365	1 873 051	34.4
Capitalised value of research and development	4 149 801	3 878 835	4 149 801	3 878 835	(6.5)
Capitalised value of formation an restructuring expenses		13 601		13 601	
IAS goodwill				238 482	
<b>TANGIBLE FIXED ASSETS</b>	<b>249 222 878</b>	<b>294 547 782</b>	<b>256 195 923</b>	<b>300 820 588</b>	<b>17.4</b>
Land and buildings	171 711 365	185 913 132	171 470 151	185 645 440	8.3
Technical equipment, machinery, vehicles	45 189 002	52 348 049	52 396 316	58 888 547	12.4
Other equipment and fittings	9 137 019	13 050 840	9 143 858	13 050 840	42.7
Work in progress	22 225 025	42 476 903	22 225 131	42 476 903	91.1
Advance payments made towards capex	960 467	758 858	960 467	758 858	(21.0)
<b>LONG-TERM FINANCIAL INVESTMENTS</b>	<b>19 494 670</b>	<b>29 183 842</b>	<b>19 810 706</b>	<b>26 948 462</b>	<b>36.0</b>
Participations	16 612 296	23 963 327	17 060 565	23 829 084	39.7
Securities	492 439	637 763	492 439	637 763	29.5
Loans owed to the Company	2 096 278	2 481 615	2 099 043	2 481 615	18.2
Long term bank deposit	158 659	0	158 659	0	
Active balance of consolidation of equity from affiliates/JVs	134 998	2 101 137		0	
<b>DEFERRED TAX</b>			<b>13 197 000</b>	<b>14 986 075</b>	<b>13.6</b>
<b>CURRENT ASSETS</b>	<b>154 604 810</b>	<b>198 561 685</b>	<b>149 342 221</b>	<b>191 460 495</b>	<b>28.2</b>
<b>INVENTORIES</b>	<b>77 765 436</b>	<b>95 874 125</b>	<b>77 500 601</b>	<b>95 662 458</b>	<b>23.4</b>
Raw materials and consumable goods	18 452 434	18 107 998	18 185 845	17 896 331	(1.6)
Goods purchased for resale	33 095 718	49 368 175	33 097 715	49 368 381	49.2
Advance payments made towards inventories	372 346	490 831	372 346	490 831	31.8
Livestock	243	206			
Semifinished products	10 916 023	12 744 013	10 916 023	12 744 013	16.8
Finished products	14 928 672	15 162 902	14 928 672	15 162 902	1.8
<b>RECEIVABLES</b>	<b>62 693 313</b>	<b>79 761 815</b>	<b>59 193 329</b>	<b>75 488 724</b>	<b>27.5</b>
Accounts receivable	48 507 483	55 771 344	46 501 994	53 224 602	14.5
Draft receivables	65 466	0	65 466	0	
Other receivables	13 349 412	22 264 122	12 625 869	22 264 122	76.3
Active latent tax due to consolidation	770 952	1 726 349		0	
<b>SECURITIES</b>	<b>9 699 712</b>	<b>7 678 082</b>	<b>8 150 828</b>	<b>5 061 650</b>	<b>(37.9)</b>
Bonds purchase for resale	1 945 435	665 719	1 945 435	665 719	(65.8)
Treasury shares, share quotas, shares bought for sale	1 592 152	2 653 646	43 268	37 214	(14.0)
Other securities	6 162 125	4 358 717	6 162 125	4 358 717	(29.3)
<b>LIQUID ASSETS</b>	<b>4 446 349</b>	<b>15 247 663</b>	<b>4 497 463</b>	<b>15 247 663</b>	<b>239.0</b>
Cash	344 963	406 577	345 691	406 577	17.6
Bank deposits	4 101 386	14 841 086	4 151 772	14 841 086	257.5
<b>PRE-PAID EXPENSES</b>	<b>4 374 017</b>	<b>6 476 323</b>	<b>3 709 725</b>	<b>5 225 396</b>	<b>40.9</b>
<b>TOTAL ASSETS</b>	<b>433 576 431</b>	<b>535 020 198</b>	<b>448 136 044</b>	<b>545 930 064</b>	<b>21.8</b>



## APPENDIX II. (CONT'D)

**CONSOLIDATED BALANCE SHEETS FOR THE GROUP  
FOR THE SIX MONTHS ENDED 30 JUNE 1998**  
Unaudited figures (in HUF 000's)

	<u>HAR consolidated</u>		<u>IAS consolidated</u>		ch. %
	30 June 1997	30 June 1998	30 June 1997	30 June 1998	
<b>SHAREHOLDERS' EQUITY</b>	<b>297 202 632</b>	<b>340 680 364</b>	<b>253 926 159</b>	<b>292 344 543</b>	<b>15.1</b>
Issued share capital	98 400 001	98 400 001	97 330 557	97 423 160	
Capital reserves	166 712 869	166 714 214			
Retained earnings	13 093 489	40 635 139			
Reserves			144 051 070	165 862 281	15.1
Retained profit from the year	15 793 421	28 585 360	12 544 532	29 059 102	131.6
Change on equity of affiliates (+/-)	2 581 648	5 199 635		0	
Change due to consolidation	(2 113 380)	(4 390 384)		0	
Difference of debt consolidation	0	197 381			
Difference from inter company profits consolidation	(2 113 380)	(4 587 765)			
<b>MINORITY INTEREST</b>	<b>2 734 584</b>	<b>5 536 399</b>	<b>3 928 250</b>	<b>6 310 150</b>	<b>60.6</b>
<b>PROVISIONS</b>	<b>3 991 072</b>	<b>3 320 495</b>	<b>21 395 555</b>	<b>21 370 555</b>	<b>(0.1)</b>
Provision for expected losses	2 027 517	2 546 742		0	
Provision for expected liabilities	1 963 555	763 216	1 963 555	763 216	(62.5)
Other provisions		10 537	19 432 000	20 607 339	6.0
<b>NEGATIVE GOODWILL</b>			<b>3 021 083</b>	<b>4 676 235</b>	<b>54.8</b>
<b>LIABILITIES</b>	<b>129 143 198</b>	<b>180 767 306</b>	<b>162 620 404</b>	<b>212 309 548</b>	<b>30.6</b>
<b>LONG TERM LIABILITIES</b>	<b>46 869 539</b>	<b>84 256 556</b>	<b>74 415 792</b>	<b>111 493 283</b>	<b>49.8</b>
Investment and development credits	40 385 545	66 698 497	40 385 545	66 698 497	65.2
Other long term credits	821 155	732 796	821 155	732 796	(10.8)
Long term loans	1 729 991	1 752 415	1 729 991	1 752 415	1.3
Outstanding bonds issued	52 390	10 052 390	52 390	10 052 390	
Other long term liabilities	161 466	233 621	31 426 711	32 257 185	2.6
Passive capital consolidation balance from affiliates	3 718 992	4 786 837			
<b>SHORT TERM LIABILITIES</b>	<b>82 273 659</b>	<b>96 510 750</b>	<b>88 204 612</b>	<b>100 816 265</b>	<b>14.3</b>
Advance payments received from customers	769 334	1 703 916	769 334	1 703 916	121.5
Accounts payable (suppliers)	28 127 326	33 491 038	28 147 179	33 491 038	19.0
Drafts outstanding	2 075	3 053	2 075	3 053	47.1
Short term credits	16 652 965	20 878 534	16 654 216	20 878 534	25.4
Short term loans	366 867	1 680 277	366 867	1 680 277	
Other short term liabilities	36 355 092	38 753 932	42 264 941	43 059 447	1.9
<b>ACCRUED EXPENSES</b>	<b>3 239 529</b>	<b>10 252 033</b>	<b>3 244 593</b>	<b>8 919 033</b>	<b>174.9</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>433 576 431</b>	<b>535 020 198</b>	<b>448 136 044</b>	<b>545 930 064</b>	<b>21.8</b>



## APPENDIX III.

**CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE GROUP**  
**FOR THE SIX MONTHS ENDED 30 JUNE 1998**  
**Unaudited figures (in HUF millions)**

	1995	1996	1997	Q1 1998	H1 1998
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>25,486</b>	<b>66,249</b>	<b>77,790</b>	<b>49,321</b>	<b>64,518</b>
of which movements in working capital	(26,708)	(1,031)	(22,569)	17,763	11,084
<b>RETURNS ON INVESTMENT AND SERVICING OF FINANCE</b>					
Interest and other financial income	2,066	3,942	3,783	4,541	5,339
Interest paid and other financial costs	(3,191)	(7,261)	(8,110)	(3,821)	(7,349)
<b>Net cash provided by financing activities</b>	<b>(1,125)</b>	<b>(3,319)</b>	<b>(4,327)</b>	<b>720</b>	<b>(2,010)</b>
<b>TAXATION – COMPANY TAX PAID</b>	<b>(520)</b>	<b>(4,037)</b>	<b>(8,995)</b>	<b>(2,469)</b>	<b>(3,749)</b>
<b>INVESTING ACTIVITIES</b>					
Capital expenditures and exploration costs	(51,746)	(55,555)	(76,635)	(11,284)	(31,812)
Proceeds from disposal of fixed assets	499	1,141	1,275	165	647
Net cash inflow on purchase of subsidiary undertaking		1,426	(1,239)	-	-
Net cash inflow on sale of subsidiary undertaking			195	-	-
Acquisition of other investments	(1,602)	(1,252)	(11,539)	(5,580)	(12,216)
Proceeds of disposal of investments		708	1,394	3,822	9,992
Changes in loans and long term bank deposits	470	(316)	(1,350)	(159)	(326)
Changes in short term investments	(875)	(1,380)	2,591	(7,430)	(3,100)
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(53,254)</b>	<b>(55,228)</b>	<b>(85,308)</b>	<b>(20,466)</b>	<b>(36,815)</b>
<b>FINANCING ACTIVITIES</b>					
Issuance of long term debt	17,448	16,652	84,220	84	1,432
Repayments of long term debt	(7,092)	(7,776)	(67,627)	(1,391)	(11,304)
Changes in short term debt	19,270	(10,726)	1,626	(7,770)	(543)
Dividends received	508	274	325	-	341
Dividends paid to shareholders		(885)	(3,604)	-	(7,805)
Dividends paid to minority interest	(21)	(1)	(390)	(198)	(298)
Net repurchase of own shares	(1,171)	(474)	(27)	(861)	(1,059)
Sale of purchased share					
Bond issue			10,000	-	0
<b>NET CASH PROVIDED BY/(USED IN) FINANCING ACTIVITIES</b>	<b>28,942</b>	<b>(2,936)</b>	<b>24,523</b>	<b>(10,136)</b>	<b>(19,236)</b>
<b>NET INCREASE/(DECREASE) IN CASH EQUIVALENTS</b>	<b>(471)</b>	<b>729</b>	<b>3,683</b>	<b>16,974</b>	<b>2,708</b>
Cash and cash equivalents beginning of the year	7,267	6,796	7,525	12,271	12,271
Adjustment to the subsidiaries brought into consolidation in 1997	-	-	1,063	-	269
Cash and cash equivalents end of the year	6,796	7,525	12,271	29,245	15,248



## APPENDIX IV.

## KEY IAS FINANCIAL DATA BY BUSINESS SEGMENT

<b>NET SALES REVENUES (HUF million)</b>	<b>1995</b>	<b>1996</b>	<b>1997</b>	<b>H1 1997</b>	<b>H1 1998</b>
Exploration and Production	125,574	177,976	242,066	117,213	138,754
Refining and Marketing	228,460	314,187	421,629	152,482	166,382
Corporate and other	26,207	36,050	27,755	24,949	33,415
Eliminations and IAS adjustments	(10,247)	(30,631)	(54,405)	(21,396)	(35,936)
<b>TOTAL</b>	<b>369,994</b>	<b>497,582</b>	<b>637,045</b>	<b>273,248</b>	<b>302,615</b>

<b>OPERATING PROFIT (HUF million)</b>	<b>1995</b>	<b>1996</b>	<b>1997</b>	<b>H1 1997</b>	<b>H1 1998</b>
Exploration and Production	11,899	26,366	32,497	14,544	23,716
Refining and Marketing	2,414	10,015	23,852	5,609	13,398
Corporate and other	(6,975)	(4,074)	(3,393)	1,841	(2,389)
Eliminations and IAS adjustments	1,506	(65)	(2,949)	(511)	(3,399)
<b>TOTAL</b>	<b>8,844</b>	<b>32,242</b>	<b>50,007</b>	<b>21,483</b>	<b>31,326</b>

<b>CAPITAL EXPENDITURES (HUF million)</b>	<b>1995</b>	<b>1996</b>	<b>1997</b>	<b>H1 1997</b>	<b>H1 1998</b>
Exploration and Production	20,463	23,161	35,778	7,509	17,058
Refining and Marketing	18,007	20,035	29,265	8,569	13,486
Corporate and other	1,252	4,871	5,014	1,852	1,274
Eliminations and IAS adjustments	-	(860)	(2,314)	(815)	(2,095)
<b>TOTAL</b>	<b>39,722</b>	<b>47,207</b>	<b>67,743</b>	<b>17,115</b>	<b>29,732</b>

<b>DEPRECIATION (HUF million)</b>	<b>1995</b>	<b>1996</b>	<b>1997</b>	<b>H1 1997</b>	<b>H1 1998</b>
Exploration and Production	14,882	15,951	22,099	10,193	9,860
Refining and Marketing	14,749	11,706	14,163	6,263	7,045
Corporate and other	771	1,525	1,936	1,084	2,483
Eliminations and IAS adjustments	(642)	(1,607)	(619)	(88)	(178)
<b>TOTAL</b>	<b>29,760</b>	<b>27,575</b>	<b>37,579</b>	<b>17,452</b>	<b>19,210</b>

<b>TANGIBLE ASSETS (HUF million)</b>	<b>31. 12. 1995</b>	<b>31. 12. 1996</b>	<b>31. 12. 1997</b>	<b>30. 06. 1997</b>	<b>30.06. 1998</b>
Exploration and Production	137,361	143,290	161,557	147,190	159,863
Refining and Marketing	91,419	98,065	125,590	100,712	121,772
Corporate and other	6,161	10,683	11,280	11,857	27,425
Eliminations and IAS adjustments	4,960	5,867	(5,893)	(3,563)	(8,239)
<b>TOTAL</b>	<b>239,901</b>	<b>257,905</b>	<b>292,534</b>	<b>256,196</b>	<b>300,821</b>

The Exploration and Production Division is responsible for domestic and international exploration, development, production and transmission of natural gas, crude oil and gas products and the purchase, underground storage and wholesale distribution of natural gas. The activities of the Refining and Marketing Division are the importation and refining of crude oil and the wholesale and retail distribution and marketing of petroleum products.

Due to the organisational restructuring within the company in the first quarter of 1998, in Downstream, Upstream and in the Corporate categories, net sales revenues, operating profit and tangible assets are re-allocated as well as reflected in the first half statements.

Net sales revenues have been adjusted by the reclassifications in the first half of 1997, in order to make comparable with the first half of 1998.

Net sales excludes internal sales of crude oil made by Exploration and Production Division to the Refining and Marketing Division. Operating profit for each division includes the profit arising from such sales. The internal transfer prices utilised are based on the prevailing market prices.

For the first six months of 1998 the operating profit of Exploration and Production Division includes a decrease in its share of the environmental provision amounting to HUF 0.2 bn and also includes an increase of the provision of the accruals for the restoration costs of oil and gas fields of HUF 0.4 bn. For the first six months of 1998 the operating profit of the Refining and Marketing Division includes a decrease in its share of the environmental provision amounting to HUF 0.4 bn and a reduction in the accrual for the prospective maintenance expenditures of the Duna Refinery amounting to HUF 1.0 bn. Operating profit of the group was affected by the reclassification of foreign exchange losses - amounting to HUF 3.8 bn for the first six months of 1998 - accounted for as operating profit according to HAR and as financial expenses according to IAS.