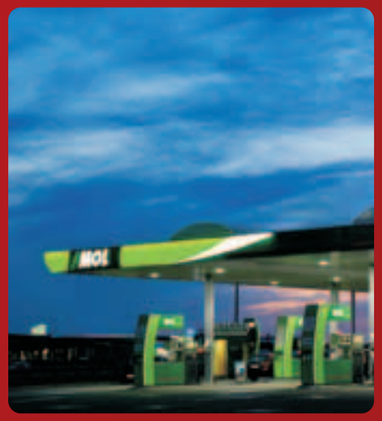







MOL GROUP Annual Report 2010

Economic, Social and Environmental performance

MOL GROUP ANNUAL REPORT 2010

Content

MOL Group at a glance

MOL Group is a leading integrated oil and gas corporation in Central and Eastern Europe with an extensive international Upstream portfolio. We are market leader in each of our core activities in Hungary, Slovakia and Croatia.

Our market capitalisation was above USD 10 bn at the end of 2010. Our shares are listed on the Budapest, Luxembourg and Warsaw Stock Exchanges and our depository receipts are traded on London's International Order Book and on OTC in the USA.

MOL is committed to maintaining and further improving the efficiency of its current portfolio, exploiting potential in its captive and new markets, providing outstanding shareholder return and to excellence in its social and environmental performance.

Our core activities in a snapshot:

The Exploration and Production segment has diverse portfolio with oil and gas exploration activities in 13 countries and producing assets in 7 countries. MOL Group's SPE 2P reserves reached 619 MMboe (as of 31 December 2010), while hydrocarbon production amounted to 143.5 mboe/day in 2010. MOL Group has more than seven decades of oil and gas industry experience in the CEE region and a 20+ year international presence. We have recorded several discoveries in Hungary, Russia, Pakistan, Syria, the Kurdistan Region of Iraq, Egypt and Kazakhstan in recent years.

The Refining and Marketing segment operates 5 refineries in the CEE region under continuously developing supply chain management with 23 Mtpa capacity on adjacent markets. Efficient raw materials supply and product distribution are ensured by an extensive pipeline system and increased depot network. Retail Services Division operates a modern filling station network, providing captive channels for the refineries within their supply radius.

The Petrochemicals segment is the leading polyolefin player in CEE and one of the top ten polyolefin market players in Europe. Petrochemicals production facilities are integrated with MOL refineries and supports the Downstream segment as captive market. Plants are located in Tiszaújváros (TVK Plc.) and Bratislava (Slovnaft Petrochemicals, s.r.o.).

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

The activities of the Gas and Power division enables MOL to take full advantage of the synergies among the supply and trading of crude oil, gas, power, CO_2 and other. Our Group is an active participant in the gas storage business again, as the gas storage facility of MMBF Ltd. has finished the first year of its successful operation in 2010. MOL is analysing the opportunity to create a diversified generation portfolio.

The EBITDA (excluding special items) contribution of the various segments in 2010 was: Exploration and Production 58%, Refining and Marketing 26%, Petrochemicals 3% and Gas and Power 13%.

In recognition of its long-term economic, social and environmental performance, MOL has been listed in the Dow Jones Sustainability World Index since 2010.

Awards in 2010

THE **REFINERY OF THE YEAR**
AWARD WAS
HANDED OVER TO
MOL DANUBE REFINERY
WORLD REFINING ASSOCIATION

MEMBER OF THE
DOW JONES SUSTAINABILITY
WORLD INDEX
SAM GOLD CLASS 2011
SAM RESEARCH

THE BEST HR GROUP -
„HR OSCAR"
SZTMSZ

BEST PRACTICE OF THE
MENTAL HEALTH PROMOTION
IN HUNGARY
ENWHP

AWARDED ON THE FIELD OF
WORKPLACE HEALTH PROMOTION
AT INTERNATIONAL LEVEL
GLOBAL KNOWLEDGE EXCHANGE NETWORK

THE BEST EMPLOYER OF
CENTRAL-EASTERN EUROPE
– 2009 / 2010
(FGSZ)
HEWITT ASSOCIATES

DONOR OF
BLOOD FRIENDLY WORKPLACE
(TVK)
HUNGARIAN RED CROSS

THE **BEST MANAGED COMPANY**
IN SLOVAKIA
(SLOVNAFT)
EUROMONEY

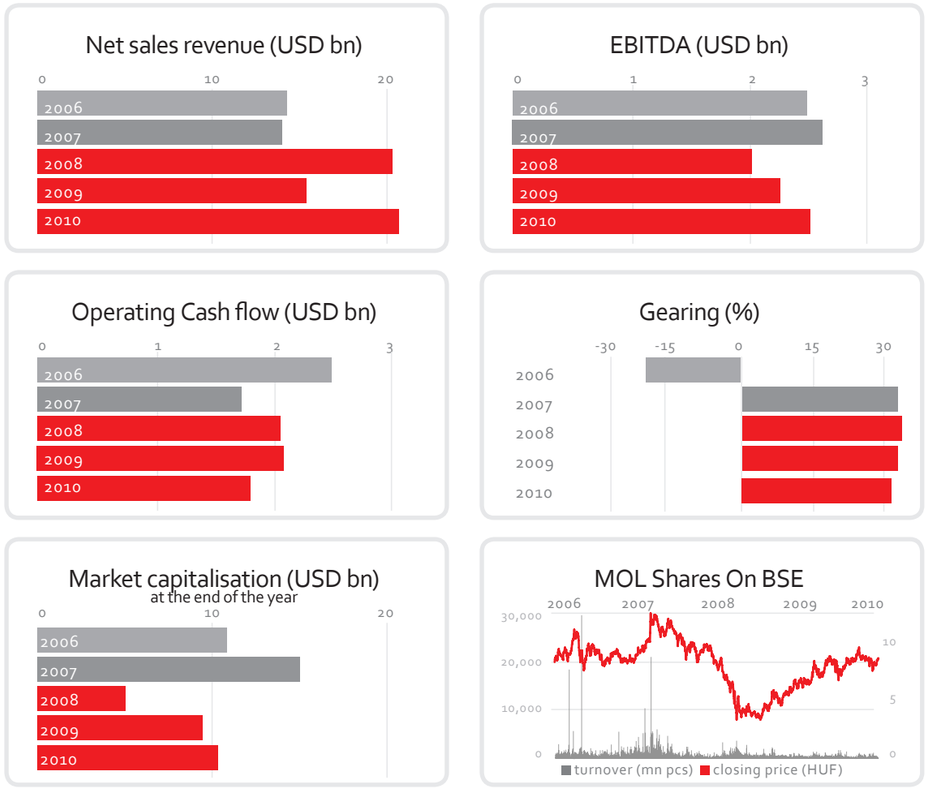
Key financial and operating data

Key exploration and Production data	2009	2010	10/09 (%)
Gross crude oil reserves (MM bbl)[1]	293.4	271.0	(7.6)
Gross natural gas reserves (MM boe)[1/2]	371.7	347.8	(6.4)
Total gross hydrocarbon reserves (MM boe)[1]	665.1	618.8	(7.0)
Average crude oil production (mboepd)[3]	54.1	63.0	16.5
Average natural gas production (mboepd)[3]	53.9	80.5	49.4
Total hydrocarbon production (mboepd)[3]	108.0	143.5	32.9
Key Refining and Marketing data	**2009**	**2010**	**10/09 (%)**
Total refinery throughput (kt)[7]	19,700	21,834	10.8
White products yield (%) [5/7]	75.7	77.9	2.2
Total crude oil product sales (kt) [4/7]	19,365	20,940	8.1
Motor fuel sales (kt) [7]	12,308	13,176	7.1
Total retail sales (kt) [7]	3,058.4	3,545.4	15.4
Key Petrochemical data	**2009**	**2010**	**10/09 (%)**
Olefin sales (kt)	193	270	39.9
Polymer sales (kt)	1,153	1,145	(0.7)
Key Natural Gas Transmission data	**2009**	**2010**	**10/09 (%)**
Hungarian natural gas transmission (m cm)	14,913	13,833	(7.2)
Transit natural gas transmission (m cm)	1,768	2,201	24.5
Environmental and social performance data	**2009**	**2010**	**10/09 (%)**
Carbon Dioxide (CO_2) emissions under EU ETS (Mt)	5.13	4.87	(5.0)
Lost time injury frequency [6]	1.13	1.50	33.0

1 Gross reserves according to SPE 2P rules. Due to full consolidation of INA, d.d. reserves data for 2009 include 100 % of INA's reserves.
2 Including condensate
3 Excluding the production of MMBF Ltd., including production of INA, d.d. from July 1, 2009
4 Exluding LPG and gas products but including feedstock transfer to Petrochemical segment
5 In case of the yields, the deviation is measured in percentage point.
6 Total MOL Group without INA Group
7 MOL Group with INA from 1 July, 2009

Key financial data - IFRS (HUF bn)	2009 restated	2010	10/09 (%)	2010 (USD mn)[3]
Net revenue	3,254.7	4,298.7	32.1	20,657
EBITDA	439.5	518.1	17.9	2,490
EBITDA excluding special items[1]	383.2	598.2	56.1	2,875
Operating profit	232.4	239.1	2.9	1,149
Operating profit excluding special items[2]	176.2	330.1	87.4	1,586
Profit before tax	170.4	172.0	1.0	827
Profit for the year attributable to equity holders of the parent	95.1	104.0	9.4	500
Profit for the year attributable to equity holders of the parent excluding special item[1]	51.3	180.8	252.6	869
Operating cash flow	397.9	373.7	(6.1)	1,796
Capital expenditures and investments	380.7	332.8	(12.6)	1,599
Basic EPS - HUF and USD[3]	1,114	1,231	10.5	5.9
Return On Capital Employed (ROACE) %[2]	8.2	6.6	(19.5)	n.a.
Clean ROACE %[1/2]	6.0	9.2	53.3	n.a.

1 Operating profit excluding the additional expense of the turnover of inventories of INA which were recognized at fair market value upon initial consolidation as opposed to the carrying amounts reflected in INA Group's separate financial statements (HUF 4.2 bn in Q1 2010), the additional mining royalty paid in Q3 2010 (HUF 30.4 bn at Exploration and Production division) based on the decision of the EU Commission for which provision was recognised in Q2 2010, the provision for redundancy recorded at INA in Q3 2010 (HUF 15.5 bn, the majority of which has been paid in Q4 2010), the provision for tax penalty recorded at INA in Q4 2010 (HUF 4.2 bn), the crisis tax imposed by the Hungarian state on domestic energy sector recorded in H2 2010 (HUF 25.8 bn), the one-off gain on the subsequent settlement from E.ON and the Q2 2009 termination of the risk-sharing mechanism in connection with the sale of MOL's gas business for Q1 and Q2 2009 (HUF 14.0 bn and HUF 14.2 bn),
the HUF 28.2 bn one-off non-cash revaluation gain, related to consolidating INA into MOL Group in 2009 for the first time as required by IFRS 3R, and the impact of impairment on the goodwill of IES and on certain exploration assets (having no impact on EBITDA) recognised in Q4 2009 and Q4 2010, respectively (HUF 4.7 bn and HUF 11.0 bn)
2 Based on NOPLAT
3 In converting HUF financial data into USD, the following average NBH rates were used for FY 2010: 208.1 HUF/USD.



Letter from the Chairman CEO and Group CEO

Dear Shareholders, dear Stakeholders!

We closed a successful 2010 in a challenging macro and regulatory environment. The global economy went through a transition period from a strong bounce-back phase seen in the first half of 2010 to a less rapid but apparently more sustainable growth path in the second half of the year. This upturn however is still fragile, driven, as it is, by the continuing strong performance of leading emerging economies while the recovery of advanced economies, especially those in the Eurozone, remained slower. The macro oil environment changed favourably; oil prices increased gradually and refinery margins showed slow improvement, although the latter still remained below the 5-year average.

In a year in which gradual recovery started, we were able to successfully exploit the upturn by continuing to execute our strategy. Key projects were carried out in each Business Unit turning MOL Group into a more international, more diversified and more Upstream-driven company. The share of international operations' profit contribution increased significantly in 2010 and we expect this trend to continue further into the coming years. Following the most significant strategic step in Company history, management focused on the financial stabilisation and development of INA. Overdue liabilities were fully repaid and with the combined effect of previous investments and already-achieved efficiency improvements, INA became a strong growth pillar of the Group. We remained committed to maintaining our well-regarded efficiency as a top priority and set further efficiency improvement targets to enhance our profitability. In a tough regulatory environment that saw additional tax payments imposed on Hungarian operations, we remained disciplined and financed our capital expenditure requirements through operating cash flow. MOL Group repeatedly increased its EBITDA while decreasing its gearing ratio compared to the prior year, even further underlining its strong cash-flow and solid financial positions. We are naturally highly committed to maintaining this strong financial position in the coming years and we still intend our investments to be financed through operating cash flow.

We believe that MOL Group is well-positioned to deliver outstanding shareholder returns in the next few years. The Group has a strong and distinct competitive edge over its peers and has maintained its solid financial position, a strong basis for further growth. Our key tasks remain: to develop INA operations; to further increase its profitability and efficiency to meet MOL Group standards; to enhance its market position in the South-East European region. Our strategic Group objective for the coming years remains the same: to maximise the value of our extended portfolio by further integrating operations and to exploit the organic growth potential of the enlarged Group. In addition, a number of other projects should ensure long-term growth.

In 2010, MOL Group took significant steps towards achieving an optimised, efficiently-operated Upstream portfolio and further solidifying its potential for future growth. Key projects in Syria, Pakistan and the Adriatic offshore area turned from field development to production, thus increasing our daily output to 144 thousand boepd on the top of the record-high results for 2009 and creating the basis for medium-term sustainability. In the near future, with regard to field development projects, MOL Group plans to maximise the value of its existing portfolio by focusing on achieving short-term positive impacts on production and by translating exploration success into production.
In our international exploration activities, remarkable successes in the Kurdistan Region of Iraq and in Pakistan proved our capabilities and should support the sustainability of increased production levels in the long term. In the future, MOL Group aims to strengthen its international presence further, by forming new alliances, by deepening already existing partnerships and by active portfolio development. We strengthened our position in Central & Eastern Europe by entering a new country, Romania, where MOL has commenced exploration activities using its more than 70 years' experience in the region.
Finally, we continue to extend MOL's outstanding efficiency performance to the whole Upstream portfolio. Several implemented efficiency improvement projects contributed to our strong 2010 results and we see further potential in the coming years to reduce unit operating costs by exploiting synergies throughout the entire Upstream business.

In Downstream, 2010 was the first full year of operations in 12 countries, with five refineries and two additional petrochemicals sites. Through our excellent performance in Supply Chain Management, we identified and exploited major synergies that will be pursued further in the coming years to operate our assets with increased flexibility and at the highest levels of efficiency. MOL Group significantly improved its asset structure and added a world-class hydrocracking unit to it when completing the first phase of the Croatian refinery modernisation programme which matches production structure with market demand.
The focus of capital expenditures in the coming years will be the elevation of the Rijeka refinery to the level of leading European sites, just as the MOL Group achieved in its refineries in Hungary and Slovakia by increasing their complexity to convert fuel oil output to more valuable types of motor fuel. We are committed to maintaining petrochemicals integration to provide flexibility and a solid captive market for our refining activities in the long term. In Retail, the focus will be on the rationalisation and efficiency improvement of the whole network coupled with a modernisation project to improve brand perception.
We will continue to place strong emphasis on increasing our overall efficiency as well as on further improving logistics and marketing operations. In the area of efficiency improvement, we will focus on energy consumption and maintenance and expand the employee bottom-up idea generation programme to profit from the ideas and creativity of our colleagues.

In previous years, MOL Group played a key role in the development of the Hungarian natural gas transmission system. As a result of such investment, the increase in domestic import transmission pipeline capacity, the implementation of the Hungarian-Romanian and Hungarian-Croatian gas interconnections, the building-up of strategic storage capacity; the security of gas supplies significantly strengthened not only in Hungary but across the region as well.

2010 was also a milestone year with regard to our Sustainable Development performance. In September, MOL Group became the only Central and Eastern European corporation to be listed in the Dow Jones Sustainability World Index. According to this most prestigious sustainability assessment, MOL was positioned among the top 6% of all oil and gas producers. This recognition is the result of our long-term focus on those environmental and social issues that are critical to our sector such as climate change, environmental protection, transparency, occupational health and safety, attracting and retaining top talent and customer relationship management. In addition, our managers' incentive bonus scheme is partly based on performance indicators related to Sustainable Development targets.

On behalf of MOL Group Management, we would like to thank all our employees for their dedication, hard work and commitment and our shareholders for their solid support. We are sure that our efforts in 2010, undertaken in a challenging environment, have further strengthened the basis for the organic development of MOL Group over the coming years.

Zsolt HERNÁDI
Chairman and CEO

György MOSONYI
Group CEO

Overview of the environment

World economy: Moderating growth

The global economy went through a transition period from a strong bounce-back phase seen in the first half of 2010 to a less rapid but apparently more sustainable growth path in the second half of the year. The main driving force behind the overall recovery was the continuing strong performance of leading emerging economies, which increasingly relied on domestic consumption for their growth. At the same time, the recovery of advanced economies remained slower, although the US and Japan performed significantly better than previously expected due to additional stimulus measures. The main source of weaknesses within the advanced economies group was the troubled periphery of the Eurozone. The Greek debt crisis in Q2 caused severe market turbulence and prompted the EU to set up an unprecedented EUR 440 bn bailout fund to contain the fallout from future crises, which prevented a more widespread spillover from the periphery to the core of the Eurozone in case of the Irish bailout later in Q4. Nevertheless, the risk of future liquidity crises and bailouts within the Eurozone remains high, and volatility in exchange rate movements is likely to continue. Another downside risk to the global recovery is the combination of low interest rates in advanced economies and stellar growth in emerging ones, resulting in massive capital inflows which are fueling inflation and may create bubbles and destabilize growth in developing economies. Overall, the IMF estimates that global economic growth will somewhat moderate from 5.0% in 2010 to 4.4% in 2011 due to the necessary fiscal consolidation in most advanced economies.

Oil markets: Significant price increase underscored by rapid demand growth

Oil prices strengthened significantly during 2010 and averaged at 79.5 USD/bbl, nearly 29% higher than a year ago. The price increase was more or less gradual with only two significant corrections seen in May and August. The first temporary reversal was caused by a shift in market sentiment following the Eurozone debt crisis, and the second by more general concerns about the outlook for global growth in light of an apparent slowdown in China. Nevertheless, the overall growing trend was fully justified by the annual 2.8 mn bbl/day demand growth in 2010 from the previous year, which is one of the strongest such figure in decades. Other fundamentals were also increasingly bullish throughout 2010. OPEC's effective spare capacity slowly eroded to below 5 mn bbl/day by Q4 2010, while OECD industry stocks hovered around 59 days of forward demand cover throughout the year compared to above 60 days figures in most of 2009. The fact that the growing trend in oil prices continued in spite of the diminishing quota compliance of OPEC, which dropped to around 58% by December from around 63% a year ago signals the slow return to a tighter oil market similar to the one seen in the pre-crisis years.

Refining margins: Slowly improving crack spreads

Refining margins remained below the 5-year average in 2010. The healthy rate of recovery pushed up product demand in emerging economies and to a lesser extent in OECD Europe and North America as well, which resulted in stronger product crack spreads across the board in 2010 than in the previous year. Nevertheless, persistently high inventory levels as well as ample spare refining capacities worldwide combined with the slow pace of closing uncompetitive refineries limited the strengthening of crack spreads. Overall, naphtha and gasoline spreads exceeded their 5-year averages, but followed a mildly declining trend, while diesel and jet fuel crack spreads remained below their historical levels, but followed a slowly strengthening trend throughout the year. This may indicate a slow return to the pre-crisis environment characterized by an ever tightening market for middle-distillate products. The historically negative fuel oil crack spread remained stronger than the 5-year average in 2010, but it started to inch continuously towards pre-crisis lows from the second half of the year.

The Brent-Urals spread recovered somewhat to around 1.4 USD/bbl in 2010 from below 1 USD/bbl in 2009, but followed a relatively volatile pattern throughout the year. It soared to above 3 USD/bbl by Q2 due to a longer-than-usual refinery maintenance season which mostly took out conversion capacities resulting in a fuel oil overhang and a depreciation of the fuel-oil heavy Urals type. The Brent-Urals differential briefly fell below zero USD/bbl in Q3 following a series of simultaneous supply shocks affecting Urals, but returned to around 2 USD/bbl by the end of Q4 as fuel oil crack spreads started to weaken, thereby reducing the value of the heavier Urals relative to Brent.

CEE economy: Two-speed recovery continued

The CEE region's recovery progressed at two-speeds during most of 2010 with Poland, Slovakia and the Czech Republic performing strongly, while Hungary, Croatia and Romania, among others, continued to lag behind. The recovery throughout the region is still mostly driven by the manufacturing boom in Germany rather than by domestic demand, which is depressed by stubbornly-high unemployment rates and continuously weak credit growth. Economic growth will face headwinds as most countries in the region will carry out some degree of fiscal consolidation throughout 2011. The foremost downside risk to the CEE region's recovery remains the continuing sovereign stress in the Eurozone. However, the impact of a deepening Eurozone debt crisis on most CEE economies would be manageable as long as it remains confined to the euro area's periphery, while the region's main export markets remain relatively intact in the core of the currency union.

CEE fuel demand: Poland and diesel saves the day

The motor fuel demand drop across the CEE region remained modest in 2010 with gasoline decreasing by a notable 4.9% but diesel growing by 1.9% resulting in and overall fuel demand drop of only 0.1%. This was due to the continuing strong performance of the Polish economy, without which CEE diesel demand would have also been in the negative and the overall motor fuel demand drop much more significant. To lesser extents, Austria and Slovakia also contributed positively to the CEE diesel demand increase thanks to their favorable excise duties on diesel.

Hungarian economy: Slow recovery with uncertainties

The Hungarian economy recorded a modest 1.2% growth in 2010, according to the preliminary data of KSH. The slow recovery was mainly driven by a strong export performance, while domestic demand contributed little as both retail sales and credit growth remains weak and unemployment still high. The market perception of the new government's economic policy has so far been mixed as the general direction towards deficit reduction and a more competitive tax regime helped to maintain confidence at sufficient levels, but several measures increased perceived uncertainty regarding the regulatory and tax regime at the same time.

Hungarian demand: Delayed demand drop hit in 2010

Hungarian motor fuel demand suffered a hard hit in 2010 as the effects of the economic recession translated into depressed demand in a delayed manner resulting in a 12.7% fall in gasoline, a 6.7% drop in diesel and 8.7% decline in motor fuel demand in 2010. The delayed drop came as the gradually strengthening forint (together with an excise tax increase in January 2010) canceled out the positive effects of fuel tourism on demand seen during most of 2009, and as loan repayments of households (household deleveraging) put a dent on private consumption first and on fuel demand only later.

Slovak economy: Sharp recovery with an expected moderation

The Slovak economy experienced a sharp V-shaped recovery on the back of the German manufacturing boom during 2010 and, as a result, both industrial production and exports returned to their pre-crisis levels by H2 2010. Slovak GDP grew by 4.0% in 2010, according to the Slovak Statistical Office. The government's announced fiscal consolidation package - designed to bring down the budget deficit to below 3% of GDP from the current unsustainable level of around 8% of GDP - represents a short-term headwind for growth. A slowdown in the core economies of the Eurozone also poses a near-term downside risk to the relatively healthy outlook, given Slovakia's high dependence on exports and the continuously weak domestic consumption in the country.

Slovakia fuel demand: Outstanding growth

Motor fuel demand recorded a very healthy 15.4% growth in Slovakia during 2010 with gasoline consumption increasing by 1.5% and diesel demand growing by a spectacular 22.4% y-o-y. This significant increase was fuelled mainly by the strong industry-driven rebound of the Slovakian economy, but a significant 23.5% reduction of the diesel excise tax as well as the low basis of 2009 (when fuel demand suffered a particularly hard hit in Slovakia) added further to the bullish figures.

Croatian economy: Slow return to recovery

The recovery is proceeding very slowly in Croatia as the economy returned to a sluggish growth only in H2 2010 while industrial production growth remained in negative territory and unemployment continued to rise during most of the year. The main causes of the poor performance are still tight credit conditions coupled with weak labor markets at home, which are constraining domestic demand, as well as a relatively weak rebound in Italy, Croatia's main export market, compared to the record-breaking recovery seen in Germany, the key market for most other CEE countries. The preliminary figures of the Statistical Office indicate that Croatia's GDP contracted by 1.4% in 2010 and it is expected to expand by a modest 2.0% in 2011, according to the EBRD.

Croatian demand: Declining consumption amid the weak recovery

The motor fuel demand in Croatia dropped by 5.4% in 2010 with both gasoline (-4.3%) and diesel (-5.9%) consumption contracting significantly amid the continuing economic slump, rising unemployment and weak private consumption. Without the positive effect of the relatively strong tourist season, gasoline demand would have been even more disappointing.

Our Businesses

Our Businesses

Exploration and Production

HIGHLIGHTS

Existing operations in 13 countries

Entrance into Romania, as a new country

619 MMboe 2P reserves of MOL Group according to SPE standards as of end-2010

Significant oil, gas and condensate in place addition during the year thanks to our discoveries in the Kurdistan Region of Iraq and Pakistan

Production of 143.5 mboepd

www.mol.hu

Sucker rod pump in Hungary

MOL Group's diverse upstream portfolio includes a number of assets, covering production in 7 countries as well as further exploration possibilities in 13 countries. In 2010 the Central and Eastern European (CEE) region remained MOL's core area, with a production increase in the Adriatic offshore overbalancing the natural depletion of onshore fields in Hungary and Croatia. MOL's strong cash-generation position in the CEE region is supported by rising production levels from Syrian and Pakistani assets. On the international arena, Kurdistan Region of Iraq and Russia remain vital pillars of MOL's upstream activity, ensured by recent discoveries and field development activities.

Competitive advantage

MOL Group is without a doubt in a strategic position, both in terms of its geographic position as well as in terms of its upstream know-how. Its location at the heart of Central Europe, along with more than seven decades of oil and gas industry experience, contribute to its role as a key regional energy player. MOL Group's remarkable exploration success rate of 70% in 2010 (14 discoveries out of the total 20 tested exploration wells) has once again won international acclaim, and its ability to ensure cost-efficient operations has been particularly important in light of the downturn in the global business environment in recent years. As a right sized company, MOL is able to react swiftly to changes, while it is also large enough to offer host countries a sense of stability. The above mentioned factors as well as its team of highly qualified experts put MOL Group in a prime position to maintain its leading role in the CEE region and to strengthen the company's international standing.

PRODUCTION

Consistent production levels in CEE, with offshore output contributing to an increase in Croatian production

Hungary and Croatia significantly contributed to the production level of MOL Group with their results of 53.6 mboepd and 54.1 mboepd respectively. **Hungarian** production was slightly lower than last year; however, the results from the major producing areas were in line with previous forecasts. In Croatia we experienced an 11% increase compared to the previous year (considering 2009 full-year data for INA). In Hungary the production distribution was the following: 13.4 mboepd of crude oil, 6.0 mboepd of condensate, along with 34.3 mboepd of natural gas.

MOL Group was able to maintain its advantage in extraction efficiency in Hungary. In 2010 the Algyő oil recovery enhancement project was started and is scheduled to finish in 2011. Five new gas production wells will be operated within the scope of the South Békés project, which will be completed in 2011. Rationalisation projects such as Algyő and Szank remained on track with potential implementation closure in 2011. In addition, to extend our current partnerships in CEE, during 2010 MOL agreed to initiate field redevelopment and rehabilitation projects.

Within the **Croatian** total production, crude oil accounted for approximately 9.7 mboepd, condensate output was 6.8 mboepd while gas output reached 37.6 mboepd. Despite ongoing workovers and the utilisation of EOR methods on mature onshore fields to enhance production levels, natural gas production levels fell to 14.9 mboepd in onshore Croatia. This decrease was offset by a 61% increase in offshore output (compared to 2009, considering full-year data), thus reaching a rate of 22.7 mboepd in 2010, compared to 14.1 mboepd in 2009 (considering full-year data). The rise in offshore production is in line with company forecasts, and came from the higher share in the North Adriatic Contract Area (NACA), as well as from the ramping up of production. NACA accounted for 84% of offshore gas production, whereas 16% of the output came from the Aiza-Laura contract area.

In 2010 MOL put further emphasis on the application of EOR/IOR methods to improve production. Following the identification of 30 potential fields, preparatory works commenced to exploit further potential from the fields.

Steady production from Russian fields

In **Russia's** Zapadno-Malobalik (ZMB) field the 50% MOL share production contributed with 12.0 mboepd to Group results. The 2010 investment activity continued with the two projects already started in 2009 via the drilling of new wells to moderate natural production decline and the implementation of a gas utilisation program in compliance with license terms. The construction of a gas turbine power station is making good progress: five generators were already put into operation before the end of 2010.

In Baitugan field production increased by 51% to 4.6 mboepd, as a result of the continued development program. A total of 34 production wells and 5 water injection wells were drilled in 2010; meanwhile, the reconstruction and extension of gathering, water injection, power supply systems and the central processing station were ongoing. Moreover, the preparation of a new field development plan was started based on the 3D seismic acquired in 2008.

In the West Siberian Matjushkinsky Block, the development of Severo-Ledovoye field was continued with the drilling of 5 additional wells. On Kvartovoye structure one well was drilled and tested. Production increased to 3.0 mboepd, a 48% rise compared to 2009. Currently there are 11 production and 6 injection wells in Matjushkinsky field; these figures are respectively 12 and 2 in Severo-Ledovoye field.

Syria and Pakistan accounting for a growing share of output

Following six discoveries over the past five years, and after several successful drilling programs undertaken in 2009, the second stage of field development of **Syria's** Hayan Block was finished with the construction of Jihar Oil and Gas Station (OGS). In 2009 the start-up of OGS significantly exceeded expectations in terms of production volumes; furthermore, a Gas Treatment Plant also started to operate at the end of

2010. Hence, INA's share of gas production reached a total of 4.4 mboepd in 2010 (a rise of 62% compared to 2009 full-year data), while oil and condensate production amounted to 3.5 mboepd (exceeding 2009 full-year volumes by 148%). During 2010, through the operatorship of all its blocks, MOL further strengthened its position in **Pakistan** with the consortium's 7-8% contribution to the country's overall gas supply. In the first half of the year, two development wells (Manzalai-8 and Makori-3) were drilled on Tal Block. MOL's share of production from Tal Block in 2010 amounted to 4.2 mboepd of gas and 0.5 mboepd of condensate from 10 producing wells.

Further production projects bring sound results

In **Egypt**, INA has interests in 4 hydrocarbon concessions. INA serves as the operator on the Sidi Rahman and the Rizk Development Leases in the East Yidma concession, while it has non-operator status in other concessions. 2010 investment activity primarily focused on the drilling of 5 oil producing wells. INA's share of production in Egypt was around 1.9 mboepd in 2010.

Angolan production contributed to Group results with a production of 1.6 mboepd from three non-operated offshore blocks. In 2010 the activity was focused on drilling 2 oil producing wells, out of which one was put into production already in 2010.

EXPLORATION

CEE still boasts an exceptional exploration success rate

MOL's exploration activity in Hungary achieved a 70% success ratio in 2010: 10 exploratory wells were completed and tested in **Hungary**, out of which 7 encountered commercial quantities of hydrocarbons.[1] This excellent success ratio justifies our strategic decision to extend our exploration towards smaller geologic prospects with lower technical risks, close to known hydrocarbon accumulations. The new discoveries made in 2010 added 4.1 MMboe to our SPE 2P reserves base.

Partnerships in MOL's Hungarian exploration activity played a significant role. MOL drilled and completed two wells on the Darvas-Komádi license area in partnership with Hungarian Horizon Energy. Within the framework of MOL's partnership with Ascent Resources in southwest Hungary, the second phase of Lovászi-Petisovci 3D seismic was acquired with the aim of revitalising one of the oldest exploration areas in Hungary. Moreover, 3D seismic acquisition was also completed in the Kunmaradas area.

INA successfully continued the exploration of the Sava Basin in onshore **Croatia**, where a satellite oil and gas field was discovered. In the Drava Basin, Dravica-1 well test was completed with success. In order to further explore the offshore Northern Adriatic area, INA and Eni as partners investigated the potential of the thin-layered reservoirs of the Ivana contract area.

Strenghtening our position in CEE by the entrance into a new country

In July 2010, the Romanian National Agency for Mineral Resources announced that MOL (70%) and its Romanian partner, Expert Petroleum (30%) were awarded licenses for three blocks they bid for in the 10th Romanian Licensing Round. The three blocks, located in Western **Romania**'s Pannonian Basin, cover an area of 3,434 sqkm. The signing of the Concession Agreements is set for 2011, as is the start of the first working phase of the exploration program.

Unconventional exploration in the CEE region

The focus of unconventional exploration in 2010 shifted towards the Derecske Basin. MOL continued the unconventional exploration program by drilling two unconventional wells; results have proved the presence of hydrocarbons. With regards to the Békés area, the competent authority approved the final report of MOL's license in the basin, which ensures the grant of the necessary license for further exploration. In this MOL operated an unconventional well already in 2009, which proved the elements of the play as well as the presence of gas.

The evaluation of unconventional gas potential in the Croatian-Hungarian crossborder area was completed, where the Drava Basin was singled out as the most promising for further exploration. The testing of tight gas sands and gas shales by means of drilling deep pilot wells is proposed to be carried out with partner involvement. A number of small scale unconventional oil and gas prospects have also been introduced into the Croatian prospect portfolio: these projects are in the vicinity of producing fields.


Croatian production platform

Kurdistan Region of Iraq is our flagship in terms of exploration

In **Kurdistan Region of Iraq's** Akri-Bijeel Block (MOL's undiluted share is 80%), the first exploration well (Bijell-1) was completed in November 2010, reaching its total depth, followed by several successful well tests resulting in 3.7 mboepd oil and 0.1 mboepd gas production without the use of any intensification methods (such as acidisation or fracturing). A discovery announcement was made followed by entering into the second phase of exploration, and preparations for the appraisal of the accumulation.

In Shaikan Block (MOL's undiluted share is 20% and the block is operated by Gulf Keystone Petroleum International Ltd), the work program of the appraisal phase was continued with the acquisition of 3D seismic, which ended in November 2010. The Shaikan-3 shallow well was drilled to productive Jurassic formations; after repetitive acid treatment, the well produced significant amounts (9.8 mboepd) of heavy oil. In November 2010, the Shaikan-2 appraisal well was spudded. The surface facility for the extended well test of Shaikan-1 was built, while three zones were tested in the Shaikan-1 discovery well reaching total production capacity over 7.5 mboepd.

Other projects in the Middle East region

Additional 2D seismic data was recorded in **Oman's** 43B block during 2010 in order to acquire sufficient reliable information for choosing the optimal location for an exploratory well to be spud the following year.

In **Syria**, INA entered the second extension of the initial exploration phase on Aphamia Block. Two exploration wells were drilled, the results of which confirmed the hydrocarbon saturation of the structures. Positive test results at one of the wells encouraged further exploration activities; while the other one is waiting for testing.

CIS region has a substantial role in our future reserves replacement

In **Russia** our exploration activity was focused on Matjushkinsky and Surgut-7 Blocks. On Matjushkinsky Block, on Verkhne-Laryegan structure preparation works for exploratory drilling were started. On Surgut-7 Block, a stimulation program for the 2 discoveries made over the previous years began in 2010, including hydrofracturing activities at the first discovery well.

As a result of exploration successes, the Ministry of Energy and Mineral Resources in **Kazakhstan** approved the extension of the Exploration License for the appraisal and trial production of the Rozhkovsky area for a period of 4 years, in order to evaluate the commercial significance of the field and to conduct further exploration activity. As part of the appraisal program, the Rozhkovsky U-21 well was spudded in October 2010, showing promising levels of hydrocarbon saturation.

Additional exploration potential in Pakistan

In **Pakistan**, exploration and appraisal activities within the highly promising Tal Block were successfully continued. In the second half of 2010 two exploration wells were spudded and Makori-East-1 was announced as Tal Block's fifth gas and condensate discovery. The successful result of Tolanj X-1 well was published in February 2011 as the sixth discovery. The drilling shall be continued to penetrate and test the deeper horizons. In the Margala Block, Margala-1 exploration well was plugged and suspended in Q1 2011 without encountering the target formation. Although a reservoir of adequate quality at reasonable depth was not found, drilling nevertheless showed indications of hydrocarbons. The way forward for Margala Blocks is to carry out a detailed post-drilling evaluation in order to fully assess the potential of both Margala and Margala-North Blocks.

In the neighbourhood of Pakistan, in India's Himalayan Foothills, the Kasauli-1 well on the HF-ONN-2001/1 Block was spudded in March 2010 and is expected to reach the target depth in 2011.

The African portfolio is under exploration in line with committed work programs

One exploration well was drilled on the East Yidma concession in **Egypt**, and it encountered a non-commercial oil accumulation. Furthermore, an oil discovery was made by the Rawda East-1 exploration well on the North Bahariya concession, while Rawda North-1, drilled on the same concession, was dry and consequently plugged and abandoned. In **Cameroon**, G&G studies and 2D seismic activity were undertaken in 2010. In **Angola**, an exploratory well was drilled on the 3/05A concession, finding gas reservoirs at two levels. However, it was not commercial due to the lack of Angolan offshore gas infrastructure, thus partners agreed to plug and abandon the well. INA received declarations of commercial discoveries for two Angolan fields, Punja and Caco/Gazela (discovered in prior decades). In **Namibia**, INA's exploration license expired in November 2010.

[1] One well, Okány-3 was drilled in 2009 and classified as a commercial discovery in 2010.

OTHER RESULTS

Sustainable development (SD) and Health-Safety-Environment (HSE) remain a fundamental priority

In 2010, the Upstream HSE Management System has been elaborated and introduced, providing a comprehensive tool for high-level HSE performance. With regards to INA necessary actions to be taken related to integrated SD & HSE governance were identified and set.

In Pakistan, social programs such as MOL's scholarship program or the Free Eye Clinic continued, as did our road rehabilitation efforts. MOL provided help for inhabitants affected by the Pakistani floods, delivering a total of 12 trucks of food and relief items (such as tents and medicines), thus supporting over 700 families.

In addition, MOL undertook a Talent Program aiming to increase appointed professionals' skills. This is the first international upstream program covering Croatia, Russia and Pakistan.

INA joined MOL's upstream division in the Petroskills pilot project, establishing a professional competency management system with the involvement of around 150 employees.

Commitment to efficiency improvement and strong emphasis on long term asset utilisation

During 2010 costs optimisation remained in focus, which was supported by Group level portfolio optimisation and harmonisation of procurement processes. With the aim of maximising the Group's efficiency, minimising risk and uncertainty but still maintaining the quality of exploration work, several improvements were carried out in 2010. Software acquisitions with professional training in basin modelling and seismic sequence stratigraphy permit state-of-the-art analysis of the evolution of hydrocarbon accumulations. In addition, the implementation of an advanced data gathering and analysis software guarantees efficient data handling and capturing for drilling and workover operations. Its compatibility into the engineer's desktop system and therefore integrated workflow not only saves time but adds value to drilling, completion and production engineering teams as well. New reservoir characterisation methods (high resolution micro CT), formation damage control and production enhancement techniques have been developed by MOL R&D and E&P divisions in cooperation with service companies to ensure the most appropriate IOR/EOR technology and unconventional hydrocarbon reservoir field development designs.

Significant cost savings could be expected in the near future because of the strategic focus on the energy rationalisation program of producing assets; efficiency improving equipment (such as waste heat recoveries, electric power plants for waste gas) have been tendered and purchased.

The potential application of electromagnetic methods (CSEM) on existing exploration blocks has also been investigated. New seismic processing developments as well as reservoir modelling techniques have been applied, thus improving understanding of complex geological environments. The evaluation of surface geochemical imaging methods and high resolution crosswell seismic were launched.

Outlook

As a result of the global financial crisis, which started back in 2008, MOL Group decided to review its existing strategic guidelines with regards to exploration and production. It set out on a program to rationalise its portfolio and expenditures, while in 2010 the Group identified exploration-focused growth as a further means of ensuring long term success.

In order to optimise our portfolio on a Group level, we fully harmonise our project and portfolio management control. MOL and INA management ensures our ability to achieve maximal value creation on a Group level within the fields of exploration and production.

In recent years, MOL has achieved sound results in terms of exploration, and MOL's accomplishments have already received international acclaim. The Group has also proved its operational excellence in Syria and Pakistan and in the coming years it aims to utilise these experiences effectively. Therefore, a competency driven approach will provide a stable basis for our operations and growth.

In the near future we are targeting to transform our exploration success into production and regarding field development projects, MOL plans to maximise the value of its existing portfolio, focusing on the short term impact of production.

In light of the current global economic environment, it is in MOL Group's interest to retain its upstream-focused service companies (Crosco, GES, Geoinform, Rotary) and coordinate their activities within a joint strategy. In order to achieve this goal, MOL's harmonised business development prioritises the inclusion of our service companies in all countries where the Group is present.

During the next period MOL aims to strengthen its international presence, in part through forming new alliances as well as by deepening already existing partnerships and through active portfolio development. On the long term, MOL plans to keep its position as a key regional energy player while simultaneously becoming a global benchmark for upstream excellence.

Kurdistan Region of Iraq, Bijell-1 exploration well

Interview with Zoltán Áldott

Zoltán Áldott
Executive Vice President, Exploration and Production (MOL Group)
President of INA Management Board

What plans does the Exploration and Production Division have for 2011, and how do you see its future on the longer term?

It is well-known that production in Central Europe is about to decline in the coming years, in accordance with our expectations. I would like to highlight that production activities in this area started already in the 1930s. In order to maintain current production levels and reserves sizes, we must turn our attention to other regions, however those countries, where MOL Group's E&P activities have already achieved substantial results, and hold significant further potential, will remain in focus. Our upstream portfolio has become more widespread. By the end of the decade and in the forthcoming years we are trying to seek new opportunities in territories where we have accumulated significant expertise over the past years. One could say that starting from the heart of Central Europe, we are opening up to distant parts of the world as well.

How would you describe the international assessment of MOL's upstream performance?

The international acknowledgement of our upstream activities is absolutely positive, and the market is clearly appreciating our efforts and international presence. We are particularly proud of the results published by Herold, which ranked MOL Group as no. 1 in Europe in terms of oil and gas production efficiency in 2010.
Although it is an integrated player, MOL used to be thought of as mainly a downstream company. However, it is now gradually emerging as an important upstream player as well due to recent years' portfolio development. Our new, exploration driven strategy, recent changes in the industry, as well as our successful track record all underpin our belief that the key to our further growth lies in locating new exploration blocks.

Why does MOL Group emphasise the significance of partnerships?

The key to success in today's world lies in cooperation. This is of course the case in Central Europe, but holds particularly true with regards to regions far away. National oil companies hold vast proportions of petroleum reserves and therefore forging ties with these companies, as well as with authorities in the petroleum industry is essential to us. Much can be learned from these partnerships, both in terms of oil industry expertise as well as culturally. This type of cooperation also helps to strengthen MOL's international presence, which in turn fuels our ability to adapt to global changes.

How can a Hungarian company become successful in distant regions, such as the Middle East or South Asia?

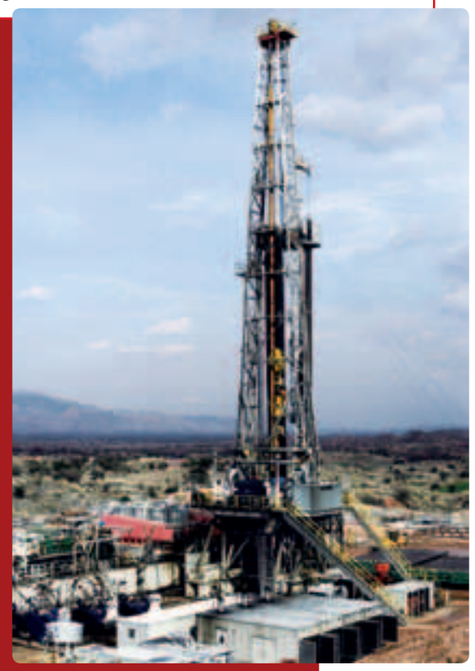
First of all, it should be highlighted that success in project management does not depend solely on distance but on the company's competences and knowledge. As in the case of all our projects, first and foremost we must prove our expertise in smooth operation and project execution. It is clear that oil companies should be risk takers to a certain extent and should be ready to handle not just technical but also political problems. Successful resolution of the experienced difficulties is always appreciated by the market and it is essential to be prepared for the changes e.g. in the local environment. Nevertheless, choice of local partners is also pivotal: in Pakistan, for instance, our partnership with several local companies equips us with country-specific knowledge of vital importance.

How does MOL contribute to social development internationally?

MOL has always stressed the importance of its social responsibilities. For example, we contribute to the improvement of living conditions for Iraqis through the tax revenues of our Pearl project and other projects in the Kurdistan Region of Iraq - in particular in the area of electricity generation. Or mentioning Pakistan, MOL Group was ready to provide aid to the local people following the biggest flood catastrophe of the last hundred years. Our branch office dispatched the first consignment of relief items to help people in the flood-affected districts. Food and non-food items (tents, medicines) were handed over to the representatives of the regions (Kohat and Nowshera).

What role does Kurdistan Region of Iraq play in MOL's future?

Kurdistan Region of Iraq is without a doubt one of the flagships of our international upstream portfolio. It is exceptionally important for a number of reasons, including our recent exploration successes, the huge potential of the region and our blocks, as well as the strategic geographic location of Iraq, enabling it to potentially play a vital role in Europe's future energy supply.
Following our success last year, in 2011 the second phase of the exploration program in Akri-Bijeel Block will continue, during which we plan to undertake exploratory drillings. In order to fully evaluate the potential of the block, the simultaneous appraisal program will involve the drilling of several appraisal wells, the acquisition of 3D seismic as well as extended well tests. Trial production in Shaikan Block will already begin in the coming year, and four other appraisal wells are planned. We are convinced that both blocks will contribute to a substantial increase in the size of our reserves and our production levels in the future.

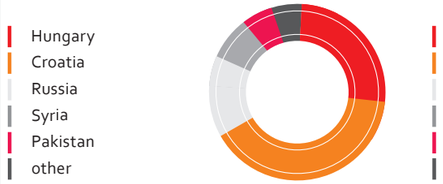


What sort of resources do large-scale projects such as those in the Kurdistan Region of Iraq, in Pakistan or in Syria require? How are these projects managed?

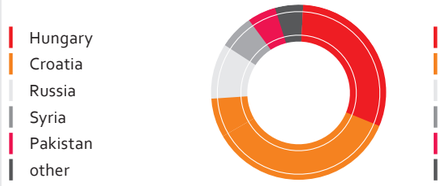
The day-to-day running of such projects covers many diverse tasks and requires the work of experts from various fields. Analysts monitoring the political and security situation in a particular country; geologists taking part in exploration activities; engineers involved in the drilling process must all work together, both in our home offices as well as in the fields. The number of those involved in the project depends on both the stage and the speed of the project. In the case of Akri-Bijeel Block, currently we are working on the exploration phase of the project, with a relatively low number of on-site technical experts. However, the number of people involved will increase with the start of the appraisal program due to the parallel drilling and other tasks, such as surface activities. With the onset of production, an even greater number of experts will take part, as is the case in MOL's Pakistani producing assets or INA's Syrian blocks. For example, in Syria, where the Group's average production this year is scheduled to reach more than 20 mboepd, we employ around 300 people with the support of the head office in Zagreb. Looking towards the future, I can state that the Syrian Hayan project is an important milestone and should be followed by several similar projects in terms of both their scale and success, as a means to reach our long term targets.

Upstream Portfolio Elements

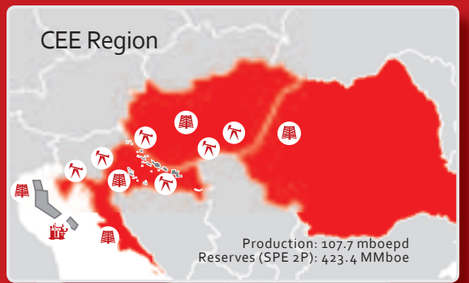
SPE 2P Reserves (2010) - 618.8 MMboe



Production (2010) - 143.5 mboepd



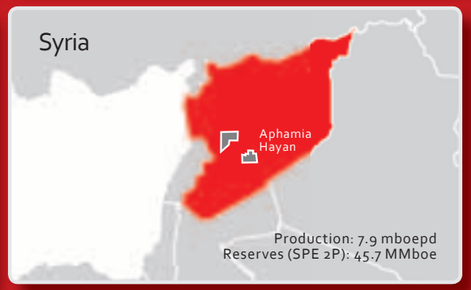
CEE Region



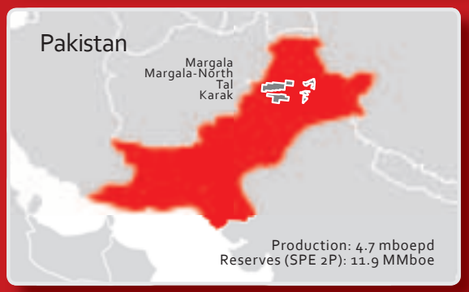
Kurdistan Region of Iraq

Russia and Kazakhstan

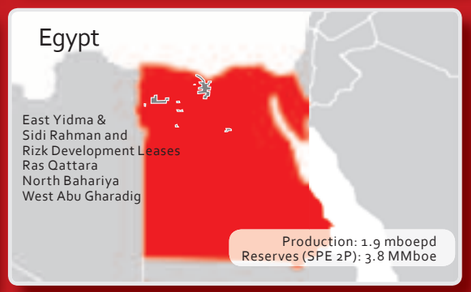
Syria



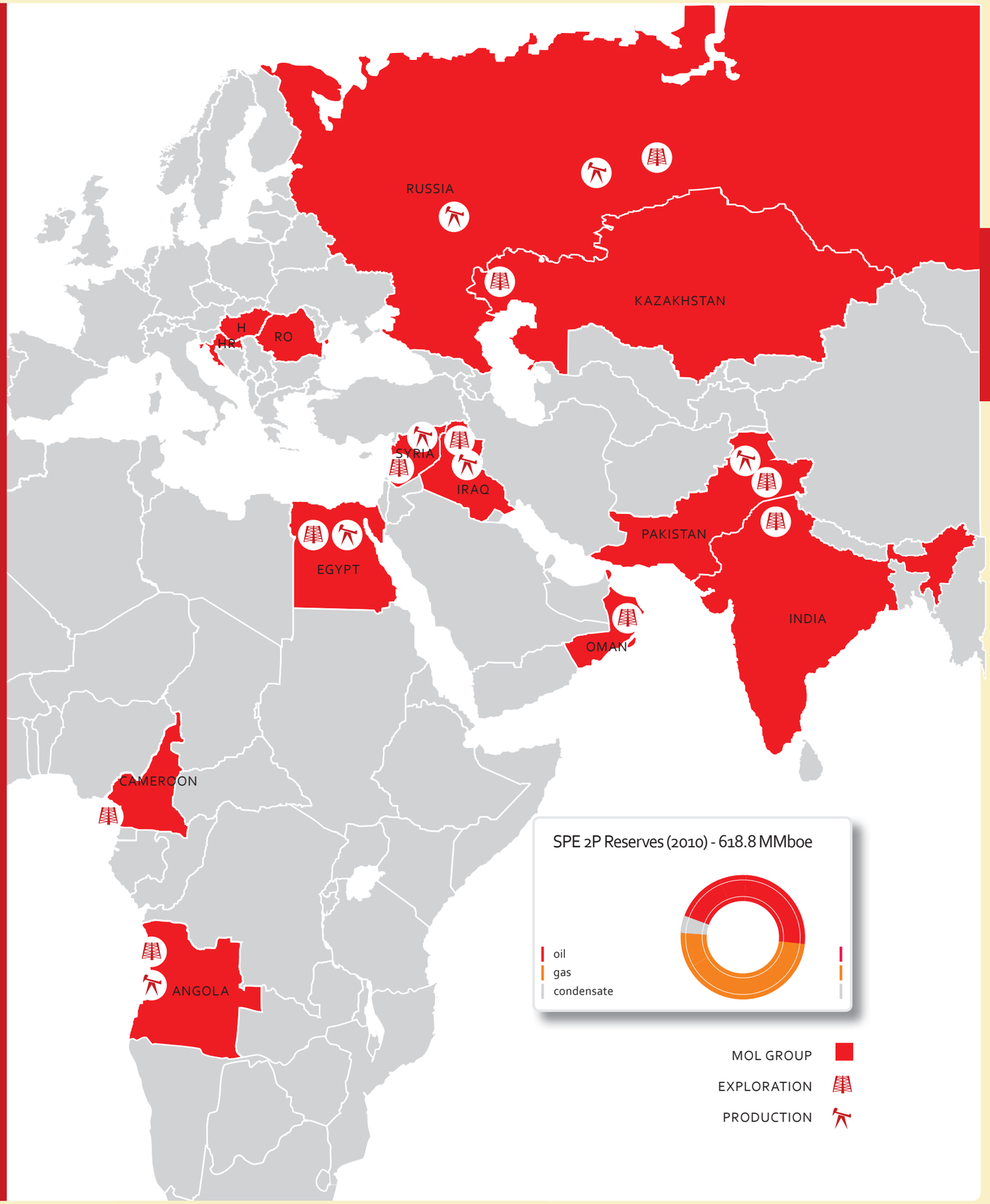
Pakistan



Egypt



Data include full year daily production and 100% of SPE 2P reserves of INA d.d. for 2010.



Refining and Marketing

2010 was the year of continuing development with a focus on operational efficiency. Refining and Marketing operates five refineries and related asset networks in the CEE region driven by the Supply Chain Management. Bratislava and Duna refineries continue to enjoy the advantage of their strong asset structure while major efforts to elevate INA Downstream performance have been in progress. Competitive crude and raw material supply and low cost product distribution are ensured by an extensive pipeline system and increased depot coverage. Regional wholesale activity is effectively supported by a widespread service station network of more than 1,600 sites in 11 countries with 7 brands operated in a multi-brand strategy by Retail Division.

Competitive advantage

MOL Downstream has an outstanding asset structure in the European refining sector. Our most complex refineries, Duna and Bratislava have had leading net cash margin positions in Europe since 2003 according to WoodMackenzie studies. Revamp of less efficient and sophisticated assets in Croatia and Italy gained momentum in 2010, enabling all of our refineries to produce Euro V quality motor fuels. While our refineries enjoyed the direct pipeline access to Russian crude supplies, seaborne crude markets provided an opportunity to select the optimal crude slate. The division optimized refinery operation to exploit synergies available in regional markets. Our extensive logistics network coupled with well positioned commercial activity reaching end-users continued to be key advantages of capturing sales margin revenues.
Retail Division is responsible for strengthening market position of fuel sales via convenience retailing activities across 11 countries. After a period of dynamic growth in the number of filling stations as well as in their geographic distribution, the key challenge now is to consolidate the existing filling station portfolio and improve its efficiency.

HIGHLIGHTS

Gradual improvement of refining environment in line with slowly recovering economy, while market developments in the CEE region showed diverse picture

Phase-1 of INA modernization program is being completed to produce Euro V motor fuel quality and to reduce environmental footprint

Strong emphasis on operational efficiency improvement continued to help balance the still challenging external environment

Strong market position and further expansion to South Eastern Europe are supported by the development of logistics systems and retail network consolidation with revised focus on geographies

Downstream continues the roll-out of sustainability principles among business units and countries on regional level

www.mol.hu

Duna Refinery in Hungary

Key Achievements

Downstream takes advantage of its asset structure

High complexity refineries utilize the advantage of producing a higher proportion of valuable 'white' products (e.g. diesel, gasoline), which is one of the key drivers of MOL Downstream's competitiveness and value creation as well.
Phase-1 of refinery modernization program in Croatia has almost been completed, which enables INA refineries to produce Euro V quality motor fuels to fulfil market requirements. In Rijeka refinery, a new hydrocracker unit has been mechanically completed to produce Euro V diesel products, while Sisak refinery is now able to produce Euro V quality motor gasoline thanks to the new investments. A new hydrogen generation unit and revamp of other older plants were also required for this investment, while the sulphur recovery unit ensures compliance with future European environmental requirements. Additionally to the compliance, the investments at Rijeka increase the refinery's Nelson Complexity Index to 9.1 and improve its product yield towards middle distillates. Further projects are planned to increase the production flexibility as part of our effort to retain our ability to react quickly to changes in the external environment.

Access to pipeline and seaborne crude ensure refining profitability

Our landlocked and high complexity refineries designed for Ural type crude (Duna, Bratislava) may well take advantage of the direct pipeline access to Russian crude oil supply. Refineries with seaborne crude supply in Mantova, Sisak and Rijeka benefit from crude cargo trade and related optimisation of matching product supply with local demand patterns. In 2010 MOL paid special attention to select the most economic crude slate for refineries and increased the variety of processed crude in Croatia and Italy compared to previous years.

Setting the pace in efficiency improvement

Continuous efficiency improvement has to be the basis not just for the less competitive refiners, but even for the most efficient as well, thus MOL launched focused programs for the whole Group. Our five refineries and two petchem units enable us to improve internal efficiency and capture synergies, like higher external purchase power.
OptINA program was the first attempt to harvest quick-wins of the implementation of MOL standards to elevate the operational efficiency, spreading 'best practices' in Croatia as well. Maintenance of the sites was harmonized and production was optimized in order to supply the markets without disruption. In the first full year of the Program, implemented projects significantly over-delivered the preliminary targets.
Downstream continues and extends its EIFFEL Program (Efficiency Improvement Framework) in order to support strategic pillars of growth, efficiency and capabilities by a bottom-up approach that encourages people to be more innovative. The majority of savings is due to new creative and flexible solutions and small technology modifications. Beside the significant direct cost savings, the real added value of EIFFEL Program is the creation of a self-improving organization and the establishment of a modern knowledge sharing environment, which supports the cooperation within MOL Group's multinational and multicultural operational area.
Refining has launched an Energy Conservation Program in 2010, with the aims to improve 'traditional' energy efficiency, reshape the contract management system and utilize online energy optimization due to the energy market deregulation. Additionally, harmonization and synchronization of the existing internal energy accounting-controlling systems into a common platform are intended.
In sales and distribution, the proprietary distribution pipeline network allows us the lowest possible cost to serve our customers. Additional cost reduction and rationalization in transportation were in focus by exploiting synergies aiming to improve road and rail tank car management and harmon-

ize MOL and INA sales channels in Croatia and Bosnia and Herzegovina.
Retail Division continuously improves the efficiency of applied methods and technologies for filling station operation by implementing new engineering and efficient maintenance standards and energy saving lighting methods.

Commercial position and logistic services provide a clear advantage in regional competition

CEE MOL Motor fuel markets

Legend:

- Countries with own refineries and/or higher than 50% market share
- Countries with market share between 5% and 50%
- Countries with market share below 5%

Sales distribution by markets

- Domestic markets 68%
- Core markets 27%
- Other markets 5%

MOL Group has kept its market leader position in Hungary, Slovakia, Croatia and Bosnia and Herzegovina, while it has developed strong market presence in other core countries with high sales margin environments. Leadership role yielded 20% market share in CEE and SEE regions and increased sales volumes.
MOL Group started to develop a competitive logistics network in Romania, Serbia and Bosnia to serve increasing sales volume as it was performed earlier in Austria. Development of wholesale and logistic assets remains a key goal for MOL Group in order to enable offering higher volumes to end costumers.
Wholesale commercial is continuously developing its customer management, providing fast, transparent and easy access to information services through the Internet from order to payment.
In retail business the performance of our current portfolio has been reviewed on the basis of individual filling stations in order to determine future investment. Tailor made, site-by-site strategies are based on the forecasted results and competitiveness of the specific station and the country's development opportunities. Nearly 2000 projects have been identified to be completed within the next five years aiming for solid cash generation at all sites, as well as for renewed Retail Visual Identity and refurbished hygienic solutions on more than 60% of the network.
Offering a whole range of extra services to travellers beyond selling fuel is an important element of MOL Group's Retail strategy. The company therefore continuously seeks to improve convenience services at its filling stations. MOL Group and Marché International offer joint services at seven MOL stations in Hungary and seven Tifon stations in Croatia. In addition, in 2010 MOL Retail Division has renewed its Gastro concept under the brand name 'Corner' with a wide scale of offers from fresh coffee and sandwiches to quick and convenient warm dishes, paying high attention to customer needs.

Duna Refinery in Hungary

Interview with Ferenc Horváth

Ferenc Horváth
Executive Vice President, Refining and Marketing (MOL Group)

What was the biggest success in 2010?
2010 was the first full year of operations in 12 markets with 5 production assets. Our goal was to build on the high performance of previous years. We significantly improved our asset structure by adding to it a world- level hydrocracking unit to match our production structure with market demand. The new units in our Rijeka and Sisak refineries now enable us not only to serve local demand but their new EU-conforming grades also provide us with access to EU marketplaces. These projects were the first steps towards creating efficient and profitable Croatian Downstream operations and show our commitment to elevate INA asset performance to the level of our Duna and Bratislava refineries. The optimisation of five refineries and two additional petrochemicals sites has created synergies which we are gradually exploiting by de-bottlenecking our logistics network.

What specific steps did you take to achieve these improvements?
The efficiency improvement programmes in Croatia, started in 2009, delivered initial results and generated close to USD 100 million EBITDA improvement throughout the entire value chain. The "OptINA" project identified several areas where implementation of current MOL Group standards would add significant value to day-to-day operations and increase profitability as well.
On the commercial side, we are continuously improving customer relations management. As a reliable and high-quality supplier, we have started the harmonisation of our commercial framework with INA, including the implementation of a new business policy and contract standards, the application of strict financial rules to INA sales credit risk management and the introduction of a single sales channel for motor fuels in Croatia and Bosnia and Herzegovina.
Sales expansion in South Eastern Europe gained momentum by extending our logistics capacity in Serbia and Romania.

How do you see the external environment in 2011? Will it be a more favourable year for complex refiners like MOL?
In 2010, the global refining environment gradually improved and we think that 2011 will be characterised by a slightly improved margin environment. We think that the recovery of the diesel market will continue and our refinery assets are well positioned to exploit such a market opportunity. In our core markets - Central and South East European - demand will slowly pick up and we will be able to ride the tide with our extensive sales channels and logistics assets.

What will the focus of MOL Downstream be in 2011?
The size and complexity of our operations calls for a focus on managing execution. We need to deliver results through efficiency improvements and enhanced flexibility which will help us keep costs under stricter control.
We plan to continue our quest to develop value-creating growth by increasing our market share in the motor fuel markets of SEE, moving into the recently-opened Serbian motor gasoline market and by expanding our market presence in Romania too.
In Retail we intend to pursue a selective investment strategy. We will concentrate on regional consolidation and offering relevant services to our customers. Ultimately, we aim to offer an enhanced total customer value proposition. Thus we will broaden our 'fit-to-drive' concept: the open-air family fitness park providing an opportunity for each member of the family to take a short active break whilst travelling.

What will MOL's biggest challenges be in the coming years?
Our aim is to become the premium Downstream company in Europe. We would like to strengthen our regional stronghold along 3 dimensions:
Firstly, we will maintain strong emphasis on increasing the efficiency of our current assets (focusing on energy consumption and maintenance in particular) as well as on further improving logistics and marketing operational optimisation. As part of MOL Group-level efficiency programmes, Downstream is aiming at a USD 280 million EBITDA improvement by 2013. In the meantime we shall maintain the leading positions of our Duna and Bratislava refineries in terms of net cash margin generation and exploitation of MOL Group-level synergies.
Secondly, we aim to initiate organic growth projects that focus on the elevation of our Rijeka refinery to the level of top European plants, increasing its complexity to convert fuel oil output to more valuable motor fuels. Petchem investment in Bratislava could ensure flexibility in the long term and exploit existing synergies from refining-petrochemicals integration. On the other hand, in the long term, we also plan to increase diesel output at our Duna refinery by building a new hydrocracking unit.
Thirdly, we will pursue a selective non-organic growth investment strategy by continuously monitoring the regional asset market but considering only those which fit into the current portfolio in the region with special regard to logistics and retail developments. The biggest challenges in Retail will be the rationalisation and efficiency improvements in the Croatian operation as well as managing the modernisation project with a sizable investment.
Refining and production are coming under more and more stringent legislation and are the focus of environmental protection laws.
From the workforce point of view, we will face a challenge in the future: to keep the right balance between aging and swift knowledge improvement. One of our key tasks is to ensure the succession of key people. We have started several projects through partnerships with Universities even down to elementary school programme level to secure the engagement of the new generation with the oil industry. We have launched a Masters course at the University of Pannonia to support internally the education of new graduates and the 'PIMS Academy' in the Supply Chain Management.

What other factors are you considering to achieve your goals in the future?
We constantly focus on environmental changes and challenges. With the contribution of our Research & Development team, we want to be able to provide adequate and timely solutions. Apart from 'hardware', we believe that investing in human resources and sustainable operations will enable us to achieve our goals and maintain our competitive advantage.

Petrochemicals

Our petrochemical business is the leading polymer player in CEE and among the top ten players in the European polymer 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). They are integrated with MOL Group refineries and support the Downstream segment as captive market. Beyond the naphtha processing to ethylene and propylene, the Petrochemical segment produces 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 everyday life. The polyethylene product range includes low density polyethylene (LDPE), high density unimodal and bimodal polyethylene (HDPE). The polypropylene (PP) product range includes homopolymers, random copolymers and impact copolymers. TVK and SPC are operated in integrated manner, selling the majority of products through TVK sales subsidiaries under the brands of Tipelin, Tipolen, Bralen (polyethylene) and Tipplen, Tatren (polypropylenes).

HIGHLIGHTS

- Higher utilization of olefin co-products
- Focus on regional markets in polymer sales
- Well managed general overhaul and maintenance
- Process Safety Management system implemented
- Strategic focus on energy efficiency improvement

www.mol.hu

In Hungary and Slovakia we serve our customers directly from TVK and SPC. Our sales subsidiaries are operating in five countries – Germany, Poland, Italy, France and Ukraine. Above all, our sales activity is also conducted through MOL subsidiaries in Austria and Romania, where we exploit synergies from the presence of other MOL businesses. Sales as well as customer support in technical issues to the key accounts and on other markets are managed from TVK and SPC. We supply feedstock especially to European plastic converters – more than 97% of our polymer production has been placed in European markets in 2010.

Proximity to rapid growth regions of Central and Eastern Europe provides firm basis to fully satisfy customer needs, supported by tailor made sales services and product quality, which is strategically important in keeping position as leading regional polymer player. Based on its long time experience in the petrochemical industry, MOL Petrochemical segment's main internal strengths are the skilled sales and engineering staff.

HDPE-2 unit – Tisza Chemical Group Plc. in Hungary

Competitive Advantages

Our competitive strength is supported by our geographical position and competitive asset base with a well-balanced product and customer portfolio, as well as refinery integration.

Integrated operation: According to our 'crude to plastic' philosophy we optimize our refining and petrochemical production through the whole hydrocarbon value chain, which not only maximizes our profitability, but also reduces the risk at group level. Integration between petrochemical plants and refineries improves the competitive position for both sides. This segment represents captive-market for MOL Downstream segment by purchasing 13% or 2.3 Million tons of MOL Downstream sales as petrochemical feedstock. MOL Petrochemicals sales to MOL refineries amounting to 30% of the total petrochemical feedstock. The majority of these co-products produced by olefin plants are sold as components to the fuel production.

Good geographical location: Our sales and marketing strategy focuses on increasing sales in the fast growing CEE region, where we can benefit from central position in the landlocked markets and our special understanding of customer requirements. Shorter sales radius can reduce transportation and other logistics costs. Value added services in logistics and technical support are the key factors to differentiate MOL Petrochemicals. These services together with regional expertise represent the main advantages in MOL's core region.

Certrificates
TVK

Certrificates
Slovnaft Petrochemicals

Key developments in 2010

Our Petrochemical segment hit the best ever net sales figure by achieving 35% improvement in 2010, compared to the preceding year. This development was moderated by the significant increase in raw material cost that raised by approximately 43%.

Although the annual average of integrated petrochemical margin has improved by 6% increased to 323 EUR/t in 2010, it was still lower by 21% than in 2008 (406 EUR/t). So, we paid particular attention to keep strict control on costs and working capital as well in 2010.

Olefin sales - improves steam cracker utilization

Our Petrochemical segment is an active player in the regional olefin business - through increasing olefin and olefin by-products sales of the olefin plants. Due to this, we can improve the capacity utilization of the olefin plants, which are strategic assets in our petrochemical business.

– Borsodchem, our strategic partner in the olefin business in Hungary has stabilized its positions and increased the volume of ethylene purchases in 2010.

– Passing over the first year of the crude C_4 sales contract with our Polish partner, Synthos - we gain positive experiences in the cooperation.

– Pyrolysis oil sales to the third party's carbon black unit in Tiszaújváros improved significantly in 2010, due to the upturn in the tyre industry.

Continuation of the sales and marketing strategy implementation – focusing and differentiation

Sales and marketing strategy can be characterized by two major goals – geographical focusing and differentiation in customer services. Exploiting our favourable geographic location we have amended our sales strategy, at the field of logistics, product development and tight customer relations, aiming higher focus on markets in Central Europe.

Plastics demand in Europe has considerably recovered in 2010. The global economic recovery brought steady demand in the LDPE and PP markets and quoted prices raised by 43-45%. However HDPE products were not able to keep up with this trend.

In 2010 we improved our sales performance by achieving higher price levels and we kept polymer inventories at low level. By improving our customer portfolio, the ratio of sales to non-core destinations reduced from 8% in the previous year to 6% in 2010.

Successful general overhaul and planned maintenance

In April we carried out a general overhaul at TVK Olefin-2. The good operation rates that we achieved have compensated the effect of the downtime. Both olefin and polymer production have slightly increased in 2010. General overhauls were successfully completed covering the planned technical content and within the budget planned. These well-managed turnarounds give good basis for excellent operational reliability as well as for exploiting business opportunities.

Focus on safe operation

As an answer to the increasing importance of production safety in industrial processes and in line with MOL Group requirements, we introduced Process Safety Management (PSM) system to reveal and investigate operational risks, events and to monitor the corrective actions. By PSM approach in the operation and through PSM audits conducted at production units we intend to increase operational safety in our petrochemical processes. The PSM system, which we introduced, is based on Dupont PSM methodology.

Improvements in energy efficiency

Commitment to improve energy efficiency is deeply rooted in strategic thinking at the Petrochemical segment. In response to the thriving importance of environmental protection and increasing energy prices, action plans were developed in connection with technologies and a new operational model was introduced for energy management. This will further improve the cost efficiency of the overall energy process to the benefit of environment.

We are consequently implementing our energy strategy formulated in 2008. In the 2008-2010 period we spared 48 kt of CO_2 via sustainable improvement actions and individual energy projects.

Outlook

In the future petrochemical industry remains increasingly competitive, setting further challenges in the business. To keep and further strengthen competitive advantages, the Petrochemical segment is committed to continue its strategic development programs and seeking for new business opportunities.

We keep EBIT improvement as priority target for 2011. Coherent implementation of cost-cutting initiatives and acquiring attractive customer segments in sales could provide firm basis to make good progress with this aim.

In order to firm LDPE market position, MOL Petrochemicals has launched the SPC modernization program in 2007. By the continuation of SPC development, MOL Petrochemicals will keep leading position in the regional petrochemical industry.

Tisza Chemical Group Plc. in Hungary

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	9.1
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 (12% owned by INA)	34.0
Product Depot (pcs)	38
Product pipeline system:	
MOL – 1356 km	8.2
SN – 484 km	2.5

Retail

	Number of filling stations
MOL	563
INA	476
Slovnaft	234
IES	205
Tifon	43
Roth	38
Energopetrol	64

Petrochemicals

Production	Capacity in kt/y
TVK - Olefin	660
TVK - Polyolefin	765
SPC - Olefin	220
SPC - Polyolefin	435

Pipelines	Capacity in kt/y
Feedstock and product pipelines	2,700
Ethylene (Kazincbarcika)	160
Ethylene (Kalush)	100

Natural Gas Transmission

In Hungary, only FGSZ Földgázszállító Zrt. (FGSZ) has a licence for natural gas transmission and system operation. Both activities are carried out under market conditions regulated by law. The company possesses and operates the high-pressure natural gas system covering the entire territory of Hungary. Aside from domestic natural gas transmission, FGSZ is also engaged in transit activities to Serbia, Bosnia-Herzegovina and export to Romania and Croatia. In international comparison, the company's pipeline network represents the highest technological standards. FGSZ ranks among the region's companies of strategic importance. Its dynamism and efficiency make the company one of the most significant natural gas suppliers in Europe.

Competitive advantages

– Good geographical position: Due to its geographical location, FGSZ also has a key role in terms of regional transit transmission.

– High quality standards: The company implemented a certified quality assurance system in accordance with the ISO 9001 standard in 1997. The certification was issued by SGS (SGS Hungary Kft. in Hungary) which is a highly acclaimed certification company in the oil and gas industry. The operation of the quality assurance system is reviewed semi-annually by SGS Hungary Kft. and annually by the Hungarian Office for Mining and Geology.

– Stable cash flow: The operation of FGSZ's high-pressure natural gas transmission grid of approximately 5,800 km – covering the entire territory of Hungary – and the discrimination-free sale of its capacity and supplementary services provide a stable cash-flow for the group.

– "Best Employer": FGSZ Zrt. also has considerable merits as an employer. In 2009 the company achieved first place in its category in the Best Employer Survey conducted by Világgazdaság-Hewitt and also won the first place in the industry competition. The company was also selected as the best workplace in the country and was also ranked among the best workplaces in the regional survey of The Best Employer of Central-Eastern Europe.

Beregdaróc Compressor Staion in Hungary

HIGHLIGHTS

5,800 km long pipeline system

17 domestic, 2 import input points, 400 gas output points

6 regional centres, 5 compressor stations

World-class operator centre in Siófok

Construction of Romanian and Croatian Interconnector was finished

Launch of the Daily Natural Gas & Capacity Market

Structural changes to fit the Independent Transmission Operator model

www.mol.hu

The most important events of 2010

The construction of the Romanian and Croatian Interconnector was successfully completed

The transmission through the interconnectors between the Hungarian and Romanian natural gas transmission networks started in July 2010. The Hungarian section of the pipeline is 47 km long and has a maximum capacity of 4.8 million m3 / day. The total value of the investment was HUF 9 billion. The Hungarian-Croatian interconnector, Városföld–Slobodnica was also completed. The Hungarian section of the pipeline is 205 km with a maximum capacity of 19.2 million m3/day. Costs of the investment in Hungary amounted to HUF 80 billion. Both pipelines are suitable for bidirectional transmission therefore the implementation of the interconnectors considerably improves the safety of supply as with the completion of the interconnectors the domestic gas pipeline network may have four input points in addition to the previous two.

During the pipeline construction works completed in 2010, FGSZ paid special attention to the protection of the natural resources of the area concerned, environment and nature protection and the improvement of air purity. The company also maintained regular contact with the public and social organizations during the construction works.

FGSZ operates under Independent Transmission Operator model (ITO)

The publication of Directive 2009/73/EC brought about fundamental changes for FGSZ Zrt. In the spirit of enhancing market liberalization, this directive established a new comprehensive framework for natural gas takeover, storage and distribution, including the regulation of the company's operation. The EU directive was included in the Hungarian legislation with the appropriate amendments as a result of which in the future FGSZ operates under a new model called ITO (independent transmission operator). During 2010 the Company implemented all the necessary measures to continue its operation under the new system operation and gas transmission model following the deadline for submitting the licence application.

Daily Natural Gas & Capacity Market (NFKP) a new special electronic trading platform for natural gas

Pursuant to Act XL of 2008, FGSZ Zrt. provides a new type of service for its clients as of 1 July 2010. With the establishment of the Daily Natural Gas & Capacity Market (NFKP) a special electronic trading platform was created where natural gas traders, private users, natural gas producers and other system operators – such as natural gas storage operators or distribution system operators – can sell and buy natural gas and high-pressure gas transmission network capacities. Due to NFKP, market players can plan their daily tasks more effectively and the risk posed by day-end balancing is also lower therefore they can provide end users with smoother and more reliable services. NFKP represents an important step towards FGSZ's long-term objective which is the establishment of a more competitive Hungarian natural gas market with higher liquidity.

Outlook

North-South Gas Corridor and NETS cooperation

The North-South Gas Corridor is one of the key projects of the European Union. Its main objective is to diversify the gas resources of the region between the Baltic Sea and the Adriatic Sea and create an integrated gas market. These goals are attainable through the strategic cooperation of the regional natural gas supplier companies and the establishment of common directives in terms of energy policy. FGSZ's Project NETS (New European Transmission System) provides a frame for the creation of the North-South Gas Corridor.

In order to achieve the aims described above, FGSZ launched the preparation works of the construction of the Hungarian-Slovakian interconnector and also conducts further negotiations regarding the Slovenian interconnector. The former would facilitate the creation of the North-South Gas Corridor while the latter would contribute to the possible construction of the Hungarian-Slovenian-Italian transmission system.

Beregdaróc Compressor Staion in Hungary

Gas Transmission portfolio elements

Total performance in 2010

(data at 15°C)	(cubic metres)
Aggregate domestic quantity including gas withdrawn from UGS	11.89 billion
Of which: withdrawn	2.16 billion
Transit and export	2.20 billion
Import quantities for domestic consumptionat Beregszász point	5.00 billion
Through HAG pipeline	4.58 billion
From domestic production	2.34 billion

HAG pipeline

from Austria

Mosonmagyaróvár measurement	(cubic metres)
Annual capacity	4.50 billion
Daily firm peak capacity	12.10 million

Testvériség and Összefogás pipeline

from the Ukraine

Entry point at Beregdaróc	(cubic metres)
Annual capacity	21.90 billion

Daily peak capacity of the natural gas system

(data at 15°C)	(cubic metres)
Total	173.71 million
of which interruptible	9.8 million
Imports	74.40 million
of which interruptible	2.3 million
Transit	11.30 million
Storage for commercial purposes	59.00 million
of which interruptible	7.5 million
Storage for strategic purposes	20.00 million
Domestic production netto	9.02 million

Capacity of underground storages of commercial purposes

Four entry points	(cubic metres)
Annual capacity	5.00 billion
Daily peak capacity	59.00 million
of which interruptible	7.5 million

Capacity of underground storages of strategic purposes

One entry points	(cubic metres)
Annual capacity	1.20 billion
Daily peak capacity	20.00 million

Transit (Serbian and Bosnian)

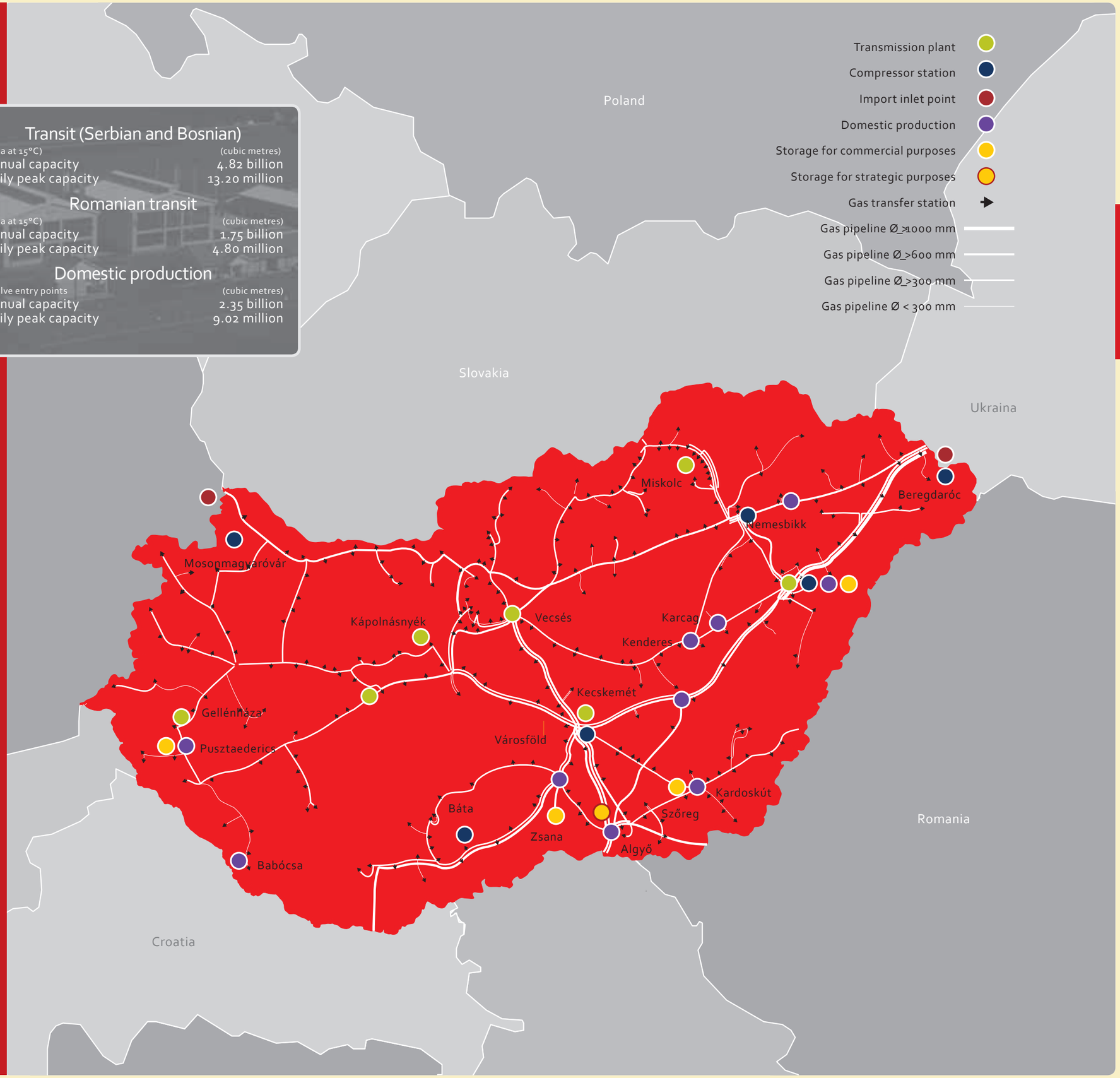
(data at 15°C)	(cubic metres)
Annual capacity	4.82 billion
Daily peak capacity	13.20 million

Romanian transit

(data at 15°C)	(cubic metres)
Annual capacity	1.75 billion
Daily peak capacity	4.80 million

Domestic production

Twelve entry points	(cubic metres)
Annual capacity	2.35 billion
Daily peak capacity	9.02 million



Gas and Power

HIGHLIGHTS

MMBF Ltd., underground gas storage has finished its first year of successful operation in 2010

Integration of INA's purchase activity into the Group raises the amount of supplied crude oil and raw materials close to 20 mn tons with high efficiency improvement potential

Nabucco pipeline gained momentum by signing of a mandate letter with the EBRD, EIB and IFIs

MCT, MOL Commodity Trading managed efficiently the oil-, oil products derivatives, CO_2 and power positions of MOL Group

Pilot inert gas based electricity projects have been initiated, as an initial step to enter the small scale power plant segment

www.mol.hu

The Gas and Power segment consists of the Supply and Trading Division and the Power and Heat Generation Department.

The Supply and Trading Division's activities enable MOL to take full advantage of the synergies among the supply and trading of crude oil, oil products, natural gas, power, CO_2 and other commodities – within the Group as well as towards external market participants.

At the end of 2009, MOL became an active participant in the gas storage business again, via MMBF Ltd. (72.5% MOL subsidiary), which finished its first year of successful operation in 2010 with 1.2 bcm strategic and 0.7 bcm commercial mobile capacity. The execution of this project supports the Hungarian security of supply as well.

Due to long-term 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 as well as moving forward the energy value chain with utilizing MOL Group's existing primary resources for electricity generation.

MOL, together with its strategic partner – CEZ, the Czech Energy Company – is continuing with major investments in the Danube and Bratislava refineries including two combined cycle gas turbines (CCGT) and the revamp of the existing thermal power plant (TPP), in order to create an attractive power portfolio.

Gas infrastructure

Both the ongoing and successfully completed infrastructure developments aim to strengthen the market efficiency and the security of supply in the region and provide stable cash flow for the Group.

MMBF Ltd.

MOL is again an active participant in the gas storage business via MMBF Ltd., generating stable, euro denominated cash-flow on long term and strengthening the security of supply in Hungary.

With the primer goal to ensure the security of gas supply, MMBF Gas Storage Ltd. (72.5% subsidiary of MOL) developed the underground gas storage facility with strategic mobile capacity of 1.2 bcm and commercial mobile capacity of 0.7 bcm.

The operator of the facility is MOL. The development was also managed by MOL and has been accomplished according to schedule in line with Act XXVI/2006 on strategic stockpiling of natural gas. Consequently the 30-year contract for strategic gas storage came into effect. Commercial capacities have also been fully booked for 10 years starting from 1 April 2010. Both activities provide stable, euro denominated return for MOL Group.

The financing of MMBF up to EUR 200 million is provided by the European Bank for Reconstruction and Development (EBRD), with 8-year loan facility, while further financing is secured by a revolving credit contract prolonged with MOL till 2014.

Nabucco project

MOL takes part in the Nabucco project in cooperation with Botas, Bulgarian Energy Holding, OMV, RWE and Transgaz with an equal share of 16.67%. The aim of the project is to eventually transport 31 bcm of natural gas per annum from the Caspian and Middle-Eastern region to Europe on a 3,900 km long pipeline.

After the successful year of 2009, when the Intergovernmental Agreement (IGA) was signed by the governments of the Nabucco transit countries of Austria, Hungary, Romania, Bulgaria and Turkey, the Nabucco project made a significant progress in 2010 by signing of a mandate letter with EBRD (European Bank for Reconstruction and Development), EIB (European Investment Bank) and IFIs (International Financial Institutions). Additionally both the Environmental and Social Impact Assessment and the front-end engineering design of the two feeder lines in Turkey have been started.

Nabucco will lead to a more efficient and secured regional gas market and additional value generation for MOL Group taking into consideration the Pearl project in Iraq as a potential upstream gas source.

Underground Gas storage Szőreg in Hungary

Trading and supply operations

Managing the trading and supply operations integrated for the whole MOL Group has the apparent rationale of synergies and economies of scale. The potential improved considerably with the inclusion of the integrated planning and feedstock supply into the division – in close co-operation with the Supply Chain Management. The supply and trading activities cover various needs of e.g. MOL, Slovnaft, INA and IES, while being able to utilise the existing expertise and exploit the opportunities on the external market as well.

Crude Oil and Raw Materials Supply and Trading (Moltrade-Mineralimpex)

On the basis of Supply Chain Management needs, 11.8 M tons of crude oil for MOL, Slovnaft and INA Sisak refineries were supplied via Druzhba pipeline in 2010. 550 kt crude oil was transited for Brod refinery (Bosnia). Seaborne crude supply for IES / Mantova refinery reached 2.4 M tons.

INA crude oil procurement integration into the Group purchasing activity taken place during 2010 involving MOLTRADE-Mineralimpex for pipeline and seaborne deliveries. 3.5 million tons of crude oil has been procured for INA refineries (i.e. Rijeka and Sisak) In order to ensure crude supply security of INA a 2-year seaborne crude supply contract was concluded on purchasing 1.4 million tons of crude oil

In addition to the crude oil supplies, 1.5 M tons of raw materials and oil products (including 1 M tons 0.1 Gasoil by pipeline and 220 kt Virgin Naphtha for TVK) were imported.

Commodity Trading Platform

MOL Commodity Trading (MCT) is a 100% MOL owned company. The company is responsible for managing oil and oil products derivative transactions, optimization and trading of CO_2 emissions and electricity.

In 2010 MCT efficiently performed derivatives structuring for oil and oil products with total turnover of 4 million tons in close co-operation with other business units. The three main areas of commodity hedging transactions were relating to crude supply, hydrocarbon inventory management and other commercial opportunities. Optimization and trading of CO_2 emission allowances for MOL Group included compliance transactions, CER-EUA swaps – more than 7 million tons of allowances were traded altogether MCT provided efficient energy position management for Hungarian entities amounted to around 1,5 TWh of electricity.

Supporting the efficient and secured oil, oil product, CO_2 and energy management for MOL Group, MCT successfully implemented an Energy Trading and Risk Management System in 2010, which is representing the state-of-the-art control framework.

In 2011 Trading Platform is going to extend its electricity supply operation within MOL Group.

Energy Portfolio Development

The Energy Portfolio Development continues to exploit the existing, but so far untapped resources and competencies of the company, primarily in the field of geothermal energy and inert gas utilization, thus enable MOL Group to enter the small scale power plant segment, as a new industry.

The planning and permitting phase of the inert gas pilot project, using natural gas with lower calorific value, with 0.8 MW electric capacity was finished in 2010. It will be followed by the project implementation and commissioning in 2011. In addition, there are a number of similar inert gas projects with much larger scale under preparation in different areas of Hungary. The total portfolio will enable MOL to establish sizeable market presence in the small scale power plant sector supported by its gas engines/ turbines installed near the inert gas fields.

In the year 2010 several geothermal projects have been identified to be feasible both from geological and financial point of view, targeting significant electric and heat capacity. The first steps of MOL's geothermal strategy is being implemented through CEGE, the dedicated geothermal joint venture, and now MOL looks forward to the launch of the geothermal concession tenders in 2011.

As the first step of the Group level energy audit of MOL Group, the Energy Efficiency team has completed the comprehensive energy efficiency assessment of TVK, which is followed by the energy audit of MOL's main domestic Upstream and Downstream sites.

Power and Heat Generation

MOL, together with its strategic partner – CEZ, the Czech Energy Company - is considering to carry out three major investments. The ongoing project is the revamp of the existing thermal power plant (TPP) in the Bratislava refinery. Beside this the partners are examining the opportunities of building two combined cycle gas turbine (CCGT) technologies power plant in the Danube and Bratislava refineries. Each CCGT has a planned capacity of 830 MW which would result in a 58% net electrical efficiency.

The revamp of the TPP in Bratislava is in process, the complete Flue Gas Desulfurization unit work will be completed by the end of 2011. The capacity increase of the power plant will satisfy the full electricity and steam need of the refinery. The preparatory works for the developments of the two CCGT power plants are proceeding according to the agreed schedule. The Hungarian project has been granted an IPPC and a Building Permit, in Slovakia a valid EIA resolution has been received by the end of 2010.

Underground Gas storage Szőreg in Hungary

Financial and Operational Performance

Financial and Operational Performance

Bratislava Refinery in Slovakia

Management Discussion and Analysis about the 2010 Business Operation

Highlights of the challenges of 2010 and our responses

The global economy went through a transition period in recent years and signs of the recovery were already visible in 2010 in the continuously increasing hydrocarbon prices and gradual improvement of refining environment. MOL continuously adjusts its operation to the external environment and became more international, more efficient and more upstream driven in the recent years.
In 2010 approximately half of the Group EBITDA was generated outside Hungary as share of international operation increased further considerably and we expect this tendency to continue in the coming years. The Upstream division's contribution has grown significantly in the past years, achieving almost two-third of the Group EBITDA in 2010 and became a strong growth pillar for the Group. Downstream integration strengthened in order to reinforce our regional stronghold position.
In 2010 EBITDA, excluding special items increased by 56% to HUF 598.2 bn, while operating profit, excluding special items improved by 83% and amounted to HUF 330.1 bn, despite unfavorable regulatory environment. International operations had a substantially increased share in the operating profit in 2010. Profit improvement resulted mainly from the Upstream operation as recent year's major developments turned into production and with its 79% improvement, Upstream division remained the main profit contributor to the Group operating result. In a gradually improving external environment Downstream operating profit, excluding special items doubled compared to the relatively low basis of 2009. Petrochemicals turned to positive while Gas & Power remained an important contributor.

In 2010 net profit of MOL Group increased by 9% to HUF 104.0 bn, as the significantly improved operating performance was partly decreased by the imposed crisis tax in Hungary (HUF 25.8 bn) and additional royalty payment plus interest (HUF 35.2 bn) based on decision of EU Commission. In the first full-year consolidation of INA its net contribution turned to a profit.

MOL remained committed to keep its financial stability in 2010, which is based on our immediate and adequate answers to the crisis. Our disciplined CAPEX spending (HUF 333 bn, 13% lower than previous year) was financed through the operating cash flow, our net debt position decreased, resulting in an improved gearing ratio of 31.3% at the end of December 2010.
MOL not just remained committed to keep its financial stability, but continued the key development projects, hereby established an outstanding position for the upturn period in each business division. The investments focused on growth-type projects, like the Syrian and Adriatic off-shore developments in Upstream, modernization of Rijeka refinery in Downstream and Hungarian-Croatian cross border pipeline development in Gas and Power.

In 2010 MOL's Upstream business made significant steps towards an optimized, efficiently operated portfolio. Key projects turned from field development to production phase increasing our daily production to 144 mboepd and creating the basis of medium term sustainability. MOL Group's total approved 2P reserves estimations according to SPE guidelines were 619 MMboe as of 31, December 2010, while the current best estimates of the recoverable resource potential is 1,650 MMboe.
Remarkable exploration successes were achieved in the Kurdistan Region of Iraq and Pakistan in the past year. These successes along with increasing exploration activity should support our long term growth in the future. MOL is committed to maintain its reserve base and production level at their elevated levels.

Regarding the downstream business MOL Group's main goal is to reinforce its regional position by focusing on market driven developments and efficiency improvements thus exploiting the gradually improving environment. The Group focuses to exploit further synergies through the whole value chain, elevate Rijeka refinery to similar levels represented by the key refineries of MOL and improve the overall efficiency of Downstream portfolio.
On Group level we aim to exploit the significant organic growth potential of our integrated portfolio by operating the existing asset base on maximum efficiency.

Detailed Analysis of 2010 Results

MOL Group's EBITDA excluding special items, increased by 56% to HUF 598.2 bn in 2010 year-on-year while operating profit, excluding special items improved by 83% and amounted to HUF 330.1 bn. Share of international operations substantially increased in the operating profit in 2010. Operational result improved in each business unit in line with the gradual improvement of external environment and due to our efficient operation, however results were worsened by the crisis tax imposed in 2010 (HUF 25.8 bn), additional mining royalty plus interest (HUF 35.2 bn) based on decision of EU Commission and frozen gas tariffs. Despite the unfavorable regulatory environment net profit of MOL Group increased by 9% to HUF 104.0 bn. In the first full-year consolidation of INA its net contribution turned to a profit.
MOL remained committed to keep its financial stability and reduced CAPEX spending (HUF 333 bn, 13% lower than previous year) which was financed through the operating cash flow. Our net debt position decreased further. The gearing ratio decreased to 31.3% at the end of December 2010 compared to last year's gearing ratio of 33.8%. Continuation and finalization of the key development projects established an outstanding position for the upturn period in each business division.

– **Exploration & Production** operating profit, excluding special items, increased by 79% to HUF 258.6 bn compared to last year, which was mainly driven by increasing international production and higher average realized hydrocarbon price. The Croatian gas trading business was still in loss, albeit reduced from the previous year. Operating profit excluding INA's contribution and special items increased by HUF 22.0 bn or 20% year-on-year as favorable external environment along with almost stable production was just partly offset by higher domestic royalty payment.
Based on the Gas Master Agreement signed by the Government of the Republic of Croatia and MOL on 30 January 2009 and amended on 16 December 2009, the Croatian Government should have taken over INA gas trading business before 1 December 2010. Since this has not happened and the ongoing negotiations do not yet indicate a revised timeline, this activity no longer meets the criteria for discontinued operations. Consequently, assets, liabilities, revenues and expenses are disclosed among continuing activities within the Exploration and Production segment. The revenues and expenses have been restated accordingly in the comparative periods.

– **Refining & Marketing** operating profit, excluding special items doubled compared to last year's relatively low basis and amounted to HUF 58.5 bn in 2010. The continuously improving refining environment and our commitment to strict cost control compensated the impact of depressed regional demand and the improving, but still negative contribution of INA. Excluding INA's contribution, operaing profit increased by 84% year-on-year, while the CCS-based operating profit increased considerably to HUF 51.4 bn.

– **Petrochemical** segment's operating result, excluding special item improved significantly (by HUF 16.6 bn) compared to 2009, and amounted to HUF 1.4 bn in 2010 as a result of the positive contribution of Q2 and Q3. The improvement was mainly the consequence of the higher production and sales volumes and the slight increase of petrochemical margin.

– **The Gas and Power** segment's operating profit, excluding special items, increased slightly, by 10% to HUF 68.1 bn in 2010, despite the negative regulatory changes. FGSZ Ltd. remained the most important profit contributor; however the temporary freeze of gas tariffs from 1 July affected negatively the result of the gas transmission business.

– **Net financial expense** of HUF 79.1 bn was recorded in FY 2010 in comparison with the net financial expense of HUF 60.3 bn in FY 2009.

– **CAPEX spending** was HUF 333 bn (13% lower than previous year) in 2010, including the HUF 107.1 bn spending of INA. The investments focused on growth type projects, like the Syrian and Adriatic off-shore developments in Upstream, modernization of Rijeka refinery in Downstream and Croatian cross border pipeline development in Gas and Power.

– **Net debt position** decreased by 4% to HUF 897.7 bn, resulting in a 31.3% gearing ratio at the end of December 2010.

– **Operating cash-flow** in 2010 was HUF 373.7 bn, compared to HUF 397.9 bn in 2009. Operating cash flow before movements in working capital increased by 39% year-on-year.

1.) We have audited the accompanying 2010 consolidated annual financial statements of MOL Hungarian Oil and Gas Plc. Key financial data by business segments

NET SALES REVENUES	2009 (HUF mn)	2010 (HUF mn)	2009 (USD mn)[5]	2010 (USD mn)[5]
Exploration and Production	489,863	772,260	2,421	3,711
Refining and Marketing	2,720,839	3,636,792	13,450	17,476
Gas & Power	513,756	517,712	2,540	2,488
Petrochemicals	388,280	524,205	1,919	2,519
Corporate and other	164,678	164,486	814	790
TOTAL NET SALES REVENUES	4,277,416	5,615,455	21,144	26,984

NET EXTERNAL SALES REVENUES[1]	2009 (HUF mn)	2010 (HUF mn)	2009 (USD mn)[5]	2010 (USD mn)[5]
Exploration and Production	301,788	518,406	1,491	2,491
Refining and Marketing	2,396,450	3,160,919	11,846	15,189
Gas & Power	236,166	190,638	1,168	916
Petrochemicals	289,128	395,590	1,429	1,901
Corporate and other	31,168	33,156	154	160
TOTAL NET EXTERNAL SALES REVENUES	3,254,700	4,298,709	16,088	20,657

OPERATING PROFIT	2009 (HUF mn)	2010 (HUF mn)	2009 (USD mn)[5]	2010 (USD mn)[5]
Exploration and Production	136,722	206,857	676	994
Refining and Marketing	15,474	31,808	76	153
Gas & Power	61,902	67,666	306	325
Petrochemicals	(15,219)	1,098	(75)	5
Corporate and other	28,000	(68,716)	138	(330)
Inter-segment transfers[2]	5,500	345	28	2
TOTAL OPERATING PROFIT	232,379	239,058	1,149	1,149

OPERATING PROFIT EXC. SPEC ITEM [3]	2009 (HUF mn)	2010 (HUF mn)	2009 (USD mn)[5]	2010 (USD mn)[5]
Exploration and Production	144,735	258,572	715	1,243
Refining and Marketing	28,150	58,518	139	281
Gas & Power	61,902	68,119	306	327
Petrochemicals	(15,219)	1,400	(75)	7
Corporate and other	(44,366)	(56,808)	(219)	(274)
Inter-segment transfers[2]	5,500	345	27	2
TOTAL OPERATING PROFIT EXC. SPEC ITEM	180,702	330,146	893	1,586

EBITDA	2009 (HUF mn)	2010 (HUF mn)	2009 (USD mn)[5]	2010 (USD mn)[5]
Exploration and Production	204,258	334,496	1,010	1,607
Refining and Marketing	108,968	130,908	539	629
Gas & Power	77,593	87,565	384	421
Petrochemicals	3,089	18,945	15	91
Corporate and other	43,227	(50,678)	213	(243)
Inter-segment transfers[2]	2,384	(3,109)	12	(15)
TOTAL EBITDA	439,519	518,127	2,173	2,490

EBITDA EXC. SPEC ITEM [4]	2009 (HUF mn)	2010 (HUF mn)	2009 (USD mn)[5]	2010 (USD mn)[5]
Exploration and Production	212,271	375,195	1,049	1,803
Refining and Marketing	116,988	157,618	578	757
Gas & Power	77,593	88,018	384	423
Petrochemicals	3,089	19,247	15	92
Corporate and other	(29,139)	(38,770)	(144)	(186)
Inter-segment transfers[2]	2,384	(3,109)	12	(14)
TOTAL EBITDA EXC. SPEC ITEM	383,186	598,199	1,894	2,875

1 Net external sales revenues and operating profit include 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. Divisional figures contain the results of the fully consolidated subsidiaries engaged in the respective divisions.

2 This line shows the change in the amount of unrealised operating profit in respect of transfers between segments. Unrealised profits arise when the item transferred is held as inventory by the receiving segment at the end of the period and a third party sale takes place only in a subsequent period. For segmental reporting purposes the transferor segment records the profit immediately at the point of transfer. However, at the company level profit is only recognised 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.

3 Operating profit excluding the additional expense of the turnover of inventories of INA which were recognized at fair market value upon initial consolidation as opposed to the carrying amounts reflected in INA Group's separate financial statements (HUF 4.2 bn in Q1 2010), the additional mining royalty (HUF 30.4 bn at Exploration and Production division) paid in Q3 2010 based on the decision of the EU Commission for which provision was recognised in Q2 2010, the provision for redundancy recorded at INA in Q3 2010 (HUF 15.5 bn, the majority of which has been paid in Q4 2010), the provision for tax penalty recorded at INA in Q4 2010 (HUF 4.2 bn), the crisis tax imposed by the Hungarian state on domestic energy sector recorded in H2 2010 (HUF 25.8 bn), the one-off gain on the subsequent settlement from E.ON and the Q2 2009 termination of the risk-sharing mechanism in connection with the sale of MOL's gas business for Q1 and Q2 2009 (HUF 14.0 bn and HUF 14.2 bn), the HUF 28.2 bn one-off non-cash revaluation gain, related to consolidating INA into MOL Group in 2009 for the first time as required by IFRS 3R, and the impact of impairment on the goodwill of IES and on certain exploration assets recognised in Q4 2009 and Q4 2010, respectively (HUF 4.7 bn and HUF 11.0 bn).

4 EBITDA excluding the additional expense of turnover of the inventories of INA which were recognized at fair market values upon initial consolidation as opposed to the carrying amounts reflected in INA Group's separate financial statements (HUF 4.2 bn in Q1 2010), the additional mining royalty (HUF 30.4 bn at Exploration and Production division) paid in Q3 2010 based on the decision of the EU Commission for which provision was recognised in Q2 2010, the provision for redundancy recorded at INA in Q3 2010 (HUF 15.5 bn, the majority of which has been paid in Q4 2010), the provision for tax penalty recorded at INA in Q4 2010 (HUF 4.2 bn), the crisis tax imposed by the Hungarian state on domestic energy sector recorded in H2 2010 (HUF 25.8 bn), the one-off gain on the subsequent settlement from E.ON and the Q2 2009 termination of the risk-sharing mechanism in connection with the sale of MOL's gas business for Q1 and Q2 2009 (HUF 14.0 bn and HUF 14.2 bn), the HUF 28.2 bn one-off non-cash revaluation gain, related to consolidating INA into MOL Group in 2009 for the first time as required by IFRS 3R.

5 In converting HUF financial data into USD, the following average NBH rates were used: for FY 2009: 202.3 HUF/USD, for FY 2010: 208.1 HUF/USD.

MOL Group excluding INA Group data

OPERATING PROFIT	2009 (HUF mn)	2010 (HUF mn)	2009 (USD mn)[4]	2010 (USD mn)[4]
Exploration and Production	108,686	86,731	537	417
Refining and Marketing	43,061	65,813	213	316
Gas & Power	61,902	67,666	306	325
Petrochemicals	(15,219)	1,098	(75)	5
Corporate and other	(13,314)	(24,648)	(66)	(118)
Inter-segment transfers[1]	5,500	545	27	3
TOTAL	190,616	197,205	942	948

OPERATING PROFIT EXC. SPEC ITEM [2]	2009 (HUF mn)	2010 (HUF mn)	2009 (USD mn)[4]	2010 (USD mn)[4]
Exploration and Production	108,686	130,696	537	628
Refining and Marketing	47,717	87,709	236	421
Gas & Power	61,902	68,119	306	327
Petrochemicals	(15,219)	1,400	(75)	7
Corporate and other	(41,470)	(24,107)	(205)	(116)
Inter-segment transfers[1]	5,500	545	27	3
TOTAL	167,116	264,362	826	1,270

EBITDA	2009 (HUF mn)	2010 (HUF mn)	2009 (USD mn)[4]	2010 (USD mn)[4]
Exploration and Production	143,881	131,484	711	632
Refining and Marketing	130,949	152,331	647	732
Gas & Power	77,593	87,565	384	421
Petrochemicals	3,089	18,945	15	91
Corporate and other	(856)	(13,031)	(4)	(63)
Inter-segment transfers[1]	2,383	(2,906)	12	(14)
TOTAL	357,039	374,388	1,765	1,799

EBITDA EXC. SPEC ITEM [3]	2009 (HUF mn)	2010 (HUF mn)	2009 (USD mn)[4]	2010 (USD mn)[4]
Exploration and Production	143,881	164,433	711	790
Refining and Marketing	130,949	174,227	647	837
Gas & Power	77,593	88,018	384	423
Petrochemicals	3,089	19,247	15	92
Corporate and other	(29,012)	(12,490)	(143)	(59)
Inter-segment transfers[1]	2,383	(2,906)	12	(14)
TOTAL	328,883	430,529	1,626	2,069

1 This line shows the change in the amount of unrealised operating profit in respect of transfers between segments. Unrealised profits arise when the item transferred is held as inventory by the receiving segment at the end of the period and a third party sale takes place only in a subsequent period. For segmental reporting purposes the transferor segment records the profit immediately at the point of transfer. However, at the company level profit is only recognised 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.

2 Operating profit excluding the additional mining royalty (HUF 30.4 bn at Exploration and Production division) paid in Q3 2010 based on the decision of the EU Commission for which provision was recognised in Q2 2010, the crisis tax imposed by the Hungarian state on domestic energy sector recorded in H2 2010 (HUF 25.8 bn), the one-off gain on the subsequent settlement from E.ON and the Q2 2009 termination of the risk-sharing mechanism in connection with the sale of MOL's gas business for Q1 and Q2 2009 (HUF 14.0 bn and HUF 14.2 bn), and the impact of impairment on the goodwill of IES and on certain exploration assets recognised in Q4 2009 and Q4 2010, respectively (HUF 4.7 bn and HUF 11.0 bn).

3 EBITDA excluding the additional mining royalty (HUF 30.4 bn at Exploration and Production division) paid in Q3 2010 based on the decision of the EU Commission for which provision was recognsied in Q2 2010, the crisis tax imposed by the Hungarian state on domestic energy sector recorded in H2 2010 (HUF 25.8 bn), the one-off gain on the subsequent settlement from E.ON and the Q2 2009 termination of the risk-sharing mechanism in connection with the sale of MOL's gas business for Q1 and Q2 2009 (HUF 14.0 bn and HUF 14.2 bn).

4 In converting HUF financial data into USD, the following average NBH rates were used: for FY 2009: 202.3 HUF/USD, for FY 2010: 208.1 HUF/USD.

Duna Refinery in Hungary

Transition year in external environment

Moderating growth in world economy, downside risks mainly in the Eurozone

The global economy went through a transition period from a strong bounce-back phase seen in the first half of 2010 to a less rapid but apparently more sustainable growth path in the second half of the year. The main driving force behind the overall recovery was the continuing strong performance of the leading emerging economies. At the same time, the recovery of advanced economies remained slower, although the US and Japan performed significantly better than previously expected due to additional stimulus measures. The main source of weaknesses within the advanced economies group was the troubled periphery of the Eurozone. The Greek debt crisis in Q2 caused severe market turbulence and prompted the EU to set up an unprecedented EUR 440 bn bailout fund to contain the fallout from future crises, which prevented a more widespread spillover from the periphery to the core of the Eurozone in case of the Irish bailout later in Q4. Nevertheless, the risk of future liquidity crises and bailouts within the Eurozone remains high, and as a result volatility in exchange rate movements is expected to continue.
Overall, the IMF estimates that global economic growth will somewhat moderate from 5.0% in 2010 to 4.4% in 2011 due to the necessary fiscal consolidation in most advanced economies.

Significant oil price increase

Oil prices strengthened significantly during 2010 and averaged at 79.5 USD/bbl, nearly 29% higher than a year ago. The price increase was more or less gradual with only two significant corrections seen in May and August. The first temporary drop was caused by the market reaction following the Eurozone debt crisis, and the second by more general concerns about the outlook for global growth in light of an apparent slowdown in China. Nevertheless, the overall growing trend was fully supported by the annual 2.7 MMboepd increase in the demand in 2010, which is one of the strongest annual growth in decades. Other fundamentals also increased throughout 2010. OPEC's effective spare capacity slowly eroded to below 5 mn bbl/day by Q4 2010. The fact that the growing trend in oil prices continued in spite of the diminishing quota compliance of OPEC, which dropped to around 58% by December from around 63% a year ago suggests the slow return to a tighter oil market similar to the one seen in the pre-crisis years.

Refining margins: Slowly improving crack spreads

Refining margins remained below the 5-year average in 2010. The healthy rate of recovery pushed up product demand in emerging economies and to a lesser extent in OECD countries in Europe and North America as well, which resulted in stronger product crack spreads across the board in 2010 than in the previous year. Nevertheless, persistently high inventory levels as well as ample spare refining capacities combined with the slow pace of closing uncompetitive refineries limited the strengthening of crack spreads. Naphtha and gasoline crack spreads exceeded their 5-year averages, but followed a mildly declining trend, while diesel and jet fuel crack spreads remained below their historical averages, but followed a slowly strengthening trend throughout the year. The historically negative fuel oil crack spread remained stronger than the 5-year average, but it started to inch continuously towards pre-crisis lows from the second half of the year. The Brent-Urals spread recovered somewhat to around 1.4 USD/bbl in 2010 from below 1 USD/bbl in 2009, but followed a relatively volatile pattern throughout the year.

Significant volatility of local currencies

Hungarian Forint (HUF) and Croatian Kuna (HRK) weakened just slightly against USD in 2010, but the exchange rates were charachterised with high volatility during the year. The HUF weakened by about 3% against the US Dollar in 2010: the average exchange rate in 2010 was 208.1 HUF/USD and 202.3 HUF/USD in 2009. The HUF strengthened by 2% against the EUR in 2010 (275.4 HUF/EUR in 2010 vs. 280.6 HUF/EUR in 2009). The Croatian Kuna weakened slightly by about 4% against the USD in 2010 (5.5 HRK/USD in 2010 vs. 5.3 HRK/USD in 2009).

CEE economy: Two-speed recovery continued

The CEE region's recovery progressed at two-speeds during most of 2010 with Poland, Slovakia and the Czech Republic performing strongly, while Hungary, Croatia and Romania, among others, continued to lag behind. The recovery in most countries of the region is still mostly driven by the manufacturing boom in Germany rather than by domestic demand, which is depressed by stubbornly-high unemployment rates and continuously weak credit growth. The motor fuel demand drop across the CEE region remained modest in 2010 with gasoline decreasing by a notable 4.9% but diesel growing by 1.9% resulting in and overall fuel demand drop of only 0.1%. Economic growth will face headwinds as most countries in the region will carry out some degree of fiscal consolidation throughout 2011.

Changes in the regulatory environment

Unfavorable changes in Hungarian taxation

Although there were several changes in the tax laws of Hungary in 2010, the introduction of an extra tax on energy suppliers (crisis tax) for the years between 2010 and 2012 had the most significant impact on MOL Group. As for 2010 the Group level liability amounted to HUF 25.8 bn. The tax regulatory environment in Hungary was less stable as certain changes approved during 2010 became effective backwards from 1 January 2010 (e.g. introduction of crisis tax).
Another important but in terms of effect on MOL Group less significant change was the increase of corporate income tax rate to 19% from 16% and the abolishment of the companies' 4% solidarity surplus tax as of 1 January 2010.
Although the Robin Hood tax was planned to be abolished by the end of 2010, it remains effective till the end of 2012, based on the latest changes of the law approved in Q4 2010.

Gas transmission: changes in regulated gas transmission tariffs

The rate of return on regulated asset base (RAB) for domestic regulated transmission activity was 8.78 % between 1 January 2010 and 3 December 2010.
However from 4 December 2010 a dual tariff system was introduced in which the transmission tariffs were calculated at 4.5% Return on RAB for the consumer group entitled to universal service while 8.78% Return on RAB remained for the other consumers. This modification reduced the profit by about HUF 250 mn for the 2010 ecenomic year.
The regulatory authority did not comply with its statutory duty by 1 July 2010, the tariff maintenance mechanism defined by laws was not carried out, the system usage fees were frozen by the Price Authority. Thus the tariff correction on capacity booking, gas price growth and depreciation did not happen for the new gas year.
This caused about HUF 10 bn loss in revenues for 2010 which could not be fully compensated by the austerity measures.
Therefore in 2010 the income on domestic transmission of FGSZ did not reach the revenues previously determined by the laws.
In 2011 the average yield of natural gas system is expected to be around 6.5% taking into account the rates used to calculate the transmission charges published by the Hungarian Energy Office.
The regulated income of FGSZ will be expectedly under the revenues determined by the new rules due to the impact of frozen tariffs gone into the first half of 2011.

Upstream: regulated gas prices introduced for eligible customers in Hungary

Starting from December 2010 regulated gas price system for eligible customers was introduced in Hungary. The regulated price and volume are announced in advance quarterly by National Development Ministry. The regulated price is valid only for gas produced from fields put into production before 1998. The regulation is expected to be ceased in 2013.

Minimal impact from changes of the Mining royalty framework in Hungary,

The Mining Act, which regulates the mining royalty regime in Hungary, did not introduce any changes in 2010.

MOL paid 35% 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 2010. In 2010, the average rate of the mining royalty payable on natural gas produced from fields put into production after 1998 and for crude oil production was 13% (excluding volumes from enhanced oil recovery which represented 13% of oil production and which is subject to a zero royalty rate in Hungary). The rate of the mining royalty payable on gas produced from fields put into production before 1998 increase from 62% to 65% due to increases in oil and gas prices.

...still significant changes happened to MOL

Based on decision of EU Commission in respect of mining royalty MOL paid HUF 35.2 bn as an additional royalty and its interests. As per the bilateral agreement between MOL and the Ministry of Economy and Transportation signed in 2005 the mining royalty was determined in accordance with the regulations effective as at the end of 2005 with a multiplication factor of 1.02-1.05 for the fields listed in the agreement. As per the September 2010 amendment to the named agreement the mining royalty of the listed fields shall be calculated in line with the ruling Mining Act and the related by-laws multiplied by 1.02.

In 2010 significant changes in Russia...

The extraction tax and export duty in Russia is dependent upon the average Urals blend listed prices (Rotterdam and Mediterranean markets) 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 extraction tax rate as of 31 December 2010 was USD 15.8/bbl; representing an annual average extraction tax rate of 17.9%, based upon the annual average Urals blend price in 2010. The export duty rate as of 31 December 2010 was USD 43.2/bbl; representing an annual average export duty rate of 48.5%, based upon the annual average Urals blend price in 2010.
In November 2010 the Russian government announced to increase mineral extraction tax rates for oil and gas starting from 2012. In the calculation equation the fixed rate of RUB 419 per tone will be increased to RUB 446 per tone in 2012 and RUB 470 per tone from 2013 onwards.

... no changes in 2010 but modifications in 2009 have effects in Pakistan...

In Pakistan a new Petroleum Rule has been introduced in 2009. The regulation is applicable on new discoveries, for our existing Development and Production Leases in Block Tal the 1997 Policy is still valid, but in case of exploration blocks MOL applied for the conversion. Under the 2009 regulation the royalty rate is 12.5% on sales and corporate income tax rate is 40% with an implied windfall levy on oil and condensate sales. Under the 1997 rule the royalty rate is 12.5% on wellhead production value and corporate income tax rate is 52.5% with no windfall levy applied.

...and in Croatia

Croatian royalty regulation was changed with effect from 2010. As per the new regulation, basis of royalty is the market value of produced hydrocarbons, instead of sales value as per prior regulation. Royalty rate for exploitation fields approved by 31 December 2009 has increased from 2.6% to 3.1% in 2010. Royalty rate will increase by 0.5%-point per annum until 2015, and will be fixed at 10% for ten years thereafter. Production-based fee for exploitation fields to be approved after 31 December 2009 amounts to 10% of the market value of produced hydrocarbons.

Sales, Operating Expenses and Operating Profit

The full consolidation of INA commenced as of 30 June 2009, therefore the items of consolidated income statement reflects INA's contribution from 1 July 2009. In the first half of 2009 MOL's share (47.2%) of the net profit of INA Group was included as income from associates. In 2010 INA contributed HUF 41.9 bn to the operating profit of MOL Group. INA Group reported an operating profit of HUF 81.4 bn which has been increased by net reversal of impairment and internal profit on intra group transactions (amounted to HUF 1.5 bn) which have either been eliminated on consolidation or had already been reflected in MOL Group's purchase price allocation as required by IFRS 3R. Subsequent to the purchase price allocation, the additional depreciation calculated on the fair value of INA's property, plant and equipment and also the sale of inventories recognized at fair value upon initial consolidation (as opposed to the carrying amounts reflected in INA Group's separate financial statements) increased operating expenses in 2010 by HUF 36.8 bn and HUF 4.2 bn, respectively. These amounts are recorded in various captions of the consolidated income statement.

Increase in net sales revenues

In 2010, Group net sales revenue increased by 32% to HUF 4,298.7 bn, primarily reflecting higher USD based refinery commodity price quotations, resulting in higher average sales prices. The contribution of INA is HUF 831.5 bn (HUF 374.9 bn in H2 2009).

Significant one-off gains in comparative period

Other operating income in 2010 decreased by 77% to HUF 25.8 bn (contribution of INA was HUF 11.4 bn and HUF 58.6 in 2010 and H2 2009, respectively). Other operating income in 2009 contains the excess of MOL's share of INA Group's net assets over the purchase price (HUF 21.3 bn) as well as HUF 22.9 bn gain on the re-measurement of MOL's 25% investment in INA and its previously held interest in Energopetrol upon fully consolidating both companies as of 30 June 2009 and additionally contains a HUF 25.0 bn reversal of payables which has been accrued originally at the time of the gas business sale and the recognition of a further HUF 3.2 bn receivable with respect to the subsequent settlement from E.ON Ruhrgas International AG, since the parties agreed to terminate the risk-sharing mechanism in Q2 2009.

Increase to cost of raw materials and consumables used

The cost of raw materials and consumables used increased by 27%, in accordance with the increase in sales. Raw material costs increased by 41%, mainly as result of the higher import crude oil prices (HUF 409.8 bn including the effect of FX rate changes) as well as the effect of INA's full year contribution of HUF 461.2 bn (HUF 226.8 bn in the comparative period). The cost of goods sold decreased by 13% to HUF 489.7 bn (contribution of INA was HUF 28.3 bn and HUF 72.1 in 2010 and H2 2009, respectively, the H2 2009 contribution reflects that all of the inventories of INA at the time of acquisition – even the finished goods – were considered as purchased products). The value of cost of goods sold related to sale of crude oil is lower due to the fact that the comparative period contained considerable crude oil sales to INA (HUF 25.9 bn), which has been consolidated since then, therefore these sales were eliminated in consolidation. The cost of goods sold decreased further due to the combined effect of temporary sale of balancing gas as a result of the gas crisis in Q1 2009 and the disposal of MOL Energiakereskedő Zrt. (HUF 69.1 bn). These effects were partially compensated by the increased cost of oil industry goods sold, due to higher prices (HUF 69.3 bn). The value of material-type services used increased by 16% to HUF 196.9 bn.

Non-recurring or temporary charges in other operating expenses

Other operating expenses increased by 45% to HUF 374.9 bn in FY 2010, mainly as a combined effect of increase in net foreign exchange loss recognized on trade receivables and payables (HUF 18.3 bn), the increase in export duty of the Russian

operations (HUF 8.6 bn) and the higher mining royalty (HUF 31.4 bn). In addition HUF 30.4 bn was paid in Q3 2010 for the additional mining royalty based on the decision of the EU Commission for which provision was recognized in Q2 2010. On October 18, 2010 the Hungarian Parliament approved a temporary crisis tax imposed on the energy sector until 2012. The crisis tax recorded in the amount of HUF 25.8 bn reflects the payable amount by MOL Group with respect to the year 2010. The consolidation of INA also increased other operating expenses by HUF 78.4 bn (HUF 31.3 bn in H2 2009), from which HUF 10.3 bn is attributable to the net foreign exchange loss on INA's trade receivables and payables. On group level, in the comparative period, a net foreign exchange gain of HUF 6.5 bn was recognised on such items.

Higher personal expenses due to full year contribution of INA

Personnel expenses increased by 35% to HUF 272.0 bn compared to prior year, mainly due to INA's 2010 contribution of HUF 118.5 bn (HUF 53.1 bn in H2 2009), including the redundancy provision which was recognized in Q3 2010 at INA (HUF 15.5 bn, the majority of which was paid in Q4 2010).

Of the production costs incurred in 2010, excluding INA's contribution incurred (HUF 16.4 bn and HUF 50.0 bn in 2010 and 2009, respectively), HUF 34.5 bn is attributable to the increase in the level of finished goods and work in progress compared to the increase of HUF 5.9 bn in 2009.

Exploration and Production Overview

MOL remained one of the most profitable Upstream players.

In 2010 MOL made significant steps towards an optimized, efficiently operated upstream portfolio and further improved its solid basis for future growth. Production increased to 143.5 mboepd on the top of the record-high basis of 2009 mainly as a result of recent years' major developments turning into production in Syria, Pakistan and the Adriatic offshore area while keeping onshore production at a stable level with enhanced and intensified oil and gas recovery technologies. Remarkable exploration successes in the Kurdistan Region of Iraq and Pakistan proved our capabilities and will support the sustainability of an increased production level on the long term.
While the existing balanced exploration portfolio with low risk, medium-sized CEE prospects recently has been extended with Romanian exploration blocks, our prosperous international perspectives in the Kurdistan Region of Iraq, Kazakhstan and Pakistan provide a solid base to further increase of our reserve base and future production. Our enlarged Upstream portfolio has sizeable production in 7 countries and exploration potential in 13 countries.

During 2010, our focus in the CEE region remained on the development projects with short cash recovery periods and on further increasing operating efficiency by implementing a range of cost austerity and reduction measures.

In Syria the completion of Jihar oil and gas station in late 2009 enabled significant production increase in 2010. In Pakistan our production continued to expand, further increasing our profitability and stake in the local gas market. In Russia, field development in operated projects continued to compensate the natural decline of MOL's largest field in Russia, the ZMB project.

In 2010, we made further steps to maximize the value of our existing resource base through the use of enhanced and improved recovery techniques on our existing producing fields, and through establishing new projects in territories neighbouring our legacy assets, via strict cost control and efficient operation.

- Highly competitive production unit cost of 6.6 USD/boe on Group level.
- Intensive field development activities were continued focusing on fields with short cash recovery periods.
- Our widely known strong exploration track record continued further, as we claimed 14 discoveries out of a total 20 (out of which 7 belong to INA) exploration wells tested in 7 countries. New discoveries have added approximately 4.1 MMboe to our SPE 2P reserve base in Hungary. International discoveries are expected to increase our reserve base in the following years after detailed assessment.
- Established new partnerships in Hungary and in Romania.

Our upstream portfolio secures a strong basis for further production increase in forthcoming years as well

The main objective for the forthcoming years will be to maximise the value of our existing portfolio. The focus will be on completing high return/early cash generative appraisal and development projects in Syria, CEE and Russia to increase production levels, contributing significantly to Group-level EBITDA, growth. At the same time, we intend to extend MOL's outstanding efficiency to the whole Upstream portfolio. Remarkable exploration successes were achieved in the Kurdistan Region of Iraq and Pakistan in 2010. These successes along with increasing exploration activity in the future should support our long term growth.

Increasing profit share within Group due to higher INA contribution and strong performance of other parts of the Division as well

In 2010 E&P segment's operating profit, excluding special items was HUF 258.6 bn, which is by HUF 113.8 bn or by 79% higher compared to the previous year mainly due to higher contribution of the international activities. Realised average hydrocarbon prices increased by 16% in USD-terms in 2010 (crude oil and condensate prices were higher by 24% in line with Brent changes). The Croatian gas trading business was still in loss, albeit reduced from the previous year.

Excluding special items and INA contribution, operating profit was HUF 130.7 bn, which is by HUF 22.0 bn or by 20% higher than in 2009 mainly driven by the higher average hydrocarbon price in line with strengthening oil prices and the weakener HUF against the USD that was partially compensated by slightly lower production. Production volumes in general (excluding INA contribution) declined by 1% due to natural depletion of the Hungarian and Russian fields. Realised average hydrocarbon prices increased by 12% in USD-terms in 2010, crude oil and condensate prices were higher by 26% in line with Brent changes, while gas prices decreased only by 3% due to increase in ratio of Pakistani gas production (Hungarian gas prices increased only by 3% as gas price is based upon previous nine-month average of oil products prices). These changes were partly compensated by the weakened HUF by 3% to the USD.
The impact of prices and volumes were reflected in revenues and expenditures.

- Revenues, excluding INA's contribution, increased by HUF 42.4 bn or 13% to HUF 375.9 bn in 2010 compared to 2009.
- Royalties on Hungarian production increased by HUF 20.1 bn year-on-year to HUF 89.3 bn. The mining royalty and export duty paid in Russia increased by HUF 14.9 bn to HUF 44.5 bn.

The combined effect of increasing tax payments as a consequence of higher crude oil and gas prices and lower volumes, excluding INA's contribution, operating costs excluding special items increased by HUF 20.4 bn or 9% to HUF 245.2 bn.

Higher daily production level due to increased INA contribution

The total hydrocarbon production was 143.5 mboepd in 2010. Crude oil production increased by 13%, condensate production by 32%, gas production by 49%. Excluding INA contribution, total hydrocarbon production averaged at around 78.0 mboepd in 2010, representing a 1% decrease year-on-year. Total crude oil production (excluding INA's contribution of 16.3 mboepd) declined by 5%, condensate production (excluding INA's contribution of 7.2 mboepd) fell by 5 % too, and gas production (excluding INA's contribution of 42.0 mboepd) was 3% higher than the level reached in 2009.

In 2010, the average Hungarian hydrocarbon production was 53.6 mboepd, compared to 57.5 mboepd in 2009. In 2010, Hungarian gas production volumes declined to 34.3 mboepd by 5% compared to 2009 as a consequence of natural depletion of the fields. Hungarian crude oil and condensate production declined by 10% to 19.4 mboepd in 2010 compared to 2009.

Increase in international production (excluding INA) (14%) basically comes from Pakistani production, which increased to 4.7 mboepd by 240% as a consequence of start-up of the operation of Manzalai central gas processing facility at end of October, 2009. Oil production in Russia decreased by 2.0% to 19.7 mboepd. This decrease was determined by decrease at ZMB project (20%) due to increased water content.

INA's contribution to daily production was 65.5 mboepd. INA's production basically comes from Croatia (54.1 mboepd), while the contribution of international assets was 11.4 mboepd. Croatian production is mainly from onshore production (31.4 mboepd) with considerable production from offshore fields (22.7 mboepd) as well. International production mainly comes from Syria (7.9 mboepd), but there is oil production in Egypt (1.9 mboepd) and in Angola (1.6 mboepd) also.

International production was higher compared to 2009...

International hydrocarbon production (excluding INA contribution of 65.6 mboepd) increased by 14% year-on-year to 24.4 mboepd in 2010. MOL share of the crude oil production from the ZMB field reached 12.0 mboepd in 2010, a 20% decrease compared to the previous year. The decrease in ZMB production is the consequence of natural decline due to the maturing stage of the field and the increased water-cut from production wells. In joint efforts with the partnership operator, an additional drilling program commenced.

...production from new developments in Russia and Pakistan could offset fall from ZMB

The Baitugan field (in Russia's Volga-Urals area, with a 100% MOL share) produced 4.6 mboepd, increased by 51 % from 3.0 mboepd in 2009 as a result of development efforts. The fields in Matjushkinskaya Block (a 3,231 km² block in Tomsk region, Russia with a 100% MOL share) provided an additional 3.0 mboepd average production. Average daily production in the Manzalai, Makori and MamiKhel fields in the Tal Block in Pakistan (8.42% MOL share) was around 4.7 mboepd (net to MOL), increased by 240% in 2010.

Intensive field developments in Russia and Pakistan

In the ZMB field, 11 wells, including 2 horizontals, were drilled in 2010 within the extended drilling program approved in 2009. After examination of Russian Federal Subsurface Management Agency in July 2009 new additional work program was designed to utilise the produced associated gas via the installation of gas turbine driven electric generators. The construction of the gas turbine power station is in progress. Five generators were put into operation by the end of 2010, which generate electricity used in the production process.

In the Baitugan field the intensive field development activity was continued in 2010, 34 production and 5 injection wells were drilled. Reconstruction and extension of gathering, water injection, power supply systems and the Central Processing Station were also ongoing in 2010.

In the Matjushkinskaya Block, fast track development of Ledovoye was continued in 2010 by drilling of 5 new production wells, significantly increasing production. Presently there are 12 producing and 2 injection wells on the field. Currently 11 producing and 6 injection wells are in operation on Matjushkinskaya field. On Kvartovoye field one well was drilled in 2010. Total production of the block rose by 48% over 2009 to 1.1 MMbbl.

MOL as the operator in Tal Block, Pakistan completed the Manzalai Central Processing Facility (CPF) in October 2009 with three production wells connected. By year end 2010 seven wells in total were connected. The production rate on the Manzalai field (CPF) reached 46.6 mboepd gas and 5.6 mboepd condensate at year end (100%) from which MOL has 8.42% share.

Croatian onshore activities

Croatian onshore field development activities in 2010 were focused mainly on workover operations of existing production wells on mature fields with the aim of increasing production level and recovery rate. Implementation of EOR project on Ivanić and Žutica fields was continued. 2010 development program included also well equipment overhauls and works related to the compressor station at Molve. 2011 planned work program includes further workover operations, implementation of production optimisation, continued implementation of EOR projects and drilling of new wells.

Croatian offshore activities

The intensive development activities performed in 2009 contributed to significant increase in Croatian offshore gas production which derived also from INA's higher share of production on North Adriatic Contract Area and the ramping up of production.

2010 development program on the North Adriatic contract area (operated by INAgip, a joint venture between INA and the Italian ENI with equal share) included activities and preparation of relevant technical documentation necessary for obtaining operating licence at Annamaria field; installation of necessary equipment for accepting Izabela gas field production (metering system, slug catcher) at Ivana A/K platforms; installation of slug catcher for Ida C and Ivana A incoming pipeline direction.

Development program for 2010 on the Izabela contract area (operated by EdINA, owned by INA with 30% share and the Italian Edison with 70% share) contained the installation of two platforms (South and North), connection of the platforms by sea line with Ivana K platform and the drilling and dual completion of 5 production wells. All equipments are ready for start-up, production from the field is expected to commence in H1 2011.

Syrian Hayan Block development gained momentum in 2010

In the Syrian Hayan Block (100% paying share) Jihar oil and gas station with a capacity of 6.3 mboepd of oil and 3.9 mboepd of gas was completed in late 2009, enabling significant production increase in 2010. Construction of the third stage of the development plan, the Jihar Gas Treatment Plant (GTP), was finished and the project is already in the commissioning phase. The capacity of the Jihar GTP is 11.3 mboepd of oil and condensate, 23.5 mboepd of gas and 2.0 mboepd of LPG. Complete infrastructure, production and transportation system for 6 fields have been finished. 2010 development program also contained drilling of 3 wells and workover of 3 wells.

Other international operation: Angola, Egypt

In Angola, INA has interest in the offshore oil Block 3, in three production license areas: Block 3/05 operated by Sonangol (4% INA share); Block 3/85 and 3/91 operated by Total (5% INA share). Work program in 2010 included drilling and perforation of two infill wells, pipeline PACF4-PACF1 project, and maintenance and inspection program.

In Egypt INA has 50% share in the operated East Yidma concession (and Sidi Rahman development lease), 25% in Ras Qattara, West Abu Gharadig and 20% in North Bahariya concessions (last 3 concessions are non-operated). In Egypt 5 development wells were drilled in 2010; hydraulic fracturing was performed in 2 wells and water injection project started in North Bahariya; gas power generation project was ongoing on West Abu Gharadig. A new development lease, Rizk, on East Yidma concession, was approved by Egyptian authorities in October 2010.

2011 work program includes drilling of further wells, commencement of gas power generation project on Ras Qattara and start of initial production on Rizk development lease.

Unit OPEX slightly increased

The 2010 annual average unit OPEX (with exclusion of DD&A) was 6.6 USD/boe on Group level while without INA it increased by 0.4 USD/boe to 5.6 USD/boe compared to 2009 mostly due to higher costs.

Intensive exploration activity was carried out in Hungary and we continued with our international exploration projects. In 2010 main activities were carried out in Kurdistan Region of Iraq, Syria, Croatia, Pakistan, Kazakhstan, Cameroon and Russia.

Strongest acreage position in Hungary and Croatia

As at 31 December 2010, the MOL Group had 24 exploration licenses covering more than 27,292 square kilometres in Hungary keeping his dominant role in the country. In addition, through its subsidiaries the MOL Group participates in the exploration of numerous international exploration blocks located in 13 countries. The Group also has right to explore hydrocarbons in eight onshore blocks, covering a total area of approximately 59,516 square kilometres and in three offshore blocks with a total area of 39,813 square kilometres in Croatia.

Continued strong exploration track record

Our strong Group level exploration track record, already observed in the preceding year, continued further in 2010 as we claimed 14 discoveries out of a total 20 exploration wells tested in 7 countries, leading to a solid 70% success rate at the drill-bit. In Pakistan, we drilled 1 exploration well in 2010, which resulted in a commercial discovery, while drilling of another well started in 2010 and it was published as commercial discovery in Q1 2011. In Kurdistan Region of Iraq 2 exploration wells were drilled, both of them resulted in discoveries. In Egypt 3 exploration wells were drilled, 1 of them resulted in discovery. In Croatia 2 exploration wells were drilled, both of them deemed successful. In Syria one exploration well was tested and resulted in discovery in 2010.

Our conventional exploration activity in Central Europe reached an outstanding 75% success rate in 2010. In Hungary, out of the 10 exploration wells tested in 2010, 6 wells were classified as gas producers, 1 well as oil producer adding approximately 4.1 MMboe to our SPE 2P reserve base. Three wells were qualified as dry. Well-test of one well, drilling of which started in 2010, was completed in Q1 2011 and was classified as successful, while one further well is waiting for test in Hungary at the close of this report. In Croatia there were 2 successful onshore drillings (1 gas and 1 oil producer).

Promising exploration projects at the Croatian and Hungarian border

In recent years INA's conventional Croatian onshore exploration activities have focused on evaluation of less risky prospects located near producing areas in the Pannonian Basin. In Zalata – Podravska Slatina area at the Croatian-Hungarian border, testing of Dravica-1 well was finished, resulting in a gas discovery; furthermore 3D seismic works were also completed. At Novi Gradac – Potony license area at the Croatian-Hungarian border, testing of Potony-1 well (in Hungary) finished, which became dry. Exploration period was extended by 1 year, effective until August 31, 2011. At Selec-1 on the Sava Depression, one well was drilled and tested in 2010, resulting in oil discovery.

New partnerships in conventional exploration

MOL in combined efforts with Expert Petroleum has won the bid for three exploration blocks in Romania. Negotiations with the Romanian Authority (NAMR) about the Concession Agreements are ongoing. In 2010 a Participation Agreement has been signed to re-develop and rehabilitate gas and condensate reservoirs across the Romanian-Hungarian border in joint efforts. A Preliminary Field Study and work program proposals have been discussed. MOL and Central European Oil Company (CEOC) signed a Head of Terms in 2010 for rehabilitation and re-development works on 6 oil and gas fields in Hungary.

Unconventional exploration focused on Derecske Basin

Key focus in unconventional exploration was on Derecske Basin in 2010. MOL has launched an exploration program by drilling two wells, which both proved the presence of hydrocarbons in tight reservoirs and already producing gas from unconventional reservoirs. In 2010 the Derecske project continued by drilling two wells. The first well proved the presence of gas and is ready for the fracturing of the reservoir for commercial production. The second well, explored more risky part of the reservoir the well data are currently under evaluation.

In Makó trough previous exploration wells have not justified the preliminary expectations and in 2010, after the evaluation of test data and the re-evaluation of the potential in Makó trough, our partnership was terminated with ExxonMobil. In 2010 MOL fulfilled its obligations and submitted final geological reports for the two exploratory licenses. MOL provided potential estimations to the Authority to secure the licenses for further activity.

In 2010 at Békés Basin (where the play is similar to Makó) data of Gyula-1 well drilled and fractured by Exxon and the data of Szabadkígyós-1 well were exchanged. The chance for successful exploration has higher probability in the block compared to Makó trough. In 2010 MOL submitted a final report to the Authority for Block 101 with calculations on unconventional potential, which report was approved.

Adriatic offshore exploration

Exploration activity was continued on offshore Ivana Block, Croatia in partnership with ENI in 2010. In order to explore further gas potential the investigation of thin-layer-type reservoirs was carried out on Ivana Block during 2010, resulting in Ivana SW Thin-Layer Study. Two locations of exploratory wells were proposed; and the technical program has been prepared for the first one. 2010 exploration activities also included the start of new G&G interpretation of thin-layer-type reservoirs, post-drilling activities connected to IKA SW2 Dir, and commencement of two regional studies (geochemical and mineralogical).

Major discovery in the Kurdistan Region of Iraq

In the Kurdistan Region of Iraq MOL is the operator of Block Akri-Bijeel with an undiluted working interest of 80% and has a 20% non-operated working interest in Block Shaikan. In the Akri-Bijeel Block the Bijell-1 exploration well was finished, with total depth of 4,377 m. Several successful tests were made in the Jurassic (and earliest Cretaceous) part of the penetrated sequence and as a result the well produced 3.7 mboepd oil and 0.1 mboepd gas. Discovery Report on Bijell structure was submitted to KRG.
Shaikan appraisal program was approved in May 2010. It has extended well test of Shaikan-1 well, 3D seismic acquisition and drilling of 6 appraisal wells. Shaikan-3 appraisal was drilled and successfully tested in Q1 2011: after acid job the well produced up to 9.8 mboepd oil.
Surface facility of extended well test was built and oil sale started in Q4 2010. 3D acquisition in the block was finished and evaluation started.

Further exploration successes in Pakistan

In the Pakistani Tal Block (10% MOL share), the Makori East-1 exploratory drilling was announced as commercial discovery on 5 November 2010. In the uppermost reservoir section at 3400 m, the first tests showed 3.2 mboepd condensate and 1.9 mboepd gas inflow. The sixth discovery of Tal Block was announced from the Tolanj X-1 exploratory drilling on 21 February 2011, with preliminary test result of 2.9 mboepd gas capacity. The drilling of both wells will continue to penetrate and test the deeper prospective horizons. In the Margala Block (70% MOL share) the Margala-1 drilling was deepened till January 2011. The well has been suspended, the way forward for Margala blocks is to carry out detailed post-drilled evaluation, in order to fully assess the potential of both block before making any decision

on future exploration targets. In the Margala North Block (70% MOL share) geochemical survey was performed to reveal the potential of the block. In the Karak Block (operated by MariGas, 40% MOL share) an exploration well was spudded in January 2011.

Confirmed resource presence in Kazakhstan and in Russia

MOL is the operating shareholder (27.5%) of the Fedorovsky exploration block in Kazakhstan. The Rozhkovsky U-21 appraisal drilling was finished in January 2011. First tests showed promising results. The appraisal will continue in 2011 with drilling of two further appraisal wells and construction of surface facilities for an extended well test to start.

In Russia MOL's exploration activity was focused on Matjushkinskaya and Surgut-7 Blocks. On Surgut-7 Block, a stimulation program for the 2 discoveries made over the previous years began in 2010, including hydrofracturing activities at the first discovery well. On Matjushkinskaya Block, preparation works for drilling an exploration well started on Verkhne-Laryegan structure.

Progress in other exploration projects: Oman, Cameroon, India, Syria, Angola and Egypt

In Oman, (75% MOL share, partner MariGas) we performed new 2D seismic acquisition, the processing will be finished in Q1 2011. After evaluating the results, an exploratory well is planned to be drilled in 2011.

In Cameroon, MOL has 40% non-operated interest in the Ngosso Block. In 2009 3D seismic acquisition was performed. After the reinterpretation of the 3D seismic, work program was changed, and instead of the planned exploration drilling, a 2D seismic survey was designed to explore the potential of the North-Eastern part of the block; acquisition started at the end of 2010 and was completed in January 2011.

In India, MOL farmed into Block HF-ONN-2001/1, operated by ONGC. The 35% working interest in the Himalayan Foothills was approved by the Indian Government in July 2009. Joint Operating Agreement was signed in November 2010. The block is in the second phase of exploration. The drilling of Kasauli-1 exploratory well commenced in March 2010 and is expected to reach target depth in mid-2011.

In the Syrian Aphamia Block (INA has 100% share) two exploration wells were drilled and confirmed HC saturation of the structures in 2010. Based on the positive test results of Beer As Sib -1 well further exploration activities are planned, therefore the second extension of the initial exploration phase was made. A subhorizontal pilot well is planned to be drilled in 2011 with the aim of increasing the production rate and achieving commercial production.

In the Angolan 3/05 concession (4 % INA share) one exploratory well was drilled in 2010, which encountered gas reservoirs at two levels and was plugged and abandoned due to lack of Angolan offshore gas infrastructure. Declarations of commercial discoveries for the Punja & Caco/Gazela fields (drilled in previous decades) were received in 2010. The Field Development Plan for Punja is finished and it is in progress for Caco/Gazela.

In Egypt, one exploration well was drilled on East Yidma concession in 2010, encountering a non-commercial oil accumulation. Furthermore, an oil discovery was made by the Rawda East-1 exploration well on the North Bahariya concession, while another well drilled on the same concession, was dry and consequently plugged and abandoned. Exploration license on East Yidma concession expired in March 2011. In 2011 two exploratory wells will be drilled on non-operated blocks.

Further activities in Kurdistan Region of Iraq - Pearl - equity consolidated

In May 2009, MOL acquired a 10% stake in Pearl Petroleum Company Limited (Pearl Ltd) from Crescent Petroleum and Dana Gas PJSC. Pearl Ltd was set up to appraise, develop and produce two giant, multi TCF gas-condensate fields (Khor Mor and Chemchemal) in the Kurdistan Region of Iraq. Chemchemal field is in exploration phase, while Khor Mor field is under development and produces and supplies gas to local power plants. Local industrial needs have to be primarily satisfied by the project, but in the future, substantial excess quantities are expected to be available for export. The project is equity consolidated, which disallows recognition of hydrocarbon production share in MOL Group production volumes, but reserves as equity reserves still will add to Group reserves in the future.

Slight decrease in SPE 2P ...

MOL Group's SPE proved plus probable figures are 618.8 MMboe, (including 0.9 MMboe MMBF Ltd's reserves), which presents a decrease of 46.3 MMboe compared to the previous year mainly due to the lack of international discovery and more strict mining extraction taxation rules in Russia to be implemeted starting from 2012.

The annual Hungarian production in 2010 reduced our gross proved plus probable reserves by 22.0 MMboe. New Hungarian discoveries and field extensions increased MOL's gross proved and probable reserves by 4.1 MMboe, while the revision of reserves increased the gross proved and probable reserves by 10.5 MMboe.

Reserve revisions in our international portfolio resulted in a decrease in gross proved plus probable reserves of 9.5 MMboe.

In accordance with SPE guidelines, as at 31 December, 2010, MOL's share of gross proved plus probable reserves of the ZMB field was 38.5 MMbbls (43.2 MMbls in previous year). The Baitugan field had 61.9 MMbbls of proved plus probable reserves (63.6 MMbbls in previous year). Proved plus probable reserves of the Matjushkinskaya Block were 29.4 MMbbls (30.5 MMbbls in previous year).

The Manzalai and Makori fields in the Tal Block (Pakistan, 8.42% MOL share) had 11.9 MMboe of proved plus probable gas and condensate reserves (13.9 MMboe in previous year) pertaining to our share according to the SPE reserve evaluation as of 31 December, 2010.

Starting from 2009 INA's reserves are fully consolidated into MOL's books. INA d.d's gross proved plus probable reserves according to SPE guidelines as at 31 December 2010 amount to 304.6 MMboe consisting of 214.4 MMboe of natural gas (including condensate and gas liquids) and 90.2 MMboe of crude oil. Previous year's data were 325.1 MMboe of total SPE 2P reserves consisting of 231.0 MMboe of natural gas (including condensate and gas liquids) and 94.1 MMboe of crude oil respectively.

More than 63% of INA d.d.'s proved plus probable reserves are located in the Croatian onshore fields with 194.1 MMboe of oil and gas reserves. The large part of these reserves are mainly gas and condensate reserves of 117.7 MMboe but oil reserves are also significant – 76.5 MMboe.

Another important part of the Croatian portfolio are the offshore gas fields with 56.8 MMboe 2P reserves and with a good potential for further enhancement.

Syria is a key area of field development projects but our exploration activity is also intensive in this country. Syrian projects have 45.7 MMboe of 2P reserves as at 31 December 2010.

Angola and Egypt form a minor part of the international portfolio with 8.0 MMboe of proved plus probable oil reserves as at the end of 2010.

...and in SPE P1 reserves

In 2010 MOL Group has changed its depreciation calculation methodology from SEC (proved developed) to SPE P1 (proved developed) reserves. The Group's reserves in line with SPE P1 guidelines (including INA d.d.'s reserves and MMBF Ltd's reserves) show a slight decrease in reserve base at 31 December 2010. Total SPE gross proved reserves amount to 429.1 MMboe, consisting of 37.4 bcm (245.1 MMboe) of natural gas (including condensate and gas liquids) and 24.7 million tonnes (184.0 MMboe) of crude oil. [Previous year's SPE gross proved reserves were 447.0 MMboe, consisting of 40.5 bcm (259.7 MMboe) of natural gas (including condensate and gas liquids) and 25.7 million tonnes (187.3 MMboe) of crude oil respectively.]

Refining and Marketing Overview

2010 was the year of continued development with focus on operational efficiency

MOL laid strong emphasis on operational efficiency improvement through the whole value chain, which helped balancing the effects of a still challenging external environment. We improved hard and soft elements of our operations, from refinery energy management through logistics cost optimisation until advanced customer relationship.

Downstream takes advantage of its asset structure

High complexity refineries utilize the advantage of producing a higher proportion of valuable 'white' products (e.g. diesel, gasoline), which is one of the key drivers of MOL Downstream's competitiveness and value creation as well.
Phase-1 of refinery modernization program in Croatia has almost been completed and enables the Croatian refineries to produce Euro V quality motor fuels to fulfil market requirements. Due to recent investments, Sisak refinery is able to produce motor gasoline meeting Euro V quality. In Rijeka refinery, a new hydrocracker unit has been completed to produce Euro V diesel products. A new hydrogen generation unit and revamp of other older plants were also required for this investment. The completion of the sulphur recovery unit ensures compliance with future European environmental requirements. Additionally to the compliance, the investments at Rijeka increase the refinery's Nelson Complexity Index to 9.1 and improve its product yield towards middle distillates. Further projects are planned to increase the production flexibility as part of our effort to retain our ability to react quickly to changes in the external environment.

Access to pipeline and seaborne crude ensure refining profitability

Our landlocked and high complexity refineries designed for Ural type crude (Duna, Bratislava) may well take advantage of the direct pipeline access to Russian crude oil supply. Refineries with seaborne crude supply in Mantova, Sisak and Rijeka benefit from crude cargo trade and related optimisation of matching product supply with local demand patterns. In 2010 MOL paid special attention to select the most economic crude slate for refineries and increased the variety of processed crude in Croatia and Italy compared to previous years.

Setting the pace in efficiency improvement

Continuous efficiency improvement has to be the basis not just for the less competitive refiners, but even for the most efficient ones as well, thus MOL launched focused programs for the whole Group. Our five refineries and two petchem units enable us to improve internal efficiency and capture synergies, like higher external purchasing power.
OptINA program was the first attempt to harvest quick-wins of the implementation of MOL standards to elevate the operational efficiency, spreading 'best practices' in Croatia as well. Maintenance of the refineries was harmonized and production was optimized in order to supply the markets without disruption. In the first full year of the Program, implemented projects significantly exceeded the preliminary expectations.
Downstream continues and extends its EIFFEL Program (Efficiency Improvement Framework) in order to support strategic pillars of growth, efficiency and capabilities by a bottom-up approach that encourages people to be more innovative. The majority of savings is due to new creative and flexible solutions and small technology modifications. Beside the significant direct cost savings, the real added value of EIFFEL Program is the creation of a self-improving organization and the establishment of a modern knowledge sharing environment, which supports the cooperation within MOL Group's multinational and multicultural operational area.
Refining has launched an Energy Conservation Program in 2010, with the aim to improve 'traditional' energy efficiency, reshape the contract management system and utilize the advantages of online energy optimization due to the energy market deregulation. Additionally, harmonization and synchronization of the existing internal energy accounting-controlling systems into a common platform are intended.
In sales and distribution, the proprietary distribution pipeline network allows us to serve our customers at the lowest possible cost. Additional cost reduction and rationalization in transportation were achieved by exploiting synergies aiming to improve road and rail tank car management and harmonize MOL and INA sales channels in Croatia and Bosnia and Herzegovina.
Retail Division continuously improves the efficiency of applied methods and technologies for filling station operations by implementing engineering and maintenance standards and energy saving lighting methods.

Commercial position and logistics services provide a clear advantage in regional market

MOL Group has kept its market leader position in Hungary, Slovakia, Croatia and Bosnia and Herzegovina, while it has developed strong market presence in other core countries with high wholesale margins. Leadership role yielded 20% market share in CEE and SEE regions with increased sales volumes.
MOL Group started to develop a competitive logistic network in Romania, Serbia and Bosnia to serve increasing sales volume as it was implemented earlier in Austria. Development of wholesale and logistic assets remains a key goal for MOL Group in order to enable offering higher volumes to end costumers.
Wholesale is continuously developing its customer service, providing fast, transparent and easy access for customers to information services through the Internet from order to payment.

Gradual improvement of external environment resulted in...

Gradual improvement of external conditions was experienced in 2010 in the refining industry, however refining margins remained below the 5-year average. Despite of this the average crack spreads increased by USD 12.8/t (36%), including the following crack spread changes year-on-year for main products: gasoline and diesel products crack spreads increased by USD 21.4/t and 18.8/t respectively, while naphtha almost doubled to USD 88.8/t. With high volatility during the year, Brent-Ural spread also increased by an average of USD 0.6/bbl from the extremely narrow 2009 level to 1.4 USD/bbl in 2010. While previous factors supported the 2010 result, 28% increase of Ural type crude oil price partly offset the positive effects.

...doubled Downstream operating profit from the low basis of 2009

Despite of the still challenging external environment R&M segment's operating profit, excluding special items, doubled compared to a relatively low basis and amounted to HUF 58.5 bn in line with the continuously improving refining environment and strict cost control. Excluding INA's contribution and special items, operating profit increased by 84% to HUF 87.7 bn. The CCS-based operating profit, excluding special items and INA's contribution, increased considerably to HUF 51.4 bn. Beside the improved external environment lower unit cost (due to strict cost control) influenced mostly the result, while sales volume remained relatively stable.

INA fuelled the 11% throughput increase

In 2010 the total refinery throughput increased by 11% to 21.8 Mt year-on-year mainly as a result of INA's full year contribution (4.2 Mt). MOL Group processed 18.3 Mt of crude oil in 2010 (out of which 1.1 Mt was produced in Hungary and Croatia), compared to 16.6 Mt in the previous year, representing an increase of 10%.

Slight increase of refinery utilisation despite the still moderate market demand

As a result of our integrated operation we kept the capacity utilisation of the refineries high (Mantova refinery) and even increased them (Duna, Bratislava and Rijeka refineries) in 2010 compared to 2009. Other feedstock processing, excluding INA, increased by 15% compared to the previous year as MOL successfully exploited the opportunities of 0.1 Gasoil purchase as a result of optimization. Crude processing at the Duna refinery increased slightly (by 1%), while due to a planned major turnaround crude processing decreased by 4% at Bratislava refinery. Crude supply from Russia was uninterrupted. The throughput of Mantova refinery improved by 3%.

Strict inventory control continued

As a result of continuation of our effective cash management the closing inventory volumes in 2010 remained on 2009 level.

Stable regional motor fuel demand with ambivalent trends

Motor fuel demand in the Central-Eastern European region remained flat but with ambivalent trends. Gasoline demand declined (-5%), while diesel consumption increased by 2% in 2010 year-on-year. There were considerable differences in the demand pictures of the individual countries. A large drop in demand occurred in Hungary, Czech Republic and Romania, while demand in Poland, Austria and Slovakia increased.

Sales increase fuelled by full year contribution of INA

In 2010 the total external sales volume increased by 9% year-on-year reflecting INA's full year contribution of 3.8 Mt, while remained stable (15.2 Mt) excluding it. Our motor gasoline and gas oil sales increased by 5% and 8%, respectively, but excluding INA, gasoline sales fell considerably (6%). On the other hand in line with recovery of regional economies gasoil sales increased by (3%), supported by stronger H2 performance. Our strong efforts to strenghten our existing market positions and gain presence on new markets are reflected in our relatively good sales performance, despite the moderate regional demand.

Leading position in our domestic markets maintained

We were successfully maintaining our market position on the domestic and on the most important and closest export markets. Moreover, with the consolidation of INA we have strengthened our regional position in all fields of Downstream activity. Our market share in CEE has increased to above 20% from 19% with the full year contribution of INA in 2010 to Group sales.

Sales in Hungary: significant drop, mainly motor gasoline was affected

Our total Hungarian sales decreased significantly in 2010 due to the very low demand. Both gasoline and diesel sales declined by 16% and 6% respectively, while our other product sales decreased by 18% compared to 2009.

Stable market coverage in Hungary

MOL successfully maintained its market position in Hungary. Diesel refinery coverage remained stable at 86% compared to the previous year. Refinery coverage of gasoline slightly decreased from 85% to 82% in 2010.

Increasing fuel demand in Slovakia but Slovakian market coverage decreased slightly

Total refined product sales in Slovakia increased by 6%, driven by higher motor fuel sales (up by 9%) in 2010 year-on-year. The diesel market increased sharply by an astonishing 21% in Slovakia driven by significant decline of the excise tax from February, making the retail price competitive even in regional comparison and starting the economic activity. Motor gasoline demand remained flat year-on-year and consumer prices remained relatively high in the region. Slovnaft maintained its strong market position of gasoline (64%) but lost a couple of percents in diesel during 2010 (2009: 63% vs. 2010: 60%) due to increased competition in reseller segment.

Suffering Croatian market demand, slowly stabilizing motor fuel market share

Croatian market demand decreased in line with weak economic performance and liquidity problems on money market - impact of crises on industry, mostly transport and construction. Motor gasoline and diesel markets shrank by 4% and 5% respectively. MOL Group market share (considering pro-forma full year INA contribution in 2009) decreased in motor gasoline (-5%) and diesel (-9%) as well (to 71% and 67%, respectively), partly because of INA applying stricter credit and collection policy than its peers. Recently inroduced Commercial policy in Croatia targets to regain market share in the forthcoming years.

Crashed bitumen consumption in Hungary and Slovakia

The Hungarian bitumen market decreased significantly (-29%) due to wet weather, finalized motorway projects and further cuts in public spending. On the other hand the Slovakian market declined as well (-16%). MOL's market share on both Hungarian and Slovakian market increased by 1% and 3% respectively to 73% and 52%, respectively.

LPG market share: stable in Hungary

Refinery coverage of LPG in Hungary was 72% slightly lower than in 2009 in wholesale because of sharp price competition. The retail market increased due to high petrol prices. Our retail market share declined slightly in Hungary as we followed main market prices and competitors lagged the market trends.

Growing captured market of Petchem: feedstock volume increased by 5%

The total transferred volumes to the Petrochemical segment increased by 117 kt to 2,605 kt in 2010. Out of this, naphtha amounted to 1,753 kt and petrochemical gasoil to 233 kt (1,822 kt and 53 kt, respectively, in 2009). In 2010, our Petrochemical segment supplied 695 kt of by-products to our Refining and Marketing segment for further processing.

Retail

Successful implementation of Retail strategy continued

By the end of 2010, Retail Divison operates more than 1,600 filling stations across 11 countries in the region, providing a strong captive market for Refining in the refinery supply radius. In 2010 we successfully integrated INA filling station (FS) network after gaining management control in 2009. During the year majority of new stations built/contracted were franchise stations in Italy (IES), while on the orther hand Croatian Crobenz network (14 FS) had to be sold based on the decision of the Croatian Competiton Agency. In addition to expanding the network of retail filling stations, MOL Retail Division focuses on customer satisfaction and on improving its filling stations in order to increase revenue per site and network efficiency.

New Retail Visual Identity providing success

MOL's new 'Retail Visual Identity' (RVI) is continuously introduced at newly-built and re-branded filling stations. The new design combines the traditional MOL visual elements with a dynamic refreshing image to reflect the company's customer-focused strategy and to support the importance of MOL Group brand awareness. A regional partnership was created between the MOL Group and Marché International to provide a premium gastro offering at motorway locations in 2008. By 2010 MOL and Marché International offer joint services at seven MOL stations in Hungary and seven Tifon stations in Croatia.

Retail sales up by 16%

Aggregate retail sales volumes (incl. LPG and lubricant volumes) increased by 16% to 3.5 Mt in 2010. The main driver of the growth was INA's 2010 contribution of 1180 kt (in 2009 only H2 was consolidated by 675 kt). Retail fuel sales volumes, excluding INA, slightly decreased (by 0.7%) to 2,365 kt in 2010 year-on-year due to the overall decline of retail fuel market in the region.

Hungarian retail volumes decreased due to recession

In Hungary our retail fuel sales volume decreased by 11% in 2010 compared to previous year mainly as a result of lower demand (according to MÁSZ, the

Hungarian Petroleum Association, the Hungarian retail fuel market decreased by 9% in 2010 vs. 2009). Main reasons of the demand decrease were the still depressed economic environment, outbound fuel tourism to the neighbouring countries and the higher retail fuel prices resulted from higher product quotations, VAT and excise tax compared to the previous year. Moreover, the most price sensitive customers turned to white pumpers and also consider E85 as an alternative product offer in depressed economic climate. Our gasoline, diesel and LPG sales decreased by 16%, 7% and 4%, respectively. The retail market was characterized by strong price competition both in fuel and non-fuel sector and our retail fuel market share decreased slightly (35.8% in 2010 vs. 36.5% in 2009), according to MÁSZ. The ratio of fleet card sales to our total fuel sales increased to 39% in 2010 from 35.5% in base year. This was a relative improvement due to the drop of cash purchases. Shop sales decreased by 4% in 2010 compared to 2009 due to the fact that economic crisis is pushing costumers away from convenience retail channel and also from car wash business. Price increase of tobacco products could not balance lower sales of traditional food products like soft drinks, alcohol products and chocolates.

In Slovakia sales volumes recovered in 2010

In Slovakia, our total retail fuel sales volume increased by 13% in 2010 year-on-year, in line with the start of economic recovery and partially as a result of reduced excise tax rate of diesel since 1 February. The increase both in gasoline and diesel sales is also attributable to the effort of the business to strengthen customer loyalty and to gain new customers through the BONUS program. The increase in gasoline sales was 3% in 2010 and the growth in diesel sales was 21% year-on-year due to transit traffic (5% and 24% growth in the Q4 2010 respectively). The fuel card sales were 9% higher than in 2009 due to diesel sales. Despite of the growth, the proportion of fuel card sales in total fuel sales fell by 0.9 percentage points to 28% in 2010 year-on-year.

Romanian retail volumes decreased by 2% on lower number of stations

In Romania, our fuel sales decreased by 2% which is lower than the trend on the market in 2010, MOL's market share increased to over 11%. The decrease in sales volume mainly caused by the lower number of filling stations and the lower market demand. In addition the average throughput per site increased by 3.5% year-on-year as a result of stronger efforts taken to boost network's efficiency. The fuel card sales volume was mainly affected by the economic downturn and decreased by 7% in 2010 vs. 2009. The shop sales revenue went up by approximately 5% (RON terms) in 2010, exceeding the average Romanian retail market performance.

Significant increase in Croatia, 7% even without INA

In Croatia, retail sales volume increased by 487 kt in 2010 year-on-year including INA's full year contribution (478 kt). Croatian retail sales volume, excluding INA, which practically means Tifon's performance increased by 7% year-on-year and amounted to 150 kt in 2010. Additionally according to the decision of the Croatian Competition Agency INA Group was obliged to sell 14 filling stations of Crobenz.

Regional coverage with more than 1,600 petrol stations in 11 countries

The Group operated 1,623 filling stations as of 31 December 2010, including 364 in Hungary, 467 in Croatia, 208 in Slovakia, 205 in Italy, 126 in Romania, 109 in Bosnia and Herzegovina, 66 in Austria, 33 in Serbia, 26 in the Czech Republic, 18 in Slovenia and 1 in Montenegro.

Petrochemicals Overview

Considerable recovery in plastics demand and increasing product price, offset by higher feedstock costs

The global economic recovery brought steady demand in the LDPE and PP markets. Quoted prices increased by 43-45%. However HDPE was not able to keep up with this trend. The favorable tendencies in the Petrochemical segment's markets were moderated by raw material cost that increased by 43% in 2010. Although the annual average integrated petrochemical margin has improved by 6%, this level is still behind the year 2008 figure by 21%. We kept strict measures on managing costs and working capital in 2010.

Significant operating profit improvement in 2010

Petrochemicals segment hit the highest ever net sales figure by achieving 35% improvement in 2010, compared to the preceding year. This improvement was compensated by the significant increase in raw material cost. In 2010 the operating profit excluding special items of Petrochemical segment reached HUF 1.4 bn and improved significantly by HUF 16.6 bn compared to the operating loss in 2009. The main reasons for the profit improvement were the increasing integrated petrochemical margin, the higher olefin product prices, the lower electricity prices, the higher production and sales volumes, and efficiency increase efforts which were reduced by the unfavorable change of the exchange rates.

6% higher integrated petrochemical margin

The integrated petrochemical margin was 323 EUR/t in 2010. The naphtha quotation in USD-terms increased the level of of last year by 34%, which was offset by the 20-47% increase of polymer quotations in EUR-terms. The US dollar strengthened by 5% against EUR, and the HUF strengthened by 2% against EUR, which had deteriorating impact on the results.

1% increase in polymer production

In 2010, the monomer and polymer production volumes increased by 1-1%, compared to the previous year. The periodical maintenance works in the Olefin-2 plant (TVK) and polymer plants both in TVK and SPC in 2010 required less time than in 2009, therefore the available capacity was higher in 2010. Record production was achieved by HDPE-2 unit in TVK with 223 kt. In 2010, within the total polymer production the proportion of LDPE was 19%, HDPE was 37% and PP was 44%, showing the increased proportion of HDPE.

Ongoing sales and marketing strategy implementation – focusing and differentiation

Sales and marketing strategy can be characterized by two major goals – focusing and differentiation. Exploiting the favorable geographic location, the strategy sets key development areas in the field of logistics, product development and tight customer relations, and lays higher emphasis on markets in Central Europe. In 2010 sales performance has been improved by achieving higher price levels while polymer inventories were kept at a low level. By improving the customer portfolio, the ratio of sales to spot destinations reduced from 8% in the previous year to 6% in 2010.

Olefin sales - improves steam cracker utilization

The Petrochemical segment of MOL is an active player in the regional olefin business. Increasing by-products sales improves the capacity utilization of the olefin plants. During the first year of the crude C_4 sales contract with our Polish partner, Synthos - we gained positive experiences in the cooperation. Borsodchem, our strategic partner in the polymer business in Hungary has stabilized its positions and takes over the regular supplies of ethylene, in accordance with our long term supply contract. Pyrolysis oil sales to the carbon black unit in Tiszaújváros improved significantly in 2010, due to the upturn in the tyre industry.

Focus on cost management and energy efficiency improvement

Commitment to improve energy efficiency is deeply rooted in strategic thinking at the petrochemical segment. In response to the thriving importance of environmental protection and increasing energy prices, action plans were developed in connection with technologies and a new operational model was implemented for energy management. This will further improve the cost efficiency of the overall energy process to the benefit of the environment. We are consequently implementing our energy strategy formulated in 2008. In the 2008-2010 period we spared 48 kt of CO_2 via sustainable improvement actions and individual energy projects.

Continue with SPC development project to strengthen the position of the Petrochemical Division

In the future petrochemical industry remains increasingly competitive, setting further challenges in the business. To keep and further strengthen competitive advantages, the Petrochemical segment is committed to continue its strategic development programs and seeking for new business opportunities. Continuing SPC development project will provide a firm basis for the future position of

Petrochemical Division. In line with its strategic aims MOL management is analyzing future options in connection with SPC modernization.

Gas and Power Segment Overview

The Gas and Power segment's operating profit, excluding special items, increased by 9% to HUF 68.1 bn in 2010. FGSZ Ltd. was the most important profit contributor, however the temporary freeze of gas tariffs by 1 July affected negatively the H2 2010 result of gas transmission business.

FGSZ Natural Gas Transmission Ltd.

Main 2010 goals were met: infrastructure development projects on the way

The Hungarian section of the 109 km long Szeged-Arad gas pipeline was completed, which ensures the transmission between Hungary and Romania from H2, 2010. Initial annual capacity of the pipeline is 1.75 bcm, which can be extended in the future up to 4.4 bcm.

FGSZ Ltd. and Plinacro, the operator of the Croatian Transmission System was completed the interconnection between the Hungarian and Croatian transmission systems with 6.5 bcm annual capacity by the end of Q4, 2010. The two Transmission System Operators (TSOs) concluded the interconnection agreement, which controls the operational conditions of the border points of Drávaszerdahely and Donji Miholjac.

Independent Transmission system Operator

Due to change in European Union gas market regulation, in 2010 the complete unbundling of natural gas transmission activities was implemented from the vertically integrated parent company in Hungary as well. The company submit the application for Independent Transmission system Operator licence in the first half of 2011 to the Hungarian Energy Office and to the EU.

NETS project continued

FGSZ stresses the vital importance of regional joint initiatives, such as the New European Transmission System, thereafter NETS project. The main goal of the project is to achieve greater interconnectivity between the various national gas Transmission System operators (TSOs) spreading around Central and South-East Europe for improved security of supply. Additionally, NETS is a tool facilitating the realization of North-South Gas Corridor, which is fully supported by Visegrad Group+ countries and acknowledged by the European Union.

Within the frame of the regional coorporation FGSZ started negotiation with the Slovakian Eustream and Slovenian Geoplin Plinovodi to develop new interconnections towards Slovakia and Slovenia in order to improve the security of supply and transmission possibilities in the region.

Outlook for 2011

The main task for 2011 is to continue the development of the interconnector pipelines with the neigbouring countries, continue the NETS initiative, and focus on the cost efficient operation to provide stable cash flows.

Outstanding operating profit contribution

Operating profit for FGSZ was HUF 43.8 bn in 2010, HUF 3.6 bn (9%) higher year-on-year. Increase in operating profit is due to the increased income on transit transmission and lower level of expenditures.

Domestic transmission revenue +1%

Revenue from domestic transmission grew by HUF 0.5 bn (1%) to HUF 66.7 bn in 2010 year-on-year.

Despite of the decline in capacity booking and in transported volumes the slight income growth is due to the tariffs used in the first half of the year. Due to the decision of the Price Authority the transmission tariffs were frozen in the second half of the year causing a significant loss in revenues for FGSZ.

The transit transported volumes show a significant increase

Revenue from transit natural gas transmission was HUF 17.5 bn (9%) in 2010, unchanged vs. 2009. In 2010 the transported natural gas volumes were 24% higher than in the previous year.

In 2010 starting of the Romanian transmission caused a HUF 0.8 bn increase in revenues compared to the base period.

Decrease in costs

Operating costs were HUF 0.7 bn (1%) lower in 2010 year-on-year. The savings occurred in the field of services used, which was reduced by the increase in energy costs due to growth in gas price.

MMBF Gas Storage Ltd.

Strategic and commercial gas storage

MOL Group is an active participant in the gas storing business again, as the gas storage facility of MMBF Ltd (72.5% subsidiary of MOL) has finished the first year of its successful operation in 2010. MMBF Ltd. was set up to develop an underground gas storage with a strategic mobile capacity of 1.2 bcm and 0.7 bcm commercial capacity through an active reservoir, Szőreg-1.

The development was implemented according to schedule, by MOL Plc. Total CAPEX spent, without the acquisition of mining rights (HUF 67.0 bn), was HUF 83.1 bn by the year end, of which HUF 2.2 bn was spent in 2010 for the last phase of construction works. The strategic storage facility, in line with legal requirements, has a daily withdrawal peak capacity of 20 mcm over a period of 45 days for strategic (security) activities. Commercial storage with 700 mcm mobile capacity is available from April 2010 and has an additional 5 mcm/day peak capacity.

In addition to storage activity, MMBF Ltd. has sold the oil, condensate and gas production of Szőreg-1 field with profit. Operating profit of MMBF Ltd. was HUF 16.7 bn in 2010 (excluding special items), of which HUF 8.7 bn was the profit-contribution of gas-sales. Through the strategic and commercial storage facilities MMBF Ltd. is expected to provide stable EUR-based return and cash flow contribution.

Power

JV with CEZ – entry into the electricity market

MOL, together with its strategic partner – CEZ, the Czech Energy Company - is considering to carry out three major investments. The ongoing project is the revamp of the existing thermal power plant (TPP) in the Bratislava refinery. The amount of energy produced will be able to create sufficient steam and electricity sources for the Bratislava refinery. Beside this the partners are examining the opportunities of building two combined cycle gas turbine (CCGT) technologies power plant in the Danube and Bratislava refineries. Each CCGT has a planned capacity of 830 MW which would result in a 58% net electrical efficiency.

The revamp of the TPP in Bratislava is in process, the complete Flue Gas Desulfurization unit work will be completed by the end of 2011. The capacity increase of the power plant will satisfy the full electricity and steam need of the refinery. The preparatory works for the developments of the two CCGT power plants are proceeding according to the agreed schedule. The Hungarian project

has been granted an IPPC and a Building Permit, in Slovakia a valid EIA resolution has been received by the end of 2010.

Thermal Power Plant in the Bratislava refinery (achieved an outstanding operating profit of HUF 3.1 bn in 2010 due to cost efficient operation, profit from ancillary services to a customer outside MOL Group and profit on the sale of products.

Corporate and Other Segment Overview

Increased operating loss in line with full year INA contribution, but significant decrease excluding it

The Corporate and other segment operating loss, excluding one-off items (the provision for redundancy recorded at INA in Q3 2010 (HUF 7.1 bn), the provision for tax penalty recorded at INA in Q4 2010 (HUF 4.2 bn), the crisis tax imposed by the Hungarian state on domestic energy sector recorded in H2 2010 (HUF 0.5 bn)) represented a 28% increase, and amounted to HUF 56.8 bn loss in 2010 mainly due to the full year contribution of INA. The loss of segment, excluding INA contribution decreased to HUF 24.6 in 2010.

Financial results

Increase in net financial expense

A net financial expense of HUF 79.1 bn was recognised in 2010 (compared to a net financial expense of HUF 60.3 bn in 2009). Interest payable was HUF 34.5 bn in 2010 (HUF 23.3 bn in 2009) while interest received amounted to HUF 7.4 bn in 2010 (HUF 10.5 bn in 2009). In 2010 a net foreign exchange loss of HUF 46.7 bn was recognised, compared to the loss of HUF 3.2 bn in 2009. The fair valuation difference on the conversion option embedded in the capital security issued by Magnolia Finance Ltd amounted to HUF 5.4 bn unrealised loss (compared to the unrealized loss of HUF 19.7 bn in FY 2009). In addition, a gain of HUF 10.1 bn has been incurred on the fair valuation of the call option on MOL shares owned by CEZ.

Income from associates

Profit contributor associates

Income from associates showed HUF 12.0 bn in 2010 (main contributors were MOL Energiakereskedő Zrt. and MOL's 10% share from the operations of Pearl Petroleum Company), while the comparative period reflected INA's H1 2009 contribution of HUF 6.4 bn loss (include MOL's 47.2% shareholding). From 30 June 2009, INA is fully consolidated in MOL Group.

Profit before Taxation

As a result of the above-mentioned items, the Group's profit before taxation in 2010 was HUF 172.0 bn, compared to HUF 170.4 bn in 2009.

Taxation

Lower income taxes

Income tax expense decreased by HUF 16.8 bn from the comparative period to HUF 63.3 bn in 2010. 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 2.1 bn decrease in our tax expense. The current income tax expense was the result of the contribution from MOL parent company of HUF 18.7 bn (19% corporate income tax, 8% 'Robin Hood tax' and 2% local trade tax), INA of HUF 8.3 bn (20% corporate income tax), MMBF Zrt. of HUF 3.8 bn and FGSZ Zrt. of HUF 3.7 bn.

Cash-flow

Consolidated Cash-flow	2010 (HUF mn)	2009 (HUF mn)
Net cash provided by operating activities	373,653	397,891
of which: movements in working capital	(98,212)	59,707
Net cash used in investing activities	(276,272)	(266,658)
Net cash provided by/(used in) financing activities	26,794	(169,713)
Net increase/(decrease) in cash and cash equivalents	124,175	(38,480)

Operating cash-flow decreased by 6%

Operating cash inflow in 2010 was HUF 373.7 bn, compared to HUF 397.9 bn in 2009. Operating cash flow before movements in working capital increased by 39%. The change in the working capital position decreased funds by HUF 98.2 bn, as a result of an increase in inventories, trade receivables, other current assets, and trade payables (of HUF 63.6 bn, HUF 16.3 bn, HUF 2.2 bn and HUF 5.9 bn respectively) and a decrease in other payables of HUF 21.9 bn. Income taxes paid amounted to HUF 37.5 bn.

Cash used in investing activities increased by 4%

Net cash used in investing activities was HUF 276.3 bn in 2010, compared to net cash used of HUF 266.7 bn in 2009. The cash outflow of the current and the comparative period reflects the CAPEX, mainly on strategic developments and the expansion of Hungarian pipeline capacity.

Net financing cash inflows from issuance of bonds

Net financing cash inflow was HUF 26.8 bn, primarily as a result of the net draw down of long-term and short-term debt including issuance of new bonds.

Funding overview

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

MOL further improved its strong financial position

MOL's key target for 2010, to keep its strong financial position, was successfully met as a result of MOL's improving financial results. MOL remained disciplined to its CAPEX plan, and improved its well-accepted efficiency by implementing further cost reduction measures.

New facilities diversified the funding portfolio

The main purposes of financial transactions in 2010 were particularly diversification of funding sources and maturity profile enhancement. In line with these goals, MOL issued a EUR 750 mn Eurobond on 14 April 2010 with an annual coupon of 5.875% and maturity of 7 years. Besides this, a Hungarian Forint bond programme with a maximum amount of HUF 100 bn was launched for 2010-2011, in the frame of which Hungarian Forint retail bond with a nominal value of HUF 5.05 bn was issued in 2010 via public offering, with annual coupon payment of 6% and 18 months maturity.

In September 2010, due to the stabilizing commercial banking environment and it's improved credit rating, MOL Plc. successfully refinanced the Forward Start Facility by a EUR 500 mn revolving credit facility with more favourable conditions compared to those of the Forward Start Facility and a tenor of 3 years which can

be extended by further 1 year. In addition, MOL signed a EUR 150 mn long term loan agreement with the European Investment Bank (EIB) in November 2010 to finance the interconnection of Hungarian and Croatian natural gas transmission systems. Furthermore, INA d.d. concluded a EUR 210 mn loan agreement with the European Bank for Reconstruction and Development (EBRD), ICF-Debt Pool and Cordiant in September 2010, supporting the refinery modernisation programme of INA in Croatia.

Sufficient external funding

MOL Group has sufficient external funding for its operations and investments. Our diversified, long-term funding portfolio consists of revolving, syndicated and club loans, long term bonds and of loan facilities concluded with multilateral financial institutions.

63% EUR-denominated debt

MOL Group's total debt increased from HUF 1,111.1 bn at year-end 2009 to HUF 1,210.8 bn at 31 December 2010 as a combined effect of new draw-down of long term borrowings and the weakening of HUF vs. EUR and USD. The currency composition of total debt was 63% EUR, 32% USD, 5% HUF and other currency as of 31 December 2010. The Group's net debt amounted to HUF 897.7 bn at the end of 2010 showing a decrease from HUF 934 bn at the end of 2009 as a result of the strong operational performance of the company.

Our gearing ratio decreased

Our gearing ratio (net debt to the sum of net debt and total equity) was 31.3% at 31 December 2010 compared to 33.8% at the end of 2009, which reflects the strong capital structure of MOL Group.

Integrated Risk management

Integrated risk management function – at work

It is an accentuated aim for Risk Management to deal with all of the external challenges (including new industry-specific taxes) in order to support the stable and sustainable financial position of MOL. Therefore it is a necessity to have an effective and comprehensive risk management as a prerequisite tool of good corporate governance. MOL Group can state that it has developed risk management function as an integral part of its corporate governance structure. This was confirmed by SAM Research AG again in its 2010 benchmarking report for Dow Jones Sustainability Index that ranked MOL's risk management as one of the best in class with 88% performance, 28 percentage points above the sector's average underlying 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.

Multi-pillar system for managing a broad variety of risks.

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) on group level. ERM integrates financial, market and operational risks along with a wide range of strategic and reputation 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.

Financial Risk Management

The main role of Financial Risk Management as part of the ERM 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 by Risk Management on an ad-hoc basis when required.

Insurance Management

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 and liability 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, INA, Slovnaft, TVK, IES and Slovnaft Petrochemicals), MOL Group is able to exploit considerable synergy effects.

Business Continuity Management

Business Continuity Management (BCM) is the process of preparing for unexpected disruptions that have low probability for occurrence but high impact.. Crisis Management (CM) processes, Incident Management, Disaster Recovery 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.

Capital expenditure program

CAPITAL EXPENDITURES	2009 (HUF mn)	2010 (HUF mn)
Exploration and Production	186,585	122,974
Refining and Marketing*	107,889	103,945
Gas and Power	62,970	89,181
Petrochemicals	16,681	9,757
Corporate and other	6,613	6,960
TOTAL	380,738	332,817

* Including Refining & Marketing, Retail and Lubricants segments

Major investments finalised in on all business lines

Our Group capital expenditure (CAPEX) was HUF 333 bn (13% lower than previous year) in 2010, including the HUF 107.1 bn spending of INA. The investments focused on growth type projects, like the Syrian and Adriatic off-shore developments in Upstream, modernization of Rijeka refinery in Downstream and Hungarian-Croatian cross border pipeline development in Gas and Power.

Exploration & Production CAPEX with increasing focus on exploration

In 2010 Upstream capital expenditures increased by HUF 9.0 bn to HUF 123.0 bn year-on-year with exclusion of Pearl acquisition from 2009 expenditures. HUF 40.4 bn (33%) was dedicated to exploration of which HUF 15.4 bn in Hungary, HUF 8.7 bn in Kurdistan Region of Iraq, HUF 4.4-4.4 bn in Syria and in Pakistan, HUF 1.9 bn in India, HUF 1.2 bn in Croatia, HUF 0.9 bn in Kazakhstan, HUF 0.8 bn in Russia,

HUF 0.7 bn in Oman, HUF 0.6 bn in Cameroon, HUF 0.6 bn in Egypt and HUF 0.9 bn in all other regions. Development expenditures were HUF 71.4 bn (58%), of which HUF 29.0 bn was spent in Syria (Hayan project), HUF 15.7 bn in Russia, HUF 11.5 bn in Hungary and HUF 8.3 bn in Croatia (mainly in Adriatic offshore projects: HUF 7.2 bn). In Kurdistan Region of Iraq we started to develop Pearl assets (HUF 2.2 bn) and started early development of the Shaikan discovery (HUF 0.9 bn). We continued development in Egypt (HUF 1.9 bn) and in Angola (HUF 1.2 bn). In Pakistan, MOL's share in development costs of the Manzalai and Makori fields was HUF 0.7 bn. A further HUF 11.2 bn (9% of total) was spent primarily on upgrading the asset base of our drilling, well logging and seismic oilfield service subsidiaries and general maintenance-type projects.

Refining & Marketing CAPEX down by 5%

Refining and Marketing CAPEX was HUF 104.0 bn in 2010, down from HUF 107.9 bn in 2009 reflecting the stringent CAPEX control across the Group. This segment consists of the following businesses:

Refining and Wholesale expenditures were HUF 92.0 bn in 2010 versus HUF 95.7 bn in 2009. INA Group's contribution to the CAPEX was HUF 50.0 bn, key part of which was related to the finalization of 1st Phase of the Modernization Program at Rijeka refinery, where with the implementation of the grass-root hydrocrack complex all the motor fuels will comply with Euro V standards. CAPEX spending at MOL Plc. (HUF 21.2 bn) and Slovnaft (HUF 14.4 bn) were mostly related to the planned turnaround and other sustain operation type projects, while IES spent HUF 5.8 bn mainly on completion of its multiple-year product quality and environmental compliance related modernization program in Q2 2010.

Retail CAPEX was HUF 11.7 bn, including HUF 2.6 bn spending on network development in Hungary, INA Group's HUF 2.0 bn, MOL Romania's HUF 2.2 bn and Energopetrol's HUF 2.7 bn contribution. Retail CAPEX was lower than the basis by HUF 0.3 bn in 2010.

Gas and Power CAPEX up by HUF 26.2 bn

Total CAPEX of the Gas and Power segment was HUF 89.2 bn in 2010, representing a 42% increase year-on-year.

In 2010 the CAPEX spending of FGSZ was HUF 74.7 bn which is significantly higher than HUF 31.7 bn in 2009. The investments are made up of implementation of the Hungarian-Croatian cross border pipeline achieving the company's strategy and the reconstruction of the existing system. The pipelines completed in 2010 will be commissioned by the company in the first half of 2011.

MMBF Ltd. spent HUF 2.2 bn on the last phase of works of underground gas storage construction in 2010. The company developed the underground gas storage with a strategic mobile capacity of 1.2 bcm and 0.7 bcm commercial capacity.

In the Power segment in 2010 HUF 0.7 bn was spent on preparatory works and technical studies in connection with combined cycle gas turbine power plants (each with 830MW capacity) in 2010. For TPP modernization and capacity increase (to 160 MW) HUF 8.8 bn was spent.

At Supply and Trading division there were further CAPEX utilization regarding gas infrastructure development with HUF 2.8 bn.

Petrochemicals CAPEX down by HUF 6.9 bn

In 2010 Petrochemical CAPEX amounted to HUF 9.8 bn, which was lower by HUF 6.9 bn year-on-year. The expenditures regarding the reconstruction works in the Olefin plants both in TVK and SPC were significantly lower in 2010 year-on-year, while the sustain operation type investments increased slightly.

Corporate & Other segment CAPEX up by 5%

Capital expenditures of the Corporate and Other segment was HUF 6.9 bn in 2010 versus HUF 6.6 bn in 2009. In 2010 we spent HUF 4.0 bn on the further development of our Group information system and HUF 0.9 bn on property maintenance.

Outlook on strategic horizon

MOL has become more international, more efficient and more upstream driven

In 2010 approximately half of the Group EBITDA was generated outside Hungary as share of international operation increased further considerably and we expect this tendency to continue in the forthcoming years. The Upstream division's contribution has grown significantly in the past years, achieving almost two-third of the Group EBITDA in 2010 and became a strong growth pillar for the Group. Downstream integration strengthened in order to reinforce our regional stronghold position.

MOL not just remained committed to keep its financial stability but continued the key development projects, with which established an outstanding position for the upturn period in each business division. We aim to exploit the significant organic growth potential of our integrated portfolio by operating the existing asset base on maximum efficiency which integration of operation with INA remains the main driver.

Gradual recovery is expected to continue

The global economy went through a transition period in recent years and signs of the recovery were already visible in 2010. MOL continuously adjusts its operation to the external environment. We expect oil prices to remain at current levels for the forthcoming years with possible fluctuations amounting at 94 USD/bbl level in 2013. MOL is expecting improving diesel crack spreads and stable gasoline crack spreads in line with the economic recovery (96 USD/t and 131 USD/t in 2013 respectively) and stable HUF versus USD.

USD 5.5 bn CAPEX target in 2011-2013 financed from operating cash flow

In the 2011-2013 period MOL aims to finance its targeted USD 5.5 bn total CAPEX spending fully from the operating cash flow, focusing on high return projects at the two key business divisions, upstream and downstream. On the other hand MOL continuously monitors the macro environment and is ready to commence further growth projects depending on its cash flow generation.

Upstream: focus on exploration and active portfolio management

The main objective for the forthcoming years will be to maximize the value of our existing portfolio, which is a solid basis for further growth with sizeable production in 7 countries and exploration potential in 13 countries. The focus will be on completing high return/early cash generative appraisal and development projects in Syria, CEE, Pakistan, Kurdistan Region of Iraq and Russia to increase production levels, contributing significantly to Group-level EBITDA, growth. At the same time, we further pursue to extend MOL's outstanding efficiency to the whole Upstream portfolio. Finally, we are carrying out extensive and intensifying exploration activity to further increase our reserve base and create the basis for further production growth beyond 2013.

Downstream: reinforce regional stronghold position

Regarding the downstream business MOL Group's main goal is to reinforce its regional stronghold position by focusing on market driven developments and efficiency improvement thus exploiting the gradually improving environment. The Group is focusing on exploiting further synergies through the whole value chain, elevate Rijeka refinery to similar levels represented by our key refinery assets and increase the overall efficiency of Downstream portfolio.

Increased efficiency

In addition, we will focus to extend our well-recognised efficiency to the whole Group. In Upstream the focus will remain on Croatian onshore areas where the targeted USD 50 mn EBITDA improvement was already delivered in 2010 while in Downstream we target to reach USD 280 mn annual EBITDA improvement from 2013 versus 2009, major part of which is coming from harmonising the operation of 5 refineries and 2 petrochemical units under one integrated supply chain management system and improved energy management and maintenance process

MOL Hungarian Oil and Gas Public Limited Company and Subsidiaries

CONSOLIDATED FINANCIAL STATEMENTS PREPARED IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS TOGETHER WITH THE INDEPENDENT AUDITORS' REPORT

31 December 2010

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of MOL Hungarian Oil and Gas Public Limited Company

1.) We have audited the accompanying 2010 consolidated annual financial statements of MOL Hungarian Oil and Gas Plc. ("the Company"), which comprises the consolidated balance sheet as at 31 December 2010 - showing a balance sheet total of HUF 4,485,729 million and a profit for the year of HUF 108,717 million -, the related consolidated income statement, consolidated statement of comprehensive income for the year then ended, consolidated statement of changes in equity, consolidated statement of cash flows for the year then ended and the summary of significant accounting policies and other explanatory notes.

2.) We issued an unqualified opinion on the Company's consolidated annual financial statements prepared in accordance with the International Financial Reporting Standards as adopted by EU as at 31 December 2009 on 25 March 2010.

Management's Responsibility for the Consolidated Financial Statements

3.) Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with the International Financial Reporting Standards as adopted by EU. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated 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.

Auditor's Responsibility

4.) Our responsibility is to express an opinion on these consolidated financial statements based on the audit and to assess whether the consolidated business report is consistent with the consolidated financial statements. We conducted our audit in accordance with Hungarian National and International Auditing Standards and with applicable laws and regulations in Hungary. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

5.) An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated financial statements in order to design audit procedures that are appropriate in 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 consolidated financial statements. Our work regarding the consolidated business report is restricted to assessing whether the consolidated business report is consistent with the consolidated financial statements and does not include reviewing other information originated from non-audited financial records.

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

Opinion

7.) We have audited the elements of and disclosures in the consolidated annual financial statements, along with underlying records and supporting documentation, of MOL Hungarian Oil and Gas Plc. in accordance with Hungarian National and International Auditing Standards and have gained sufficient and appropriate evidence that the consolidated annual financial statements have been prepared in accordance with the International Financial Reporting Standards as adopted by EU. In our opinion the consolidated annual financial statements give a true and fair view of the equity and financial position of MOL Hungarian Oil and Gas Plc. as at 31 December 2010 and of the results of its operations for the year then ended. The consolidated business report corresponds to the disclosures in the consolidated financial statements.

Budapest, 24 March 2011

Ernst & Young Kft.
Registration No. 001165

Judit Szilágyi
Registered Auditor
Chamber membership No.: 001368

MOL Hungarian Oil and Gas Plc. and Subsidiaries

CONSOLIDATED FINANCIAL STATEMENTS PREPARED IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS

31 December 2010

Budapest, 24 March 2011

Zsolt Hernádi
Chairman of the Board of Directors
Chief Executive Officer

József Molnár
Executive Vice President for Finance

Consolidated balance sheet
31 December 2010

	Notes	2010	2009 Restated
ASSETS		HUF million	HUF million
Non-current assets			
Intangible assets	4	318,158	355,828
Property, plant and equipment, net	5	2,676,262	2,555,220
Investments in associated companies	10	73,004	59,830
Available-for-sale investments	11	21,501	18,614
Deferred tax assets	30	12,682	36,855
Other non-current assets	12	42,104	47,512
Total non-current assets		3,143,711	3,073,859
Current assets			
Inventories	13	418,061	328,010
Trade receivables, net	14	463,672	412,307
Other current assets	15	141,508	116,635
Prepaid taxes		5,611	22,104
Cash and cash equivalents	16, 37	313,166	177,105
Assets classified as held for sale	31	-	37,587
Total current assets		1,342,018	1,093,748
TOTAL ASSETS		4,485,729	4,167,607
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Share capital	17	79,202	79,202
Reserves	18	1,251,910	1,119,745
Profit for the year attributable to equity holders of the parent		103,958	95,058
Equity attributable to equity holders of the parent		1,435,070	1,294,005
Non-controlling interests		539,407	535,647
Total equity		1,974,477	1,829,652
Non-current liabilities			
Long-term debt, net of current portion	19	947,910	829,111
Provisions	20	280,535	282,693
Deferred tax liabilities	30	118,312	122,376
Other non-current liabilities	21	46,110	38,745
Total non-current liabilities		1,392,867	1,272,925
Current liabilities			
Trade and other payables	22	800,958	737,826
Current tax payable		10,672	2,784
Provisions	20	43,842	32,865
Short-term debt	23	160,863	178,457
Current portion of long-term debt	19	102,050	103,577
Liabilities classified as held for sale	32	-	9,521
Total current liabilities		1,118,385	1,065,030
TOTAL EQUITY AND LIABILITIES		4,485,729	4,167,607

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

Consolidated income statement
31 December 2010

	Notes	2010	2009 Restated
		HUF million	HUF million
Net revenue	24	4,298,709	3,254,700
Other operating income	25	25,839	112,038
Total operating income		4,324,548	3,366,738
Raw materials and consumables used		3,254,939	2,555,587
Personnel expenses	26	271,968	200,938
Depreciation, depletion, amortisation and impairment		279,069	207,140
Other operating expenses	27	374,944	258,409
Change in inventories of finished goods and work in progress		(50,932)	(55,837)
Work performed by the enterprise and capitalized		(44,498)	(31,878)
Total operating expenses		4,085,490	3,134,359
Operating profit		239,058	232,379
Financial income	28	25,872	16,388
Of which: Fair valuation difference of conversion option	28	-	-
Financial expense	28	104,929	76,731
Of which: Fair valuation difference of conversion option	28	5,381	19,698
Financial expense, net	28	79,057	60,343
Income from associates		12,013	(1,664)
Profit before tax		172,014	170,372
Income tax expense	30	63,297	80,131
Profit for the year		108,717	90,241
Attributable to:			
Equity holders of the parent		103,958	95,058
Non-controlling interests		4,759	(4,817)
Basic earnings per share Attributable to ordinary equity holders of the parent (HUF)	32	1,231	1,114
Diluted earnings per share Attributable to ordinary equity holders of the parent (HUF)	32	1,209	1,114

Consolidated Statement of comprehensive income
31 December 2010

	Notes	2010	2009 Restated
		HUF million	HUF million
Profit for the year		108,717	90,241
Other comprehensive income			
Exchange differences on translating foreign operations	29	42,875	755
Available-for-sale financial assets, net of deferred tax	29	(1,423)	5,003
Cash-flow hedges, net of deferred tax	29	351	1,338
Share of other comprehensive income for associates	29	7,672	(9,383)
Other comprehensive income for the year, net of tax		49,475	(2,287)
Total comprehensive income for the year		158,192	87,954
Attributable to:			
Equity holders of the parent		145,599	91,989
Non-controlling interest		12,593	(4,035)

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

Consolidated statement of changes in equity
31 December 2010

	Share capital	Share premium	Fair valuation reserve	Translation reserve	Equity component of debt and difference in buy-back prices	Retained earnings	Total reserves	Profit for the year attributable to equity holders of the parent	Equity attributable to equity holders of the parent	Non-controlling interests	Total equity
	HUF million	HUF million	HUF million	HUF million	HUF million	HUF million	HUF million	HUF million	HUF million	HUF million	HUF million
Closing balance 31 December 2008	72,812	(392,814)	(1,455)	124,080	(8,074)	1,177,014	898,751	141,418	1,112,981	118,419	1,231,400
Retained profit for the year	-	-	-	-	-	-	-	95,058	95,058	(4,817)	90,241
Other comprehensive income for the year	-	-	9,802	(12,871)	-	-	(3,069)	-	(3,069)	782	(2,287)
Total comprehensive income for the year	-	-	9,802	(12,871)	-	-	(3,069)	95,058	91,989	(4,035)	87,954
Transfer to reserves of retained profit for the previous year	-	-	-	-	-	141,418	141,418	(141,418)	-	-	-
Dividends to non-controlling interests	-	-	-	-	-	-	-	-	-	(8,501)	(8,501)
Net change in balance of treasury shares held, net of tax	6,390	67,145	-	-	-	18,363	85,508	-	91,898	-	91,898
Acquisition of non-controlling interests	-	-	-	-	-	(2,863)	(2,863)	-	(2,863)	(148)	(3,011)
Transactions with non-controlling interests	-	-	-	-	-	-	-	-	-	5,788	5,788
Consolidation of Subsidiaries previously accounted for as Associates	-	-	-	-	-	-	-	-	-	424,124	424,124
Closing balance 31 December 2009	79,202	(325,669)	8,347	111,209	(8,074)	1,333,932	1,119,745	95,058	1,294,005	535,647	1,829,652
Retained profit for the year	-	-	-	-	-	-	-	103,958	103,958	4,759	108,717
Other comprehensive income for the year	-	-	(813)	42,454	-	-	41,641	-	41,641	7,834	49,475
Total comprehensive income for the year	-	-	(813)	42,454	-	-	41,641	103,958	145,599	12,593	158,192
Transfer to reserves of retained profit for the previous year	-	-	-	-	-	95,058	95,058	(95,058)	-	-	-
Dividends to non-controlling interests	-	-	-	-	-	-	-	-	-	(8,729)	(8,729)
Net change in balance of treasury shares held, net of tax	-	-	-	-	-	(4,534)	(4,534)	-	(4,534)	-	(4,534)
Transactions with non-controlling interests	-	-	-	-	-	-	-	-	-	(104)	(104)
Closing balance 31 December 2010	79,202	(325,669)	7,534	153,663	(8,074)	1,424,456	1,251,910	103,958	1,435,070	539,407	1,974,477

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

Consolidated cash flow statement
31 December 2010

	Notes	2010	2009 Restated
		HUF million	HUF million
Profit before tax		172,014	170,372
Depreciation, depletion, amortisation and impairment		279,069	207,140
Non-cash gain recognized upon acquiring INA Group	7	-	(44,210)
Write-off of inventories, net		(138)	(6,615)
Increase / (decrease) in provisions		17,650	12,173
Net (gain) / loss on sale of property, plant and equipment		(2,228)	(20,212)
Write-off / (reversal of write-off) of receivables		(11,836)	13,541
Unrealised foreign exchange (gain) / loss on trade receivables and trade payables		563	7,927
Net gain on sale of subsidiaries		(756)	(25,665)
Interest income		(7,437)	(10,534)
Interest on borrowings		34,536	23,290
Net foreign exchange (gain) / loss excluding foreign exchange differences on trade receivables and trade payables		46,722	3,216
Fair valuation difference of conversion option (see Note 28)		5,381	19,698
Other financial (gain) / loss, net		(16,365)	12,041
Share of net profit of associate		(12,013)	1,664
Other non cash items		4,216	3,336
Operating cash flow before changes in working capital		509,378	367,162
Decrease / (increase) in inventories		(63,603)	13,437
Decrease / (increase) in trade receivables		(16,339)	4,751
Decrease / (increase) in other current assets		(2,242)	180
(Decrease) / increase in trade payables		5,874	36,921
(Decrease) / increase in other payables		(21,902)	4,418
Income taxes paid		(37,513)	(28,978)
Net cash provided by operating activities		373,653	397,891
Capital expenditures, exploration and development costs		(303,339)	(297,890)
Proceeds from disposals of property, plant and equipment		3,558	20,676
Acquisition of subsidiaries and non-controlling interests, net cash	37	(541)	(6,666)
Acquisition of associated companies and other investments		(2,102)	(1,066)
Cash effect of consolidation of Subsidiaries previously accounted for as associates		-	19,166
Net cash inflow / (outflow) on sale of subsidiary undertakings (see Note 8)		(1,513)	4,150
Proceeds from disposal of associated companies and other investments		630	-
Changes in loans given and long-term bank deposits		13,488	(11,287)
Changes in short-term investments		(5)	(5,865)
Interest received and other financial income		9,193	11,228
Dividends received		4,359	896
Net cash used in investing activities		(276,272)	(266,658)
Issuance of long-term notes		200,921	-
Long-term debt drawn down	37	444,510	524,231
Repayments of long-term debt		(580,699)	(625,621)
Changes in other long-term liabilities		(319)	130
Changes in short-term debt		19,986	(28,483)
Interest paid and other financial costs		(48,859)	(39,697)
Dividends paid to shareholders		(19)	(224)
Dividends paid to non-controlling interest		(8,727)	(8,531)
Minority shareholders contribution		-	7,523
Issuance of treasury shares		-	959
Repurchase of treasury shares		-	-
Net cash provided by / (used in) financing activities		26,794	(169,713)
(Decrease) / increase in cash and cash equivalents		124,175	(38,480)
Cash and cash equivalents at the beginning of the year		178,703	222,074
Exchange differences of cash and cash equivalents of consolidated foreign subsidiaries		638	(5,567)
Unrealised foreign exchange difference on cash and cash equivalents		9,650	676
Cash and cash equivalents at the end of the year	37	313,166	178,703

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

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

1 General

MOL Hungarian Oil and Gas Public Limited Company (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 2010 and 2009 was 32,394 and 34,090, respectively. The registered office address of the Company is 1117 – Budapest, Október huszonharmadika u. 18., 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 24 March 2011.

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 17.

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 2010. The Group has early adopted IFRS 3 Business Combinations (Revised) and IAS 27 Consolidated and Separate Financial Statements in 2009 in advance of their effective date (1 July 2009).

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 acquisition 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. The cost of an acquisition is measured at the aggregate of the consideration transferred and the amount of any non-controlling interest (formerly known as minority interest) in the acquiree. 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.

Non-controlling 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. For each business combination, non-controlling interest is stated either at fair value or at the non-controlling interests' proportionate share of the acquiree's fair values of net assets. The choice of measurement basis is made on an acquisition-by-acquisition basis. Subsequently the carrying amount of non-controlling interests is the initially recognised amount of those interests adjusted with the non-controlling interests' share of changes in equity after the acquisition. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interests having a negative balance.

Changes in the Group's interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to the owners of the company.

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. The joint venture is proportionately consolidated until the date on which the Group ceases to have joint control over the venture.

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. Losses on intragroup transactions are recognised immediately if the loss provides evidence of reduced net realisable value of current assets or impairment loss.

When the joint control is lost, the Group measures and recognises its remaining investment at its fair value unless the joint control does not become a subsidiary or associate. The difference between the carrying amount of the joint entity and the fair value of the remaining investment together with any proceeds from disposal is recognised in profit or loss.

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 that the recoverable amount of the investment is lower than its carrying value, then the difference is recognised as impairment loss in the income statement. Where losses were made in previous years, an assessment of the factors is made to determine if any loss may be reversed.

When the significant influence over the associate is lost, the Group remeasures and recognises any retaining investment at its fair value. The difference between the carrying amount of the associate and the fair value of the retaining investment together with any proceeds from disposal is recognised in profit or loss.

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. While the comparative period has been restated, an opening balance sheet has not been included as the reclassifications made were not considered material. In addition, the finalization of accounting for the INA business combination and the cessation of classifying INA's gas trading business as a discontinued operation gave rise to additional restatements of the amounts reported in the comparative period.

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

- IFRS 1 – First-time Adoption of International Financial Reporting Standards
- IFRS 2 – Share-based Payment
- IFRS 5 – Non-current assets Held for Sale and Discontinued Operations
- IFRS 8 – Operating Segments
- IAS 1 – Presentation of Financial Statements
- IAS 7 – Statement of Cash Flows
- IAS 17 – Leases
- IAS 36 – Impairment of Assets
- IAS 39 – Financial Instruments: Recognition and Measurement

The principal effects of these changes are as follows:

IAS 7 Statement of Cash Flows

The amendment constitutes that only expenditure that results in asset recognition can be classified as "investing" in the statement of cash flows. Consequently, exploration costs recorded as an expense in the consolidated income statement are now presented as "operating" cash flow as opposed to its previous categorization of "investing". This modification resulted in HUF 7,843 million and 5,790 million reclassification of cash outflow from investing to operating cash flow in 2010 and 2009, respectively. Comparative periods have been restated accordingly.

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 acquisition method. This involves assessing all assets and liabilities assumed for appropriate classification in accordance with the contractual terms and economic conditions and recognising identifiable assets (including previously unrecognized intangible assets) and liabilities (including contingent liabilities and excluding future restructuring) of the acquired business at fair value as at the acquisition date. Acquisition-related costs are recognised in profit or loss as incurred.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value as at the acquisition date and the resulting gain or loss is recognised in profit or loss.

Contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration are adjusted against the cost of acquisition, only if they qualify as period measurement adjustments and occur within 12 months from the acquisition date. All other subsequent changes in the fair value of contingent consideration are accounted for either in profit or loss or as changes to other comprehensive income. Changes in the fair value of contingent consideration classified as equity are not recognised.

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. If the consideration transferred is lower than the fair value of the net assets of the acquiree, the fair valuation, as well as the cost of the business combination is re-assessed. Should the difference remain after such re-assessment, it is then recognised in profit or loss as other income. 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 IFRS 8 Operating Segments.

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.

The Group's financial assets are classified at the time of initial recognition depending on their nature and purpose. Financial assets include cash and short-term deposits, trade receivables, loans and other receivables, quoted and unquoted financial instruments and derivative financial instruments.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include 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 as finance income or finance expense 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 2010 and 2009, 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 as other comprehensive income in the fair valuation reserve. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recorded as other comprehensive income is recognized in the income statement.

After initial recognition available-for-sale financial assets are evaluated on the basis of existing market conditions and management intent to hold on to the investment in the foreseeable future. In rare circumstances when these conditions are no longer appropriate, the Group may choose to reclassify these financial assets to loans and receivables or held-to-maturity when this is in accordance with the applicable IFRS.

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 without any deduction for transaction costs. 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. When the Group neither transfers nor retains all the risks and rewards of the financial asset and continues to control the transferred asset, it recognises its retained interest in the asset and a liability for the amounts it may have to pay.

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 as other comprehensive income, while the ineffective portion is recognized in the income statement.

Amounts taken to other comprehensive income 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 previously 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 other comprehensive income remain in other comprehensive income 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 as other comprehensive income 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 as other comprehensive income 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. Impairment losses on a financial asset or group of financial assets are recognised only if there is an objective evidence of impairment due to a loss event and this loss event significantly impacts the estimated future cash flows of the financial asset or group of financial assets.

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 other comprehensive income to the income statement. Impairment losses recognized on equity instruments classified as available for sale are not reversed; increases in their fair value after impairment are recognised directly in other comprehensive income. Impairment losses recognized on debt instruments classified as available for sale are reversed through the income statement; if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognized in the income statement.

viii) Cash and Cash Equivalents

Cash includes cash on hand and cash at 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.

If collection of trade receivables is expected within the normal business cycle which is one year or less, they are classified as current assets. If not, they are presented as non-current assets.

x) Inventories

Inventories, including work-in-progress 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 from 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 net 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.

The Group assesses at each reporting date whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. A previously recognised impairment loss is reversed only if there has been a change in the impairment assumptions considered when the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset neither exceeds its recoverable amount, nor is higher than its carrying amount net of depreciation, had no impairment loss been recognised in prior years.

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. When the Group expects some or all of the provision to be reimbursed; the reimbursement is recognised as a separate asset but only when the reimbursement is actually certain. 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 is 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 other comprehensive income 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.
The current income tax is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because of items of income or expense that are never taxable or deductible or are taxable or deductible in other years. The Group's current income tax is calculating using tax rates that have been enacted or substantively enacted by the end of the reporting year.

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 the entire 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.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities which relate to income taxes imposed by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

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 in other comprehensive income. On disposal of a foreign entity, the deferred cumulative amount recognized in other comprehensive income relating to that particular foreign operation shall be recognized in the income statement. Any exchange differences that have previously been attributed to non-controlling interests are derecognised, but they are not reclassified to profit or loss.

In case of a partial disposal of a subsidiary without any loss of control in the foreign operation, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other disposals such as associates or jointly controlled entities not involving a change of accounting basis, the proportionate share of accumulated exchange differences is reclassified to profit or loss.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

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, Gas and Power and Petrochemicals. The business units are the basis upon which the Group reports its segment information to the management who is responsible for allocating business resources and assessing performance of the operating segments.

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

The Group recognised significant amount of provisions in connection with its operations having environmental impact. Regulations, especially environmental legislation do not exactly specify the extent of remediation work required or the technology to be applied. Furthermore, since INA Group became part of MOL in the previous year, the extent to which such remediation requirements are identified is also limited. 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 70,027 million and HUF 69,563 million, while field abandonment provision amounts to HUF 184,792 million and HUF 188,348 million as of 31 December 2010 and 2009, respectively (see Note 20).

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 costs is HUF 171,791 million and HUF 202,964 million as of 31 December 2010 and 2009, respectively (see Note 4).

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 17) 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 worldwide financial crisis since 2008 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 decreasing during the forthcoming reporting period. In case of the conversion option embedded in MOL's perpetual exchangeable capital securities, the market of the underlying convertible instrument has become inactive between October, 2008 and September, 2009, 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. Since mid-2009, the valuation of this option was performed with reference to prices on the market of convertible instruments. Further details of financial instruments are described in Note 34.

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 4.8% (2009: 4.9%). Consequently, the carrying amount of these obligations (in case of environmental liabilities HUF 70,027 million and HUF 69,563 million, in case of field abandonment provision HUF 184,792 million and HUF 188,348 million as of 31 December 2010 and 2009, respectively, see Note 20) 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. Discount rates were derived from the USD-based weighted average cost of capital for the Group (2010: 8.4%, 2009: 8.0%) Increase in the rate reflects the increased risk factors due to the worldwide recession. 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 17,548 million and HUF 13,066 million in 2010 and 2009, respectively. These charges include an impairment loss HUF 15,074 million on other intangible assets (2009: HUF 1,612 million and also impairment loss of HUF 4,656 million on goodwill) an impairment loss of HUF 10,017 million (2009: HUF 9,059 million) and a reversal of impairment of HUF 7,543 million (2009: HUF 2,261 million) on property, plant and equipment. Carrying amount of goodwill is HUF 71,031 million and HUF 70,126 million as of 31 December 2010 and 2009, respectively (see Note 4).

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 such recognized deferred tax assets was HUF 10,290 million and HUF 28,064 million as of 31 December 2010 an 2009, respectively (see Note 30).

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 15,144 million and HUF 14,416 million at 31 December 2010 and 2009, respectively (see Note 20).

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. Provision for legal claims is HUF 20,067 million and HUF 18,161 million at 31 December 2010 and 2009, respectively (see Note 20 and 35).

2.5 Issued but not yet effective International Financial Reporting Standards

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

IFRS 9 Financial Instruments – Classification and measurement

The IFRS 9 was issued on 12 November 2009 and is intended to replace IAS 39 Financial Instruments: Recognition and measurement. The standard introduces new requirements for classifying and measuring financial assets that must be applied starting 1 January 2013. According to IFRS 9 all financial assets are initially recognised at fair value plus transaction costs. The standard also eliminates the available-for-sale and held-to-maturity categories currently existing in IAS 39. Classification of currently existing financial instruments of the Group will change accordingly.

IAS 24 - Related Party Disclosure

The amendments to IAS 24 Related Party Disclosures become effective for financial years beginning on or after 1 January 2011 and must be applied retrospectively. The revised standard simplifies the disclosure requirements for entities that are controlled, jointly controlled or significantly influenced by a government and clarifies the definition of a related party. As a result, such a reporting entity is exempt from the general disclosure requirements in relation to transactions and balances with the government and government-related entities. The amendment has no impact on the disclosures of the Group.

IAS 32 Financial Instruments: Presentation

The amendment to IAS 32 is effective for annual periods beginning on or after 1 February 2010 and requires that rights, options and warrants to acquire a fixed number of an entity's own equity instruments for a fixed price of any currency are equity instruments if certain criteria are met. The amendment will have no impact on the financial position of the Group.

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

The amendment to IFRIC 14 Prepayments of a minimum funding requirement was issued to remove the unintended consequence in IFRIC 14 that in some cases entities are not permitted to recognize as an asset some voluntary prepayments for minimum funding contributions. The amendment becomes effective 1 January 2011 and has no material impact on the Group.

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments

This interpretation addresses the accounting by an entity that issues equity instruments to settle financial liability. The equity instrument is measured at fair value and the financial liability is derecognized, fully or partly, based on the "consideration paid". The interpretation is effective for annual periods beginning on or after 1 July 2010 and will have no material impact on the Group.

Improvements to IFRSs

In May 2010 the Board issued its first collection of amendments to its standards, primarily to remove inconsistencies and clarify wording. These amendments will be effective from 1 January 2011 unless otherwise stated. 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.

IFRS 1 First-time Adoption of International Financial Reporting Standards

The annual improvements to IFRS 1 include: a) accounting policy changes in the year of IFRS adoption - if a first-time adopter changes its accounting policies or the use of exemptions in IFRS 1 after it has published its interim financial report in accordance with IAS 34 but before its first IFRS financial statements, it should explain those changes; b) revaluation basis as deemed cost – clarifies that a first-time adopter is permitted to use event-driven fair value as deemed cost during the first IFRS period and c) use of deemed cost for operations subject to rate regulation for certain items of property, plant and equipment or intangibles.

IFRS 3 Business Combinations

Amendment to IFRS 3 specifies that the option to measure non-controlling interests either at fair value or at proportionate share of the acquiree's net identifiable assets applies only to non-controlling interests that are present ownership interests. All other components of non-controlling interests should be measured at their acquisition date fair value, unless another measurement basis is required by IFRSs.

IFRS 3 specifies that requirements to measure awards of the acquirer that replace acquiree share-based payment transactions with regards to IFRS 2 applies also to such transactions of the acquiree that are not replaced. The amendment also clarifies that market-based measurement of replacement awards applies to all replacement awards regardless of whether the acquirer is obliged to replace the awards or does so voluntarily.

The last amendment to IFRS 3 clarifies that IAS 32, IAS 39 and IFRS 7 do not apply to contingent consideration from a business combination which occurred before the effective date of the revised standard IFRS 3 in 2008.

All amendments to IFRS 3 are effective for annual period beginning on or after 1 July 2010.

IFRS 7 Financial Instruments: Disclosures

The improvement to IFRS 7 clarifies disclosure requirements regarding credit risk and collateral held in order to enable users better to understand the nature and extent of risks arising from financial instruments.

IAS 1 Presentation of Financial Statements

The amendment to IAS 1 clarifies that the entity may elect to present the analysis of other comprehensive income by item either in the statement of changes in equity or in the notes to the financial statements.

IAS 27 Consolidated and Separate Financial Statements

The amendment to IAS 27 clarifies that amendments made to IAS 21, IAS 28, and IAS 31 as a result of IAS 27 revisions in 2008 should be applied prospectively with some exceptions. The amendment is effective 1 July 2010.

IAS 34 Interim Financial Reporting

Amendments to IAS 34 clarify how significant events and transactions in interim periods should update the relevant information presented in the most recent annual financial report.

IFRIC 13 Customer Loyalty Programmes

Amendment to IFRIC 13 specifies that fair value of award credits should consider the discount or incentives that customers who have not earned award credits would otherwise received as well as any expected forfeitures.

3 Segmental information

2010	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	518,406	3,160,919	190,638	395,590	33,156		4,298,709
Inter-segment sales	253,854	475,873	327,074	128,615	131,330	(1,316,746)	-
Total revenue	772,260	3,636,792	517,712	524,205	164,486	(1,316,746)	4,298,709
Results							-
Profit/(loss) from operations	206,857	31,808	67,666	1,098	(68,716)	345	239,058
Net finance costs							79,057
Income from associates					12,013		12,013
Profit before tax							172,014
Income tax expense/(benefit)							63,297
Profit for the year							108,717

2009	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	301,788	2,396,450	236,166	289,128	31,168	-	3,254,700
Inter-segment sales	188,075	324,389	277,590	99,152	133,510	(1,022,716)	-
Total revenue	489,863	2,720,839	513,756	388,280	164,678	(1,022,716)	3,254,700
Results							
Profit/(loss) from operations	136,722	15,474	61,902	(15,219)	28,000	5,500	232,379
Net finance costs							60,343
Income from associates					(1,664)		(1,664)
Profit before tax							170,372
Income tax expense/(benefit)							80,131
Profit for the year							90,241

2010 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	1,065,969	972,857	429,791	176,587	96,268	(65,210)	2,676,262
Intangible assets, net	192,560	93,798	9,540	4,972	20,332	(3,044)	318,158
Inventories	39,708	355,215	2,036	14,633	9,965	(3,496)	418,061
Trade receivables, net	80,554	368,322	22,090	68,877	32,237	(108,408)	463,672
Investments in associates					73,004		73,004
Not allocated assets							536,572
Total assets							4,485,729
Trade payables	49,825	355,452	33,452	59,493	45,113	(110,387)	432,948
Not allocated liabilities							2,078,304
Total liabilities							2,511,252

2010 Other segment information	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
Capital expenditure:	109,324	103,482	88,011	9,828	7,237	-	317,882
Property, plant and equipment	79,590	101,762	86,044	9,279	3,556	-	280,231
Intangible assets	29,734	1,720	1,967	549	3,681	-	37,651
Depreciation and amortization	127,639	99,100	19,899	17,847	18,038	(3,454)	279,069
From this: impairment losses recognized in income statement	19,128	5,067	448	210	238	-	25,091
From this: reversal of impairment recognized in income statement	(5,727)	(1,816)	-	-	-	-	(7,543)

2009 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	1,029,595	950,683	357,778	183,080	101,328	(67,244)	2,555,220
Intangible assets, net	228,481	93,764	5,980	4,766	23,086	(249)	355,828
Inventories	24,321	281,867	2,567	12,017	12,031	(4,793)	328,010
Trade receivables, net	56,672	331,210	50,591	58,906	41,429	(126,501)	412,307
Investments in associates					59,830		59,830
Not allocated assets							456,412
Total assets							4,167,607
Trade payables	57,302	331,508	54,669	49,232	47,589	(128,022)	412,278
Not allocated liabilities							1,925,677
Total liabilities							2,337,955

2009 Other segment information	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
Capital expenditure:	107,732	102,229	61,100	16,681	7,244	-	294,986
Property, plant and equipment	89,631	101,318	59,389	16,452	4,367	-	271,157
Intangible assets	18,101	911	1,711	229	2,877	-	23,829
Depreciation and amortization	67,536	93,494	15,691	18,308	15,227	(3,116)	207,140
From this: impairment losses recognized in income statement	5,108	8,200	708	248	1,063	-	15,327
From this: reversal of impairment recognized in income statement	(1,271)	(657)	(21)	(266)	(46)		(2,261)

The profit from operations of the Group in 2010 was influenced by HUF 25,754 million crisis tax implemented in the current year and also a non-recurring HUF 30,387 million retroactively paid mining royalty according to the declaration of the European Committee in 2010 (see Note 27).

Impact of the crisis tax on the profit from operations of the reporting segments of the Group were as follows: HUF 2,652 million at Exporation and Production segment, HUF 21,896 million at Refining and Marketing segment, HUF 453 million at Gas and Power segment, HUF 302 million at Petrochemicals segment and HUF 541 million recorded at Corporate segment.

The HUF 30,387 mining royalty paid retroactively has been recorded at Exploration and Production segment.

The profit from operations of the Group in 2009 had been influenced by the following: HUF 28,156 million subsequent settlement from E.ON Ruhrgas International AG in connection with the gas business sales, HUF 21,285 million as part of the fair value of the net asset of INA and Energopetrol exceeding the purchase price and HUF 22,925 million as a fair valuation gain on the previous investment of INA and Energopetrol (see Note 7). These items were recorded in the profit from operations of Corporate segment.

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.

4 Intangible assets

	Rights	Software	Exploration costs	Goodwill	Total
	HUF million	HUF million	HUF million	HUF million	HUF million
At 1 January, 2009					
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
Year ended 31 December, 2009					
- additions	2,581	3,510	17,738	-	23,829
- acquisition of subsidiary	14,175	6,863	138,703	3,655	163,396
- amortization for the year	(7,641)	(5,582)	(76)	-	(13,299)
- impairment	(203)	(627)	(782)	(4,656)	(6,268)
- disposals	(33)	(45)	-	-	(78)
- exchange adjustment	231	45	(2,686)	1,583	(827)
- transfers and other movements	2,803	(1,637)	(1,277)	(2,216)	(2,327)
Closing net book value	57,767	24,971	202,964	70,126	355,828
At 31 December, 2009					
Gross book value	77,861	73,012	212,753	74,744	438,370
Accumulated amortization and impairment	(20,094)	(48,041)	(9,789)	(4,618)	(82,542)
Net book value	57,767	24,971	202,964	70,126	355,828
Year ended 31 December, 2010					
- additions	3,709	3,838	30,104	-	37,651
- divestition of subsidiary	(29)	-	-	-	(29)
- amortization for the year	(5,925)	(8,753)	(192)	-	(14,870)
- impairment	(5,350)	(50)	(9,674)	-	(15,074)
- disposals	-	-	-	-	-
- exchange adjustment	2,988	224	7,016	905	11,133
- transfers and other movements	-	1,946	(58,427)	-	(56,481)
Closing net book value	53,160	22,176	171,791	71,031	318,158
At 31 December, 2010					
Gross book value	83,951	77,697	187,355	73,200	422,203
Accumulated amortization and impairment	(30,791)	(55,521)	(15,564)	(2,169)	(104,045)
Net book value	53,160	22,176	171,791	71,031	318,158

Exploration costs

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 2010 related partly to exploration activities qualified unsuccessful in Hungary and partly to certain Russian fields in the exploration and development phase. Impairment for those cash generating units has been triggered by the combined effect of the unfavourable changes in the Russian oil and gas tax regime and the delayed scheduling of future development capital expenditures due to more stringent resource allocation policy. Impairment in 2009 related primarily to exploration activities qualified unsuccessful in 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:

	2010			2009		
	Net book value before Impair-ment	Impairment	Net book value	Net book value before Impair-ment	Impairment	Net book value
	HUF million	HUF million	HUF million	HUF million	HUF million	HUF million
Refining and Marketing	66,728	-	66,728	70,502	4,618	65,884
- Roth Group	6,644	-	6,644	6,455	-	6,455
- Romanian retail network	4,273	-	4,273	4,198	-	4,198
- IES Group	40,664	-	40,664	44,128	4,618	39,510
- Croatian retail network	14,045	-	14,045	14,705	-	14,705
- I&C Energo	1,102	-	1,102	1,016	-	1,016
Petrochemicals	570	-	570	570	-	570
- TVK	477	-	477	477	-	477
- TVK Polska	93	-	93	93	-	93
Exploration and Production	3,733	-	3,733	3,672	-	3,672
- Rotary (former DrillTrans)	3,733	-	3,733	3,672	-	3,672
Total goodwill	71,031	-	71,031	74,744	4,618	70,126

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 during its estimated remaining useful life 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.

Roth Group

At 31 December 2010 goodwill of HUF 6,644 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 1%. 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 8% and 9% 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 1,487 million. The implications of the key assumptions on the recoverable amount are discussed below:

– 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 1.3 percentage points in this rate would give a value in use equal to the carrying amount of Roth Group's wholesale activities.

Romanian retail network

At 31 December 2010 goodwill of HUF 4,273 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 10% and 12% 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 2010 goodwill of HUF 40,664 million was allocated to the Italian refining and wholesale activities of the Group. In 2009 an impairment of HUF 4,656 million was recognised on goodwill due to the combined effect of decreased crack spreads and increased discount rates reflecting the overall uncertainty regarding the economic slowdown. 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 9% and 10% 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.

Croatian retail network

At 31 December 2010 goodwill of HUF 14,045 million was allocated to the Croatian retail network comprising of filling stations under INA and Tifon brands. For goodwill allocation purposes, the Croatian filling stations' network as a whole (being a group of cash generating units including the Tifon and INA brands) is considered. For the network cash flow forecasts are prepared which are derived from the most recent financial budgets approved by management and extrapolate cash flows for the average residual useful life of the filling stations based on an estimated growth rate of 3%. The rates used to discount the forecast cash flows reflecting risks specific to the Retail segment vary between 10% and 12% in the years considered.

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

Exploration expenditures

In addition to the capitalized exploration expenditures shown above, a further HUF 6,486 million and HUF 5,790 million exploration expenses were incurred in 2010 and 2009, 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

In addition to goodwill, MOL Group has acquired the INA brand in 2009 which has an indefinite useful life, since practically the entire population in Croatia knows it and is perceived as a market leader with an extensive network of filling station. The Group does not intend to terminate this brand in the foreseeable future. The carrying amount of the INA brand was HUF 12,990 million as of 31 December 2010. Since the brand is an integral part of the Croatian filling station network, it has been included in the carrying value of the group of cash generating units to which the corresponding goodwill has been allocated and has been tested for impairment accordingly (see above).

5 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, 2009					
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
Year ended 31 December, 2009					
- additions and capitalizations	230,747	127,191	5,273	274,391	637,602
- depreciation for the year	(86,244)	(86,172)	(8,359)	-	(180,775)
- impairment	(3,157)	(4,402)	(1,164)	(336)	(9,059)
- reversal of impairment	1,601	281	319	60	2,261
- acquisition of subsidiary	678,342	82,920	18,883	273,895	1,054,040
- disposals	(1,468)	(132)	(74)	(19)	(1,693)
- exchange adjustment	(3,427)	7,156	(167)	(3,251)	311
- transfer and capitalizations	(518)	4,136	(56)	(368,228)	(364,666)
Closing net book value	1,480,625	614,189	35,008	425,398	2,555,220
At 31 December, 2009					
Gross book value	2,049,830	1,458,394	104,666	425,584	4,038,474
Accumulated depreciation and impairment	(569,205)	(844,205)	(69,658)	(186)	(1,483,254)
Net book value	1,480,625	614,189	35,008	425,398	2,555,220
Year ended 31 December, 2010					
- additions and capitalizations	94,346	101,018	6,078	280,231	481,673
- depreciation for the year	(138,372)	(98,045)	(10,234)	-	(246,651)
- impairment	(3,502)	(5,566)	(421)	(528)	(10,017)
- reversal of impairment	6,244	1,008	279	12	7,543
- disposals	(1,025)	(199)	(63)	(93)	(1,380)
- exchange adjustment	27,389	9,837	398	5,148	42,772
- transfer and capitalizations	52,609	7,358	(24)	(212,841)	(152,898)
Closing net book value	1,518,314	629,600	31,021	497,327	2,676,262
At 31 December, 2010					
Gross book value	2,276,114	1,569,842	106,183	497,667	4,449,806
Accumulated depreciation and impairment	(757,800)	(940,242)	(75,162)	(340)	(1,773,544)
Net book value	1,518,314	629,600	31,021	497,327	2,676,262

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 2010 based on the requirements of IAS 16 the Group has performed an annual revision of useful lives of property, plant and equipment and intangibles, having no significant impact on the consolidated profits.

Impairment, net of reversal

Reversal of impairment losses of HUF 284 million and impairment expense of HUF 2,688 million were recorded with respect to the revision of field abandonment provision of maturing and suspended oil and gas producing fields in 2010 and 2009, respectively. Impairment expense of HUF 1,688 million and HUF 612 million were recorded with respect to filling stations and retail sites in 2010 and 2009, respectively. In 2010, HUF 1,042 million was recognised as impairment expense related to expired catalysts and closure of certain facilities at the Danube and Bratislava refineries (2009: HUF 1,444 million). Additional impairment expenses of HUF 356 million and of HUF 464 million were recorded for certain gas transmission assets of FGSZ Földgázszállító Zrt. in 2010 and 2009, respectively. Other individually non-material reversal of impairment losses of HUF 328 million and impairment losses (net of reversal of impairment) of HUF 1,589 million have been recognized in 2010 and 2009, respectively.

Leased assets

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

	2010	2009
	HUF million	HUF million
Cost	8,112	8,340
Accumulated depreciation	(2,870)	(2,437)
Net book value	5,242	5,903

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 18,058 million and HUF 5,305 million in 2010 and 2009, respectively. In 2010 and 2009 the applicable capitalisation rates (including the impact of foreign exchange differences) were 5.5% and 2.4%, respectively.

Government Grants

Property, plant and equipment include assets with a value of HUF 6,753 million financed from government grants (See Note 21). The total amount reflects mainly the assets of FGSZ, which were partly financed via a European Union grant for the construction of the Hungary-Croatia natural gas interconnector, and the assets of Slovnaft which were financed by the grant received from Slovakian government in order to serve State Authorities in case of state emergencies.

Pledged Assets

Assets with an aggregate net book value of HUF 120,527 million have been pledged by the Group of which HUF 11,305 million as collateral for loans utilized by TVK-Erőmű Kft. and Tisza WTP Kft. as of 31 December 2010, HUF 2,294 million at Slovnaft a.s., HUF 1,393 million at Rossi Biofuel Zrt., HUF 99,012 million at IES S.p.A. and HUF 5,930 million at INA d.d. As of 31 December 2009 the net book value of pledged assets was HUF 95,151 million.

6 Subsidiaries and jointly controlled entities

Company name	Country (Incorporation /Branch)	Range of activity	Ownership 2010	Ownership 2009
Integrated subsidiaries				
INA-Industrija nafte d.d.	Croatia	Integrated oil and gas company	47%	47%
Exploration and Production				
Adriagas S.r.l.	Italy	Pipeline project company	47%	47%
BHM OIL-Invest Ltd	Cyprus	Exploration investment management	100%	100%
Surgut Trading Ltd	Russia	Trade of crude oil	50%	50%
BMN Investment Ltd	Cyprus / India	Exploration and production activity	100%	100%
Crosco Naftni Servisi d.o.o.	Croatia	Oilfield services	47%	47%
CorteCros d.o.o.	Croatia	Production of anticorrosion products	28%	28%
Crosco B.V.	Netherlands	Oilfield services	47%	47%
Nordic Shipping Ltd.	Marshall Islands	Platform ownership	47%	47%
Crosco International d.o.o. (Slovenia)	Slovenia	Oilfield services	47%	47%
Crosco International d.o.o. (Tuzla)	Bosnia and Herzegovina	Oilfield services	47%	47%
Crosco International Ltd.	United Kingdom	Oilfield services	47%	47%
Crosco S.A. DE C.V	Mexico	Maintaining services	47%	47%
Geotechnika International LLC	United Arab Emirates	Oilfield services, drilling wells	23%	23%
Mideast Integrated Drilling & Well Services Company LLC	Oman	Integrated drilling and completion services	23%	23%
Rotary Zrt.	Hungary	Oilfield services	47%	47%
Rotary Pumping Services Kft.	Hungary	Oilfield services	c)	47%
Drill-Trans Zrt.	Hungary	Road cargo transport	f)	47%
Mobilgas Zrt.	Hungary	Road cargo transport	f)	47%
Drill-Car Kft.	Hungary	Car rental	f)	47%
Sea Horse Shipping Inc.	Marshall Islands	Platform ownership	47%	47%
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%	70%
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%
Prirodni plin d.o.o.	Croatia	Natural gas trading	47%	47%
INA Naftaplin International Exploration and Production Ltd	United Kingdom	Exploration and production activity	47%	47%
Kalegran Ltd	Cyprus / Iraq	Exploration investment management / Exploration and production activity	100%	100%
Lamorak Enterprises Ltd	Cyprus / Tunisia	Exploration and production activity	100%	100%
MOL Caspian Oil and Gas Ltd	Cyprus / Kazakhstan	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 Oil and Gas Co. B.V.	Netherlands / Syria / Kazakhstan	Exploration and production activity	100%	100%
MOL CIS Oil and Gas Ltd.	Cyprus	Exploration investment management	100%	100%
ZMB Ltd (joint venture)	Russia	Exploration and production activity	50%	50%
MOL Pakistan Oil and Gas Co. B.V.	Netherlands / Pakistan	Exploration and production activity	100%	100%
MOL Yemen Oil and Gas (Cyprus) Ltd	Cyprus / Yemen	Exploration and production activity	100%	100%
Platounko Investments Ltd	Cyprus	Exploration financing	100%	100%
Pronodar Ltd	Cyprus / Cameroon	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 Investments Ltd	Cyprus	Exploration investment management	100%	100%
MOL Western Siberia LLC	Russia	Exploration and production activity	100%	100%
MOL-RUSS Ooo.	Russia	Management services	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%
Gas & Power				
CM European Power International B.V. (joint venture)	Netherlands	Power plant investment management	50%	50%
CM European Power International s.r.o. (joint venture)	Slovakia	Power plant investment management	50%	50%
CM European Power Slovakia s.r.o.	Slovakia	Operation of thermo-power plant	50%, a)	50%, a)
MOL-CEZ European Power Hungary Kft. (joint venture)	Hungary	Steam and hot water supply, electricity production	50%	50%
FGSZ Földgázszállító Zrt.	Hungary	Natural gas transmission	100%	100%
MOL Commodity Trading Kft.	Hungary	Financial services	100%	e)
MMBF Földgáztároló Zrt.	Hungary	Strategic natural gas storage	72%	72%
MOLTRADE-Mineralimpex Zrt.	Hungary	Importing and exporting energetical products	100%	100%
Refining and Marketing				
Crobenz d.d.	Croatia	Trading of oil products	b)	47%
Energopetrol d.d.	Bosnia and Herzegovina	Retail trade	49%	49%
FPC Ltd.	United Kingdom	Trading of oil products	47%	47%
Holdina (Guernsey) Ltd	United Kingdom	Trading of oil products	47%	47%
Inter Ina (Guernsey) Ltd	United Kingdom	Trading of oil products	47%	47%
Holdina (Cyprus) Ltd	Cyprus	Intermediate holding company	47%	47%
Holdina (Ireland) Ltd	Ireland	Supply of technical services	47%	47%
Holdina d.o.o.	Bosnia and Herzegovina	Trading of oil products	47%	47%
IES SpA	Italy	Refinery and marketing of oil products	100%	100%
Enersol S.c.r.l.	Italy	Marketing of oil products	d)	81%
Greengas S.r.l.	Italy	Hydrogen plant operation	49%, a)	49%, a)
Nelsa S.r.l.	Italy	Marketing of oil products	74%	74%
Panta Distribuzione S.r.l.	Italy	Marketing of oil products	100%	100%
INA d.o.o.	Serbia	Trading of oil products	47%	47%
INA BH d.d.	Bosnia and Herzegovina	Trading of oil products	47%	47%
INA BL d.o.o.	Bosnia and Herzegovina	Trading of oil products	47%	47%
INA Crna Gora d.o.o	Montenegro	Trading of oil products	47%	47%
INA Hungary Kft.	Hungary	Trading of oil products	47%	47%
INA Kosovo d.o.o	Kosovo	Trading of oil products	47%	47%
INA-Osijek – Petrol d.d.	Croatia	Trading of oil products	36%	36%
Interina d.o.o. Ljubljana	Slovenia	Trading of oil products	47%	47%
Interina d.o.o. Skopje (under liquidation)	Macedonia	Trading of oil products	47%	47%
Inter Ina Ltd	United Kingdom	Trading of oil products	47%	47%
Intermol d.o.o.	Serbia	Retail trade of fuels and lubricants	100%	100%
Maziva Zagreb d.o.o.	Croatia	Lubricants production and trading	47%	47%
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%	100%
Roth Heizöle GmbH	Austria	Trading of oil products	100%	100%
Alpenkohle Mineralölhandels GmbH	Austria	Trading of oil products	c)	100%
Egon von Lenz GmbH	Austria	Trading of oil products	c)	100%
Heizöl Blitz Stadler GmbH	Austria	Trading of oil products	c)	100%
Rumpold Energie & Brennstoffhandels GmbH	Austria	Trading of oil products	100%	100%
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%
Moltrans Kft.	Hungary	Transportation services	100%	100%
Petrol d.d.	Croatia	Trading of oil products	39%	39%

Company name	Country (Incorporation /Branch)	Range of activity	Ownership 2010	Ownership 2009
Polybit d.o.o.	Croatia	Production and trading	47%	24%
Proplin, d.o.o.	Croatia	Production and LPG trading	47%	47%
Rossi Biofuel Zrt. (joint venture)	Hungary	Biofuel component production	25%	25%
Slovnaft a.s.	Slovakia	Refinery and marketing of oil and petrochemical products	98%	98%
Apollo Oil Rohstoffhandels GmbH	Austria	Trading of crude oil	d)	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%
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%
Slovnaft Ceska Republika s.r.o.	Czech Republic	Wholesale and retail	100%	100%
Terméktároló Zrt.	Hungary	Oil product storage	74%	74%
Tifon d.o.o.	Croatia	Retail trade of fuels and lubricants	100%	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%, a)	0%, a)
TVK-Erőmű Kft.	Hungary	Electricity production and distribution	25%, a)	25%, a)
TVK France 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	United Kindgom	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	92%	82%
Hermész Tanácsadó Kft.	Hungary	Consultancy	100%	100%
Hostin d.o.o.	Croatia	Tourism	47%	47%
I&C Energo a.s.	Czech Republic	Power plant engineering	100%	99%
ITR d.o.o.	Croatia	Car rental	47%	47%
Magnolia Finance Ltd	Jersey	Financial services	0%, a)	0%, a)
MOL Reinsurance Ltd	Cyprus	Captive insurance	100%	100%
Petrolszolg Kft.	Hungary	Maintenance services	100%	100%
Sinaco d.o.o.	Croatia	Security	47%	47%
Slovnaft Montáže a opravy a.s.	Slovakia	Repairs and maintenance	98%	98%
STSI integrirani tehnički servisi d.o.o.	Croatia	Technical services	47%	47%
TVK Ingatlankezelő Kft.	Hungary	Real estate management	95%	95%

a) Consolidated as required by SIC-12 Consolidation - Special Purpose Entities
b) Sold in 2010
c) Merged into its parent company in 2010.
d) Liquidated in 2010
e) Operating from 2009
f) Merged into Rotary Zrt. in 2010

7 Business combinations

Acquisitions in 2010

No major acquisition took place in 2010.

Acquisitions in 2009

INA Group

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 was consolidated using the equity method as of 31 December 2008. Until obtaining control (see below), INA Group contributed a loss of HUF 3,539 million to the profit for the Group in 2009, recorded as income from associates.

As a result of the successful voluntary public offer for INA shares MOL has become the largest shareholder of INA in October, 2008. 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 gained control over the operations of INA. The major changes of the Shareholders' Agreement were as follows:

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

Upon obtaining the Croatian competition office approval, the shareholders' meeting has been called on 10 June 2009 to elect the new Supervisory Board of INA. The shareholder's meeting was deemed to be the date when control is passed to MOL, therefore the business combination has been accounted for as of that date (using 30 June 2009 as valuation date).

The increase of MOL's shareholding in INA was a core element of MOL's regional growth strategy. The strategic plan of the Group regarding INA is to improve its business performance and market position in Croatia, South Eastern Europe and in the Adriatic region via supporting focused investments of INA into its own asset base, improvement of its commercial capabilities and enhanced customer orientation.

The purchase price allocation for the assets acquired and liabilities assumed have been fully completed in the first half of 2010. Changes of significance resulted from the reviewed volume of oil and gas reserves (provisional fair values reflected preliminary reserve assumptions) and the consequent changes in deferred tax liability. Final and provisional fair values (as reported in prior year's financial statements) as of 30 June 2009 were as follows:

	Provisional fair values	Final fair values
	HUF million	HUF million
Intangible assets	229,739	159,556
Property, plant and equipment	1,046,930	1,048,536
Investments	2,227	2,227
Available-for-sale investments	11,403	11,403
Deferred tax assets	17,882	17,882
Other non-current assets	36,184	36,184
Inventories	111,357	111,357
Trade receivables	122,884	124,539
Other current assets	32,258	32,258
Prepaid taxes	3,108	3,108
Cash and cash equivalents	16,592	16,592
Assets classified as held for sale	23,397	23,397
Long-term debt, net of current portion	(202,532)	(202,532)
Provisions and contingent liabilities	(133,860)	(133,860)
Deferred tax liabilities	(95,671)	(84,705)
Other non-current liabilities	(4,868)	(4,868)
Trade and other payables	(249,583)	(249,583)
Current tax payable	(488)	(488)
Short-term debt	(89,646)	(89,646)
Current portion of long-term debt	(4,361)	(4,361)
Liabilities classified as held for sale	(15,275)	(15,275)
Fair value of net assets of INA Group	857,677	801,720
Fair value of net assets of Energopetrol acquired with INA	221	221
Non-controlling interest in INA (52.8%)	453,240	423,669
Non-controlling interest in Energopetrol (51.0%)	112	112
Excess of fair value of net assets over consideration recorded as other income (see Note 25)	47,671	21,285
Total consideration	356,875	356,875

The Group has elected to measure the non-controlling interest in INA Group on its proportionate share of the fair value of net assets acquired.

Intangible assets acquired include the INA brand, valued on the basis of relief from royalty method, and also the proved undeveloped and probable reserves of INA Group's onshore and off-shore oil and gas activities. Proved developed reserves are recorded as property, plant and equipment. Fair value of these reserves have been determined based on market forecasts and expectations, actual operating costs and a discount rate calculated using industry-specific peer groups. Long-term crude oil price have been forecasted at 75 USD / barrel, adjusted by inflation, while discount rate has been set to 10.4%, adjusted by country-specific risks.

Inventories have been valued on prevailing market prices. The Group has also recorded a HUF 27,557 million contingent liability on certain environmental obligations at the Croatian refineries, depots and retail sites with high and medium risk profiles, where the extent of the pollution and the nature of remediation work cannot be estimated with sufficient reliability. The Group has assessed these liabilities on the basis of its similar operations at other locations.

Via acquiring INA, the Group has also acquired full control over Energopetrol, its former joint venture with INA (owning 33.5% of its shares directly and another 33.5% via INA Group). Upon fully consolidating Energopetrol, the Group has identified a contingent liability of HUF 3,946 million relating to certain present obligations from employee claims.

From the date of acquisition, INA Group has contributed HUF 437,189 million to the net sales revenue of the Group and HUF 22,000 million loss for the 2009 net income of the Group. If the combination had taken place at the beginning of that year, contribution to the revenue would have been HUF 804,809 million, while the contribution to the profit attributable to the equity holders of the parent of the Group would have been the same, since INA Group has been consolidated using the equity method from the beginning of 2009.

Since the public offer for INA's shares in 2008 and the amendment of the Shareholders' Agreement in 2009 have been a single acquisition step, the Group has accounted for the purchase consideration as follows:

	HUF million
Fair value of previously held interest in INA (25%, consolidated using the equity method prior to June 30, 2009)	133,334
Cash consideration paid for 22.16% of the shares of INA in the public offering in October, 2008, adjusted with profit contributed by INA since that date	218,443
Fair value of previously held interest in Energopetrol	5,098
Total consideration	356,875

To determine the fair value of MOL's previously held 25% interest in INA Group as of 30 June 2009, prevailing quoted market prices of INA shares were used. Re-measurement and recycling of exchange and fair valuation differences previously recorded in other comprehensive income resulted in a gain of HUF 22,462 million, recorded as other income in 2009. In addition, HUF 463 million was recorded as other income representing fair value difference of previously held interest in Energopetrol and recycling of exchange differences previously recorded in other comprehensive income.

Drill Trans Group

Crosco d.o.o., a subsidiary of INA acquired 100% share of Drill Trans Group as at 25 August 2009.

Determination of the fair value of assets and liabilities has been fully completed in 2010 with no significant difference compared to the provisional valuation as at the end of 2009. The fair values of assets acquired and liabilities assumed of Drill Trans Group as of 31 August 2009 were as follows:

	Fair values
	HUF million
Intangible assets	185
Property, plant and equipment	1,108
Inventories	111
Trade receivables	2,031
Other current assets	517
Cash and cash equivalents	148
Long-term debt	(369)
Trade and other payables	(2,437)
Short-term debt	(1,145)
Fair value of net assets of Drill Trans Group	149
Goodwill arising on acquisition	3,655
Total consideration	3,804

8 Disposals

Crobenz

The transaction of selling INA's 100% ownership in Crobenz d.d. ("Crobenz") to LUKOIL Croatia d.o.o. ("Lukoil") was completed on 30 September 2010. The sale process was initiated based on INA's obligation under the decision of the Croatian Competition Agency ("the Agency") of 9 June 2009. Following the signing of the First Amendment to the Shareholders Agreement between the Croatian Government and MOL on 30 January 2009, MOL's gaining the operational control over INA had been investigated by the Croatian Competition Agency, upon which the Agency passed its final Decision on 9 June 2009 approving the transaction under certain conditions including the sale of INA's 100% ownership in Crobenz.
On 21 July 2010, INA d.d. signed a sale agreement with LUKOIL for the disposal of its 100% interest in Crobenz. As decided by the Croatian Market Competition Agency ("the Agency"), the sale was conducted by a trustee. At a meeting held on 29 July 2010 the Agency decided to approve the transaction implementing the mandate from its Resolution on the conditional approval of the MOL/INA concentration and it also granted the necessary clearance for the Lukoil/Crobenz concentration.

Carrying amount of disposed assets and liabilities of Crobenz as of 30 September 2010 and analysis of cash outflow on sale of the subsidiary is the following:

	HUF million
Intangible assets	29
Deferred tax asset	79
Inventories	289
Trade receivables	2,778
Other current assets	17
Cash and cash equivalents	46
Total assets	3,238
Long-term debt, net of current portion	1,778
Provisions and contingent liabilities	199
Trade and other payables	1,451
Current tax payable	86
Short-term debt	2,225
Current portion of long-term debt	401
Total liabilities	6,140
Net liabilities sold	(2,902)
Net gain realized on disposal (see Note 25)	756
Compensation of inter-company loan	1,414
Unsettled sales price payable by Lukoil	(735)
Cash consideration paid	(1,467)
The analysis of cash outflow on sale of Crobenz:	
Net cash disposed of during the sale	(46)
Cash consideration paid	(1,467)
Cash outflow	(1,513)

MOL Energiakereskedő Zrt.

MOL Energiakereskedő Kft. (MET), the natural gas trading subsidiary of the Group was transformed to a company limited by shares as of October 31, 2009. Subsequently, MOL agreed to sell 50% of its share in the entity to Normeston Trading Ltd as of December 18, 2009. Since MOL has not retained control over the operations of MET, its remaining shareholding in the company has been recorded as an investment in associate at a fair value of HUF 14 million, determined on the basis of estimated risk-adjusted future net cash flows.

Carrying amount of disposed assets and liabilities of MOL Energiakereskedő Zrt. as of 31 December 2009 and analysis of net cash outflow on sales of the subsidiary was the following:

	HUF million
Intangible assets	46
Investments	19
Inventories	2,177
Trade receivables	18,231
Other current assets	633
Cash and cash equivalents	5,149
Total assets	26,255
Other non current liabilities	(28)
Trade and other payables	(23,697)
Total liabilities	(23,725)
Net assets sold	2,530
Sale price	25
Fair value of non-controlling interest retained	14
Loss on disposal	(2,491)
The analysis of net cash outflow on sale of MOL Energiakereskedő Zrt.:	(5,149)
Net cash disposed of during the sale	25
Cash consideration	
Net cash outflow	(5,124)

9 Joint ventures

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 6), which are included in the consolidated financial statements, are as follows at 31 December 2010 and 2009 and for the years then ended:

	2010			2009		
	ZMB	Other	Total	ZMB	Other	Total
	HUF million	HUF million	HUF million	HUF million	HUF million	HUF million
Current assets	4,469	9,018	13,487	3,694	3,155	6,849
Non-current assets	16,531	13,671	30,202	17,212	7,449	24,661
	21,000	22,689	43,689	20,906	10,604	31,510
Current liabilities	2,730	4,685	7,415	2,824	3,194	6,018
Non-current liabilities	1,183	977	2,160	1,098	2,311	3,409
	3,913	5,662	9,575	3,922	5,505	9,427
Net assets	17,087	17,027	34,114	16,984	5,099	22,083
Net sales	49,750	16,497	66,247	42,598	13,638	56,236
Cost of sales	(10,318)	(15,472)	(25,790)	(9,214)	(12,248)	(21,462)
Other expenses	(17,123)	(336)	(17,459)	(28,488)	(961)	(29,449)
Financial (expense) / income, net	(217)	170	(47)	8	(105)	(97)
Profit before income tax	22,092	859	22,951	4,904	324	5,228
Income tax expense	(5,715)	(127)	(5,842)	(2,060)	(89)	(2,149)
Net profit / (loss)	16,377	732	17,109	2,844	235	3,079

10 Investments in associated companies

Company name	Country	Range of activity	Ownership 2010	Ownership 2009	Net book value of investment 2010	Net book value of investment 2009
					HUF million	HUF million
Pearl Petroleum Ltd.	Iraq	Exploration of gas	10%	10%	64,856	54,737
MOL Energiakereskedő Zrt.	Hungary	Natural gas trading	50%	50%	3,307	14
Mazzola & Bignardi S.r.l.	Italy	Hydrogen production	50%	50%	1,630	1,583
Mazzola & Bignardi Commerciale S.r.l.	Italy	Marketing of oil products	40%	40%	1,217	1,182
Messer Slovnaft s.r.o	Slovakia	Production of technical gases	49%	49%	758	815
Batec S.r.l.	Italy	Bitumen production	50%	50%	699	679
INA Group	Croatia	Integrated oil and gas company	a)	a)	a)	a)
Other associated companies					537	820
Total					73,004	59,830

a) Fully consolidated from June 30, 2009

Pearl Petroleum Company Limited

On 15 May 2009 MOL signed an agreement to acquire 10% stake in Pearl Petroleum Company Limited (Pearl) from Crescent Petroleum and Dana Gas PJSC. Pearl holds all of the companies' legal rights in Khor Mor and Chemchemal gas-condensate fields in the Kurdistan Region of Iraq. In exchange for a 10% ownership package of Pearl MOL paid 6,322,232 "A" series MOL shares, representing 6% of its current registered capital and as a result Crescent Petroleum and Dana Gas each became 3% shareholders in MOL. Since the agreement between the shareholders grant MOL a significant influence on Pearl's operations, the company is treated as an associated company and is consolidated accordingly.

The fair values of MOL's share in the assets and liabilities of Pearl as of 15 May 2009 were as follows:

	Fair values
	HUF million
Intangible assets	59,883
Property, plant and equipment	12,931
Inventories	284
Trade receivables	789
Other current assets	55
Cash and cash equivalents	138
Trade and other payables	(1,504)
Shareholders' loan	(12,184)
Fair value of net assets	60,392
Consideration transferred for equity	60,392
Shareholders' loan acquired from sellers	12,184
Consideration transferred (shares at fair value)	72,576

MOL used 6,322,232 "A" series MOL shares from its treasury stock in exchange for the acquisition, the fair value of which has been determined on the basis of quoted share prices observed at that time.

The Group's interest (10%) as of 31 December 2010 in Pearl was as follows:

	2010	2009
	HUF million	HUF million
Share of the associate's balance sheet:		
Non-current assets	75,259	66,183
Current assets	7,199	2,941
Non-current liabilities	(16,320)	(12,941)
Current liabilities	(1,282)	(1,446)
Net assets	64,856	54,737
Share of the associate's income statement:		
Net sales	4,265	1,430
Profit from operations	3,989	1,249
Net income attributable to equity-holders	4,095	1,249
Carrying amount of the investment	64,856	54,737

The financial data representing the Group's interest in Pearl 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.

MOL Energiakereskedő Zrt.

The Group's interest (50%) as of 31 December 2010 in MOL Energiakereskedő Zrt. was as follows:

	2010	2009
	HUF million	HUF million
Share of the associate's balance sheet:		
Non-current assets	189	65
Current assets	25,649	26,190
Non-current liabilities	-	28
Current liabilities	19,906	23,697
Net assets	5,932	2,530
Share of the associate's income statement:		
Net sales	106,148	n/a
Profit from operations	10,354	n/a
Net income attributable to equity-holders	7,723	n/a
Carrying amount of the investment	3,307	14

Income statement of MOL Energiakereskedő Zrt. has been fully consolidated during 2009; the company has been partially disposed of as at 31 December 2009, see Note 8.

INA Group

INA Group has been fully consolidated in 2009 upon gaining control over its operations as of 10 June 2009 (see Note 7). INA Group's first half year contribution to the 2009 profit for the Group was a loss of HUF 3,539 million and recorded as income from associates.

11 Available-for-sale investments

	Net book value of investment 2010	Net book value of investment 2009
	HUF million	HUF million
Quoted - Jadranski Naftovod d.d.	13,460	12,473
Nabucco Gas Pipeline International GmbH	2,453	897
Other ordinary shares – unquoted	5,588	5,244
Total	21,501	18,614

MOL Group's investment in Jadranski Naftovod d.d. (JANAF), operator of Adria pipeline represents 12% of JANAF's outstanding shares. The value of the equity share in JANAF was determined by reference to the market value of the shares as quoted on the Zagreb Stock Exchange as of 31 December 2010. Investments in other unquoted equity instruments of certain non-core entities are carried at cost less accumulated impairment losses, since determination of fair value is not practicable at this stage.

12 Other non-current assets

	2010	2009
	HUF million	HUF million
Loans given	23,431	20,707
Prepaid mining royalty	8,498	10,707
Net receivable from currency risk hedging derivatives as cash- flow hedge (see Note 33 and 34)	4,116	4,139
Advance payments for assets under construction	2,852	9,249
Advance payments for intangible assets	1,450	914
Long-term receivables from operating agreements	1,126	1,398
Net receivable from currency risk hedging derivatives as fair value hedge (see Note 33 and 34)	155	-
Other	476	398
Total	42,104	47,512

Loans given primarily contain the HUF 16,320 million shareholder loan acquired with respect to Pearl Petroleum Company (see Note 10), the purpose of which is to finance the field exploration and development activities of the associate. The loan has a market-based interest rate of LIBOR + 2%. 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 2010 and 2009 was HUF 2,209 million and HUF 2,540 million, respectively, and is expected to maintain a similar pattern in the forthcoming years.

13 Inventories

	2010 At cost	2010 Lower of cost or net realisable value	2009 At cost	2009 Lower of cost or net realisable value
	HUF million	HUF million	HUF million	HUF million
Work in progress and finished goods	253,521	248,935	198,791	194,688
Other raw materials	76,008	62,582	67,689	57,620
Purchased crude oil	73,064	71,007	52,917	51,565
Other goods for resale	26,072	25,975	23,972	23,781
Purchased natural gas	12,727	9,562	250	356
Total	441,392	418,061	343,619	328,010

Reversal of impairment of HUF 138 million and HUF 6,615 million was recorded in 2010 and 2009, respectively.

It is required by law to maintain a certain level of obligatory stocks of crude oil and oil products by IES, the Italian subsidiary.

The value of these stocks represents an amount of HUF 20,198 million and HUF 28,223 million at 31 December 2010 and 2009. Due to the national legislation, Slovnaft Polska, a Polish subsidiary is required to maintain a certain level of obligatory stocks of crude oil and liquid fuels. This level is determined from the volumes imported during the preceding calendar year and was an equivalent of HUF 16,176 million and HUF 16,803 million at 31 December 2010 and 2009, respectively.
INA d.d. , the Croatian subsidiary of MOL is obliged by the national government to maintain a defined level of compulsory stocks of crude oil and oil products. The value of these stocks represents an amount of HUF 3,600 million and HUF 5,685 million at 31 December 2010 and 2009.

14 Trade receivables, net

	2010	2009
	HUF million	HUF million
Trade receivables	477,660	441,086
Provision for doubtful receivables	(13,988)	(28,779)
Total	463,672	412,307

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

Movements in the provision for doubtful receivables were as follows:

	2010	2009
	HUF million	HUF million
At 1 January	28,779	20,416
Additions	7,631	14,436
Reversal	(24,798)	(3,644)
Amounts written off	(167)	(1,264)
Currency differences	2,543	(1,165)
At 31 December	13,988	28,779

As at 31 December 2010 and 2009 the analysis of the recoverable amount of trade receivables that were past due is as follows:

	2010	2009
	HUF million	HUF million
Neither past due nor impaired	415,375	336,798
Past due but not impaired	48,297	75,509
Within 90 days	33,251	45,282
91 - 180 days	5,450	11,169
Over 180 days	9,596	19,058
Total	463,672	412,307

15 Other current assets

	2010	2009
	HUF million	HUF million
Prepaid and recoverable taxes and duties (excluding income taxes)	60,471	65,780
Fair value of the option on MOL shares transferred to CEZ (see Note 17 and Note 34)	28,858	3,989
Prepaid expenses and accrued income	13,055	9,354
Security deposits	10,637	9,786
Receivables from joint venture partners	7,697	4,522
Advances paid	4,261	6,469
Interest receivable	1,360	1,088
Current portion of loans given	1,143	1,921
Unsettled sales price on Crobenz divestiture payable by Lukoil	717	-
Fair value of firm commitments as hedged item under commodity price transactions (see Note 33 and Note 34)	61	-
Receivables from currency risk hedging derivatives as fair-value hedge (see Note 34)	29	1,097
Net receivables from commodity price transactions (see Note 33 and Note 34)	21	146
Receivables from foreign exchange forward transactions (see Note 33 and Note 34)	8	65
Fair value of share swap (see Note 17 and Note 34)	-	496
Other	13,190	11,922
Total	141,508	116,635

Analysis of loans given

	2010	2009
	HUF million	HUF million
Current portion of loans given	1,473	4,963
Provision for doubtful loans receivable	(330)	(3,042)
Total	1,143	1,921

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

	2010	2009
	HUF million	HUF million
At 1 January	3,042	343
Additions	-	-
Reversal	-	(20)
Amounts written off	-	-
Reclassification between short-term and long-term	(2,712)	2,712
Acquisition / (sale) of subsidiaries	-	7
Currency differences	-	-
At 31 December	330	3,042

16 Cash and cash equivalents

	2010	2009
	HUF million	HUF million
Cash at bank – EUR	50,215	33,548
Cash at bank - HRK	9,382	1,649
Cash at bank – HUF	7,721	29,565
Cash at bank – USD	5,758	8,724
Cash at bank – CZK	4,711	1,731
Cash at bank – RUB	2,126	592
Cash at bank – PLN	1,537	1,951
Cash at bank – other currencies	15,922	5,479
Short-term bank deposits – EUR	143,984	71,865
Short-term bank deposits – USD	31,409	2,345
Short-term bank deposits – HUF	25,893	255
Short-term bank deposits - RUB	7,561	1,860
Short-term bank deposits – CZK	1,401	6,098
Short-term bank deposits – PLN	-	5,279
Cash equivalents	1,076	1,892
Cash on hand – HUF	1,072	947
Cash on hand – other currencies	3,398	3,325
Total	313,166	177,105

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:

	2010	2009
Current accounts		
EUR	0.100% - 0.707%	0.54%
USD	0 - 0.076%	0.05%
HUF	3.78% - 6.38%	5.12% - 10.58%
Short-term bank deposits		
EUR	0.05% - 6.01%	0.01% - 6.7%
USD	0.01% - 2.35%	0.01% - 3.0%
HUF	4.25% - 7.00%	5.75% - 11.15%

17 Share capital

As of 31 December 2010, 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 2009, the issued share capital is HUF 104,519 million, consisting of 104,518,484 series "A", one series "B" and 578 series "C" shares. Outstanding share capital as of 31 December 2010 and 2009 is HUF 79,202 million and HUF 79,202 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 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 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 April 23, 2014 in one or more instalments by not more than HUF 30 billion in any form and method provided by the Company Act.

Treasury share transactions

Option agreements with BNP Paribas and ING Bank

On 19 March 2009 the European put option on 1,404,217 "A" series MOL ordinary shares held by ING was cash-settled, with conditions specified in the agreement. In parallel MOL and ING signed a share purchase and share option agreement on 5,220,000 'A' series MOL shares. As a result of the transaction MOL received an American call option 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 EUR 30.98 per share.

On 11 March 2010 MOL exercised its American call option with cash-settlement method regarding 5,220,000 'A' series MOL ordinary shares with conditions specified in the agreement. At the same time, MOL and ING signed a share option agreement and as a result of these transactions, ING received a European put option with respect to its 5,220,000 'A' series MOL shares and MOL received an American call option regarding those shares. The maturity for both options is 1 year. The strike price for the call and put options is EUR 75.36 per share.

On 17 July, 2009 MOL exercised its American call option on 7,552,874 "A" series MOL shares held by BNP Paribas at a strike price of USD 33.42 per share.

Since all shares held by these entities had put options attached, they were treated as financial liabilities in the consolidated balance sheet. Upon exercising the call or put options, the corresponding liability has been settled.

Strategic Alliance with CEZ

On 20 December 2007 CEZ and MOL signed an agreement to create a joint venture. 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. During 2009 the terms of the call option has been renegotiated by the parties, extending it to 2014. The fair value of the option as of 31 December 2009 was HUF 3,989 million (see Note 15), determined by applying the binomial valuation model. Spot market price (HUF 17,247 per share), implied volatility (51.4%) and an expected dividend yield of 1.9% have been used as input to the model.

The fair value of the option as of 31 December 2010 was HUF 28,858 million (see Note 15), determined by applying the binomial valuation model. Spot market price (HUF 20,870 per share), implied volatility (47.84%) and an expected dividend yield of 1.3% have been used as input to the model.

Share swap agreement with OTP

After the lending of 5,010,501 pieces of MOL shares to OTP has been terminated on 16 April 2009, MOL and OTP entered into a share – exchange and a share swap agreement. Under the agreements MOL transferred 5,010,501 "A" series MOL ordinary shares to OTP in return for 24,000,000 pieces OTP ordinary shares. The expiration of the share-swap agreements is on 11 July 2012 until that time each party can initiate a cash or physical settlement of the deal. As at 31 December 2010 the fair value of the swap was HUF 227 million which has been recorded as derivative liability (see Note 22 and 34). Fair value of the share swap agreement amounted to HUF 496 million as at 31 December 2009 which has been recorded as derivative financial asset (see Note 15 and 34).

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 non-controlling interest of HUF 121,164 million, net of transaction costs. Holders of the capital securities of Magnolia received a total coupon payment of HUF 6,702 million and HUF 6,874 million in 2010 and 2009, respectively. Coupon payments have been recorded directly against equity attributable to non-controlling interest.

The conversion option of the holders of Capital Securities has been recorded as Other non-current liability (see Note 21), 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. The fair value of the conversion option as of 31 December 2010 and 2009 was HUF 25,079 million and HUF 19,698 million (see Note 21 and Note 34).

The fair valuation impact of the option was HUF 5,381 million and HUF 19,698 million loss in 2010 and 2009, respectively, recorded as financial 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 2008	104,518,485	(8,781,365)	(22,925,203)	72,811,917	120,811,879
Settlement of the option agreement with ING Bank N.V.	-	(1,404,217)	1,404,217	-	-
New option agreement with ING Bank N.V	-	5,220,000	(5,220,000)	-	-
Lending of shares to MFB Invest Zrt.	-	4,965,582	(4,965,582)	-	-
Treasury shares call back from OTP Bank Plc.	-	(5,010,501)	5,010,501	-	-
Share-exchange and share swap agreement with OTP Bank Plc.	-	5,010,501	(5,010,501)	-	-
Treasury shares call back from OTP Bank Plc.	-	(1,605,560)	1,605,560	-	-
Treasury shares call back from MFB Invest Zrt.	-	(4,665,582)	4,665,582	-	-
Treasury shares transferred as consideration for 10% ownership in Pearl	-	6,271,142	-	6,271,142	-
Exercise of call options on MOL shares held by BNP Paribas	-	(7,552,874)	7,552,874	-	-
Share sale on Budapest Stock Exchange	-	67,047	-	67,047	-
Share transfer to Dana Gas and Crescent Petroleum to finance the 2009 work program of Pearl	-	51,090	-	51,090	-
31 December 2009	104,518,485	(7,434,737)	(17,882,552)	79,201,196	134,519,063
Settlement of the option agreement with ING Bank N.V.	-	(5,220,000)	5,220,000	-	-
New option agreement with ING Bank N.V	-	5,220,000	(5,220,000)	-	-
31 December 2010	104,518,485	(7,434,737)	(17,882,552)	79,201,196	134,519,063

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

18 Dividends

The shareholders at the Annual General Meeting in April 2010 approved to pay no dividend in respect of 2009. The total amount of reserves legally available for distribution based on the statutory company only financial statements of MOL Plc. is HUF 1,254,362 million and HUF 1,161,926 million as of 31 December 2010 and 2009, respectively.

19 Long-term debt

	Weighted average interest rate 2010	Weighted average interest rate 2009	Maturity	2010	2009
	%	%		HUF million	HUF million
Unsecured bonds in EUR	4.76	3.80	2015 - 2017	424,982	204,109
Unsecured bank loans in USD	0.67	1.05	2012 - 2018	205,280	250,574
Unsecured bank loans in EUR	1.55	1.49	2012 - 2017	73,597	224,384
Unsecured bonds in HUF	6.10	-	2012	5,099	-
Unsecured bank loans in HUF	-	8.73	-	-	20,000
Secured bank loans in USD	1.60	1.02	2017	155,947	189,471
Secured bank loans in EUR	2.54	3.08	2013 – 2018	140,643	33,648
Secured bank loans in HUF	8.05	6.25	2012 - 2014	30,115	469
Secured bank loans in HRK	5.10	7.53	2019	3,388	796
Financial lease payable	3.48	4.05	2011 - 2026	3,951	4,396
Other	0.53	0.04	2013 - 2015	6,958	4,841
Total				1,049,960	932,688
Current portion of long-term debt				102,050	103,577
Total long-term debt net of current portion				947,910	829,111

	2010	2009
	HUF million	HUF million
Maturity one to five years	690,852	623,822
Maturity over five years	257,058	205,289
Total	947,910	829,111

Unsecured bank loans

Main elements of unsecured bank loans at MOL Plc. are the EUR 700 million and EUR 825 million syndicated multi-currency revolving loan facilities maturing in May, 2012 and in July 2013 and the EUR 500 million club facility maturing in 3 years. Besides, INA has USD 1 billion syndicated multi-currency revolving loan facility, maturing partially in 2012 and partially in 2013. For financing of the strategic and commercial gas storage project MOL signed on 17 June 2009 an 8 year loan agreement with EBRD (European Bank for Reconstruction and Development) as well.

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. In 2010 MOL has also issued EUR 750 million fixed rate Eurobond notes. The notes have a 7 year maturity, pay an annual coupon of 5.875% and were priced at 315 bps above mid-swap rates. Both notes are listed on the Luxembourg Stock Exchange.

Unsecured bonds in HUF

In 2010 MOL issued HUF 5,051 million fixed rate bond notes denominated in HUF. The notes have an 18 month maturity and pay an annual coupon of 6%.

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 2010 and 2009, respectively are as follows:

	2010 Minimum lease payments	2010 Present value of payments	2009 Minimum lease payments	2009 Present value of payments
	HUF million	HUF million	HUF million	HUF million
Maturity not later than 1 year	788	674	824	703
Maturity two to five years	2,811	2,197	2,861	2,203
Maturity over five years	1,452	1,080	2,092	1,490
Total minimum lease payments	5,051		5,777	
Less amounts representing financial charges	(1,100)		(1,381)	
Present values of financial lease liabilities	3,951	3,951	4,396	4,396

20 Provisions for liabilities and charges

	Environ-mental	Redundancy	Long term employee retirement benefits	Field operation suspension	Legal claims	Other	Total
	HUF million	HUF million	HUF million	HUF million	HUF million	HUF million	HUF million
Balance as of 31 December 2008	39,702	3,656	8,878	97,312	1,083	2,348	152,979
Acquisition / (sale) of subsidiaries	28,869	213	5,177	84,192	15,398	18,881	152,730
Additions and revision of previous estimates	1,136	444	1,376	(2,354)	2,745	17,151	20,498
Unwinding of the discount	1,858	8	418	10,349	-	-	12,633
Currency differences	224	108	(86)	(859)	(297)	433	(477)
Provision used during the year	(2,226)	(1,099)	(1,347)	(292)	(768)	(17,073)	(22,805)
Balance as of 31 December 2009	69,563	3,330	14,416	188,348	18,161	21,740	315,558
Acquisition / (sale) of subsidiaries	-	-	-	-	(127)	(67)	(194)
Additions and revision of previous estimates	(157)	1,912	2,417	(3,770)	3,256	9,802	13,460
Unwinding of the discount	3,697	-	419	12,103	-	-	16,219
Currency differences	975	(392)	191	2,035	466	144	3,419
Provision used during the year	(4,051)	(645)	(2,299)	(13,924)	(1,689)	(1,477)	(24,085)
Balance as of 31 December 2010	70,027	4,205	15,144	184,792	20,067	30,142	324,377
Current portion 2009	4,913	354	1,906	293	7,422	17,977	32,865
Non-current portion 2009	64,650	2,976	12,510	188,055	10,739	3,763	282,693
Current portion 2010	4,957	1,460	1,697	457	9,844	25,427	43,842
Non-current portion 2010	65,070	2,745	13,447	184,335	10,223	4,715	280,535

Environmental Provision

As of 31 December 2010 provision of HUF 70,027 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, Croatia, 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. The amount reported as at 31 December 2010 also includes a contingent liability of HUF 16,614 million recognized upon acquiring INA Group, representing its present environmental obligations and a further HUF 14,082 million environmental contingent liability regarding the acquisition of IES (see Note 35).

Provision for Redundancy

As part of a continuing efficiency improvement project, MOL Plc., Slovnaft a.s., INA d.d. 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 4,205 million and HUF 3,330 million as of 31 December 2010 and 2009, respectively.

Provision for Field Operation Suspension Liabilities

As of 31 December 2010 provision of HUF 184,792 million has been made for estimated total costs of plugging and abandoning wells upon termination of production. Approximately 15% of these costs are expected to be incurred between 2011 and 2015 and the remaining 85% between 2016 and 2042. 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 2014) and by establishing such functions within the Group (from 2014 until 2042). 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 2010 the Group has recognized a provision of HUF 15,144 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. 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.

	2010	2009
	HUF million	HUF million
Present value of total defined benefit obligation at the beginning of the year	15,957	9,379
Past service cost not yet recognized at the beginning of the year	1,541	501
Balance as of the beginning of the year	14,416	8,878
Acquisitions / (disposals)		5,177
Past service cost	598	224
Current service cost	2,166	1,499
Interest costs	419	418
Provision used during the year	(2,299)	(1,347)
Revision	86	100
Net actuarial (gain)/loss	(434)	(447)
Exchange adjustment	192	(86)
Balance as at year end	15,144	14,416
Past service cost not yet recognized at year end	1,423	1,541
Present value of total defined benefit obligation at year end	16,567	15,957

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:

	2010	2009
	HUF million	HUF million
Current service cost	2,167	1,499
Revision	86	100
Net actuarial (gain)/loss	(434)	(447)
Past service cost	598	224
Net benefit expense (See Note 26)	2,417	1,376

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

	2010	2009
Discount rate in %	2.0-4.3	3.0 – 5.0
Average wage increase in %	0-2.3	1.0 – 3.0
Mortality index (male)	0.06 – 3.45	0.06 – 3.45
Mortality index (female)	0.02 – 1.50	0.02 – 1.50

Legal and Other Provisions

Legal and other provisions include provision for emission quotas and for cost of unutilised holiday and for other minor future payment obligations. As of 31 December 2010 provision of HUF 20,067 million has been made for estimated total costs of litigations. As of 2010 MOL Group has been granted 6,372,038 emission quotas by the Hungarian, Slovak and Italian authorities. The total use of emission quotas amounted to 5,862,683 in 2010. In 2009 MOL Group sold a major part of the quotas granted free of charge on the market and concurrently recognised a provision of HUF 12,719 million for the shortage of emission quotas. In 2010 the amount of such provision increased to HUF 13,513 million.

21 Other non-current liabilities

	2010	2009
	HUF million	HUF million
Conversion option of exchangeable capital securities issued by Magnolia Finance Ltd (see Note 17)	25,079	19,698
Government grants received (see Note 5)	6,753	5,136
Deferred income	5,109	6,113
Liabilities to Government of Croatia for sold apartments	2,827	2,993
Long term advances	1,656	2,006
Payable from currency risk hedging derivatives as fair value hedge (see Note 34)	205	362
Other	4,481	2,437
Total	46,110	38,745

Long-term liabilities to the government relates to obligation arising on the sale of housing units to employees under the government program of Croatia. According to the local law regulating housing sales, 65% of the proceeds from the sale of apartments to employees were payable to the state at such time as the proceeds were collected by INA. According to the Croatian law, INA has no liability to remit the funds unless and until they are collected from the employee.

22 Trade and other payables

	2010	2009
	HUF million	HUF million
Trade payables	432,948	412,278
Taxes, contributions payable (excluding corporate tax)	147,738	170,937
Shares sold with put and call options attached (see Note 17 and Note 34)	108,959	43,417
Amounts due to employees	25,861	19,703
Advances from customers	14,068	8,555
Custom fees payable	11,100	10,433
Accrued expenses	9,623	11,083
Discount payable to customers	6,901	4,500
Fee payable for strategic inventory storage	6,090	21,525
Liabilities to joint venture partners	5,002	3,885
Strategic capacity booking fee	4,594	1,047
Bank interest payable	3,761	2,493
Accrual due to E.ON price revision	2,793	4,309
Penalty payable to the Antimonopoly Office of the Slovak Republic	2,517	2,705
Net payables from closed, but not settled derivative transactions	857	-
Purchase price difference payable on Tifon and IC Energo acquisitions	340	1,500
Fair value of MOL - OTP share swap (see Note 17 and Note 34)	227	-
Net payables from commodity price transactions designated as fair value hedge (see Note 33 and Note 34)	61	-
Payables from currency risk hedging derivatives as fair value hedge (see Note 33 and 34)	53	-
Other	17,465	19,456
Total	800,958	737,826

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.

23 Short-term debt

	2010	2009
	HUF million	HUF million
Secured bank loans in EUR	37,966	97,043
Secured bank loans in USD	25,022	47,394
Secured bank loans in HRK	2,398	3,550
Secured bank loans in HUF	1,285	1,672
Unsecured bank loans in EUR	79,712	9,698
Unsecured bank loans in HRK	8,116	7,450
Unsecured bank loans in PLN	3,541	5,758
Unsecured bank loans in USD	2,817	5,886
Other	6	6
Total	160,863	178,457

24 Net sales revenues

Sales by geographical area	2010	2009
	HUF million	HUF million
Hungary	1,236,270	1,139,292
Croatia	625,515	329,375
Italy	461,627	369,625
Austria	362,909	254,555
Slovakia	311,456	221,512
Czech Republic	238,241	195,588
Romania	186,008	137,925
Poland	166,807	119,431
Switzerland	136,332	63,566
Germany	115,372	88,228
Bosnia-Herzegovina	97,541	48,189
Serbia	61,454	47,409
Slovenia	46,775	37,727
Russia	29,818	22,714
United Kingdom	15,369	59,739
Rest of Europe	77,232	53,332
Rest of Central-Eastern Europe	8,199	2,064
Rest of the World	121,784	64,429
Total	4,298,709	3,254,700

The Group had no single major customer the revenue from which would exceed 10% of the total net sales revenues in the years ended 31 December 2010 and 2009.

Sales by product types	2010	2009
	HUF million	HUF million
Sales of oil products	2,717,833	1,989,818
Sales of petrochemicals	609,857	460,359
Sales of natural gas	569,777	424,076
Rendering of services	244,965	210,535
Sales of crude oil	72,100	88,163
Retail shop sales	84,177	81,749
Total	4,298,709	3,254,700

25 Other operating income

	2010	2009
	HUF million	HUF million
Penalties received	6,285	4,458
Settlement of joint venture partner claim by natural gas transfer	3,591	-
Allowances and subsidies received	3,315	1,316
Discounts received	2,288	373
Gain on sales of intangibles, property, plant and equipment	2,228	20,212
Net gain realized on disposal of subsidiaries	756	25,665
Excess of fair value of INA's and Energopetrol's net assets over consideration (see Note 7)	-	21,285
Gain on the fair valuation of the previous investment in INA and Energopetrol (see Note 7)	-	22,925
Exchange gains of trade receivables and payables	-	6,510
Other	7,376	9,294
Total	25,839	112,038

HUF 28,156 million from gain on sales of subsidiaries in 2009 reflects the subsequent settlement from E.ON Ruhrgas International AG in connection with the gas business sales.

26 Personnel expenses

	2010	2009
	HUF million	HUF million
Wages and salaries	160,979	124,879
Social security	72,656	53,675
Other personnel expenses	33,719	19,048
Pension costs and post-employment benefits (see Note 20)	2,417	1,376
Expense of share-based payments (See Note 39)	2,197	1,960
Total	271,968	200,938

27 Other operating expenses

	2010	2009
	HUF million	HUF million
Mining royalties	166,156	98,230
Rental costs	42,978	30,996
Taxes and contributions	36,341	28,049
Crisis tax for Hungarian energy suppliers and retail activities	25,754	-
Other services	19,904	15,527
Exchange loss of trade receivables and payables	18,308	-
Contribution to strategic inventory storage	17,667	17,065
Bank charges	8,927	4,878
Provision for legal and other claims	8,626	(12,660)
Insurance	7,297	7,434
Consultancy fees	6,147	6,871
Advertising expenses	5,846	6,353
Cleaning costs	5,187	4,517
Late payment penalties	4,672	6,472
Site security costs	3,692	3,582
Outsourced bookkeeping services	3,378	3,380
Environmental protection expenses, net	1,202	1,973
Emission of greenhouse gases over quota allocated free of charge	757	12,514
Environmental levy	707	720
Damages	200	197
Environmental provision made during the year	(157)	1,136
Provision for field abandonment	(5,372)	(211)
Provision for doubtful receivables	(11,885)	12,601
Other	8,612	8,785
Total	374,944	258,409

Mining royalties include a one-off HUF 30,387 million reimbursement to the Hungarian state due to the decision of the EU Commission in 2010. An additional interest of HUF 4,840 million has been paid with respect to this reimbursement (see Note 28). Crisis tax of HUF 25,754 million has been imposed on various domestic energy supplying members of the Group (including the parent company) and the Hungarian retail shop selling activities of MOL Plc. by the Hungarian state from 2010. The base of the tax charge is sales revenues of legal entities engaged in such activities. According to the relevant legislation, crisis tax remains effective up until 2012 and is expected to have a similar magnitude in the forthcoming two years.

28 Financial (income) / expense

	2010	2009
	HUF million	HUF million
Interest received	7,437	10,534
Foreign exchange gain on borrowings	-	4,679
Net gain on derivative transactions	7,710	-
Net gain on sales of investments	313	-
Dividends received	714	430
Other financial income, net	9,698	745
Total financial income	25,872	16,388
Foreign exchange loss on borrowings	42,231	-
Interest on borrowings	29,696	23,290
Interest on provisions	16,219	12,633
Fair valuation loss on conversion option (see Note 17)	5,381	19,698
Interest on mining fee reimbursement (see Note 27)	4,840	-
Net loss on derivative transactions	-	7,798
Other financial expensis, net	6,562	13,312
Total financial expenses	104,929	76,731
Total financial expense, net	79,057	60,343

Net gain on derivative transactions in 2010 contain HUF 10,149 million gain 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 17). In 2009 fair valuation difference on CEZ option was HUF 3,745 million loss (see Note 17).

29 Components of other comprehensive income

	2010	2009
	HUF million	HUF million
Exchange differences on translating foreign operations		
Gains / (losses) arising during the year	42,875	640
Reclassification adjustments for gains and losses included in the income statement	-	115
	42,875	755
Available-for-sale financial assets, net of deferred tax		
Gains / (losses) arising during the year	3,834	5,003
Reclassification adjustments for gains and losses included in the income statement	(5,257)	-
	(1,423)	5,003
Cash-flow hedges, net of deferred tax		
Gains / (losses) arising during the year	351	1,775
Reclassification adjustments for gains and losses included in the income statement	-	(437)
	351	1,338
Share of other comprehensive income for associates		
Gains / (losses) arising during the year	7,083	8,016
Reclassification adjustments for gains and losses included in the income statement	589	(17,399)
	7,672	(9,383)

30 Income taxes

Total applicable income taxes reported in the consolidated financial statements for the years ended 31 December 2010 and 2009 include the following components:

	2010	2009
	HUF million	HUF million
Current corporate income taxes	31,780	52,182
Local trade tax and innovation fee	12,992	12,089
Deferred corporate income taxes	18,525	15,860
Total income tax expense/(benefit)	63,297	80,131

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 19% in 2010 and 16% in 2009. In addition, a solidarity surplus tax of 4% has been applicable for 2009 (cancelled from 1 January 2010 with the simultaneous increase of the corporate tax rate to 19%) and a further, temporary surplus tax of 8% applicable for domestic energy supplier entities until 2012. As per the Hungarian tax legislation, corporate tax rate will decrease to 10% from 1 January 2013, however, the Hungarian Government announced its intention in March, 2011 to withdraw this decrease. Slovakian and Croatian tax rates were 19% and 20%, respectively, in both years. Italian tax rate was 36.9 % and 37.9% in 2009 and 2010, respectively. Enacted changes in tax rates are considered when calculating deferred tax assets and liabilities.

Local trade tax represents another revenue-based tax for Hungarian subsidiaries, payable to local municipialities. Tax base is calculated by deducting certain production costs from sales revenue. Tax rates vary between 1-2% dependent on the resolution of local governments where the entities have their business activities.

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.

Income tax recognised in other comprehensive income

	2010	2009
	HUF million	HUF million
Deferred tax recognised in other comprehensive income:		
Revaluations of available-for-sale financial assets	(39)	(730)
Revaluations of financial instruments treated as cash flow hedges	374	(391)
	335	(1,121)
Reclassifications from equity to profit or loss:		
Relating to available-for-sale financial assets	(219)	(595)
Relating to cash flow hedges	-	109
	(219)	(486)
Total income tax recognised in other comprehensive income	116	(1,607)

The deferred tax balances as of 31 December 2010 and 2009 in the consolidated balance sheet consist of the following items:

	Balance sheet		Recognized in income statement	
	2010	2009	2010	2009
	HUF million	HUF million	HUF million	HUF million
Breakdown of net deferred tax assets				
Unrealized gains on intra-group transfers	28,281	34,030	(6,072)	(1,760)
Provisions	6,995	9,651	(2,643)	3,348
Depreciation, depletion and amortization	(16,706)	(14,439)	(2,218)	(4,046)
Differences in accounting for domestic oil and gas exploration and development	(4,622)	(5,937)	1,315	(999)
Capitalization of certain borrowing costs	(4,661)	(3,235)	(1,422)	(57)
Embedded derivatives	(412)	(786)	-	-
Foreign exchange differences	1,739	1,262	478	1,798
Valuation of financial instruments	(522)	(730)	207	(236)
Capitalized periodic maintenance costs	(975)	(1,111)	135	(133)
Statutory tax losses carried forward	2,519	14,419	(11,919)	(18,702)
Receivables write off	378	3,190	(2,957)	2,534
Other	668	541	(17)	49
Deferred tax assets	12,682	36,855		
Breakdown of net deferred tax liabilities				
Fair valuation of assets on acquisitions	(111,756)	(125,778)	11,529	2,843
Depreciation, depletion and amortization	(27,638)	(23,553)	(3,576)	(1,306)
Provisions	7,591	10,842	1,593	417
Statutory losses carried forward	7,771	13,645	(6,089)	3,359
Elimination of inter-company transactions	(98)	(124)	29	(284)
Receivables write off	507	685	(310)	60
Capitalization of borrowing costs	(504)	(447)	(44)	(134)
Foreign exchange differences	(59)	(33)	(93)	340
Inventory valuation difference	5,788	3,629	1,901	247
Valuation of financial instruments	2,524	1,174	1,228	(462)
Other	(2,438)	(2,416)	420	(2,736)
Deferred tax liabilities	(118,312)	(122,376)		
Net deferred tax asset / (liability)	(105,630)	(85,521)		
Deferred tax (expense) / income			(18,525)	(15,860)

Analysis of movements in net deferred tax assets and liabilities during the year

	2010	2009
	HUF million	HUF million
Net deferred tax asset / (liability) at 1 January	(85,521)	17
Recognized in income statement	(18,525)	(15,860)
Recognized directly in fair valuation reserve	213	(1,121)
Acquisition of subsidiaries (see Note 7)	-	(68,236)
Sale of subsidiaries (see Note 8)	(79)	-
Exchange difference	(1,718)	(321)
Net deferred tax asset / (liability) at 31 December	(105,630)	(85,521)

The unrealized gains on intra-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. Such tax losses have been fully used by the parent company in 2010. Additional tax losses arose at INA in 2009 and at IES S.p.a., TVK Plc. and some of TVK's subsidiaries in 2009 and 2010. 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 10,290 million and HUF 28,064 million has been recognized as of 31 December 2010 and 2009, 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 4,116 million and HUF 5,548 million in 2010 and 2009, respectively.

From the unused tax losses at the end of the period, HUF 48,967 million has no expiry, while HUF 50,902 million can be utilized between 2011 and 2015.

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

	2010	2009
	HUF million	HUF million
Profit before tax per consolidated income statement	172,014	170,372
Tax at the applicable tax rate (19%, 2009: 16%)	32,683	27,260
Surplus taxes and local trade tax	16,400	33,907
Differences not expected to reverse	3,800	15,259
Effect of different tax rates	(4,889)	(2,212)
Losses of subsidiaries not recognized as an asset	7,357	6,720
Non-taxable income	(1,783)	(387)
Revaluation of deferred tax assets and liabilities	3,147	(4,213)
Impact of changes in Hungarian tax legislation	6,082	4,854
Other	500	(1,057)
Total income tax expense / (benefit) at the effective income tax rate of 37% (2009: 47%)	63,297	80,131

Differences not expected to reverse primarily include the tax impact of gains on treasury share transactions (see Note 17) 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.

31 Discontinued operations and disposal groups

Discontinued operations

Based on the Gas Master Agreement signed by the Government of the Republic of Croatia and MOL on 30 January 2009 and amended on 16 December 2009, the Croatian Government should have taken over INA gas trading business before December 1, 2010. Since this has not happened and the ongoing negotiations do not yet indicate a revised timeline, this activity no longer meets the criteria for discontinued operations. Consequently, assets, liabilities, revenues and expenses are disclosed among continuing activities within the Exploration and Production segment. Income statement of the comparative period has been restated accordingly.

Disposal Groups

Considering the requirements of the conditional approval of the Anti-Monopoly Office of Croatia on the Amendment to the Shareholders' Agreement signed by and between MOL and the Government of Croatia retail activities of Crobenz d.d. a 100% subsidiary of INA d.d. should be sold. The sale obligation has been met in September, 2010, see Note 8.

As of 31 December 2009, the following assets and liabilities of INA's gas trading business and of Crobenz were classified as held for sale:

	INA gas trading business	Retail activities of Crobenz	Total
	HUF million	HUF million	HUF million
Assets			
Intangible assets	-	66	66
Property, plant and equipment, net	-	769	769
Total non-current assets	-	835	835
Inventories	19,614	234	19,848
Trade receivables, net	11,352	193	11,545
Other current assets	3,736	25	3,761
Cash and cash equivalents	1,598	-	1,598
Total current assets	36,300	452	36,752
Assets classified as held for sale	36,300	1,287	37,587
Liabilities			
Long-term debt net of current portion	-	688	688
Provisions	21	38	59
Deferred tax liabilities	-	(646)	(646)
Other non-current liabilities	11	-	11
Trade and other payables	9,083	181	9,264
Current portion of long-term debt	-	138	138
Short-term debt	7	-	7
Liability directly associated with assets classified as held for sale	9,122	399	9,521
Net assets directly associated with disposal group	27,178	888	28,066

32 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 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. Due to the significant anti-dilutive effect of the fair valuation of the conversion option in 2009, the diluted EPS was equal with the basic EPS in the comparative period.

	Income (HUF million)	Weighted average number of shares	Earnings per share (HUF)
Basic Earnings Per Share 2009	95,058	85,324,368	1,114
Diluted Earnings Per Share 2009	95,058	85,324,368	1,114
Basic Earnings Per Share 2010	103,958	84,421,196	1,231
Diluted Earnings Per Share 2010	109,399	90,428,675	1,209

	2010	2009
	HUF million	HUF million
Net profit attributable to ordinary shareholders for basic earnings per share	103,958	95,058
Fair value of conversion option	5,381	-
Net profit attributable to ordinary shareholders for diluted earnings per share	109,339	95,058

	2010	2009
Weighted average number of ordinary shares for basic earnings per share	84,421,196	85,324,368
Effect of dilution – Weighted average number of conversion of perpetual exchangeable securities	6,007,479	-
Adjusted weighted average number of ordinary shares for diluted earnings per share	90,428,675	85,324,368

33 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 Value at Risk approach. 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 in a business- as- usual scenario. 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.

MOL Commodity Trading Limited was established in 2009 with the purpose to centralize and manage MOL's needs in oil and oil products derivatives, to optimize the Group-level CO_2 quota position and to manage the procurement of electricity. In order to improve control over the resulting market risks, Value-at-Risk limits are applied and monitored on an on-going basis. Continuous stress-tests and scenario analyses provide additional cushion for the safety in the trading book.

Key Exposures

Group Risk Management identifies and measures the key risk drivers and quantifies their impact on the Group's operating results. 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 other refined and petrochemical products are also significant.

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 2010 MOL concluded short term commodity swap transactions for inventory hedging purposes. These transactions are linked to potential price movements during the non business as usual refinery activities (e.g. maintenance periods), crude oil procurement and other trading possibilities. As of 31 December 2010 the fair value of open commodity derivative transactions designated as fair value hedge was a net payable of HUF 61 million (see Note 22). The fair value of accompanying firm commitments as hedged items under commodity derivative transaction designated as fair value hedges was a net receivable of HUF 61 million (see Note 15). In 2009 there were no commodity derivative transactions designated as hedge.

As of 31 December 2010 and 2009 the fair value of open commodity derivative transactions were a net receivable of HUF 21 million and HUF 146 million (see Note 15), respectively.

Foreign Currency Risk Management

At group level, the Group has a net long USD, EUR, RON, HRK, and net short HUF, RUB operating cash flow position.
When MOL is in high gearing status, the Group follows the basic economic currency risk management principle ('natural hedge') that the currency mix of the debt portfolio should reflect the net operating cash flow position of the Group.

The Group may use cross currency swaps to adjust the currency mix of the debt portfolio. As of 31 December 2010 and 2009, there were no open cross currency transactions.

The Group 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 Group 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 4,116 million (HUF 3,704 million net of deferred tax) as of 31 December 2010 (see Note 12). The corresponding figure as of 31 December 2009 was HUF 4,139 million net receivable (HUF 3,353 million net of deferred tax). The decrease in the fair value of this instrument has been debited to equity.

INA has concluded certain long- term contracts on gas and crude- oil storage and transport, what contain embedded derivatives as defined by IAS 39. These derivatives has been separated from the host contracts and designated as fair value hedge to the host gas and crude- oil contracts. The fair value of the embedded derivatives is a net receivable of HUF 184 million as of 31 December 2010 (see Note 12 and Note 15). The corresponding figure as of 31 December 2009 was HUF 1,097 million net receivable.

The Group classifies its forward exchange contracts and currency exchange options either as fair value hedges, in case of debts, either as cash-flow hedges in case a designated hedging relationship exist or as stand-alone derivatives and carries them at fair values.

As of 31 December 2010 and 2009 the fair value of open foreign exchange forward transactions was a net of receivable of HUF 8 million and HUF 65 million (see Note 15), respectively.

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 750M EUR Bond transaction in 2005, 750M EUR Bond transaction in 2010 and 5,051 million Hungarian retail bond transaction also in 2010, the fixed portion of the total debt increased substantially. As of 31 December 2010 and 2009, 32.6% and 17.7% of the Group's debt was at fixed rates respectively.

The Group 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 2010 and 2009, 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	2010 HUF billion	2009 HUF billion
	(including INA)	(excluding INA)
Brent crude oil price (change by +/- 5 USD/bbl; with fixed crack spreads and petrochemical margin)		
Refining and Marketing	+ / - 4.8	+ / - 2.0
Exploration and Production	+15.8 / - 15.0	+ 3.8 / - 4.2
Petrochemical	- / + 5.4	- / + 3.5
Crack spread (change by +/- 10 USD/t)		
Refining and Marketing	+ / - 42.3	+ / - 33.2
Exploration and Production	+ 5.3 / - 3.1	+ 0.7 / - 0.8
Integrated petrochemical margin (change by +/- 10 EUR/t)		
Petrochemical	+ / - 3.0	+ / - 3.1
Exchange rates (change by +/- 10 HUF/USD; with fixed crack spreads)		
Refining and Marketing	+ / - 16.6	+ / - 11.6
Exploration and Production	+ 15.3 / - 15.4	+ 5.9 / -6.1
Petrochemical	- / + 13.1	- / + 9.6
Exchange rates (change by +/- 10 HUF/EUR; with fixed crack spreads / targeted petrochemical margin)		
Refining and Marketing	+ / - 3.6	+ / - 2.6
Petrochemical	+ / - 10.6	+ / - 11.4
Retail	+ / - 0.2	+ / - 0.5

Other Exposures

Credit risk

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

Customers are allocated to 12 segments in order to provide better transparency and to achieve more conscious diversification. The different characteristics of the segments support the mitigation of credit risk.

For segments with higher risk profile the ratio of secured credit limits is also higher. Credit insurance, collateral, bank guarantee, letter of credit and lien are the most preferred insurance types.

As a result of being a major player in the Central-Eastern European region, approximately 70% of our customers is situated in that region; nevertheless our customer portfolio is very diversified from geographical point of view.

Group procedures ensure that sales are made to customers with appropriate credit history and do not exceed an acceptable credit exposure limit.

Individual credit limits are calculated and defined after external and internal assessment of customers. Information on existing and possible customers is gathered from well-known and reliable Credit Agencies. Internal assessment shall be done on the basis of information obtained, where individual credit limits are calculated by pre-defined algorithms. The internal semi-automated assessment shall be considered as an international best practice with conservative credit management approach.

Sophisticated software solutions (SAP, CRM, Endur) ensure online monitoring of credit exposures, breach and expiry of credit limits and also overdue receivables. When such credit situations occur, shipments shall be blocked. Decisions on the unblocking of the shipments shall be made by authorized managers both on Financial and on Business side. The level of the Managerial decisions is regulated in Group policies.

Liquidity risk

The Group 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 major credit facilities as of 31 December 2010 consists of the following:

	HUF million
Long - term loan facilities available (general corporate purpose)	421,487
Short - term facilities available	129,621
Total loan facilities available	551,108

MOL Group's diversified, long-term funding portfolio consists of renewable, revolving, syndicated and club loans, issued bonds and of loan facilities concluded with multilateral financial institutions.

Considering the refinancing of MOL's EUR 1.5 billion syndicated multi-currency revolving loan facility with a maturity of October 2010, besides the EUR 525 million Forward Start facility, concluded in Q4 2009 with tenor of 18+6 months, MOL has issued EUR 750 million fixed rate Eurobond notes. The notes have a 7 year maturity, pay an annual coupon of 5.875% and were priced at 315 bps above mid-swap rates. The notes are listed on the Luxembourg Stock Exchange. As a result, MOL cancelled EUR 975 million from the EUR 1.5 billion revolving syndicated credit facility in Q3 2010.

In September, 2010 due to the stabilizing commercial banking environment and MOL's improved credit rating the Forward Start facility was replaced by a new EUR 500 million club facility with more favourable conditions compared to those of the Forward Start credit facility. The tenor of the facility is 3 years which can be extended by further 1 year.

Furthermore in September, 2010 INA has concluded a long term EUR 210 million loan facility for financing its refinery modernization program. EBRD participated with an amount of EUR 150 million in the total loan facility, the ICF-Debt Pool with EUR 50 million and the Cordiant Capital Fund with EUR 10 million.

In November, 2010 MOL has signed a long term investment loan agreement with the European Investment Bank, in the amount of EUR 150 million to finance the construction of 205 km long natural gas transmission pipeline between Városföld and the Hungarian-Croatian border.

To further diversify the funding portfolio of MOL Group, MOL has set up a 100 billion HUF bond program for 2010-2011, and in October, 2010 MOL has issued an HUF 5 billion retail HUF bond with a tenor of 18 months under it.

The existing bank facilities ensure both sufficient level of liquidity and financial flexibility for the Group.

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2010 and 2009 based on contractual undiscounted payments.

31 December 2010	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	-	45	743	2,811	1,452	5,051
Floating rate long-term bank loans	1,097	53,486	33,725	432,054	142,456	662,818
Floating-rate other long-term loans	-	10	109	4,653	-	4,772
Floating-rate short-term bank loans	-	24,101	114,038	-	-	138,139
Floating-rate other short-term loans	-	-	24,210	-	-	24,210
Fixed rate bonds	-	-	20,687	295,799	233,627	550,113
Other	-	-	-	-	-	-
Non-interest bearing long-term liabilities	-	20	796	5,286	5,096	11,198
Transferred "A" shares with put and call options attached	-	-	109,659	-	-	109,659
Maximum exposure under financial guarantees (see Note 35)	10,087	-	-	-	-	10,087
Trade and other payables (excluding Transferred "A" shares with put and call options attached and taxes and contributions)	15,480	270,744	242,090	-	-	528,314
Total	26,664	348,406	546,057	740,603	382,631	2,044,361

31 December 2009	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	-	43	781	2,861	2,092	5,777
Floating rate long-term bank loans	-	67,844	44,311	616,416	23,620	752,191
Floating-rate other long-term loans	-	-	77	3	-	80
Floating-rate short-term bank loans	-	1,283	81,034	-	-	82,317
Floating-rate other short-term loans	-	-	27,930	-	-	27,930
Fixed rate bonds	-	-	7,871	31,485	211,001	250,357
Other	-	-	-	-	-	-
Non-interest bearing long-term liabilities	-	8	206	5,219	5,171	10,604
Transferred "A" shares with put and call options attached	-	-	43,805	-	-	43,805
Maximum exposure under financial guarantees	13,576	-	-	-	-	13,576
Trade and other payables (excluding Transferred "A" shares with put and call options attached and taxes and contributions)	71,318	250,399	174,582	-	-	496,299
Total	84,894	319,577	380,597	655,984	241,884	1,682,936

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. Treasury share transactions (see Note 17) are also used for such purposes, No changes were made in the objectives, policies or processes during the years end 31 December 2010 and 31 December 2009.

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

	2010	2009
	HUF million	HUF million
Long-term debt, net of current portion	947,910	829,111
Current portion of long-term debt	102,050	103,577
Short-term debt	160,863	178,457
Less: Cash and cash equivalents	313,166	177,105
Net debt	897,657	934,040
Equity attributable to equity holders of the parent	1,435,070	1,294,005
Non-controlling interest	539,407	535,647
Total equity	1,974,477	1,829,652
Capital and net debt	2,872,134	2,763,692
Gearing ratio (%)	31.3%	33.8%

34 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.

Types and fair values of financial assets (excluding trade receivables, other current assets and cash and cash equivalents) and financial liabilities (excluding trade and other payables) are the following:

	2010	2009
	HUF million	HUF million
Financial instruments at fair value through other comprehensive income		
Cash flow hedges		
Net receivable from currency risk hedging derivatives as cash-flow hedge (see Note 12)	4,116	4,139
Total financial instruments at fair value through other comprehensive income	4,116	4,139
Financial instruments at fair value through profit or loss		
Derivatives designated as hedges		
Receivable from currency risk hedging derivatives as fair-value hedge (see Note 12) - non current	155	-
Receivables from currency risk hedging derivatives as fair-value hedge (see Note 15) - current	29	1,097
Fair value of firm commitments as hedged item under commodity price transactions (see Note 15)	61	-
Derivatives not designated as hedges		
Fair value of the option on MOL shares transferred to CEZ (see Note 15)	28,858	3,989
Fair value of share swap (see Note 15)	-	496
Net receivables from commodity price transactions (see Note 15)	21	146
Receivables from foreign exchange forward transactions (see Note 15)	8	65
Total financial instruments at fair value through profit or loss	29,132	5,793
Loans and receivables		
Loans given, net of current portion (see Note 12)	23,431	20,707
Current portion of loans given (see Note 15)	1,143	1,921
Total loans and receivables	24,574	22,628
Available for sale investments (see Note 11)		
Quoted equity shares – Jadranski Naftovod d.d.	13,460	12,473
Unquoted equity shares	8,041	6,141
Total available for sale investments	21,501	18,614
Total financial assets	79,323	51,174
Total non-current	49,203	43,460
Total current	30,120	7,714

	2010	2009
	HUF million	HUF million
Financial liabilities at fair value through profit or loss		
Conversion option of exchangeable capital securities by Magnolia Finance Ltd (see Note 17 and Note 21)	25,079	19,698
Derivatives designated as hedges		
Net payables from commodity price transactions designated as fair value hedge (see Note 22 and Note 33)	61	-
Payables from currency risk hedging derivatives as fair value hedge (see Note 21)	205	362
Payables from currency risk hedging derivatives as fair value hedge (see Note 22)	53	-
Derivatives not designated as hedges		
Fair value of share swap (see Note 22)	227	-
Total financial liabilities at fair value through profit or loss	25,625	20,060
Financial liabilities at amortized cost		
Non-current interest bearing loans and borrowings	1,044,492	928,147
Current interest bearing loans and borrowings	160,863	178,457
Transferred "A" shares with put and call options attached (see Note 17 and 22)	108,959	43,417
Non-interest bearing long-term liabilities	5,468	4,541
Total financial liabilities at amortized cost	1,319,782	1,154,562
Total financial liabilities	1,345,407	1,174,622
Total non-current	1,075,244	952,748
Total current	270,163	221,874

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

	Carrying amount		Fair value	
	2010	2009	2010	2009
	HUF million	HUF million	HUF million	HUF million
Financial assets				
Net receivable from currency risk hedging derivatives (see Note 12)	4,116	4,139	4,116	4,139
Available-for-sale investments (see Note 11)	21,501	18,614	21,501	18,614
Loans given (see Note 12 and 15)	24,574	22,628	24,574	22,628
Trade receivables (see Note 14)	463,672	412,307	463,672	412,307
Receivable from currency risk hedging derivatives as fair-value hedge (see Note 12 and 15)	184	1,097	184	1,097
Fair value of firm commitments as hedged item under commodity price transactions (see Note 15)	61	-	61	-
Receivables from foreign exchange forward transactions (see Note 15)	8	65	8	65
Net receivables from commodity price transactions (see Note 15)	21	146	21	146
Fair value of the option on MOL shares transferred to CEZ (see Note 15)	28,858	3,989	28,858	3,989
Fair value of share swap (see Note 15)	-	496	-	496
Other current assets (excluding derivatives, Loans given and prepaid and recoverable taxes, see Note 15)	50,917	43,141	50,917	43,141
Cash and cash equivalents (see Note 16)	313,166	177,105	313,166	177,105
Financial liabilities				
Interest-bearing loans and borrowings:				
Obligations under financial leases	3,951	4,396	3,951	4,396
Floating rate long-term bank loans	608,970	719,342	608,970	719,342
Floating rate other long-term loans	1,490	300	1,490	300
Floating rate short-term bank loans	160,857	178,451	160,857	178,451
Floating-rate other short-term loans	6	6	6	6
Fixed rate bonds	430,081	204,109	383,154	165,937
Non-interest bearing long-term liabilities	5,468	4,541	5,468	4,541
Conversion option of exchangeable capital securities by Magnolia Finance Ltd (see Note 17 and Note 21)	25,079	19,698	25,079	19,698
Transferred "A" shares with put and call options attached (see Note 17 and 22)	108,959	43,417	108,959	43,417
Fair value of share swap (see Note 17 and 22)	227	-	227	-
Payables from currency risk hedging derivatives as fair value hedge (see Note 21 and 22)	258	362	258	362
Net payables from commodity price transactions designated as fair value hedge (see Note 22 and Note 33)	61	-	61	-
Trade and other payables (excluding derivatives, Transferred "A" shares with put and call options attached and taxes and contributions, see Note 22)	519,619	487,762	519,619	487,762

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

– Level 1: quoted prices in active markets for identical assets and liabilities

– Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.

– Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

The financial assets and liabilities measured by the Group at fair value as at 31 December 2010 are categorised as follows:

	31 Dec 2010	Level 1	Level 2	Level 3
	HUF million	HUF million	HUF million	HUF million
Financial assets				
Available for sale investment in JANAF d.d. (see Note 11)	13,460	13,460	-	-
Net receivable from currency risk hedging derivatives (see Note 12)	4,116	-	4,116	-
Receivables from currency risk hedging derivatives (see Note 12 and 15)	184	-	184	-
Fair value of firm commitments as hedged item under commodity price transactions (see Note 15)	61	-	61	-
Net receivables from commodity price transactions (see Note 15)	21	-	21	-
Receivables from foreign exchange forward transactions (see Note 15)	8	-	8	-
Fair value of the option on MOL shares transferred to CEZ (see Note 15 and 17)	28,858	-	28,858	-
Financial liabilities				
Conversion option of exchangeable capital securities by Magnolia Finance Ltd (see Note 17 and Note 21)	25,079	-	25,079	-
Fair value of share swap (see Note 22)	227	-	227	-
Net payables from commodity price transactions designated as fair value hedge (see Note 22 and Note 33)	61	-	61	-
Payable from currency risk hedging derivatives as fair value hedge (see Note 21 and 22)	258	-	258	-

	31 Dec 2009	Level 1	Level 2	Level 3
	HUF million	HUF million	HUF million	HUF million
Financial assets				
Available for sale investment in JANAF d.d. (see Note 11)	12,473	12,473	-	-
Net receivable from currency risk hedging derivatives (see Note 12)	4,139	-	4,139	-
Receivables from currency risk hedging derivatives (see Note 15)	1,097	-	1,097	-
Net receivables from commodity price transactions (see Note 15)	146	-	146	-
Receivables from foreign exchange forward transactions (see Note 15)	65	-	65	-
Fair value of the option on MOL shares transferred to CEZ (see Note 15 and 17)	3,989	-	3,989	-
Fair value of share swap (see Note 15)	496	-	496	-
Financial liabilities				
Conversion option of exchangeable capital securities by Magnolia Finance Ltd (see Note 17 and Note 21)	19,698	-	19,698	-
Payable from currency risk hedging derivatives (see Note 21)	362	-	362	-

35 Commitments and contingent liabilities

Guarantees

The total value of guarantees undertaken to parties outside the Group is HUF 10,087 million.

Capital and Contractual Commitments

The total value of capital commitments as of 31 December 2010 is HUF 64.0 billion, of which HUF 25.4 billion relates to capital and contractual commitments of INA, HUF 32.4 billion relates to capital and contractual commitments of Slovnaft and HUF 2.5 billion relates to MOL Plc. (the majority of which will arise in 2011).

Gas Purchases Obligation, Take or Pay Contract

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 2010, 653 million cubic meters of natural gas (of which 555 mcm under take-or-pay commitment) will be purchased during the period ending 2018 based on this contract. Starting from 1 January, 2011 Prirodni plin d.o.o. concluded a new import contract with ENI Italy for procurement of app 2,250 million cubic meters of natural gas until 31 December 2013.

Operating leases

Operating lease liabilities are as follows:

	2010	2009
	HUF million	HUF million
Due not later than 1 year	6,806	7,561
Due two to five years	12,226	6,874
Due over five years	214	1,566
Total	19,246	16,001

Out of the outstanding operating lease liabilities as of 31 December 2010 HUF 2,622 million were contracted by Slovnaft, HUF 3,917 million were contracted by INA and HUF 9,096 million were contracted by MOL Plc.

Authority procedures, litigation

Legal proceedings by Surgutneftegas

Surgutneftegas has brought five legal proceedings against MOL Plc., three of which are litigations initiated before the Metropolitan Court of Budapest and the other two are judicial reviews initiated before the Metropolitan Court of Budapest acting as Court of Registration.

In the first claim Surgutneftegas alleged that the Resolution of the Board of Directors which in the absence of the acknowledgement of notice of the Hungarian Energy Office prevented the incorporation of Surgutneftegas into the share register in 2009 violates the provisions of relevant laws. On 16 November 2010 the Metropolitan Court of Appeal as court of second instance confirmed the decision of the Metropolitan Court dismissing the claim of Surgutneftegas.

In the second proceeding Surgutneftegas is seeking primarily for the repeal of all the resolutions of the AGM held on 23 April 2009 and alternatively for the repeal of the resolutions of the same AGM amending the Articles of Association of MOL Plc. The Metropolitan Court as court of first instance dismissed the claim of Surgutneftegas on 5 November 2010, but the legal proceedings will continue before the Metropolitan Court of Appeal.

In the third litigation Surgutneftegas claims that the Resolution of the Board of Directors refusing the incorporation of the Company into the share register in 2010 violates the provisions of respective laws. The first hearing was held on 3 December 2010 and the next hearing is set for 6 April 2011.

Surgutneftegas has also initiated a judicial review before the Metropolitan Court of Budapest, acting as Court of Registration in order to investigate the lawfulness of the resolution of the Board of Directors which in the absence of the acknowledgement of notice of the Hungarian Energy Office refused the incorporation of the Surgutneftegas into the share register. The Metropolitan Court of Budapest, acting as Court of Registration terminated the judicial review proceedings with its resolution issued on 26 January 2010 and dismissed the motion of Surgutneftegas for initiating judicial review procedure parallel with the civil law suit. Surgutneftegas did not appeal against the decision.

In the second judicial review before the same court Surgutneftegas supplemented its motion specified above (requesting the investigation of the lawfulness of the resolution of the Board of Directors when refusing the incorporation of the Surgutneftegas into the share register) by requesting at the same time the Metropolitan Court of Budapest, acting as Court of Registration to repeal all the resolutions of the annual general meeting held on 23 April 2009. The Metropolitan Court of Budapest, acting as Court of Registration terminated the second judicial review procedure - similar to the first one - with its resolution issued on 2 February 2010. Surgutneftegas did not appeal against this decision either.

Paraffin cartel infringement

The European Commission 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 was set in EUR 23.7 million which was paid by MOL in early 2009.

In relation to the above described EU Commission decision the former paraffin customers may have the right to claim private damages from the paraffin cartel participants, i.e. from MOL, too. Currently a proceeding is going on against the decision of the European Commission before the European Court of Justice; accordingly for the time being and in the current phase MOL is not in the position to make any legal or fiscal estimation about the potential claims, if any.

Proceedings with respect to Slovnaft

The Anti-Monopoly Office of the Slovak Republic, Abuse of Dominance Department notified Slovnaft in a letter dated 21 November 2005 on the commencing of administrative proceedings against Slovnaft due to a possible breach of the Act No. 136/2001 on the Protection of Competition. Such administrative proceedings were focused on the investigation of Slovnaft's price and discount policy on the diesel and gasoline market. In the decision issued on 22 December 2006 the Abuse of Dominance Department of the Anti-Monopoly Office stated that Slovnaft had abused its dominant position in the relevant diesel and gasoline wholesale markets by applying the discounts in a discriminative manner against its individual customers and imposed a fine of SKK 300 million on Slovnaft. Slovnaft filed an appeal against the decision. The Council of the Antimonopoly Office adopted its final decision on 7 December, 2007 and confirmed the obligation of Slovnaft to pay the fine, which was paid by Slovnaft according to this decision on February 25, 2008.

In January 2008 Slovnaft a.s. filed an action against the decision of the Anti-Monopoly Office of the Slovak Republic with the Regional Court in Bratislava for reviewing the lawfulness of the decision of the Council of the Anti-Monopoly Office and the procedure precedent to that decision including the first instance decision of the Anti-Monopoly Office. 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 a.s. has been suspended until a final and legally binding court decision on the merits of the case and full amount of the penalty was transferred by the Anti-Monopoly Office back to Slovnaft, a.s. on 8 April 2008.

On 15 December 2009 the Regional Court in Bratislava set aside the first and second instance decisions and referred the case back to the Anti-Monopoly Office for new proceedings, since the court found several serious defects in the proceedings held by the Anti-Monopoly Office and stated that the calculation of the imposed penalty was excessive, incorrect and inappropriate relative to the alleged breach of competition law by Slovnaft, a.s.

The first instance decision in the new proceedings has been issued by the Anti-Monopoly Office on 10 December 2010. The Office held that Slovnaft violated the Competition Act in relation to the market of gasoline wholesale in year 2006 and in relation to the market of diesel wholesale in years 2005 and 2006. The penalty imposed by the Office represents an amount of EUR 9 million. As Slovnaft does not agree with the findings and the conclusions of the Office, on 29 December 2010 it filed an appeal with the Council of the Antimonopoly Office challenging the first instance decision. The result of that proceeding is uncertain.

The International Commercial Arbitration Court at the Chamber of Commerce and Industry of the Russian Federation (Moscow Arbitration Court) imposed upon Slovnaft, as defendant, a duty to pay Mende Rossi, a Russian company which claimed that it entered into a contract with Slovnaft in 1993, 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 related to the court proceedings for failing the consideration of the alleged crude oil supplies as per the resolution of the court of arbitration issued in April 1996.

Mende-Rossi applied for the enforcement of the decision of the Moscow Arbitration Court first in Slovakia and then in Austria in 1997. After the applications for enforcement was refused by final and binding decisions in both countries, in 2005 Mende-Rossi sought enforcement in the Czech Republic, where proceedings are still ongoing. The probability of success in the case cannot be quantified, since it is an extremely complicated matter both factually and legally.

The District Court Prague 4 as the court of first instance passed a decision in September 2005 ordering the enforcement of the Moscow Arbitration Court 's decision on Slovnaft´s property. According to the decision of the Municipal Court of Prague adopted on 24 February 2009 the decision of the court of first instance is now binding. However, there is a parallel proceeding in the Czech Republic brought by Slovnaft aimed at preventing this enforcement. The District Court Prague 4 on 22 November 2005 held that enforcement of its original decision is on hold whilst a decision is reached regarding Slovnaft's application to prevent the enforcement.

Pending court proceedings in the Czech Republic

On 12 October 2005 Slovnaft filed against Ashford (who subsequently purchased the right to claim against Slovnaft from Mende-Rossi) a separate petition to stop or terminate the enforcement of the decision of the Moscow Arbitration Court. This procedure is still in progress.

On 29 May 2009 Slovnaft also filed an Extraordinary Appeal (Dovolanie) to the Supreme Court of the Czech Republic against the decision adopted by the Municipal Court of Prague on 24 February 2009 ordering enforcement against the property of Slovnaft.

Proceedings concerning the action to nullify an agreement concluded in 2006 between Slovnaft and MOLTRADE Mineralimpex Zrt on the transfer of ownership of Slovnaft Česká republika, spol. s r.o. company are pending. The participants in these open court proceedings are Ashford and MOLTRADE Mineralimpex Zrt. There is not any new development in this dispute.

Court proceedings at INA Group:

In the course of 2010 NAFTNA INDUSTRIJA SRBIJE A.D. ("NIS) filed a series of 7 lawsuits against INA and INA-OSIJEK PETROL d.d. (INA-OSIJEK), as well as PETROL d.d., GRADITELJ d.d. u stečaju and FEROIMPEX d.o.o. as co-defendants, before Croatian courts. In these proceedings, NIS claims from INA and/or INA's subsidiaries the title over various pieces of real estate, primarily filling stations.

NIS claims the title as legal successor of Serbian-based entities NAFTAGAS PROMET and JUGOPETROL, who were registered owners of the pieces of real estate in question. The claims are based on alleged illegality of INA's and its subsidiaries' acquisition of real estate through privatisation process, and/or as a consequence of Decree on Ban of Disposal with Fixed Assets, Movable Property and Rights of Certain Enterprises and Other Legal Entities on the Territory of the Republic of Croatia (Official Gazette of the Republic of Croatia No. 39/91), and the Law on Ban of Disposal and Takeover of Funds of Certain Legal Entities on the Territory of the Republic of Croatia (Official Gazette of the Republic of Croatia No. 29/94), made in favour of the Republic of Croatia, legal predecessor of INA or INA-OSIJEK, consequently the proceedings involve complex issues of state succession and privatisation. Enforceable decisions are not expected any time soon.

General

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 41,428 million for which HUF 20,067 million provision has been made.

MOL Group has also filed suits, totalling HUF 218 million.

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 70,027 million for the estimated cost as at 31 December 2010 for probable and quantifiable costs of rectifying past environmental damage (see Note 20). 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. The main case where such contingent liabilities may exist is the Tiszaújváros site, including both the facilities of TVK and MOL's Tisza refinery, where 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.

Further to more detailed site investigations to be conducted in the future and the advancement of national legislation or authority practice, additional contingent liabilities may arise at the industrial park around Mantova refinery and the Croatian refineries, depots and retail sites which have been acquired in recent business combinations. As at 31 December, 2010, on Group level the aggregate amount of contingent liabilities recorded on the balance sheet as environmental liabilities was HUF 30.7 billion (HUF 41.3 billion at 31 December, 2009).

36 Events after the reporting period

Exercise of call option and share option agreement with ING

On 4 January 2011 MOL exercised its American call option right arising from the share option agreement signed on 11 March 2010 with ING Bank N.V. ("ING") regarding 5,220,000 MOL Series "A" Ordinary shares with cash-settlement method, in respect of all shares. The strike price was EUR 75.4 per share. Settlement took place on 7 January 2011.

Simultaneously, MOL and ING signed a share option agreement on 4 January 2011. As a result of the transactions, MOL received an American call option and ING received a European put option regarding 5,220,000 MOL Series "A" Ordinary shares owned by ING. The maturity for both options is one year. The strike price for both call and put options is EUR 78.6 per share.

General offer on INA freefloat shares

On 14 December, 2010, MOL has announced on the Zagreb Stock Exchange a general offer to the shareholders of INA, d.d., not acting in concert with MOL, to purchase not more than the total of 800,910 un-encumbered and fully paid off INA, d.d. ordinary shares, each in nominal value of HRK 900 for the price of HRK 2,800 per share. Such a General offer was not subject to provisions of the Croatian Takeover Act. The shareholders offered altogether 10,082 INA shares. The financial settlement of the transaction was on 31 January 2011.

Share sale and option agreement with UniCredit

MOL entered into a share sale and a share option agreement with UniCredit Bank A.G. („UniCredit") on 8 February 2011. As a result of this transaction, UniCredit owns a total number of 2,914,692 MOL Series "A" Ordinary shares. Under the share option agreement MOL has an American call option and UniCredit a European put option in relation to such shares. Both options mature in one year, such maturity being subject to yearly extensions with one year, up to a maximum total tenor of three years. The strike price for both the call and the put options is EUR 85.8 per share. Due to the attached option structure, the transaction has been recorded as a non-current financial liability.

37 Notes to the consolidated statements of cash-flows

Cash and cash equivalents comprise the following at 31 December

	2010	2009
	HUF million	HUF million
Cash and cash equivalents according to Balance Sheet	313,166	177,105
Cash and cash equivalents as part of Disposal Group	-	1,598
Total Cash and cash equivalents	313,166	178,703

Analysis of net cash outflow on acquisition of subsidiaries and non-controlling interest

	2010	2009
	HUF million	HUF million
Cash consideration	(541)	(6,814)
Cash at bank or on hand acquired	-	148
Net cash outflow on acquisition of subsidiaries and joint ventures	(541)	(6,666)

Issuance of long-term debt

	2010	2009
	HUF million	HUF million
Increase in long-term debts	456,891	521,009
Non cash-flow element: unrealised exchange gains / (losses)	(12,381)	3,222
Total issuance of long-term debt	444,510	524,231

38 Related party transactions

Transactions with associated companies in the normal course of business

	2010	2009
	HUF million	HUF million
Trade and other receivables due from related parties	17,444	19,004
Trade and other payables due to related parties	5,763	6,475
Net sales to related parties	57,026	47,491

The Group purchased and sold goods and services with related parties during the ordinary course of business in 2010 and 2009. All of these transactions were conducted under market prices and conditions. INA Group has been consolidated using the equity method until June 30, 2009, therefore transactions have been included in the balance of net sales above until that date.

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

Directors' total remuneration approximated HUF 158 million and HUF 122 million in 2010 and 2009, respectively. In addition, the non-executive directors participate in a long-term incentive scheme details of which are given below. Total remuneration of members of the Supervisory Board approximated HUF 81 million in 2010 and HUF 84 million in 2009.

Directors are remunerated with the following net amounts in addition to the profit sharing program:

– Executive and non-executive directors	25,000 EUR/year
– Chairman of the Board, Deputy Chairman of the Board	31,250 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 a year) when travelling to Hungary.

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

	2010	2009
	Number of shares	Number of shares
Board of Directors	306,017	421,490
Supervisory Board	380	547
Senior Management (except executive Board members)	109,566	156,191
Total	415,963	578,228

Transactions with the Officers and Management of the Company

Mr. Sándor 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 have been concluded with OTP in 2009 or 2010. All of these transactions are on an arm's-length basis.

Mr. Martin Roman, a member of the Board of Directors of the Company, is the Chairman of the Board of directors and CEO of ČEZ, a.s. MOL and CEZ have established a JV which operates the boiler park at the Danube Refinery and the thermo-power plant at the Bratislava refinery and through which the preparatory work of planned construction of CCGTs at the refineries of the Group in Bratislava and Százhalombatta is carried out. In addition to the cooperation presented above, in 2010 CEZ entered in the following business transactions with members of MOL Group:

– CEZ sold electricity to MOL Commodity Trading Kft. in the value of HUF 589 million;
– I&C Energo a.s. provided various service works and delivery of material to CEZ in the value of HUF 7,375 million;
– AFRAS Energo s.r.o. supplied spare parts for technology units and services related to these spare parts to CEZ in the value of HUF 478 million;
– Slovnaft Česká republika, a.s. delivered oil and lubricants to CEZ in the value of HUF 2 million.

Mr. Miklós Dobák, a member of the Board of Directors of the Company is an international partner in consulting company IFUA Horváth & Partners Kft. In 2010 the company provided consulting services to the Group in the value of HUF 6 million.

Mr. László Parragh, a member of the Board of Directors of the Company is also a member in Board of Directors of Malév Magyar Légiközlekedési Zrt. and GYSEV Zrt. In 2010 the Group has sold goods to Malév and GYSEV in the value of HUF 80 million and 6,154 million, respectively.

Mr. Slavomír 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 2010 and 2009 amounted to HUF 4,668 million and HUF 3,153 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 31 million and HUF 2,614 million carried out on usual commercial terms and market prices during 2010 and 2009, respectively.

Mr. Oszkár Világi, a member of the Executive Board of the Company and Slovnaft's Chief Executive Officer is a partner in legal firm Ruzicka Csekes s.r.o. The company and its predecessor CVD s.r.o provided legal services to the Group in the value of HUF 48 million and HUF 104 million in 2010 and 2009, respectively.

Key management compensation

The amounts disclosed contains the compensation of managers who qualify as a key management member of MOL Group. In order to consistently adopt this presentation method, amounts presented in the comparative period have been adjusted by excluding the compensation of managers who qualify as key managers only for Slovnaft or TVK.

	2010	2009
	HUF million	HUF million
Salaries and other short-term employee benefits	964	1,575
Termination benefits	-	-
Post-employment benefits	-	-
Other long-term benefits	-	-
Share-based payments	3	-
Total	967	1,575

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.

39 Share-based payment plans

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

	2010	2009
	HUF million	HUF million
Expense arising from equity-settled share-based payment transactions	-	-
Expense / (reversal of expense) arising from cash-settled share-based payment transactions	2,197	1,960
Total expense / (reversal of expense) arising from share-based payment transactions	2,197	1,960

The share-based payments are described below.

The share-based payments serve the management's long term incentive. The Complex long term managerial incentive system employs two incentive systems in parallel: profit sharing incentive – based on value added methodology – and the option based incentive.

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 starting annually, where periods split into:
  - a 3-year waiting period and a 2-year redemption period in case of managers staying in the previous system for 2009,
  - a 2-year waiting period and a 3-year redemption period in case of managers choosing the new system already for 2009, and it is valid for all of the entitled managers from 2010.
- 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).

According to the new system it is not possible to redeem the share option until the end of the second year (waiting period); the redemption period lasts from 1 January of the 3rd 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 2010	Weighted average exercise price 2010	Number of shares in conversion options 2009	Weighted average exercise price 2009
	share	HUF/share	share	HUF/share
Outstanding at the beginning of the year	658,112	18,410	451,165	22,974
Granted during the year	214,402	15,893	248,573	10,960
Forfeited during the year	(27,375)	17,506	(41,626)	23,392
Exercised during the year	(100,746)	20,170	-	-
Expired during the year	(4,124)	20,170	-	-
Outstanding at the end of the year	740,269	17,465	658,112	18,410
Exercisable at the end of the year	133,882	21,146	115,040	20,170

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 increasing share prices, HUF 2,197 million expenses have been incurred in 2010, recorded as personnel-type expenses with a corresponding increase in Trade and other payables. In 2009 HUF 1,960 million expenses was recorded with respect to this scheme. Liabilities in respect of share-based payment plans amounted to HUF 5,435 million as at 31 December 2010 (31 December 2009: HUF 2,742 million), recorded in Other non-current liabilities and Other current liabilities.

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

	2010	2009
Weighted average exercise price (HUF / share)	17,465	18,410
Share price as of 31 December (HUF / share)	20,870	17,247
Expected volatility based on historical data	44.79%	44.25%
Expected dividend yield	1.26%	1.93%
Estimated maturity (years)	2.72	2.82
Risk free interest rate	1.46%	2.08%

Profit sharing incentive

The profit sharing incentive relates to long-term, sustainable increase of profitability, based on the value added methodology, thus ensuring that the interest of the participants of the incentive system corresponds with that of shareholders of the Group.

It is a cash-settled annual net bonus calculated on the basis of increase in the value added. (Value added: recognises a profit performance generated on top of the cost of capital invested)

Since the basis of determining one unit of the profit-sharing incentive for any given year is the audited financial statement for that year approved by the Annual General Meeting of the parent company, the incentive should be disbursed subsequent to such Meeting closing the given year.

No payment is expected with respect to 2010 based on this new incentive system.

Historical Summary of Financial Information

Historical Summary of Financial Information (IFRS)

Consolidated Income Statements for the Years Ended 31 December

	2006 restated	2007 restated	2008 restated	2009 restated	2009 restated	2010	2010
	HUF millions	HUF millions	HUF millions	HUF millions	USD millions*	HUF millions	USD millions***
Net revenue and other operating income	2,992,149	2,669,014	3,554,752	3,366,738	16,642	4,324,548	20,781
Total operating expenses	2,582,577	2,313,509	3,355,528	3,134,359	15,494	4,085,490	19,632
Profit from operations	409,572	355,505	199,224	232,379	1,149	239,058	1,149
Profit for the year attributable to equity holders of the parent	329,483	257,796	141,418	95,058	470	103,958	500

Consolidated Balance Sheets as at 31 December

	2006 restated	2007 restated	2008 restated	2009 restated	2009 restated	2010	2010
	HUF millions	HUF millions	HUF millions	HUF millions	USD millions**	HUF millions	USD millions****
Non-current assets	1,301,035	1,544,236	2,027,899	3,073,859	16,341	3,143,711	15,063
Current assets	864,297	888,521	888,514	1,093,748	5,815	1,342,018	6,430
Total assets	2,165,332	2,432,757	2,916,413	4,167,607	22,156	4,485,729	21,494
Equity attributable to equity holders of the parent	1,079,666	792,164	1,112,981	1,294,005	6,879	1,435,070	6,876
Minority interest	191,537	127,417	118,419	535,647	2,848	539,407	2,585
Non-current liabilities	410,987	861,702	943,516	1,272,925	6,767	1,392,867	6,674
Current liabilities	483,142	651,474	741,497	1,065,030	5,662	1,118,385	5,359
Total equity and liabilities	2,165,332	2,432,757	2,916,413	4,167,607	22,156	4,485,729	21,494

Consolidated Statements of Cash Flows for the Years Ended 31 December

	2006 restated	2007 restated	2008 restated	2009 restated	2009 restated	2010	2010
	HUF millions	HUF millions	HUF millions	HUF millions	USD millions*	HUF millions	USD millions***
Net cash provided by operating activities	529,508	315,506	347,203	397,891	1,967	373,653	1,796
Net cash provided by / (used in) investing activities	111,669	(336,978)	(474,792)	(266,658)	(1,318)	(276,272)	(1,328)
Net cash provided by / (used in) financing activities	(287,481)	(245,951)	209,070	(169,173)	(836)	26,794	129
(Decrease)/increase in cash and cash equivalents	353,696	(267,423)	81,481	(38,480)	(190)	124,175	597

* 2009 average HUF/USD 202.3
** 2009 year-end HUF/USD 188.1
*** 2010 average HUF/USD 208.1
**** 2010 year-end HUF/USD 208.7

Key Group operating data

Gross reserves (according to SPE rules)*

Proved reserves	Natural gas		Crude oil		Combined
	MCM	Bcf	kt	million bbl	million boe
Hungary as of December 31, 2007	18,249.9	644.5	7,768.2	58.6	169.8
Revision of previous estimates	(1,552.4)	(54.8)	(3,315.6)	(25.0)	(26.1)
Extension and discoveries	50.9	1.8	7.8	0.1	0.4
Production	(2,619.8)	(92.5)	(811.2)	(6.1)	(23.0)
Purchase/sale of minerals in place	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	121.1
Revision of previous estimates	335.0	11.8	764.1	5.8	2.0
Extension and discoveries	413.3	14.6	66.3	0.5	3.4
Production	(2,751.3)	(97.2)	(780.1)	(5.9)	(23.6)
Purchase/sale of minerals in place	0.0	0.0	0.0	0.0	0.0
Hungary as of December 31, 2009	12,125.6	428.2	3,699.5	27.9	102.9
Revision of previous estimates	868.1	30.7	727.2	5.5	10.9
Extension and discoveries	279.6	9.9	0.0	0.0	1.8
Production	(2,678.6)	(94.6)	(726.9)	(5.5)	(22.0)
Purchase/sale of minerals in place	0.0	0.0	0.0	0.0	0.0
Hungary as of December 31, 2010	10,594.6	374.1	3,699.8	27.9	93.6
Russia, Pakistan as of December 31, 2007	1,787.6	63.1	13,434.8	95.6	107.5
Revision of previous estimates	0.0	0.0	230.0	1.9	1.7
Extension and discoveries	0.0	0.0	448.4	3.3	3.3
Production	(53.1)	(1.9)	(1,191.7)	(8.6)	(9.0)
Purchase/sale of minerals in place	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	103.5
Revision of previous estimates	0.0	0.0	435.6	3.2	3.2
Extension and discoveries	0.0	0.0	0.0	0.0	0.0
Production	(68.2)	(2.4)	(1,019.5)	(7.4)	(7.8)
Purchase/sale of minerals in place	0.0	0.0	0.0	0.0	0.0
Russia, Pakistan as of December 31, 2009	1,666.3	58.8	12,337.6	87.9	98.8
Revision of previous estimates	(175.1)	(6.2)	64.4	0.4	(0.6)
Extension and discoveries	0.0	0.0	0.0	0.0	0.0
Production	(235.9)	(8.3)	(1,015.0)	(7.4)	(8.9)
Purchase/sale of minerals in place	0.0	0.0	0.0	0.0	0.0
Russia, Pakistan as of December 31, 2010	1,255.4	44.3	11,387.0	81.0	89.3

* The reserves include information about 100% of MMBF Ltd's reserves. In case of INA, d.d. reserves data include MOL's share proportionate to its ownership from reserves of INA, d.d. till 31 December, 2008. Due to full consolidation of INA, d.d. reserves data from 31 December, 2009 include 100 % of INA's reserves. In case of INA revision, extensions, discoveries and production figures are calculated by assuming 47.16% of MOL's share for 2009.

Proved reserves	Natural gas		Crude oil		Combined
	MCM	Bcf	kt	million bbl	million boe
INA d.d. (25%) as of December 31, 2007	7.893	281.3	2,447.9	18.1	67.4
Revision of previous estimates	113.5	4.0	73.2	0.6	1.7
Extension and discoveries	0.0	0.0	0.0	0.0	0.0
Production	(568.3)	(20.1)	(203.2)	(1.5)	(5.4)
Purchase/sale of minerals in place	6,656.8	235.1	2,054.6	15.2	56.5
INA d.d. (47,16%) as of December 31, 2008	14,166.8	500.3	4,372.6	32.3	120.2
Revision of previous estimates	(825.7)	(29.2)	1,158.3	8.7	11.0
Extension and discoveries	0.0	0.0	0.0	0.0	0.0
Production	(2,500.4)	(88.3)	(777.0)	(5.8)	(20.7)
Purchase/sale of minerals in place	15,873.1	560.6	4,899.2	36.2	134.7
INA d.d. as of December 31, 2009	26,713.8	943.4	9,653.1	71.4	245.3
Revision of previous estimates	1,888.8	66.7	767.9	9.5	24.7
Extension and discoveries	0.0	0.0	0.0	0.0	0.0
Production	(3,018.4)	(106.6)	(799.4)	(6.0)	(23.9)
Purchase/sale of minerals in place	0.0	0.0	0.0	0.0	0.0
INA d.d. as of December 31, 2010	25,584.2	903.5	9,621.7	75.0	246.1
Total (domestic+int') hydrocarbon reserves as of December 31, 2007	28,002.2	988.9	23,650.9	172.3	344.7
Total (domestic+int') hydrocarbon reserves as of December 31, 2008	30,029.9	1,060.5	20,943.3	152.0	344.8
Total (domestic+int') hydrocarbon reserves as of December 31, 2009	40,505.7	1,430.4	25,690.2	187.3	447.0
Total (domestic+int') hydrocarbon reserves as of December 31, 2010	37,434.2	1,322.0	24,708.4	184.0	429.1

* The reserves include information about 100% of MMBF Ltd's reserves. In case of INA, d.d. reserves data include MOL's share proportionate to its ownership from reserves of INA, d.d. till 31 December, 2008. Due to full consolidation of INA, d.d. reserves data from 31 December, 2009 include 100 % of INA's reserves. In case of INA revision, extensions, discoveries and production figures are calculated by assuming 47.16% of MOL's share for 2009.

Gross reserves (according to SPE rules)*

Proved and probable reserves	Natural gas		Crude oil		Combined
	MCM	Bcf	kt	million bbl	million boe
Hungary as of December 31, 2007	23,003.1	812.3	9,477.5	71.6	209.8
Revision of previous estimates	1,063.4	37.6	(2,457.4)	(18.6)	(5.1)
Extension and discoveries	96.9	3.4	194.3	1.5	2.2
Production	(2,619.8)	(92.5)	(811.2)	(6.1)	(23.0)
Purchase/sale of minerals in place	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	183.8
Revision of previous estimates	2,514.3	88.8	938.9	7.1	11.1
Extension and discoveries	1,044.5	36.9	196.6	1.5	8.5
Production	(2,751.3)	(97.2)	(780.1)	(5.9)	(23.6)
Purchase/sale of minerals in place	0.0	0.0	0.0	0.0	0.0
Hungary as of December 31, 2009	22,351.2	789.3	6,758.7	51.0	179.8
Revision of previous estimates	841.0	29.7	544.8	4.1	10.5
Extension and discoveries	629.7	22.2	12.9	0.1	4.1
Production	(2,678.6)	(94.6)	(726.9)	(5.5)	(22.0)
Purchase/sale of minerals in place	0.0	0.0	0.0	0.0	0.0
Hungary as of December 31, 2010	21,143.2	746.7	6,589.5	49.8	172.5
Russia, Pakistan as of December 31, 2007	1,947.6	68.8	16,557.6	118.0	130.8
Revision of previous estimates	0.0	0.0	1,316.1	10.1	9.9
Extension and discoveries	0.0	0.0	5,046.6	36.7	36.7
Production	(53.1)	(1.9)	(1,191.7)	(8.6)	(9.0)
Purchase/sale of minerals in place	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	168.5
Revision of previous estimates	0.0	0.0	(73.7)	(0.5)	(0.6)
Extension and discoveries	0.0	0.0	0.0	0.0	0.0
Production	(68.2)	(2.4)	(1,019.5)	(7.4)	(7.8)
Purchase/sale of minerals in place	0.0	0.0	0.0	0.0	0.0
Russia, Pakistan as of December 31, 2009	1,826.3	64.5	20,635.5	148.2	160.1
Revision of previous estimates	7.4	0.3	(1,338.1)	(9.8)	(9.5)
Extension and discoveries	0.0	0.0	0.0	0.0	0.0
Production	(235.9)	(8.3)	(1,015.0)	(7.4)	(8.9)
Purchase/sale of minerals in place	0.0	0.0	0.0	0.0	0.0
Russia, Pakistan as of December 31, 2010	1,597.9	56.4	18,282.4	131.1	141.7
INA d.d. (25%) as of December 31, 2007	11,189.5	395.2	3,198.4	23.6	93.6
Revision of previous estimates	989.1	34.9	90.0	0.7	7.4
Extension and discoveries	0.0	0.0	0.0	0.0	0.0
Production	(568.3)	(20.1)	(203.2)	(1.5)	(5.4)
Purchase/sale of minerals in place	10,291.4	363.4	2,734.8	20.2	84.7
INA d.d. (47,16%) as of December 31, 2008	21,901.7	773.4	5,820.1	43.0	180.3
Revision of previous estimates	(8,770.5)	(309.7)	1,156.0	8.7	(36.6)
Extension and discoveries	0.0	0.0	0.0	0.0	0.0
Production	(2,500.4)	(88.3)	(777.0)	(5.8)	(20.7)
Purchase/sale of minerals in place	24,539.5	866.6	6,521.0	48.2	202.1
INA d.d. as of December 31, 2009	35,170.3	1,242.0	12,720.1	94.1	325.1
Revision of previous estimates	(161.4)	(5.7)	279.0	2.0	3.4
Extension and discoveries	0.0	0.0	0.0	0.0	0.0
Production	(3,018.4)	(106.6)	(799.4)	(6.0)	(23.9)
Purchase/sale of minerals in place	0.0	0.0	0.0	0.0	0.0
INA d.d. as of December 31, 2010	31,990.4	1,129.7	12,199.8	90.2	304.6
Total (domestic+int') hydrocarbon reserves as of December 31, 2007	36,140.2	1,276.3	29,233.5	213.1	434.2
Total (domestic+int') hydrocarbon reserves as of December 31, 2008	45,339.8	1,601.2	33,952.0	247.5	532.6
Total (domestic+int') hydrocarbon reserves as of December 31, 2009	59,347.8	2,095.8	40,114.3	293.4	665.1
Total (domestic+int') hydrocarbon reserves as of December 31, 2010	54,731.5	1,932.8	37,071.7	271.0	618.8

* The reserves include information about 100% of MMBF Ltd's reserves. In case of INA, d.d. reserves data include MOL's share proportionate to its ownership from reserves of INA, d.d. till 31 December, 2008. Due to full consolidation of INA, d.d. reserves data from 31 December, 2009 include 100 % of INA's reserves. In case of INA revision, extensions, discoveries and production figures are calculated by assuming 47.16% of MOL's share for 2009.

* The reserves include information about 100% of MMBF Ltd's reserves. In case of INA, d.d. reserves data include MOL's share proportionate to its ownership from reserves of INA, d.d. till 31 December, 2008. Due to full consolidation of INA, d.d. reserves data from 31 December, 2009 include 100 % of INA's reserves. In case of INA revision, extensions, discoveries and production figures are calculated by assuming 47.16% of MOL's share for 2009.

Average production costs*	2005	2006	2007	2008	2009	2009**	2010***
Crude oil (USD/bbl)	6.28	6.33	9.98	13.53	15.49	18.98	20.96
Natural gas (USD/MMcf)	937.7	861.3	936.3	1,347.6	997.7	1,477.2	1,822.9
Total (USD/boe)	6.05	5.87	8.03	11.16	11.21	14.06	15.41

*Excluding MMBF Plc. production from 2008
**Including INA H2
***With INA, costs are exclusive of fair value depreciation and impairment.

Exploration and development wells*	2005	2006	2007	2008	2009**	2009***	2010**
Wells tested	41 (28)	19 (15)	52 (31)	32 (24)	73 (54)	57 (45)	103 (80)
of which exploration wells (of which foreign)	12 (2)	7 (3)	16 (3)	12 (6)	17 (8)	13 (5)	20 (8)
crude oil (of which foreign)	1 (0)	2 (0)	0 (0)	2 (1)	5 (3)	3 (1)	7 (5)
natural gas (of which foreign)	2 (1)	1 (0)	8 (0)	6 (2)	6 (2)	6 (2)	7 (0)
dry/non commercial well (of which foreign)	9 (1)	4 (3)	8 (3)	4 (3)	6 (3)	4 (2)	6 (3)
of which development wells (of which foreign)	29 (26)	12 (12)	36 (28)	20 (18)	56 (46)	44 (40)	83 (72)
crude oil (of which foreign)	29 (26)	11 (11)	31 (26)	17 (16)	43 (41)	41 (39)	70 (65)
natural gas (of which foreign)	0 (0)	1 (1)	3 (2)	2 (2)	12 (4)	3 (1)	10 (5)
dry well (of which foreign)	0 (0)	0 (0)	2 (0)	1 (0)	1 (1)	0 (0)	3 (2)

*Foreign (without Hungary and Croatia)
**MOL and INA
***MOL

Hydrocarbon production** (gross figures) (kt)	2005	2006	2007	2008	2009	2009***	2010*****
Crude oil (domestic)*	884	857	799	743	715	715	647
Crude oil (international)	1,369	1,310	1,323	1,181	1,011	1,446	1,793
Condensates (domestic)	206	216	162	163	146	146	128
Condensates (international)	0	0	10	11	8	78	176
LPG (domestic)	206	200	157	133	125	125	113
LPG (international)	0	0	0	0	0	28	56
Other gas products (domestic)	51	43	41	33	29	29	28
Other gas products (international)****	0	0	0	0	0	37	73

*Excluding separated condensate
**Excluding MMBF Plc. production from 2008
***Including INA H2
****2009: contains products produced from 20 MCM of net dry gas. 2010: contains products produced from 37 MCM of net dry gas.
***** With INA

Natural gas production** (net dry) (MCM)	2005	2006	2007	2008	2009	2009***	2010****
Natural gas production (domestic)*	2,966	3,028	2,488	2,480	2,280	2,280	2,192
Natural gas production (international)	31	51	58	53	68	1,102	2,838

* From 2006 excluding original cushion gas production from MOL Natural Gas Storage due to the sale of storage
**Excluding MMBF Plc. production from 2008
***Including INA H2
****With INA

Natural gas transmission volume (mcm)	2005	2006	2007	2008	2009	2010
Hungarian transmission	17,714	17,278	14,961	15,140	14,913	13,833
Transit	2,570	2,386	2,390	2,427	1,768	2,201

Transmission fee (HUF/cm)	2005	2006	2007	2008	2009	2010
Hungarian transmission fee	3.03	3.16	3.68	3.89	4.44	4.75

Crude oil processing (kt)	2005	2006	2007	2008	2009*	2010**
Domestic crude oil	908	852	800	771	1,052	1,146
Imported crude oil	11,503	11,673	12,487	14,259	15,529	17,109
Total crude oil processing	12,411	12,525	13,287	15,030	16,581	18,255
Condensates processing	210	214	162	197	254	297
Other feedstock	2,433	2,371	2,854	2,914	2,865	3,282
Total throughput	15,054	15,110	16,303	18,141	19,700	21,834
Contract and joint processing	0	0	0	0	0	0
Average distillation capacity used Duna Refinery %	91	89	91	88	81	83
Average distillation capacity used Slovnaft %	95	98	98	100	95	97

* MOL Group with INA from 1July, 2009
**With INA

Crude oil product sales (kt) without LPG and gas products	2005	2006	2006	2008	2009*	2010**
Sales in Hungary	4,065	4,630	4,701	4,753	4,751	4,194
Gas and heating oils	1,919	2,345	2,438	2,577	2,614	2,447
Motor gasolines	1,148	1,286	1,331	1,297	1,319	1,102
Fuel oils	166	132	161	75	90	27
Bitumen	244	300	163	207	197	142
Lubricants	26	24	26	20	21	22
Other products	562	543	582	577	510	454
Sales in Slovakia	1,378	1,464	1,524	1,626	1,427	1,519
Gas and heating oils	719	786	838	905	807	926
Motor gasolines	420	406	444	457	412	407
Lubricants	15	11	10	8	9	5
Bitumen	96	99	85	93	77	69
Other products	128	162	147	163	122	112
Sales in Croatia					1,457	2,061
Gas and heating oils					784	1,194
Motor gasolines					314	507
Lubricants					6	9
Bitumen					70	67
Other products					283	284
Exprot sales	6,004	5,714	6,576	8,810	9,242	10,561
Gas and heating oils	3,264	3,254	3,671	5,013	4,949	5,498
Motor gasolines	1,534	1,263	1,365	1,667	1,911	2,136
Lubricants (without base-oil)	28	28	26	22	24	22
Bitumen	191	128	300	885	878	989
Other products	987	1,041	1,214	1,223	1,480	1,916
Total crude oil product sales	11,447	11,808	12,801	15,189	16,877	18,335

* MOL Group with INA from 1July, 2009
**With INA

Petrochmical production (kt)	2005	2006	2007	2008	2009	2010
Ethylene	796	775	870	812	789	794
LDPE	284	263	270	246	231	216
HDPE	353	360	404	361	387	417
PP	441	496	545	515	511	510

Petrochemical sales (kt)	2005	2006	2007	2008	2009	2010
Domestic sales	468	479	491	447	385	462
Slovakia	69	72	84	78	80	82
Export sales	758	819	912	833	881	871
Total product sales	1,295	1,370	1,487	1,358	1,346	1,415

Average headcount (person)	2005	2006	2007	2008	2009*	2010**
Exploration and Production	1,502	1,428	1,504	1,516	1,498	1,486
Refining and Marketing	2,953	2,796	2,836	2,882	2,854	2,836
Gas and Power	6	1	0	17	33	37
Corporate Services	580	504	539	539	521	502
Headquarters and other	489	461	427	430	439	446
MOL Nyrt. total	5,530	5,190	5,306	5,384	5,345	5,307
Subsidiaries	10,056	9,121	9,194	10,606	20,189	28,107
MOL Group	15,586	14,311	14,500	15,990	25,534	33,414

* MOL Group with INA from 1 July, 2009
** With INA

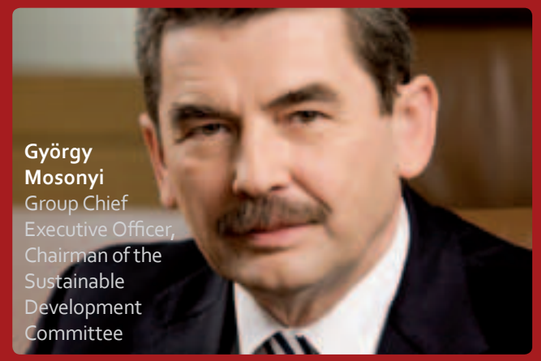
Closing headcount (person)	2005	2006	2007	2008	2009*	2010*
MOL Nyrt.	5,348	5,096	5,305	5,421	5,264	5,270
Subsidiaries	9,312	8,765	9,753	11,792	28,826	27,124
MOL Group	14,660	13,861	15,058	17,213	34,090	32,394

* MOL Group with INA

Sustainability: non-financial performance

Duna Refinery in Hungary

Interview with György Mosonyi



György Mosonyi
Group Chief Executive Officer, Chairman of the Sustainable Development Committee

The strategic period 2006-2010 ended last year. How do you evaluate group achievements in the field of sustainability?

The performance of recent years can be considered successful because in September 2010 MOL was listed on the Dow Jones Sustainability World Index, which is based on the best-acknowledged sustainability assessments in the world. Moreover, we not only managed to be listed but we received a high rating in all three dimensions of sustainable development; long-term economic, environmental and social criteria. But this outcome is also supported by the several awards we received in previous years. However, the growth of the Group creates newer challenges: our aim is that every company and business division of the continuously developing MOL Group will manage environmental and social issues at the same high level.

What are the new directions for the next period from a sustainable development point of view?

Our principle, that sustainability is the basis for business operations and not a 'greenwashing' PR exercise or simple charity, has not changed. For the years ahead we have defined our objectives as being in the following six focus areas: climate change, environment, health and safety, communities, human capital and economic sustainability. Every business and functional area contributes to the efforts necessary to reach our targets, and they are valid in all countries.

What are the issues you will put special emphasis on?

The above-mentioned six focus areas cover these issues. In our industry, occupational health and safety, the protection of the natural environment and the prevention of unexpected events and incidents take utmost priority. This is why we have set strict and challenging targets in work safety and that is also the reason we have made HSE leadership training compulsory for every newly-appointed manager. Another area is regular dialogue with stakeholders, which is important not only because of rising social expectations, but because it will play an increasingly important role in the international operations of the coming years. But I should also mention the most essential contributors to the success of the company: we can achieve our goals only with the help of properly trained, motivated and engaged employees. And more valuable human capital contributes also to social progress in general.

But, for an oil and gas company, climate change is an unavoidable issue. Does MOL have any ideas about what kind of business model it will follow in the low-carbon economy?

We are aware of the importance of the topic, which is why we created a climate change statement for MOL Group in 2009. Moreover, my colleagues from strategic development have prepared a very thorough and detailed study about the potential risks and opportunities MOL may face due to the transition to a low-carbon economy. As a result, in the next decade we aim to enter into the power generation business, construct geothermal energy-based power plants, and, in line with EU objectives, continue the development of more efficient and sustainable biofuels. And energy efficiency will remain a focus.

How do you evaluate performance in 2010 in the light of sustainability objectives?

If I look only at the figures, then just like with our financial data, last year was successful: our environmental targets were mainly met, employee engagement has further increased, the satisfaction of our customers remained at a high level, we successfully supported social programs and we made fair progress towards our sustainability project related goals. But on the other hand, the incident rate could not be maintained at its good low level of previous years, and unfortunately, fatal incidents also occurred, which is unacceptable.

MOL became a truly international player in the oil and gas industry. What challenges does this bring?

The values of the Group are common, therefore the commitment of our mother company towards a number of international initiatives - such as the United Nations Global Compact – are valid for all members of the Group. And although is easy to formulate these words, it can take long years to extend and implement these policies, systems, processes and corporate culture, which represent these values, to all units. Fortunately, regular external acknowledgments - like the recent 'Gold Class' ranking from SAM for sustainability – give us feedback that we are on the right track.

Sustainability:
Sustainability: non-financial performance
non-financial performance

The boundaries of the data contained in the sustainability chapter of the Annual Report are different to the boundaries used for financial data - see details in 'Notes on Non-Financial Reporting' (p. 202). To have an appropriate basis for comparison when evaluating environmental trends and the achievements of targets, INA Group (Croatia), IES (Italy) and Tifon (Croatia) data are excluded. In the detailed tables provided below we present the long-term trends in the 'change' column while a comparison has been made between data from 2010 and the first year with complete data.

Duna Refinery in Hungary

1 Overview and Targets

1.1 2010 Results

Overview of 2010 (targets and achievements related to the seven strategic Sustainable Development initiatives):

Objective	Result	Fulfillment of the task*
1. Strengthen Good Governance and Risk Management		
Review and amend the Code of Ethics and related processes	Complete; finalisation of the brief version of the Code for suppliers is ongoing	●
Increasing ethical awareness among employees through communication and e-learning	Ethics e-learning and exam was passed by MOL Plc, TVK Plc. and Slovnaft a.s. employees; Ethics training sessions were held in several other companies; internal communication has been on schedule	●
Set up HSE Risk Map of PSM (Process Safety Management) critical processes	HAZID, HAZOP and WRA assessments have been completed for the PSM critical processes which provide the base information for the Risk Map	◕
2. Concentrate on Future Portfolio Steering		
Test water reservoirs based on MOL's selected existing non-productive hydrocarbon wells, and develop business model for geothermal energy production	Business and technical model has been developed and tested with successful results	●
Take further steps towards realising the biogas project aims related to our biodiesel plant	Feasibility study, sample measurements and main technical and financial parameters were estimated; other aspects of implementation are being investigated by experts and will be finished by the end of Q1 2011	◕
Continue the investigation of possibilities to use renewable energy sources in refineries	Research on algae-based technology for CO_2 fixation and biocomponent production; R&D on new generation biofuels; scaling-up of this technology is ongoing	◕
3. Focus on Internal and External Customer Relations		
Maintain a high level of customer satisfaction in all business divisions	Maintained high levels of customer satisfaction in retail and wholesale; customer loyalty has slightly decreased in the Petrochemical Division: however it still coincided with market trends	◕
Define an integrated international branding process for MOL Group	A comprehensive branding project was initiated; milestones and key deliverables have been defined and approved by top management	●
4. Enhance Trust and Credibility Among Stakeholders		
Set up and/or formalise stakeholder engagement processes	Internal good practice workshop was held; necessary modifications to communication regulations have been drafted; related regulations will be updated during the next review and will later be implemented.	◕
Introduce and regulate Corporate Volunteering in MOL Plc.	Concept and protocols were developed; implementation and pilot period in 2011	◕
Prepare a Qualitative Analysis of the Social Impact of the 'Greenbelt' Donation Programme	Not only qualitative, but a quantitative analysis was prepared evaluating the social impact of the Greenbelt Programme from the perspectives of value creation, community building and raising environmental awareness. The assessment revealed that the programme has been an outstanding success and has had a positive impact on local communities.	●
5. Reduce Environmental Footprint		
Reduce specific CO_2 emissions by 1% as a direct result of greenhouse gas (GHG) reduction initiatives	Largely achieved. Between 4.2% increase to 12.9% decrease depending on business division resulting from energy efficiency projects and changing production patterns	◕
Reduce MOL Group fresh water consumption by 10%	Reduction of total water withdrawal by 35% compared to 2008	●
Set up biodiversity systems at both group and business unit levels	Environmental Impact Identification (ENVID) methodology was extended with biodiversity-relevant questions; the Group Level Biodiversity Action Plan and Strategy (BAP) will be completed in 2011	◔

* ○◔◑◕● – level of fulfillment of the task (● =100%)

Objective	Result	Fulfillment of the task*
6. Manage Opportunities, Risk and Liabilities in the Value Chain		
Have a total reportable occupational illness frequency (TROIF) of zero	There were no occupational illnesses in MOL Group	●
Have each business unit contribute by involving at least 75% of employees in the Workplace Health Promotion Programme ('STEP'), and keep Absence Rate under 2.5% (MOL, SN, SPC, TVK)	The participation rate at our STEP Programme reached 81%, while the absence rate was 1.8%,far better than the target	●
Have no work-related fatalities in MOL Group (staff, contractors and third parties)	1 own staff, 2 contractor, 1 third party fatality	○
Reduce lost time injury frequency (LTIF) to below 1.0	Within the MOL Group (excluding INA), the LTIF rate rose above our target (1.5), but most of the injuries were not technology related (22 slips/ trips/falls out of the total 40 LTIs)	○
Road accident rate (RAR) should not exceed 1.6	RAR of 1.22, far better than our target	●
7. Capitalise on Human Resources		
Extend the Employee Performance Management System to Hungarian MOL Group companies (MOL-LUB, FGSZ and Petroszolg)	EPMS now covers more than 80% of Hungarian MOL Group employees	●
Create a Group level guideline for equal opportunities and work-life balance; prepare our first equal opportunity plan (EOP)	Base principles were integrated in the New Europe Programme signed at the beginning of 2011 by the European Workers' Council. A handbook on how to make an EOP was prepared for subsidiaries.	●

* ○◔◑◕● – level of fulfillment of the task (● =100%)

1.2 New strategic sustainable development (SD) objectives

In 2010, the seven SD strategic initiatives for the period 2006-2010 were reviewed and updated. After a series of discussions and workshops, six SD focus areas were defined for the period 2011-2015: climate change, environment, health and safety, communities, human capital and economic sustainability. The six focus areas cover 20 topics, all of them considered essential to the successful management of the long-term economic, social and environmental challenges MOL Group faces in the future. The strategic objectives have been broken down by business division and country/company level. We aim to finalise the target setting and action planning process by mid-2011.

The main objective at the Group level is to 'achieve and maintain an internationally acknowledged leading position (top 20%) in sustainability performance.'

1.3 Targets for 2011 in the six focus areas of sustainability

Climate Change

- Reduce specific GHG emissions by 1% (baseline YE2010);
- Obtain geothermal concession for the pilot project and executing geothermal related R&D activities;
- Finalise the integration of the biogas plant into refinery systems and start the construction work;
- Continue the investigation of possibilities to use renewable energy sources in refining:
  - Continue research on algae-based technology for CO_2 fixation and biocomponent production;
  - R&D on new generation biofuels and further improvement of technology including algal biomass utilisation as biogas or biodiesel feedstock;
  - Increase the ratio of recycled vegetable oil (used cooking oil) in the fuel pool.

Environment

- Using a risk-based approach, decrease the amount of known (YE2010) environmental liabilities across MOL Group by 5%;
- Establish a group and business unit biodiversity system.

Health and Safety

- Ensure total reportable occupational illness frequency (TROIF) of zero;
- Achieve 15% regularity rate in the STEP (WHP) Programme by the end of the year (MOL , TVK , SN , SPC);
- Achieve zero work-related fatal accidents across MOL Group (staff, contractors and third parties);
- Ensure LTIF is less than 1.0;
- Ensure RAR is not higher than 1.6.

Communities

- Define general rules valid for all MOL Group companies engaged in advertising to guarantee responsible marketing.

Human Capital

- Enhance employer branding (strategy and image design) based on the results of the Employer Branding Survey of 2010;
- Preparation for the extension of the Employee Performance Management System in INA;
- Extend the Equal Opportunities Plan to major Hungarian subsidiaries;
- Continue the Professional Competency Development Program (Petroskills) in Exploration and Production and extend to R&M and HSE.

Economic Sustainability

- Issue a Business Continuity Management regulation valid for the MOL Group, and roll out first phase;
- Increase ethics awareness, improve the ethics management at the Group level, and implement all actions planned for 2011.

2 Environmental Performance

2.1 Climate change

In 2010, we spent our efforts on continuing the implementation of the action plans defined in the framework of MOL Group's Climate Change Statement that was adopted in 2009.

At the legislative level, a CO_2 benchmarking system was developed by the European Commission in dialogue with stakeholders. This benchmarking system will drive CO_2 reductions at least until 2020. MOL Group, via its membership in industrial associations, took an active part in the effort to balance challenging benchmarks with ensuring the competitiveness of our businesses on a global scale.

As in previous years, MOL also participated in the Carbon Disclosure Project in 2010, where climate change related data are collected on behalf of major global investors. Parallelly, we enhanced our reporting of indirect GHG emissions.

Renewable energy

The achievements of the key renewable energy projects are summarised below:

- Second generation biofuel research: Based on broader feedstock, MOL is preparing for the timely fulfillment of the EU Renewable Energy Directive through the production of bio-components in a more economic and efficient manner. The first phase of the project resulted in patented results and the consortium submitted a new tender to the National Office for Research and Technology (NKTH) for phase II.
- Biogas produced from the organic waste of our bio-diesel factory can substitute approximately 10% of the Duna Refinery's heating needs, currently provided by natural gas. Following the completion of the feasibility study, sample measurements and an estimation of the main technical parameters, the financial viability of the project is currently under investigation.
- Algae oils are third-generation bio-fuel feedstock for biodiesel production: MOL DS Development has started an algae research project in Százhalombatta. Based on our laboratory experiments, we have installed a pilot reactor to continue our research towards capturing CO_2 from refinery flue gases and profitable algae oil production.
- Geothermal energy: In line with European renewable targets, a new technological and business model was developed by the Supply and Trading Division to utilise geothermal potential in Hungary and Croatia. Based on available assets (available 2D and 3D seismic data), some of the suitable reservoirs have been explored. Through CEGE (company owned 50% by MOL), EUR 1.4 million was spent on this research with promising results. From both the technical and financial point of view, the project is ready to be launched with the aim of starting the production by 2014.
- More efficient biofuels: since European regulations support biodiesel production from non-edible and waste feedstock, important steps have been taken to realise a project dealing with the municipal collection of used cooking oil as feedstock for our joint venture biodiesel company, Rossi (HU). Collection will occur at MOL's own filling stations.

Energy efficiency and GHG emissions

MOL's continued focus on improving energy efficiency was reflected in the reduction of CO_2 emissions from installations subject to the emission trading scheme (ETS). In practice, 96% of all CO_2 releases within the MOL Group (without INA)

are conditional on the EU Emissions Trading System (with INA: 67%). Verified emissions reached the level of 5.13 Mt CO_2 in 2009. While in 2010, emissions before verification stand at 4.87 Mt; representing a 5% reduction.
In addition to a reduction in absolute figures, we have also met our internal target - 'to reduce specific CO_2 emissions by one percent year over year' - in the Refining Division (-12.9%). However, due to three unplanned shutdowns in 2010, the specific emissions of Petrochemicals slightly increased (+4.2%).

Direct and indirect energy consumption by source (GJ)

	2009*	2010*	Change 2009-2010 (%)	2010 Total MOL Group
Natural Gas	20,556,116	20,511,218	-0.2%	26,855,282
Other hydrocarbon (e.g. fuel)	54,311,663	52,273,334	-3.8%	76,982,160
Total primary energy consumption	74,867,779	72,784,552	-2.8%	103,837,442
Electricity	7,476,690	8,080,860	+8.1%	9,301,736
Other indirect energy (steam, heat, etc.)	9,204,196	8,604,808	-6.5%	9,924,985
Total indirect energy consumption	16,680,887	16,685,668	0.0%	19,226,722
Total energy consumption	91,548,666	89,470,220	-2.3%	123,064,164

* excluding IES and INA

Each division involved contributed its share to this positive performance. Energy efficiency improvement at the Refining Division, covered by the 'EIFFEL Programme' and managed by DS Development, delivered an estimated reduction of fuel consumption by 35 TJ/y (Terajoules/year). Some reductions were also due to a decrease in crude oil processing and general turnarounds (general offstream period).
Similar programmes have been running in the Exploration and Production Divisions as well. In Hungary, the ENRAC (Energy Rationalization) Project's goal has been to increase energy and maintenance savings resulting in reduced upstream CO_2 emissions. Lower emissions have mainly been achieved by modernising heating systems and changing compressor drives from gas to electric engines.
Flaring is a specific issue for Exploration and Production installations. Our goal is to flare or vent gas only for technological reasons and in case of emergencies. This goal has been fulfilled 100% in Hungary. In Pakistan, we achieved a thirty-five percent reduction in the volume of flared gas, while in Russia we are working on the utilisation of associated gas instead of flaring.
In the Petrochemical (Petchem) Division, we have established a Demand Management Team responsible for the monitoring and optimisation of energy utilisation from the source to the consumer, and for the investigation of losses. Improved steam management resulted in a 1.3 TJ reduction in steam losses at TVK (HU), and an additional 3 TJ cut in steam consumption at SPC (SK). Almost 3 kt of CO_2 were saved as a result of better process regulation and the revamp of furnaces at the SPC Steam Cracker, thus saving 15 million m^3 of natural gas.
At the Natural Gas Transmission Division, MOL reduced energy consumption through the optimisation of gas turbine operation and boiler performance. Through the application of new techniques during pipeline servicing and maintenance, we reduced the volume of flared gases.
In 2010, the energy efficiency audit of key production plants was continued by the MOL Energy Efficiency Team. The audit of TVK was completed, and we aim to begin implementation of the action plan in 2011. The audit of the Exploration and Production Algyő Gas Preparation Plan (HU) was also initiated in mid-2010, and will be finalised in Q1 of 2011.

2.2 Air emissions

In 2010, the total air emissions (excluding GHG) decreased significantly (by 11.7%) compared to 2009, if we take into account the same set of companies. If we include the air emission data of IES and INA, then air emissions practically doubled.

Total air emissions (excl. GHG) by type (t)

	2008	2009	2010 (without INA)	Change 2008-2010 (%)	2010 Total MOL Group
SO_2 (Sulphur Dioxide)	8,805	4,389	2,940	-66.6%	13,142
NOx (Nitrogen Oxides)	5,054	3,937	3,442	-31.9%	7,874
VOC (Volatile Organic Compounds)	5,627	3,683	4,133	-26.5%	4,211
CO (Carbon Monoxide)	824	880	864	+4.8%	1,599
PM (Particulate Matter)	298	205	184	-38.2%	361
Total	20,608	13,094	11,563	-43.9%	27,187

At Exploration and Production, the biggest area for operational improvement was at INA Upstream, where the IPO Project (assessment of INA d.d. hydrocarbon production activities at Posavina and Slavonija) was launched in 2010. Last year we reduced our internal gas consumption (feed gas, heating).
At Refining, we have focused on basic pollutant emission reductions. The Leakage Detection and Repair (LDAR) Programme at the Slovnaft Refinery for monitoring of volatile organic compounds (VOC) has been operating for several years, and we have now started a similar programme at the Danube Refinery as well. The aim is to have more reliable information on VOC emissions, creating the basis for a VOC reduction programme. Through the ongoing energy efficiency programme, we can reduce the air pollutant emissions from flared gas.

There were two major projects in the Petchem Division. In order to meet the air emission standards within our operating permit, we increased the capacity and renovated the quench oil unloading station. The second project was the installation of fixed roofs on floating roof tanks. The aim was to reduce the evaporation of raw materials.
Compared to the Refining or Petchem Divisions, the Logistics and Retail Divisions are not so significant in terms of air emissions, but we do not consider being of lower priority though. With the aim of VOC reduction in mind, we began reconstruction of the Vapor Recovery Unit (VRU) at the Komárom Logistics Depot, and initiated a programme (LDAR) to measure VOCs at the Korneuburg Depot.

2.3 Water management

Water withdrawals
Considering the same set of reporting companies as previous years, at a group level we achieved a further reduction in total water withdrawals. Compared to our baseline year 2008 the amount of water withdrawn decreased by nearly 35% as a combined effect of a decrease in production due to turnarounds, a change in the product slate, minor technological improvements and the outsourcing of the Slovnaft Thermal Power Plant to CEZ-MOL joint venture company in 2009.
As a result of INA and IES consolidation, the total volume of water withdrawals in MOL Group increased by 68%. Compared to 2009, the volume of wastewater recycled and reused also increased by 25% and reached 2.7% of total water withdrawals. At the Sisak Refinery (INA) we plan several technological developments aimed at achieving a 17% reduction of water withdrawals in the near future. In Mantova Refinery (IES) a study was prepared on water consumption reduction.
In our petrochemical plants we reduced water withdrawals by 6.5% (compared to the baseline year 2008) and the ratio of recycled wastewater compared to 2009 raised by half. Based on water technology improvements planned in TVK, a saving of 0.6 million m^3/y water can be achieved from 2011.

Total water withdrawals by source (th m^3)

	2008*	2009*	2010 (without INA)	Change 2008-2010 (%)	2010 Total MOL Group
Municipal water supplies or other water utilities	2,186.4	2,175.5	2,449.1	+12.0%	3,523.7
Surface Water Withdrawals	65,612.4	50,653.2	36,267.6	-44.7%	68,512.4
Ground Water Withdrawals	9,421.9	8,950.4	10,610.4	+12.6%	14,766.4
Rainwater Collected Directly and Stored	591.1	583.8	9.0	-98.5%	565.3
Wastewater from Other Organisations	8,233.9	6,054.6	6,794.3	-17.5%	6,794.3
Total Water Withdrawals	86,045.8	68,417.5	56,130.4	-34.8%	94,162.1

*2008 and 2009 data were restated to correct local misinterpretation of the indicator: groundwater withdrawals from remediation processes at the Slovnaft Refinery were excluded.

Water discharge
Compared to 2009, the total discharge volume and the amount of contaminants such as total petroleum hydrocarbon (TPH), chemical and biological oxygen demand (COD, BOD) and suspended solids (SS) increased due to data consolidation (TPH 69%, COD 32%, BOD 50%, SS 16%). Without incorporating data from INA and IES our performance was stable with no significant changes in the amount of emitted contaminants.
In line with the Water Framework Directive, our focus has shifted from the physical and chemical quality of water to its biological quality. We utilise Whole Effluent Assessment (WEA) methodology, comprising ecotoxicity, persistence and bioaccumulation tests in the Hungarian and the Slovakian refineries to assess the ecological impacts of final refinery

effluents. We found that the persistent organic content of effluents has a strong potential to accumulate and make the discharged wastewater moderately ecotoxic. Our ecological impacts on the aquatic environment can be reduced by recycling and reuse of the final effluents.
At the Zala Refinery the capacity of the waste water treatment unit was improved by 100%, allowing us to reduce the COD of discharged water. In order to manage the COD level we connected our system to the public sewage system, so final cleaning is carried out in the waste water treatment unit of the town.

2.4 Waste management, spills and site remediation

Waste management
In 2010, the total amount of waste from MOL Group operations (without INA and IES) was approximately 157 thousand tons, the same as in 2008, but signalling an 18% increase compared to 2009. Due to our efforts the ratio of reused or recycled waste has increased by 15% since 2008.

Total weight of waste by type (t)

	2006	2007	2008	2009	2010 (without INA)	Change 2008-2010 (%)	2010 Total MOL Group
Hazardous Waste	167,589	85,171	98,791	66,782	88,083	-10.8%	92,918
Non-hazardous Waste	n.a.	n.a.	57,619	66,873	69,246	+20.2%	77,604
Total	n.a.	n.a.	156,410	133,655	157,329	+0.6%	170,522

The increase in waste production resulted from several turnarounds and other maintenance works which had been postponed from the previous year. For example, the disposal of a large amount of oily sludge accumulated in the Danube Refinery's waste water treatment plant led to 5,900 tons reported in additionally in the Refining Division. The quantity of non-hazardous waste increased by 9000 tons due to an obligation to clean the designated area for the construction of the new CCGT Power Plant at the Danube Refinery.

Total weight of waste by disposal method (t)

	2006	2007	2008	2009	2010 (without INA)	Change 2008-2010 (%)	2010 Total MOL Group
Waste Disposed / Landfilled	256,429	74,959	92,175	68,198	68,975	-25.2%	80,202
Waste Reused / Recycled	55,016	86,180	64,235	65,456	88,355	+37.5%	90,320
Total:	311,445	161,139	156,410	133,655	157,329	+0.6%	170,522
Ratio of reused/recycled waste (%):	n.a.	n.a.	41%	49%	56%		53%

Examples of waste management actions:

- Instituted waste reduction methods at the Rijeka Refinery in order to reduce the creation of oily sludge. Sludge was treated utilising the decanter and centrifuge technique (partial reuse);
- Treatment of 3000 tons of oil-based mud cuttings has been managed through bioremediation in Pakistan. Treated cuttings were later used in construction as fill material;
- Launched the Green Office Programme at several sites and countries. Measures included digitalization of documents, reduction of paper use (recycled paper use, 2-sided printing), installation of shared printers and refilling toner cartridges.

In our Lubricants Division, 19% (2009: 9.2%) of sold products were recollected and used as raw material for bitumen production in our refineries.

Spills
In 2010, there were 15 spills into the environment (over 1 m^3) by the MOL Group (excluding INA). Another 11 cases happened at our Croatian operations. The majority of spills happened at Exploration and Production due to ruptures on mainly oily water delivery pipelines. Some of the causes of the ruptures included the age of the pipelines, changed fluid composition at oil fields, and intention of stealing the condensate from pipelines. In order to prevent further spills, Exploration and Production has invested great effort to replace or repair critical pipeline corridors.
Furthermore, due to pipeline sealing problems or other technological reasons, additional spills occurred at Refining and Marketing (10). The total volume of the spills amounted to 186 m^3 in 2010.
After detecting the incidents, all necessary measures for aleviating the damage and its consequences were immediately put into effect.

Remediation
MOL Group spent nearly HUF 3 billion for remediation of environmental damage in 2010. The share of responsibilty was divided among the Group as follows: MOL Plc. HUF 1.07 billion, Slovnaft HUF 1.45 billion, TVK HUF 0.12 billion and IES HUF 0.2 billion. Remediation actions were also necessary in other countries, including Bosnia, though the order of magnitude was lower.
Remediation tasks are managed at the group level, and are gradually being extended to the member companies. In INA, an assessment of provision-based environmental liabilities and the subsequent provisions (in line with the IFRS requirements) was completed in 2010. The primary goal of 2011 is the preparation of the future remediation programme and beginning the process of to eliminating environmental burdens.
The majority of our remediation and monitoring tasks are naturally in Hungary and Slovakia, with the number of related locations exceeding 250. Liabilities arise along the entire value chain. Besides the refineries, petrochemical and logistic sites, we also aim to improve the environmental status of various production facilities and filling stations. We have focused on monitoring activities, since in this way we can receive feedback regarding the success of remediation and risk minimisation actions. In 2010, we completed remediation at seven locations, and closed the post-monitoring phase at twenty further sites.
In 2010, with the support of the National Office of Research and Technology (NKTH), we continued our four-year (2009-2012) innovation programme in cooperation with TVK Plc. and external partners. The project titled 'Chemical Sector and Liveable Environment – Development of Innovative Technologies in the Protection of the Environment' supports the analysis and validation of sustainability criteria in remediation activities, as well as operating technologies with minimal power consumption and low waste or no-waste production (contaminated water, soil, filters, etc.). Successful tests of innovative barrier technologies were executed in the shallow and deep zones, which we aim to continue in 2011 as well.

2.5 Biodiversity

In 2010, the Environmental Impact Identification (ENVID) methodology was extended to cover an initial biodiversity assessment and plan. We aim to conduct a pilot risk and impact assessment in 2011. This baseline biodiversity questionnaire has two objectives: first, to identify or confirm species, habitats, and ecosystems that are wholly or partly within the site or project boundaries, along with their related functions and services; and secondly, to identify statutory designations and priority species, habitats and ecosystems. Meeting these objectives we established the baseline for future monitoring of impacts and of the performance of the MOL Group Biodiversity Action Plan and Strategy (BAP) aligned to the existing HSE management system and processes.
In Exploration and Production Hungary, agreements with local national parks were signed to carry out biodiversity studies for our operations and to train our employees on how to coexist with the sensitive flora and fauna. In Pakistan, all projects are internally monitored. Third party audits of our operations were also carried out in environmentally sensitive areas. All project sites were restored and rehabilitated after completion of various activities.

2.6 HSE Penalties

In 2010, the MOL Group had to pay a total of HUF 11.06 million in HSE- related penalties. Moreover, the lower penalties in this year compared to the previous one (2009: HUF 14.7 million) also contain the penalties paid by companies of the INA Group (HUF 2.63 million). If the data is compared, excluding the INA Group, both the number and the total amount of penalties demonstrated a marked decrease (HUF 8.43 million in 2010).
Certain administrative mistakes in environmental data reporting (HUF 1.5 million) or the faulty performance of our contractors (HUF 1.91 million) were responsible for some of the fines. However, occasional minor breaches of work-safety regulations were also the cause of 0.9 million HUF in penalties.
Considering the HSE aspects of the oil and gas industry, the level of compliance has clearly improved in recent years. However, we still are not satisfied with this figure and our goal is to reduce all health, safety and environmentally related penalties to zero throughout the entire MOL Group.
MOL did not receive any HSE-related non-monetary sanctions in 2010.

3 Social Performance

3.1 Personal Safety

Workforce Safety

In 2010, as in previous years, we preserved the challenging target of 1.0 for Lost Time Injury Frequency (LTIF, number of injuries / mn worked hours), valid for the whole MOL Group excluding INA and IES. A total of 38 lost time injuries happened during the year, resulting in an LTIF value of 1.56. Although this number is still much better than the industry benchmark (CONCAWE downstream, 1.9 for both 2008 and 2009), it is unacceptable according to our HSE targets.

Number and frequency of lost time injuries

	2006*	2007*	2008*	2009*	2010*	Change 2006-2010 (%)	2010 INA	2010 Total
Lost Time Injury (LTI)	58	37	24	28	38	-34%	64	104
Lost Time Injury Frequency (LTIF)	2.20	1.52	0.99	1.18	1.56	-29%	3.1	2.25

* excluding ISE and INA

In the Refining and Marketing division several initiatives were launched to improve the HSE cultural level of employees:

- Revitalisation of the Behavior Audit system ('Walk2Talk')
- New internal quick reports of all events and sharing information on HSE weekly reports to the whole staff
- Restructuring of the HSE training system to increase its efficiency (more interactive)
- In Logistics the 'Program ZERO' was started (commitment to Zero fatality, injury and occupational illness)
- A Logistics-level HSE Committee structure has been established

In INA d.d. the LTIF was 3.1 for 64 LTI cases, which is slightly below the previous year's level. INA Exploration and Production was much better than the INA average (LTIF was 1.1; better than LTIF for European Exploration and Production as defined by OGP). However, the situation is not the same at INA Refining and Marketing, which had an LTIF 4.8; far above the European R&M average according to CONCAWE.
It must be noted that the Croatian legal system regarding definitions and compensation for injuries at work is different than the general industry standard. Hence, there are disparities concerning the motivation of employees to declare some injuries as work-related injuries. Moreover, 40% of the injuries that occurred at INA d.d. were the result of robberies at INA filling stations (post traumatic stress disorder) and 87% were treated as light injuries. Analysing the statistics, one can also distinguish a seasonal distribution of injuries (majority during winter and harvest periods).

In order to improve the safety performance of INA, a number of actions are being taken, including:

- an Incident Reporting and Investigation System (IRIS) was established, with obligatory investigation of all injuries and the use of TRIPOD root-cause analysis for all medium and major incidents based on the MOL Group IRIS System;
- a new Occupational Health and Safety (OHS) Regulation was established at INA with clear definitions of OHS responsibilities;
- a network of OHS and HSE Committees was established at all levels, and the transfer of the MOL Group HSE management system is accelerated.

One of the main causes of LTIs remains the improperly managed winter conditions, and lack of proper attention to pedestrian traffic and on-site activities. Subsequently, a number of slips, trips and falls resulted in largely minor injuries. Collisions with objects in the working environment and transport-related injuries must also be noted.

We deeply regret that even with our vigilance, there were fatal accidents to one of our own staff, two contractors and one third party:

- One staff member was found dead in a water utility pit at the Slovnaft Refinery. External and internal investigations were conducted and corrective actions have been implemented to avoid similar accidents in the future.
- One contractor was fatally wounded in Pakistan when a security contractor's armed guard was hit during a firefight initiated by local tribal forces.
- One contractor fatality ocurred in Hungary at the MOL Logistics' Csepel base depot during a tank cleaning by contractors when an explosion killed the worker inside. The investigation was closed and corrective actions are being implemented under the upgraded Contractor Safety Programme.
- One third party fatality happened in Croatia when a child playing near the railroad close to the Sisak Refinery fence was hit by a railway tank car (RTC) train.

Road Safety

In the interest of safer traffic, we have expanded the Defensive Driving Programme. Those colleagues whose work requires regular driving take part in a theoretical defensive driving course, and then participate in a monthly distance learning programme to keep their newly-acquired knowledge fresh. Participants also attend practical training sessions complete with personal evaluations. We recommend and offer the possibility to our drivers to take part in a supplemental driving course as well. The four modules of the course include: 'Slippery road', 'Off-road', 'Drive at night and poor visibility conditions', and the 'Untrained drivers' training. In 2010, approximately 400 employees of MOL Group participated in this programme. As a result of our efforts, compared to 2009, we have decreased our road accident rate (RAR, number of road accidents per 1 million km driven) from 1.62 to 1.22.
In order to provide the possibility for drivers to refresh themselves by simple and fun physical exercises ('fit to drive' concept), an outdoor fitness park with exercise equipment was installed in one FS each in Hungary, Slovakia and Croatia (Tifon).
Our external company magazine, *Stílus & Lendület*, regularly publishes road safety alerts called '70 Rules for Safe Driving' for customers of our filling stations.

Contractor Safety

Activities regarding contractor safety in 2010 were mainly influenced by an unfortunate event involving our on-site contractor (fatality of contractor's employee) which happened in March of that year at the MOL Hungary Csepel site. The company analysed the accident and identified all shortcomings and areas for improvement in Contractor HSE Management. HSE and all relevant businesses are now focused on system improvement, primarily in contractor pre-qualification, proper training prior to job execution, on-site inspection of contractors during implementation, and a motivation system to ensure that contractors abide by all HSE rules relevant to the on-site work environment.
Besides these activities, we continued external audits of our strategic and key on-site contractors. A total of 147 audits were conducted, in which 53 percent of audited contractors achieved the advanced rating.

Number and ratio of audited key contractors by HSE performance

	2009 (number of audits)	2009 (%)	2010 (number of audits)	2010 (%)
Basic	41	46%	57	39%
Advanced	43	48%	78	53%
Excellent	5	6%	12	8%
Total	89		147	

3.2 Health Protection and Promotion

Occupational Health

Largely due to a well-regulated Occupational Health Policy supported by high quality external operating staff, we once again recorded no occupational illnesses in our business divisions in 2010.
In line with the most recent international trends regarding human resource management, our occupational health processes are based on a detailed Workplace Risk Assessment. In 2010, in addition to all health and safety workplace-related risks, we succeeded in fully assessing the psycho-social and ergonomic risks to our employees. The subsequent data served as a basis to manage these risks. Moreover, a specific instrumental measurement methodology was introduced to assess the psycho-social risks of the most vulnerable target group, the shift employees.
We are strongly committed to protect our employees. Staff are regularly monitored through biological monitoring to minimise occupational exposure to less than 50% of the legally required limit.

Workplace Health Promotion (STEP)

The key objective of the current phase of our workplace health promotion programme (STEP – Take a Step for your Health) is to create an adequate company health culture and to invest in the development of health-promoting employee behaviour.

The main programme elements are Extra Screening, STEP Active, Effective Health Communication and the Stop Smoking Campaign. The recent inclusion of IES and MOL Romania brought the total of participating MOL Group member companies to 14 in seven countries. STEP now covers 45 percent of the total workforce (excluding INA).

New programs were started in several locations in 2010, including:

- An office package including office gymnastics and mobile massage. Office employees participated 688 times in gymnastics and took advantage of the mobile massage 1,856 times;
- A total of 28 teams and more than 185 employees participated in the 'together-easier' competition at MOL Hungary. The drive was aimed to motivate colleagues to lose weight and improve their fitness level;
- Many improvements were also realised in the organisation of STEP screenings and STEP communication.

Almost 6600 employees took part in different STEP programmes – 3,653 in different sport activities in 2010, including 2,254 new participants. The cumulative participation rate of 81% exceeded our 75% target for 2010.
The health-related absence rate was only 1.80% (related to total scheduled working hours at MOL, Slovnaft, TVK and SPC); an outstanding result even at the EU level.

3.3 Process Safety and Risk Management

COMPASS – the HSE risk assessment framework
For the successful implementation of our HSE risk assessment framework, we have perpetuated our COMPASS Project (comprehensive risk assessment). The programme applies ten internationally accepted risk assessment methodologies that cover the workplace, technological processes and environmentally-related areas of risk analysis (HAZID, ENVID, JSA, EIA, etc.).

Main achievements in 2010 include:

- implementation of COMPASS, focused on the sites of MOL, Slovnaft and SPC in which qualitative analyses covered exploration and production, refining, logistics and retail activities following HSE risk assessment standards;
- HAZOP assessments were executed with regards to quantitative process- related risks, resulting in the coverage of approximately 80% of critical operations;
- an IT tool named 'COMPASS ITSS' was developed, providing a 'smart tool' for line management's risk-based decisions. COMPASS ITSS will be expanded in the future to support other risk-related Group processes, e.g. Enterprise Risk Management.

In 2011, COMPASS is aimed to be extended to INA, IES, Tifon, MOL Austria, MOL Romania and MOL Pakistan, while its implementation at the Group level is aimed to be completed by the end of 2012.

Process Safety Management
MOL Group has continued operating and further improving the Process Safety Management (PSM) System, first implemented in 2006. The main reason for PSM is to minimise the number of process-related incidents (including low hazard operations without strict legal standards) which could result in fire, explosion, property damage, and harm to people or the environment. Measuring the efficiency and evaluation of the implementation were the main focuses in 2010. Specific PSM key performance indicators (KPI) were defined and applied to measure the progress, perform internal benchmarking, and to establish necessary actions for the future. We also started an auditing process to observe the implementation process in detail at individual operations and for individual PSM elements.

Emergency preparedness and response
Even though the mainstay of our fire safety strategy is prevention, and modern and effective fire-detection and built-in fire-fighting systems, renewal of fire water networks as well as the most modern firefighting agents and equipment has contributed even further to the improvement of MOL Group's firefighting efficiency.
In 2010, a total of 23 fires were reported within the MOL Group, excluding INA. The majority of the blazes were caused by some small leakages where the escaping hot hydrocarbons were self-ignited. Thankfully, none of the conflagrations resulted in injuries, asset loss or any other real damages. However, some serious fires also occurred, mainly at Exploration and Production or its contractors. The most serious fire/explosion happened at the Csepel base depot where a contractor lost his life while cleaning a tank.
Two of the main elements of successful emergency preparedness are exercises and drills. The entire workforce underwent many exercises together with the local fire brigades (e.g. the Exploration and Production Division held 15 exercises at the Group level). Emergency drills and exercises are conducted regularly on all sites, especially in refineries and on petrochemical sites. Twenty-eight emergency drills were executed in 2010 within Petchem alone.

3.4 Investment in Human Capital

Attracting Employees
Competitive compensation and career opportunities provided by the expansion of MOL Group coupled with a prosperous relationship with secondary and higher education institutes and active career management has enabled us to retain key employees and constantly attract new talent.

Competitive compensation
Our job grading system is based on the HAY Methodology. By extending the system to our subsidiary companies in 2010, about 75 percent of MOL Group employee positions (excluding INA) were graded. HAY enabled the company to manage a single, logical, transparent and consistent system that ensures the adequate treatment of our employees based on the nature of their work and their position within the company. Moreover, the results of the grading process provided the basis for a fair compensation system.
Compensation packages – based on HAY grades and performance appraisals – are aimed at the top 25% of the local market level but also take into consideration the financial resources and special needs/situation of local companies.

Range of ratios of corporate minimum wage compared to local minimum wage at significant (more than 100 employees) operating locations (%)

Country (Company)	2009	2010
Austria (Roth Heizöle GmbH)	n.a.	111%
Bosnia Herzegovina (Energopetrol d.d.)	n.a.	148%
Croatia (INA d.d.)	133%	133%
Hungary (MOL Plc.)	171%	173%
Italy (IES S.p.A.)	n.a.	168%
Romania (MOL Romania PP s.r.l.)	n.a.	152%
Pakistan (MOL Pakistan Ltd.)	250%	349%
Russia (BaiTex LLC)	n.a.	142%
Serbia (Intermol d.o.o.)	113%	112%
Slovakia (Slovnaft a.s.)	152%	170%
Slovenia (MOL Slovenija d.o.o.)	n.a	100%

The compensation system is dependent upon performance. Taking their annual performance into consideration, employees receive an annual bonus. The managerial compensation system consists of short- and long-term incentive elements such as bonuses, a complex long-term incentive linked to the MOL stock price, and the company's performance/results.
Our fringe benefit system, amounting to 20-40 percent of the annual compensation package, is subject to national tax, health and pension requirements. The system ensures the flexible choice of social (e.g. health care services/payments, child- and/or pension care, insurance, etc.) and other non-social (e.g. Internet, etc.) fringe benefits according to individual needs.

Investing in education
According to the results of the survey carried out by AON-Hewitt and Figyelő among fresh graduates, MOL was the second most desired company in 2010, and the top one in the financial sector. This is the highest recognition of our long-term efforts to attract and retain talent.

Partnership with secondary schools
MOL has been maintaining close and regular cooperation with secondary schools. A lack of natural science experts has been observed in the market. Therefore, special attention has been given to promote natural science studies among secondary schools.
In 2010, we supported more than 70 vocational schools and offered internships for 293 students at MOL Group – primarily for those attending chemical, gas and mechanical studies. Furthermore, MOL sponsored numerous competitions in mathematics, physics and chemistry.

Also in 2010, new initiatives were launched aiming to make natural sciences more popular among secondary school students and identify future talents at an early stage:

- The 'Together for the Future Engineers Association' was established in May 2010 by MOL and eleven other Hungarian multinational companies (Bosch, Siemens, Ericsson, etc.). The aim of the association is to garner greater prestige for the engineering profession and natural sciences amongst the next generation.
- As a MOL initiative, the 'MesterM Award' ('My Master') was introduced in Hungary. This award is given to secondary school teachers for their outstanding efforts in promoting subjects in the natural sciences. In 2010, a total of 160 nominations arrived from university students.
- 'Junior Freshhh,' a natural science competition for secondary school students, was launched with great success. A total of 900 3-member teams took part in the competition, with the best 6 teams invited for the Live Final at Duna Refinery (Százhalombatta) in December.

Investment in education by the type of support provided in Hungary

		2008	2009	2010
Internship		307	332	293
Development support	Vocational school (institution)	51	62	79
	Universities (institution)	9	10	12
Scholarship	Study support (person)	34	27	20
	PhD (person)	5	7	6
	Professorship (person)	1	1	1

University partnerships

There are eleven Hungarian and Slovakian universities already working with MOL Group as strategic partners, and in 2010, the first steps to build university relations were taken in Croatia.

The long-term cooperation initiative covers internship programmes, support of student communities, support through corporate lectures and site visits, competitions, MOL Group managers' contributions to regular educational courses and education programmes with company managers and specialists, student projects on corporate issues, diploma assignments and consulting, scholarships, support given via foundations, sponsorship, and research and development projects.

In 2010, renovations began at the MOL Chair at the University of Pannonia (MSc). A new and modern laboratory, staff rooms and classrooms were redecorated in order to ensure the infrastructural quality of MOL-specific education. The renovation will continue in 2011. Nine students began their studies under the MOL Chair in 2010, and another fourteen are planned to start their studies in 2011.

Freshhh – MOL Group's international contest

Freshhh is an international oil and gas industry-focused contest run by MOL Group. Five years ago, MOL established a new tradition with this dual-aimed programme. Freshhh is a professional challenge for students interested in engineering and science, as well as a recruitment channel for our Growww Graduate Programme. Teams consisting of three students can participate in the contest. More than 1,700 graduates from 25 countries were involved in 2010. Two of the four topics of the tasks were Sustainable Development (SD) and Health, Safety and Environment (HSE). Of course, participants are also motivated by valuable prizes. The best participants were offered a job or internship opportunity at one of the MOL Group companies, and a number of scholarship contracts have been signed with the most talented undergraduates. Inspired by the success of the program in 2010, the first Internal Freshhh was also launched in order to enhance the competitive spirit and team cohesion among MOL Group employees. A total of 83 teams from ten countries took part in the contest. As a result of the two competitions, many useful and cost-effective ideas arose that might be introduced in the future.

	2007	2008	2008	2010
Number of teams	271	273	342	580
Number of countries	12	29	35	25
Number of universities	35	60	95	117

Growww – our fresh graduate programme

MOL Group's one year-long Growww Programme offers job opportunities for new graduates in a fast-growing, international organisation. Besides local and international career opportunities, MOL offers above-average compensation packages. Over the last four years, nearly 600 new graduates participated in the programme; 92% of them still work for MOL Group (in Hungary, Slovakia, Italy, Pakistan and Romania), and a few of them have already been promoted to managerial positions. The programme is supported and supervised by top management. Growww primarily focuses on students with an engineering background. In 2010, from among more than 3,900 applicants from seven countries (Hungary, Slovakia, Italy, Romania, Pakistan, Russia and Croatia) a total of 261 fresh graduates (105 in INA) were offered the opportunity to join MOL. In 2011, the number of participants is expected to exceed 290.

Number of participants by division

Division	2007	2008	2009	2010
Exploration & Production	7	39	18	42
Refining & Marketing	30	39	39	97
Petrochemicals	19	13	6	15
Retail	6	6	0	10
Lubricants	3	3	1	2
Supply and Trading	n.a.	2	2	1
Functional areas	32	46	11	94
Total	97	148	77	261

Retaining and Motivating Employees

Performance management

MOL's Employee Performance Management System (EPMS), already operating in TVK Plc., Slovnaft a.s. and MOL Plc. was extended and fine-tuned incorporating the rules and values of the managerial Performance Management System (PMS). In 2010, we implemented IT support for the EPMS system at MOL LUB Ltd. (200 employees), Petrolszolg Ltd. (850 employees), and extended the EPMS process to other subsidiaries without IT support (880 employees).

The managerial Performance Management System comprises various elements at the Group and company level, all of which focus on ensuring a link between MOL Group objectives, actions, plans and individual performance. The complexity of the system ensures that regular feedback on performance defines bonus payouts and salary increases, provides input to career-potential evaluations, and links current performance to long-term career growth.

As sustainable development (SD) is one of our main values, we intend to inspire our executives to also strive for sustainability-related objectives along with business-as-usual financial and operational figures. This is why we set social performance targets (e.g. health and safety indicators) and other objectives related to SD for most top managers, which later can be delegated to lower managerial and also non-managerial levels.

From 2009, the pre-condition of payouts has been the fulfilment of specified business results (defined as being a certain level of the targeted MOL Group's EBIT).

Number and ratio of positions in performance management systems

Employee group	Number of participants 2009 without INA	Number of participants 2010 with INA	Ratio to the total number of positions 2009	Ratio to the total number of positions 2010
Managerial positions (PMS)	745	820	100%	100%
Non-managerial positions (EPMS)	8,900	10,700	50%	70% without and 40% with INA

Career management

The objective of the Career Management System (CMS) is to identify and support the accurate and attuned planning for successions and organisational/employee development based on the requirements set by the business strategy.

To date, 1,200 participants from 37 MOL Group companies have been appraised under CMS, including about 40 INA managers/experts. Further involvement of local INA managers is planned for 2011.

Employee engagement

We conduct a Group level employee engagement survey bi-annually to measure the engagement and satisfaction level of our employees. In order to monitor progress, we use a similar set of questions for each of the MOL Group companies. Questions in the survey cover, among others, the following areas: work environment, employee recognition and compensation, quality of work, effective operation, professional growth, direct/unit/top management, processes and responsibilities, stress level, work load and reputation of the company. The survey was conducted for the third time in 2010. Twenty-two MOL Group companies participated, covering 85% of the total workforce. INA was involved for the first time, with a response rate of almost 50 percent. The analysis of the results and the setting up of the unit-level action plans are aimed to be completed by May 2011.

Overview of the employee engagement survey

	2006*	2008*	2010 *	2010 INA Group	2010 Total MOL Group
Coverage (%)	90	90	90	81	85
Response rate (%)	34	50	64	46	50
Engagement level (%)	65	67	70	69	69.5

* excluding INA

Human capital development

Our business success is built upon well-educated, professional and engaged employees. Therefore, we provide a complex system of professional and leadership competency development.

Training and development data in MOL Group

	2009 (without INA)	2010 INA Group	2010 with INA
Average hours of trainings per employee (hours)	21	25	18
Average training cost per employee (HUF)	55,876	60,472	43,098

Complex Development Programs in 2010

Exploration and Production

In the Upstream Division, great emphasis has been put on investing in young people in terms of managerial skills development to maintain the efficiency of our activities. The one year-long Upstream Talent Programme 1 (UTP 1) is aimed at measuring and identifying those employees that can be successfully prepared for leadership and expert leadership tasks. The mission of the Upstream Talent Programme 2 (UTP 2) was to find those employees that are capable of performing outstandingly in an intercultural environment in the case of acquisitions. Upstream Talent Programme 3 (UTP3) was prepared in 2010. The programme is planned to be conducted at the MOL Group level within the framework of an international project. Modern technology such as video conferencing and the Internet will be employed. Furthermore, special attention will be given to the topics of cooperation between different cultures, and the use of advanced English.

Results of the Upstream Talent programmes

	Number registered and tested	Number of participants in assessment centres (AC)	Number of participants in training and development	Number nominated to managerial positions	Number nominated to higher expert positions
UTP1	113	40	25	8	4
UTP2	72	30	12	3	1
Total	185	70	37	11	5

A new concept for shift leader/front line leader training was designed and implemented in Upstream in 2009 to strengthen formal and informal managerial skills such as labour code, feedback methods and performance evaluation. This programme was continued in 2010. A total of 130 leaders participated in the workshops and analysed the results of the engagement survey. The workshop outcomes resulted in several actions reflecting in the results of the survey.

Refining and Marketing

In the Downstream Division (Refining), the Refining Vision Statement was defined in 2008 and will stay in effect until 2011. This document aims to establish the values, objectives and operational models of the refinery. The vision statement concentrates on organisational and human values in order to maintain flexible and successful adaptation to current and future challenges. Furthermore, it specifies the path of business processes specific to the Division.

We believe that success can be achieved through our Navigátor Development Programme, which was initiated in 2009. Leaders and experts are seen as the focal points and facilitators of change in the realisation of the vision statement. The learning process is founded on real-life situations derived from MOL's everyday operations and best practices. Navigator continued in 2010 with the participation of 60 employees focusing on new target groups. For those who have already participated in the programme, special training days were organised to keep their knowledge up-to-date.

A new programme started in 2010 at the Slovnaft Refinery. Master Academy involves 55 shift leaders in three groups, and deals with the following topics: 'get to know your organisation', 'the role of a shift leader in the organisation', 'appraisal', 'development of an employee', 'selection of employees' and 'establishing good working relationships.' Due to its success, the programme is planned to be continued in 2011 with 4 new groups of employees.

Another Downstream training is the Logistics' Dynamism Programme, which is based on common values and goals. Competency development is designed globally but conducted locally according to local needs. In 2010, the programme focused on the managerial succession pool and on 71 employees who recently joined MOL.

The Commercial Department manages a Leadership Reinforcement Programme based on the results of previous competency assessments. Among the most important goals of the programme are the combination of individual competencies and organisational culture. The Leadership Reinforcement Programme aims to develop talents, leadership competencies like business and professional, personality, methodological and social competencies as well as a leadership toolkit. Implementation occurs through on- and off-the-job strategies supported by mentoring, goal setting and feedback discussions. There are also methodological elements such as the Mirror Workshop, the Big Picture, the Best Practice Forum and case studies. These multifaceted methodologies ensure that competencies are embedded into the organisational strategy and functions. The programme is backed up by top management sponsors and Human Resources Management, in the form of managerial coaches. The Leadership Reinforcement Programme is continuing in 2011 within the framework of the expansion of the managerial succession pool.

Petrochemicals

Following the success of the Staféta Programme in 2010, the Petrochemicals Division promoted shift leader development involving 11 employees. The Staféta Basic and Advanced Programmes (lasting 2 years) in 2010 developed experts, engineers, plant leaders and mid-line managers in order to achieve a wide set of employee and leadership competencies, foster cross-unit cooperation and share knowledge with the 62 participants.

Functional units

In 2010, skill mapping and training was undertaken by 20 employees from MOL Plc.'s IT Department. The IT Development Programme, a continuation and completion phase of the previously organised Development Centre, ensures both perspective for the company to increase its competitiveness, and motivation for its employees in planning their career paths. The programme focuses mainly on strengthening competencies employees will have necessity for in the near future, and thus results in better individual and overall performance. Several learning methods were integrated to form the IT Development Programme, including trainings, mentoring, workshops, learning groups, rotation and on-the-job development. In 2011, we will focus on the managerial and expert level, contributing to the enlargement of the succession pool.

Leadership development

The MOL Group Leadership Competency Model serves as the heart of our HR systems. The model incorporates elements such as selection, career management, talent management, and learning and development processes. Our model defines five generic roles along the leadership pipeline, and classifies what MOL Group believes makes a successful leader at each of those stages.

Based on competency profiles, we have created a competence-based leadership training catalogue, containing approximately 40 different learning solutions available to all MOL Group subsidiary managers.

The MOL Group Managerial Talent Programme aspires to build an internal pool of candidates that can make the successful transition to Group level manager. Following a rigorous selection process, candidates took part in a development programme consisting of on-the-job learning in the form of strategic projects, coaching from senior management and formal education such as tailored part-time MBAs. An unexpected benefit of this programme has been locating senior managers who could fulfil the role of internal coaches. Identified personnel then actively participate in the development of the next generation of MOL Group leaders.

Professional competency trainings

Additional development programmes continued in 2010. For example, the Upstream Jolly Joker Programme successfully improved the maintenance skills of operators, supporting them in everyday maintenance-related tasks. The training not only increases the value of human capital, but also helps to reduce maintenance costs.

In the Downstream, MOL extended the Refinery Complex Programme. This special education project focuses primarily on blue collar workers in order to keep their knowledge regarding technological, maintenance and safety issues up-to-date. During the course of the project, a professional competency system was elaborated. The long-term goal is to define both general and professional competencies to be developed, and to match educational material to the scope of specific work competencies. The Refinery Complex Programme will cover all blue collar workers (shift leaders, controllers and system operators) in each and every facility. The programme is planned to be continued in 2011, but be enhanced to include the revision of professional skill development for shift workers at Refineries in Hungary and Slovakia, and competency development for shift leaders.

Also in 2009, as part of longer term capacity development, we launched a technical competency management pilot programme within the Upstream Division using PetroSkills, a leading oil industry alliance's learning and development package. After a successful pilot project, we joined the alliance as a member company, and rolled out the system for the entire white collar Upstream staff of the mother company (and also covered around 25% of INA d.d. Upstream). For 2011, we plan to continue the roll-out for MOL Group's Upstream companies and to launch a pilot programme in Refining. Our approach to competency management consists of an annual cycle of repeated (re)definition of competency requirements, on-line assessment to test the required competencies , and planning and delivery of learning and development interventions to address identified gaps in competency. The results of the competency gap analysis are utilised as a basis of the Upstream professional training planning process.

From 2011, we will set up the Upstream Corporate University as a forum for internal Upstream professional skill and competency development.

Commitment to Fair Employment

As Hungary has ratified the UN Universal Declaration of Human Rights, ILO Tripartite Declaration of Principles Concerning Multinational Enterprises and Social Policy, and the OECD Guidelines for Multinational Enterprises, MOL Group considers these agreements as compulsory codes.

Equal opportunity and diversity

We ensure equal opportunities to all current and future employees. In fact, MOL goes beyond national regulations: equal treatment for all is guaranteed through collective agreements, our Code of Ethics, Trade Union agreements, Group-wide guidelines and internal regulations.

In June 2010, MOL managers and employee representative bodies signed the Equal Opportunity Plan (EOP) of MOL Plc valid for 2010-2012. It is the first document in the Group that, besides declaring the necessity of equal opportunity and formulating a ban on discrimination, specifies the responsible staff and establishes deadlines for actions. We are confident that the EOP will help to increase the social awareness of our managers and members of certain employee groups which require more attention.

The scope of this plan covers all the employees of MOL Plc., with special respect to women, single parents, parents with two or more children under ten years of age, those with any kind of disability, and employees over 50 or belonging to a national or ethnic minority. Moreover, an Equal Opportunity Board has been established and an equal opportunity officer has been designated. In 2011, we would like to extend EOP to all Hungarian subsidiaries. A handbook with the necessary guidlines for implementing EOP at subsidiaries have already been compiled.

In 2010, MOL joined the Employers' Equal Opportunity Forum, the first professional lobby group bringing together equal opportunity mediators within companies, and providing them with a stronger platform to fight for equal opportunity. The Forum was initiated by the Salva Vita Foundation (Hungarian NGO), and it was founded with the participation of ten Hungarian and multinational companies.

Work-life balance

Although there is not presently a Group level set of policies addressing work-life balance, MOL has taken initial steps towards the encouragement of non-typical employment. Part-time work and telecommuting are not an option for those involved in production activities because of the type of work (shift-working); however, they are accessible for other employees in certain positions. Although only 12 employees at MOL Plc. were telecommuting in 2010, the rate of those who have gained approval to work from home, after managerial approval, is much higher in certain cases.

In the future, we intend to disseminate the currently ad hoc best practices, and establish value-based standards. As the first step, these principles were integrated into the Group level agreement on social issues signed with trade unions in 2010.

Number and ratio of part time employees

	2007	2008	INA)	INA	Change 2007-2010 (%)	Group
Part time employees (people)	92	125	114	143	+55%	191
Ratio of part time employees to the total workforce (%)	0.60%	0.73%	0.64%	0.79%	+32%	0.59%

3.5 Ethics

Ethical framework

In 2010, we placed special emphasis on updating the Code of Ethics and Rules of Procedure, implementing e-learning and continuing ethical communication according to the following:

- The Code of Ethics, adopted three years ago, was reviewed based on experiences gained after the Code had been adopted. Other codes of ethics in this industry sector, provisions of law and suggestions and sustainability evaluation criteria were also used in the evaluation. The revised Code of Ethics emphasises that the norms formulated in the Code cover all stakeholders, and that the managers exercise special responsibility for integrating ethical norms into everyday corporate practice. Regulations for accepting gifts and rules of ethical procedures were also changed. The position of Ethics Officer was introduced for the companies of the MOL Group;
- Ethics e-learning aimed at improving awareness was successfully completed by 99% of MOL Plc employees with Intranet access, by 97% of TVK Plc employees with Intranet access, and 100% of Slovnaft employees with Intranet access. In addition, live ethics training sessions were held in several companies of the MOL Group;
- IES, the Italian member of the Group, has also adopted the Code of Ethics;
- Within the framework of internal communication, three articles were published in the internal company magazine, Panoráma, which dealt with the ethics evaluation of 2009, the results of the e-learning courses, and the positions taken by the Ethics Council on promoting awareness of acceptable behavior in particular situations;
- Ethical expectations and Key Performance Indicitors (KPI) were defined for all Country Chairperson;
- INA adopted the Code of Ethics in 2010, and the INA Ethics Council was established with an independent expert appointed as Council Chairman. In 2010, the INA Ethics Council received one notification, and its investigation is in progress.

Ethical cases

Only the ethics cases reported to the Ethics Council are summarised below. The task of the Council is to ensure that all MOL Group employees comply with the Code. Among the most important of the Council's duties and responsibilities is replying to complaints and questions, and conducting consequent investigations. At Slovnaft, questions related to ethical issues are answered by the in-house Ethics Advisory Service in conjunction with the Ethics Council. In 2010, the Ethics Council responded to 89 questions related to harassment, discrimination, conflicts of interest and business gifts.

In 2010, the Ethics Council received ten notifications. The Ethics Council investigated seven of the ten cases, and in four cases the Corporate Security department was asked to conduct investigations. Ethical misconduct was proven in four cases out of seven.

The increasing number of notifications and questions means that employees now pay more attention to ethical issues and display increasing trust in the Ethics Council.

Ethical notifications received and investigations conducted by stakeholder group

Stakeholders	Topic of notification	Type of investigation	Ethical misconduct
Customers	Harm to customer	Ethical investigation	No
Shareholders	Misappropriation (anonymous)	Security investigation	No
	Jeopardising company property	Security investigation	No
	Fuel theft (anonymous)	Security investigation	No
Employees	Harassment	-*	-*
	Unfair wages	-*	-*
	Unfair wages (2)	Ethical investigation	No
	Religious discrimination (anonymous)	Ethical investigation	No
	Improper employee behaviour	Ethical investigation	Yes
Health, safety and the environment	Failure to report an accident	Ethical investigation	Yes
	Violation of health and safety regulations	Ethical investigation	Yes
Government and involvement in politics	-	-	-
Local communities and the general public	-	-	-
Suppliers, business partners	Conflict of interest (anonymous)	Security investigation	No
	Acceptance of offers of accommodation	Ethical investigation	Yes
Competitors	Unfair competition	-*	-*

* The Ethics Council considered the accusations unfounded and did not initiate an ethics investigation.

In order to promote ethical awareness, the Ethics Council annually publishes details of cases with proven ethical misconduct. The cases to date are as follows:

– **Improper employee behaviour** - Getting into a stressful traffic situation and entering a security area. One of MOL Group's employees was not willing to identify himself when a security guard asked him to do so. He used vulgar and offensive words and hit the guard's arm. His behaviour clearly breached the Code of Ethics that states: 'As a MOL Group employee you must never engage in behaviour that could be characterised as offensive, intimidating, malicious or insulting', and 'you must never humiliate or injure another person'. Since security rules were violated, the Ethics Council recommended taking measures related to labour law. In addition, the Council proposed the publication of the incident at meetings and via Intranet, and the taking of proper measures in order to prevent similar situations from the occurring in the future.

– **Failure to report an accident** – One of the business partners of MOL Group asked for employee volunteers to assist with some cleaning. One of the employees was injured during the course of the work and was given treatment by a paramedic. The business partner breached the Code of Ethics that states that it is mandatory to: 'promptly report to local management any accident, injury, illness, unsafe or unhealthy conditions, incident, spill or release of material to the environment, so that immediate steps can be taken to correct, prevent or control such occurrences.' The Ethics Council notified the Retail Division that the business partner had breached MOL's ethical standards and HSE rules, and recommended that the partner be fined, participate in training sessions on the Ethics Code, and be made better aware of HSE rules.

– **Violation of health and safety requirements** - One of the business partners of MOL Group working at a location in a situation hazardous to human health did not report that the workers had not been provided protective clothing in proper sizes, and therefore performed the work without protective clothing. Performance of these tasks without regard to safety requirements not only endangered the partner's health, but also the health of his colleagues. The MOL Group manager who delegated the work did not insist that the work be perfomed only in protective clothing, and neglected giving priority to HSE criteria. The stakeholders violated the Code of Ethics that holds: 'MOL Group is committed to providing all employees – and those of other companies working on our premises – with a safe and secure work environment, where no one is subject to unnecessary risk.' The Ethics Council did not suggest introducing penalties for workers who breached the Code of Ethics due to extraordinary circumstances, and instead recommended that personnel be made aware of the importance of HSE criteria and culture.

– **Acceptance of offers of accomodation** – Several managers of MOL Group participated in an an unofficial professional conference held by a supplier during their holiday. The managers did not seek permission from their supervisor. The managers infringed the Code of Ethics that states that employees: '[may] not accept offers of travel, holidays and/or accommodation made by a business partner, third party contractor or company acting on behalf of MOL Group (consultants, agents, franchise partners, etc.). In certain cases (e.g. professional training, or invitations to make presentations) acceptance of such offers of travel and accommodation is permitted, if it has been approved by the supervisor exercising employer's rights.' The Ethics Council suggested that the managers concerned should be held responsible for breaching ethical standards and for unexemplary behaviour.

The Ethics Council regularly reported all ethical issues to the Executive Board and took measures to raise awareness.

Compliance

MOL Group is committed to fair marketing behaviour without corruption and improvement of the culture of competition. In 2010, a new organisational unit, the Compliance Team, was established and made responsible for the execution of the group-level Compliance Programme. The aim is to clearly identify compliance the risk elements (cartel, abuse of dominant position) of the business operations of MOL Group and make proper suggestions to eliminate such risks. Compliance officers in INA and Slovnaft have also been nominated. In 2011, the team aims to support the MOL Group member companies in implementation and to continue training courses and conducting market analysis and inspections.

3.6 Social investments

MOL Group is committed to demonstrating leadership in the field of good corporate citizenship. MOL has created a structured, transparent and regulated charity donation policy, allowing it to avoid responding in an ad hoc way to queries. MOL Group's commitment towards social investment is focused on the following main areas:

– New Europe Foundation
  – Talent Support Programme – Arts and Sciences
  – Talent Support Programme – Sports
  – Child Healing Programme
– Culture and Sciences
– Environment and Health
– Education
– Sports

In 2010, MOL Group received nearly three thousand applications from individuals, associations, institutions and foundations of all types. MOL Group allocated a total budget of HUF 1,861.1 million solely for charity purposes, from which the main projects amounted to HUF 1,330.3 million.

MOL, Slovnaft and MOL Romania

Donations to organizations in the acting and performance sector
MOL has supported more than 40 Hungarian theatres and other enterprises with HUF 1,085.7 million in 2010.

MOL Talent Support Programmes
In 2010, a total of 145 talented young athletes and 79 talented young artists and scientists received HUF 48 million in financial support in Hungary. In Slovakia, 42 talented children were supported with the sum of EUR 66,500 (HUF 18.3 million). In Romania, 130 young athletes and artists have been awarded EUR 60,000 (HUF 16.5 million) in support.

MOL Child Healing Programme
The budget for this programme in Hungary was HUF 43.5 million, which was apportioned among 31 non-profit organisations. In Romania, EUR 60,000 (HUF 16.5 million) has been distributed between 20 successful applicants.

MOL Talent Care Award
Four teachers and four coaches were awarded with HUF 500,000 each in 2010.

Greenbelt Programme
In 2010, HUF 18.9 million was allocated to the Ökotárs Foundation in Hungary, while an additional EUR 66,400 (HUF 18.3 million) was granted to the Ekopolis Foundation in Slovakia. In Romania, applicants to the Greenbelt programme received

donations amounting to EUR 175,000 (HUF 48.2 million) via its partner, the Partnership Foundation. Both MOL and the Partnership Foundation were awarded the most prestigious awards for corporate social responsibility (CSR) in Romania. MOL won the Best Community Programme Award at the People for People Gala in 2010, the most important event in terms of recognising companies for their social involvement.

INA

Culture

The Al-Marqab Project describes the Syrian-Hungarian archaeological mission to restore the Al-Marqab fortification. The restoration is being performed by the Syro-Hungarian Archaeological Mission (SHAM) Cultural Public Foundation located in Budapest. HRK 150,000 (HUF 5.7 million) has been allocated for this project.

Judged by INA, the grant to promote Croatian culture throughout the world is an annual award with a proud 16 year tradition. Part of the grant includes a HRK 50,000 (HUF 1.9 million) prize to the individual or organisation that most effectively and creatively promoted Croatian culture and heritage abroad in the past year.

Young talents

Several projects of Croatian youth (students and high school pupils) were supported. The projects were mostly connected to international scientific research and international competitions in which Croatian students distinguished themselves. The total amount awarded was HRK 32,000 (HUF 1.2 million).

Humanitarian aid

A donation of HRK 50,000 (HUF 1.9 million) to the SOS Children's Village Ladmirevci, empowered the institution to perform necessary construction and repairs. INA contributed to improving the living conditions of the children.

A grant of HRK 45,000 (HUF 1.7 million) to the Association for Promoting Conductive Pedagogy Rijeka by INA helped to cover therapy costs for twenty children from Rijeka, Kostrena, Bakar, Opatija and Cres, as well as furnishing the Association's office.

MOL Pakistan

Community development projects undertaken by MOL Pakistan are of a diversified need-based nature focusing on immediate requirements to bring respite to the lives of the poor and underprivileged.

Free Eye Medical Camp

MOL sponsored its first Eye Camp with the sum of USD 4,775 (HUF 1 million). A total of 795 patients were examined and supplied with much needed medicine and spectacles. Out of 72 patients that were recommended for surgery, 55 operations were performed. A second Eye Camp was funded with USD 3,871 (HUF 0.8 million). During the second camp, 730 patients were examined. Among seventy patients recommended for surgery, 59 have undergone treatment and the rest of the treatments are planned to be undertaken shortly as per availability of the patients. A total of 351 pairs of spectacles were also distributed to the patients at the second camp.

More information: www.mol.hu/en/about_mol/social_investments

Special humanitarian assistance:

Due to the huge devastation caused by heavy rains and subsequent flooding, MOL Group has provided the following relief to flood-stricken areas:

- In Hungary, the company supported flood victims with a HUF 15 million donation;
- MOL gave HUF 5 million to Hungarian Interchurch Aid through the Országlánc Campaign;
- Initiated an internal campaign to collect donations for flood victims, amounting to HUF 4.3 million from MOL Group employees;
- MOL Pakistan supplied tents, food items, medicine, etc. valued at USD 95,965 (HUF 20 million) to the victims of the flood disaster.

In reaction to the toxic Hungarian Red Sludge Disaster:

- MOL immediately gave HUF 5 million to the Directorate for Disaster Management and offered the assets and professional knowledge of MOL to assist in remediation efforts;
- MOL donated an additional HUF 1.5 million to the village of Devecser, and launched a Christmas Card Campaign from which MOL was able to support the victims with a further HUF 1 million.

Corporate giving in significant locations in 2010

Indicator	Unit	Hungary	Slovakia	Croatia	Romania	Pakistan	Italy	Total
Donations in cash	mn HUF	1,641.3	110.1	26.3	81.2	0	2.2	1,861.1
In-kind giving (Products and services)	mn HUF	17.5	1.5	4.6	1.7	21.8	0	47.1
Corporate volunteering	Hours	1,680	133.5	160	320	0	10	2,303.5

Corporate volunteering – kindergarten painting in Croatia

4 Sustainability data (Performance table)

Indicator	Unit	2006	2007	2008	2009*	2010 without INA	Change 2009-2010 (%)	2010 MOL Group**	GRI code
Economic Data***									
Revenues	bn HUF	3,009.8	2,691.1	3,669.5	3,383.1	n.a.	29%	4,350.4	EC1
Financial assistance received from government	bn HUF	35.3	0.8	0.4	0.5	n.a.	300%	2.0	EC4
Operating costs	bn HUF	2,161.4	1,906.8	2,881.7	2,592.8	n.a.	27%	3,300.8	EC1
Company cash	bn HUF	848.4	784.3	787.8	790.3	n.a.	33%	1,049.6	EC1
Employee wages and benefits	bn HUF	109.3	117.3	139.7	200.9	n.a.	35%	272.0	EC1
Capital investors	bn HUF	73.1	69.8	164.2	31.8	n.a.	154%	80.7	EC1
Payments to governments	bn HUF	215.7	227.8	249.3	197.7	n.a.	41%	278.4	EC1
Economic value retained	bn HUF	450.3	369.4	234.5	359.8	n.a.	16%	418.6	EC1
Energy Consumption Data****									
Total primary energy	GJ	n.a.	n.a.	n.a.	74,867,779	72,784,552	-3%	103,837,442	EN3
Total indirect energy (electricity, heat)	GJ	n.a.	n.a.	n.a.	16,680,887	16,685,668	0%	19,226,722	EN4
Total energy consumption	GJ	n.a.	n.a.	n.a.	91,548,666	89,470,220	-2%	123,064,164	
Customer Satisfaction*****									
Wholesale customer satisfaction (MOL)	%	87	88	88	86	88	2%	n.a.	PR6
Wholesale customer satisfaction level (Slovnaft)	%	84	83	88	90	90	0%	n.a.	PR6
Average Retail customer satisfaction level	%	34	39	38	44	43	-2%	n.a.	PR6
Petrochemicals customer loyalty index	%	12.96	13.28	14.39	19.52	15.5	-21%	n.a.	PR6

We indicate with 'n.a.' where we have no data available.
Exchange rate based on Y2010 average, 1 HRK=37.79 HUF
*MOL Group 2009 without INA Group except financial data (EC1, EC4) which covers MOL Group including INA Group 2009 H2
**Total MOL Group including INA d.d. (without its subsidiaries), except financial data (EC1, EC4) which covers MOL Group including INA Group
***Data is calculated according to GRI definition, see in details on MOL's website
****To have an appropriate basis for comparison, IES was excluded from '2010 without INA' data
*****Methodologies are different, see details on MOL's website. The Retail survey covers HU, SK and RO.

Indicator	Unit	2006	2007	2008	2009*	2010 without INA	Change 2009-2010 (%)	2010 MOL Group	GRI code
Air Emissions									
Carbon Dioxide (CO_2)	mn t	5.92	5.65	6.56	5.29	5.01	-5%	7.14	EN16
Carbon Dioxide (CO_2) under ETS	mn t	4.00	4.09	6.40	5.13	4.87	-5%	4.87	EN16
Methane (CH_4)**	t	n.a.	n.a.	279.0	437.0	951.7	118%	951.7	EN16
Total Direct GHG	mn t CO_2 eq	n.a.	n.a.	6.56	5.30	5.09	-4%	7.17	EN16
Total Indirect GHG***	mn t CO_2 eq	n.a.	n.a.	n.a.	1.19	1.25	5%	1.47	EN17
Total Indirect GHG from product use	mn t CO_2 eq	n.a.	n.a.	43.33	42.27	42.48	0%	55.44	EN17
Sulphur Dioxide (SO_2)	t	13,455.0	10,059.0	8,804.7	4,389.4	2,939.6	-33%	13,142.2	EN20
Nitrogen Oxides (NO_x)	t	5,555.0	5,378.8	5,054.2	3,937.0	3,442.1	-13%	7,874.2	EN20
Volatile Organic Compounds (VOC)	t	4,394.0	4,325.2	5,626.8	3,683.2	4,133.5	12%	4,210.9	EN20
Carbon Monoxide (CO)	t	1,052.0	869.0	824.5	879.5	863.8	-2%	1,599.0	EN20
Particulate Matter (PM)	t	412.0	336.0	298.2	204.8	184.4	-10%	360.7	EN20
Water									
Total Water Withdrawal	th m^3	n.a.	n.a.	86,045.8	68,417.5	56,130.4	-18%	94,162.1	EN8
Total Water Discharge	th m^3	n.a.	n.a.	90,120.6	84,710.0	76,186.3	-10%	106,784.1	EN21
Total Petroleum Hydrocarbons (TPH)	t	62.0	36.0	29.8	44.1	46.2	5%	74.8	EN21
Chemical Oxygen Demand (COD)	t	2,018.0	1,945.0	1,802.0	1,807.0	1,773.4	-2%	2,376.5	EN21
Biological Oxygen Demand (BOD)	t	498.0	490.0	378.0	387.4	433.7	12%	582.7	EN21
Solid Substances (SS)	t	605.0	703.0	978.0	909.3	948.3	4%	1,055.5	EN21
Waste									
Hazardous Waste	t	167,589.0	85,171.5	98,791.0	66,782.0	88,083.2	32%	92,918.4	EN22
Non-hazardous Waste	t	n.a.	n.a.	57,619.1	66,872.5	69,246.2	4%	77,603.7	EN22
Waste Disposed / Landfilled	t	256,429.0	74,959.0	92,175.0	68,198.4	68,974.5	1%	80,201.8	EN22
Waste Reused / Recycled****	t	55,016.0	86,180.0	64,235.0	65,456.5	88,354.9	35%	90,320.4	EN22
Reused/recycled ratio	%	n.a.	n.a.	41%	49%	56%	15%	53%	
Spills and Discharges									
Number of Spills	pcs	8	3	12	17	15	-12%	26	EN23
Volume of Spills	m^3	n.a.	n.a.	912.2	244.7	144.4	-41%	186.2	EN23
Other									
HSE Related Penalties	mn HUF	141.0	95.4	92.23	14.68	8.43	-43%	11.06	EN30
Environmental investments	mn HUF	n.a.	n.a.	16,558.91	6,996.70	6,815.10	-3%	n.a.	EN30
Environmental operating costs	mn HUF	n.a.	n.a.	9,223.80	11,149.10	12,347.70	11%	24,362.70	EN30

We indicate with 'n.a.' where we have no data available.
*Total MOL Group without INA Group except "Total Indirect GHG from product use" which covers Total MOL Group
**The reason for the increase is the improvements made in our reporting (emissions from gas motors in HU are included)
***To have an appropriate basis for comparison, IES was excluded from '2010 without INA' data
****Waste data from 2008 has been restated due to the specification of the definition

Indicator	Unit	2006	2007	2008	2009*	2010 without INA	Change 2009-2010 (%)	2010 MOL Group**	GRI code
Health and Safety									
Lost Time Injury (LTI)	pcs	58.0	37.0	24.0	28.0	40.0	43%	104.00	LA7
Lost Time Injury Frequency (LTIF)		2.20	1.52	0.99	1.13	1.50	33%	2.25	LA7
Total Reportable Occupational Illnesses Frequency (TROIF)		0.00	0.00	0.04	0.00	0.00	0%	0.00	LA7
Lost day rate (LDR)	%	n.a.	n.a.	n.a.	0.05	0.05	0%	0.27	LA7
Absentee Rate (AR)	%	n.a.	n.a.	2.65	2.17	2.08	-4%	2.97	LA7
Number of fatalities for emloyees	pcs	0	0	0	1	1	0%	1	LA7
Number of fatalities for contractors	pcs	1	0	2	1	2	100%	2	LA7
Number of fatalities for 3rd parties	pcs	1	2	2	0	0	0%	1	LA7
Number of fires	pcs	19	9	14	12	23	92%	29	
Fire damage	mn HUF	387.2	26.7	49.4	55.8	863.6	1448%	975.4	
Employees									
Total workforce	pple	13,861	15,058	17,338	17,963	17,882	-0.5%	32,601	LA1
Number of part-time employees	pple	n.a.	92	125	114	143	25%	191	LA1
Leavers	pple	707	1,540	1,136	988	1,480	50%	3,243	LA2
Employee turnover rate	%	5.1	10.2	6.6	5.5	8.3	51%	9.9	LA2
Employees represented by trade unions	%	97.3	85.5	93.3	91.4	92.8	2%	94.5	LA4
Employees covered by collective bargaining agreement	%	n.a.	n.a.	94.5	93.4	92.7	-1%	94.5	LA4
Diversity									
Ratio of women in total workforce	%	26.0	24.6	24.8	22.6	22.7	0.4%	23.1	LA13
Ratio of women in non-managerial position	%	n.a.	n.a.	25.1	22.9	22.9	0.1%	23.3	LA13
Ratio of women in managerial position	%	14.1	18.5	19.4	12.3	14.6	18.7%	18.2	LA13
Other Social									
Ethical notifications	pcs	n.a.	3	13	8	10	25%	11	
Ethical investigations	pcs	n.a.	0	7	6	7	17%	7	
Ethical misconducts	pcs	n.a.	0	1	4	4	0%	4	
Average hours of training per employee	hours	n.a.	n.a.	n.a.	21	25	19%	18	LA10
Donations	mn HUF	665.1	540.2	752.0	1,116.2	1,834.8	64%	1,861.1	EC8
In-kind giving (products and services)	mn HUF	n.a.	n.a.	n.a.	23.1	42.5	84%	47.1	EC8
Corporate volunteering	hours	n.a.	n.a.	n.a.	3,508.0	2,143.5	-39%	2,303.5	EC8

We indicate with 'n.a.' where we have no data available.
Exchange rate based on Y2010 average, 1 HRK=37.79 HUF
*Total MOL Group without INA Group
**Total MOL Group 2010 including INA d.d. (without its subsidiaries), except Employee data (LA1, LA2) which covers total MOL Group

Summer Party – Lake Balaton in Hungary

5 Notes on Non-Financial Reporting

5.1 Our reporting approach

As a demonstration of MOL's resolve to integrate a sustainability approach into everyday business operations, management decided to merge our Annual and Sustainable Development Reports and move towards an 'integrated' reporting approach in 2008. Consequently, the company now follows the Triple Bottom Line approach; presenting the economic, social and environmental performance of MOL Group in one comprehensive report.

The 'Sustainability: non-financial performance' section of the Annual Report contains information on the key achievements, challenges and data of the given year about the most relevant topics for MOL in the area of sustainability. Beyond this report, one will find a general presentation of MOL's policies, management approaches and other regularly maintained and updated SD-related information at www.mol.hu/sd. While the Annual Report's main audience is assumed to be our shareholders, investors and sustainability analysts, our webpage is tailored to answering the information needs of all stakeholders.

The sustainability performance data contained within this report was reviewed by Ernst and Young (please see the assurance statement for the specific scope) and the assurance process was planned and performed in accordance with the International Federation of Accountants' ISAE3000 standard.

This Annual Report, together with MOL's website, meets the requirements of the A+ rating of the GRI G3 Sustainability Guidelines in accordance to the GRI (see the assurance statement on p. 208.)

The GRI Compliance Table can be viewed at the following website: www.mol.hu/annualreport2010/sustainability/gri, while local reports are available on the websites of individual MOL Group companies: www.ina.hr/sd, www.slovnaft.sk/sd, www.tvk.hu/sd, www.molpakistan.pk/sd and www.iesitaliana.it/sd.

5.2 Report Content and Materiality

All of the topics that reflect MOL's significant economic, environmental and social impacts, and which might have an impact on our stakeholders, are treated as material concerns. When determining these issues, we take into consideration GRI G3 guidelines, recommendations by our industry's professional association (IPIECA) and industry-specific evaluation criteria from sustainability analysts such as the SAM Group and Oekom. Moreover, issues related to governmental initiatives connected to SD might also be judged to be significant, for example compliance with certain legislation. Priority is given to topics where our company has more substantial impacts and where MOL can make efforts to improve its performance. Issues relevant to local sites are managed and reported locally.

MOL follows the GRI G3 reporting guidelines and has achieved an A+ rating. Since there is no available oil and gas sector-specific supplement, we strived to follow the IPIECA-API 'Oil and Gas Industry Guidance on Voluntary Sustainability Reporting' to determine additional, industry-specific indicators. This Annual Report, in conjunction with the information available on our website, comprises MOL Group's sustainability reporting and thus complies with GRI requirements.

5.3 Scope and Boundary

MOL applies the 'control' approach to consolidate information. The company accounts for 100 percent of the sustainability data from operations over which it has control. This includes all companies/operations where MOL or one of its subsidiaries acts as operator.

In the case of HSE data, we consider only operations which might have a significant impact on health, safety and the environment. Moreover, the MOL Group SD & HSE Department has been given 3 years to integrate any new acquisitions into its reporting system. Therefore, HSE performance data does not necessarily contain the figures from operations acquired in the last three years. Noteworthy changes compared to 2009 include IES and Tifon being accounted for in the 2010 data. It is planned that the subsidiaries of INA d.d. will be integrated into the reporting only from 2012.

Our human resources organisation uses an IT application called BI (Business Intelligence) Data Port to gather, among other information, sustainability-related HR data from MOL Group companies. In 2010, the scope covered 29 companies including INA d.d. Coverage for the entire MOL Group has reached 78%, or 91.5% excluding INA. Companies that do not exceed 20 employees are not, and probably will not ever be integrated into this reporting process. Due to data supply problems, the following subsidiaries are largely excluded from the present report: MOL Romania, MOL Pakistan, MOL-Russ Ooo., Greentrade Ltd., USI Ltd. and Tifon d.o.o. The absence of this data may have caused significant variations in the case of certain indicators. To see the full list of reporting companies see: www.mol.hu/annualreport2010/sustainability/subsidiaries

5.4 GRI, Global Compact and IPIECA Index

GRI Indicator	Global Compact Principle	IPIECA Indicator	Subject	Page
Strategy and Profile				
1.1			Chief executive statement	176-177
1.2			Description of key risks and opportunities	10-45, 224-225
2.1–2.10			Organizational profile, structures, markets	4, 10
3.1, 3.3			Reporting period and cycle	1, 204
3.4–3.13			Report scope, assurance	204, 208-209
4.1–4.7			Corporate governance	214-222
4.8–4.13			Guidelines and policies	92, 148, 196, 204
4.14–4.17		SE1	Stakeholder engagement	
Economic performance indicators				
Management approach	1, 4, 6, 7		Detailed reference in GRI compliance table (web)	
EC1		SE4, SE13	Economic value generated and distributed	200
EC2	7, 8, 9		Financial implications due to climate change	
EC3			Coverage of benefit plan obligations	200
EC4			Significant financial assistance from government	200
EC5			Standard entry level wage/local minimum wage	189
EC6		SE5, SE7	Locally-based suppliers at significant locations of operation	
EC7	6	SE5, SE6	Local hiring	
EC8		SE4	Investments for public benefit	197
Environmental performance indicators				
Management approach	7, 8, 9		Detailed reference in GRI compliance table (web)	
EN1–EN2	7, 8, 9		Materials used	
EN3–EN7	7, 8, 9	E2, E3	Energy	181
EN8–EN10	8, 9	E6	Water	183
EN11-EN15	8	E5	Biodiversity	185
EN16–EN20	7, 8, 9	E1, E4, E7	Emissions	182
EN21	8	E9	Wastewater	183
EN22	8	E10	Waste	184
EN23	8	E8	Spills	185
EN26	7, 8, 9		Products and services	45
EN27	8, 9	HS4	Packaging materials reclaimed	184
EN29, EN30	7, 8, 9		Environmental expenditures	201

GRI Indicator	Global Compact Principle	IPIECA Indicator	Subject	Page
Social performance indicators				
Labour practices and labour quality				
Management approach	1, 3, 6		Detailed reference in GRI compliance table (web)	
LA1–LA5	1, 3, 6	SE6, SE15	Employment	189
LA7, LA8	1	HS2, HS3	Occupational health and safety	186
LA10, LA11	1	SE17	Vocational and further training	189
LA13	1, 6	SE15	Composition of governance bodies	226-232
LA14	1, 6	SE15	Equal employment	194
Human rights				
Management approach	1, 2, 3, 4, 5, 6		Detailed reference in GRI compliance table (web)	
HR1	1, 2, 3, 4, 5, 6	SE8	Significant investment agreements	197
HR2	1, 2, 3, 4, 5, 6	SE9	Screening of suppliers	
HR4	1, 2, 6	SE18	Non-discrimination	195
HR5	1, 2, 3		Freedom of association, collective bargaining	195
HR6, HR7	1, 2, 4, 5		Child labor, forced labor, compulsory labor	195
Society				
Management approach			Detailed reference in GRI compliance table (web)	
SO1		SE1, SE2, SE3, SE4, SO5	Community	
SO2–SO4	10	SE11, SE12	Corruption	195
SO5, SO6	1-10	SE14	Political contributions	195
SO8			Monetary value of significant fines	155
Product stewardship				
Management approach			Detailed reference in GRI compliance table (web)	
PR 1	1, 7	HS4	Consumer health and safety	
PR 3	8		Product and service information	
PR 5			Customer satisfaction	200
PR 6		HS4	Advertising, promotion and sponsorship	
PR 9			Monetary value of significant fines	155

5.5 Notes on sustainability data

The indicators are mainly based on measurements and calculations, and in some cases on estimations, depending on the specific topic and site. Data is generated and collected at the local level following the relevant corporate guidelines. Group level data is collected through the different business or functional divisions. The completeness and accuracy of the reported data is supervised at the corporate level.

Depending on site circumstances and local regulations, we discharge treated wastewater streams into surface waters or into the municipal sewage system. According to the nature and quantity of pollutants, the most commonly used wastewater treatment strategies at our facilities are mechanical and/or biological (but extending to chemical treatment steps where needed) technologies. We believe that data breakdown by destination and treatment method is not material, therefore we do not report on it.

According to information provided by our contractors, waste disposal methods have been determined using European Union guidelines.

Employee engagement level: the first 9 questions of the survey are related to general engagement of the employees, rated on a 1-4 scale. Three groups can be distinguished by the following cluster borders : 2,5 >= disengaged; 3,2 >= partly engaged >= 2,56; 3,22 <= engaged. In order to make the data more informative, we use percentages.

Duna Refinery in Hungary

6 Assurance statements

6.1 Independent assurance statement to MOL

Ernst & Young Advisory Ltd was commissioned to provide limited assurance over sustainability performance data relating to 2010 contained within the 'Sustainability: Non-Financial Performance' chapter of MOL Group's Annual Report 2010 (the Sustainability Report). The management of MOL Group (MOL) have prepared the Sustainability Report and are responsible for the collection and presentation of the information within it. Our responsibility in performing our work is to MOL management only, in accordance with the scope of work agreed with them. We do not, therefore, accept or assume any responsibility for any other purpose or to any other person or organisation. Any reliance any such third party may place on this independent assurance statement is entirely at its own risk.

WHAT DID WE DO TO FORM OUR CONCLUSIONS?

Our assurance engagement has been planned and performed in accordance with ISAE3000 . The sustainability performance data have been evaluated against the criteria of the application of the Global Reporting Initiative G3 Sustainability Reporting Guidelines (the Guidelines) and against completeness, consistency and accuracy criteria agreed with the management of MOL as follows:

Completeness

- Whether all material data sources have been included and that boundary definitions have been appropriately interpreted and applied.

Accuracy

- Whether there is supporting information for the sustainability data reported by sites to corporate level.
- Whether corporate level quality reviews have been completed and outstanding issues resolved or reported.
- Whether data have been accurately transposed from corporate level systems to the Sustainability Report and assumptions and limitations to the data have been correctly reported.

GRI

- Whether the Sustainability Report meets the requirements of the A+ application level of the GRI G3 Guidelines

In order to form our conclusions we undertook the steps outlined below:

1. Interviewed specialists responsible for managing, collating, and reviewing sustainability data at corporate level.
2. Reviewed a selection of management documentation and reporting tools including templates, guidance documents and databases.
3. Undertook four visits to key locations to examine the systems and processes in place for collecting and reporting sustainability data against the reporting definitions and guidance prepared by MOL, and to test the accuracy of a sample of reported data at a site level. The following sites were visited:
   - IES Mantova Refinery (Italy, Mantova)
   - INA Rijeka Refinery (Croatia, Rijeka)
   - TVK Petrochemical Plant (Hungary, Tiszaújváros)
   - E&P MOL Algyő (Hungary, Algyő)
4. Reviewed and challenged the sustainability data validation and collation processes at corporate reporting level and tested the completeness of coverage of reporting units. Our procedures included following the sample of sustainability data collected at each sites visited through to the Group reported performance data, and reviewing the processes applied by MOL management for corporate level review and challenge of the sustainability data.
5. Reviewed the Sustainability Report for the appropriate presentation of the data including the discussion of limitations and assumptions relating to the data presented.
6. Reviewed whether MOL's reporting has applied the GRI G3 Guidelines to a level consistent with the A+ application level.

Level of assurance

Our evidence gathering procedures have been designed to obtain a sufficient level of evidence to provide a limited level of assurance in accordance with ISAE3000. The extent of evidence gathering procedures performed is less than that of a reasonable assurance engagement (such as a financial audit) and therefore a lower level of assurance is provided.

Limitations of our review

- Our scope of work was limited to the sustainability performance data included in the Sustainability Report.
- We did not undertake a comprehensive review of all sustainability data reported to corporate by each of the sites we visited, but examined selected data sources and reviewed the processes for reporting data to corporate.
- Our review of sustainability data processes at an operational level was limited to the four sites we visited.
- We have not sought evidence to support the statements and claims presented within the Sustainability Report. We have not reviewed historical data, or trends described in the Sustainability Report that relate to sustainability performance data.

OUR CONCLUSIONS

Based on our review:

- We are not aware of any material reporting units which have been excluded from the scope of the sustainability data, with the exception of those reporting units disclosed within the Sustainability Report.
- Nothing has come to our attention that causes us to believe that the sustainability data has not been properly collated from the information reported by sites.
- We are not aware of any errors that would materially affect the reported sustainability data.
- Based on our review, including consideration of the Sustainability Report, MOL's Sustainable Development Web content and elements of the MOL Annual Report 2010, nothing has come to our attention that causes us to believe that MOL management's assertion that their sustainability reporting meets the requirements of the GRI A+ application level of the Guidelines is not fairly stated.

OUR OBSERVATIONS

Areas for potential improvement in the sustainability reporting process have been addressed in a separate report to MOL management. Our observations do not affect our conclusions on the Sustainability Report set out above.

OUR ASSURANCE TEAM

Our assurance team has included members from our global Climate Change and Sustainability Services network, which undertakes similar engagements to this with a number of significant multinational businesses.

Ernst & Young Advisory Ltd
Budapest
4 April 2011

Global Reporting Initiative™

Statement
GRI Application Level Check

GRI hereby states that **MOL Group** has presented its report "MOL Group Annual Report 2010 " to GRI's Report Services which have concluded that the report fulfills the requirement of Application Level A+.

GRI Application Levels communicate the extent to which the content of the G3 Guidelines has been used in the submitted sustainability reporting. The Check confirms that the required set and number of disclosures for that Application Level have been addressed in the reporting and that the GRI Content Index demonstrates a valid representation of the required disclosures, as described in the GRI G3 Guidelines.

Application Levels do not provide an opinion on the sustainability performance of the reporter nor the quality of the information in the report.

Amsterdam, 3 May 2011

Nelmara Arbex
Deputy Chief Executive
Global Reporting Initiative

A+ GRI REPORT GRI CHECKED

The "+" has been added to this Application Level because MOL Group has submitted this report for external assurance. GRI accepts the reporter's own criteria for choosing the relevant assurance provider.

The Global Reporting Initiative (GRI) is a network-based organization that has pioneered the development of the world's most widely used sustainability reporting framework and is committed to its continuous improvement and application worldwide. The GRI Guidelines set out the principles and indicators that organizations can use to measure and report their economic, environmental, and social performance. www.globalreporting.org

***Disclaimer:** Where the relevant sustainability reporting includes external links, including to audio visual material, this statement only concerns material submitted to GRI at the time of the Check on 15 April 2011. GRI explicitly excludes the statement being applied to any later changes to such material.*

Corporate Governance

Corporate Governance

MOL Headquarter in Hungary

Corporate Governance

MOL has always been committed to implementing the highest standards of corporate governance structures and practices. This is not only with regard to national expectations but also with reference to the continually evolving and improving standards of good governance on an international level. As a result MOL is geared towards shareholders' interests, whilst taking into account the interests of a broader group of stakeholders inevitably necessary to enhance the generation of exceptional value for MOL's shareholders and people.

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 this topic to both stock exchanges each year.

MOL's corporate governance practice meets the requirements of the regulations of the Budapest Stock Exchange, the recommendations 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. MOL's Corporate Governance Code containing the main corporate governance principles of the Company has been adopted in 2006 and has been updated in 2010. This Code 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 2011, MOL Group, the only Central & East European company to be in the running, has qualified for the SAM Gold Class based on its performance in the field of corporate sustainability. This was announced in The Sustainability Yearbook edited by SAM (Sustainable Asset Management) which conducts the performance research and analysis for the Dow Jones Sustainable Index. The 2,500 largest global companies, based on the Dow Jones Stock Market Index, are invited to undergo the research. The independent assessors examine the three dimensions of sustainability: long-term economic, social and environmental performance. Accordingly, the top 15% of companies from 58 business sectors are selected to appear in the Yearbook. MOL Group received the Bronze qualification in the last year, as well as being selected as the best "Sector Mover". All the good work performed last year enabled the company to enter the SAM Gold Class category. To qualify for the SAM Gold Class, the SAM Sector Leader must achieve a minimum total score of 75%. Peer group companies whose total scores are within 5% of the SAM Sector Leader also enter the SAM Gold Class. This year out of 113 global oil companies, 68 were examined in detail with 17 being selected to appear in the Yearbook of which 8 entered the Golden Class category. According to SAM's assessment, the Corporate Governance practice of MOL is outstanding, and its result is above the industry average. The evaluation criteria consisted several topics, e.g. board structure, corporate governance policies or transparency.

Board of Directors

MOL's Board of Directors acts as the highest managing 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 with considerations onto other stakeholders' interest; improving efficiency and profitability and ensuring transparency in corporate activities and sustainable operation. 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 and EU 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
Mulham Al-Jarf	independent
Dr. Miklós Dobák	independent
Dr. Gábor Horváth	independent
Zsigmond Járai*	independent
József Molnár	non-independent
György Mosonyi	non-independent
Dr. László Parragh*	independent
Iain Paterson	independent
Dr. Martin Roman*	independent

*Before Zsigmond Járai, Dr. László Parragh and Dr. Martin Roman, until 29 April 2010 László Akar, Miklós Kamarás and Dr. Ernő Kemenes were the members of the Board of Directors.

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 were updated in October, 2010 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,
- the scope of the information required by the Board and the frequency of reports,
- main responsibilities of the Chairman and the Vice 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.

Members of the Board have signed a declaration on conflict of interest and they have reported their position as director in the Board to their employer or principal as regards other key management positions.

The Board of Directors prepares a formal evaluation of its own performance (the Committees evaluate their performance as well) and it reviews continuously its activity on a yearly basis.

Report of the Board of Directors on its 2010 activities

In 2010, the Board of Directors held 6 meetings with an average attendance rate of 86%. Alongside regular agenda items, such as reports by the Committees' chairmen on the activities pursued since the last Board meeting, update on key strategic issues or an overview of capital market developments, the Board of Directors also individually evaluates the performance of each of the company's business units.

The Board of Directors respectively paid highlighted attention to the treatment of the significantly changed external environment, the financial, operation and efficiency improvement challenges regarding INA consolidation and the strategy update process. MOL continuously adjusts its operation to the external environment and became more international, more efficient and more upstream driven in the recent years. MOL not just remained committed to keep its financial stability but continued the key development projects, hereby established an outstanding position for the upturn period in each business division.

The Company's key task for the coming years is to maximize the value of its extended portfolio by harmonizing the operation and exploiting the synergies.

Committees of the Board of Directors

The Board operates committees to increase the efficiency of the Board's operations, and to provide the appropriate professional background for decision making. These Committees have the right to approve preliminary resolutions concerning issues specified in the Decision-making and Authorities List, 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 majority of the committee members is non-executive and independent.

The Board allocates responsibilities to the various Committees as follows:

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
- Dr. Martin Roman, 29 April 2010 *
- Mulham Al-Jarf, 23 April 2008

* Before Dr. Martin Roman until 29 April 2010 Miklós Kamarás was the member of the Corporate Governance and Remuneration Committee.

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 and incentive systems and making recommendations on the introduction of best practice standards.

Finance and Risk Management Committee:

Members and dates of appointment (professional backgrounds of members are available on company homepage):

- Dr. Miklós Dobák – Chairman, 25 October 2002
- Zsigmond Járai, 29 April 2010 *
- Iain Paterson, 8 September 2000

* Before Zsigmond Járai until 29 April 2010 Dr. Ernő Kemenes and László Akar were the members of the Finance and Risk Management Committee.

Responsibilities:

- review of financial and related reports,
- monitoring the efficiency of the internal audit system,
- review of planning, scope and results of the audit,
- oversight of the risk management,
- monitoring the liquidity position of the Company, the financial and operational risks as well as the methodology and strategy of management thereof, review the operation of Enterprise Risk Management (ERM) system,
- ensuring the independence and objectivity of the external auditor.

Sustainable Development Committee:

Members and dates of appointment (professional backgrounds of members are available on company homepage):

- György Mosonyi – Chairman, 29 June 2006
- Dr. László Parragh, 29 April 2010*
- Iain Paterson, 29 June 2006

* Before Dr. László Parragh until 29 April 2010 Dr. Ernő Kemenes was the member of the Sustainable Development Committee.

Responsibilities:

- control of the operation under long-term economic, environmental and social aspects,
- evaluation of objectives and results regarding sustainable development,
- supervision of the non-financial (sustainability) chapter and the audit process of the annual report,
- accountability for sustainability performance of business divisions and subsidiaries.

Report of the Corporate Governance and Remuneration Committee on its 2010 activities

In 2010, the Corporate Governance and Remuneration Committee held 6 meetings with a 85% 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 Finance and Risk Management Committee on its 2010 activities

In 2010, 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 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 provides for duties of Slovnaft a.s Audit Committee.

Report of the Sustainable Development Committee on its 2010 activities

In 2010, the Sustainable Development Committee held 4 meetings with a 100% attendance rate. The Committee evaluated the accomplishment of the actions in 2010, formed opinion on sustainability reporting and decided on 2011 directions and targets. The Committee considered with highlighted attention the results of the assessment related to the Dow Jones Sustainability indexes and the sustainability performance reports of business units.

Relationship between the Board and the Executive Management

The governance of the Company is carried out in line with standardised corporate governance principles and practice, and, within its framework, the Board of Directors will meet its liabilities for the integrated corporate governance by defining the responsibilities and accountabilities of the Executive Board, established by the Board and securing the corporate operative activities, operating and organisational procedures, as well as standardised system for target-setting, reporting and audit (performance control system and business control system).

A consistent document prescribes the distribution of decision-making authorities between the Board of Directors and the company's organisations, defining the key control points required for efficiently developing and operating MOL Group processes.

Control and management of MOL Group will be implemented through business and functional organisations. The Executive Board (hereinafter "EB") will be responsible for harmonising their activities.

The EB is a forum for decision preparation and its role is to provide a direct link between the Board of Directors and the Company's staff and at the same time canalize the matters submitted to the full Board. The EB renders preliminary opinions

and advises the Board members on certain proposals submitted to the full Board, the EB is also responsible for the oversight of the execution of the Board's resolutions.

On the EB meetings each member has an obligation to express their opinion, on the basis of which final decision is made by the Chairman-CEO. In case of a difference of opinion between the Chairman-CEO, GCEO or GCFO, the decision shall be made by the Board of Directors.

The Executive Board (EB) members are:

Zsolt Hernádi	Chairman-CEO (C-CEO)
György Mosonyi	Group Chief Executive Officer (GCEO)
József Molnár	Group Chief Financial Officer (GCFO)
Zoltán Áldott	Executive Vice President, Exploration and Production, President of the Management Board, INA d.d.
Ferenc Horváth	Executive Vice President, Refining and Marketing
József Simola	Executive Vice President, Corporate Centre
Oszkár Világi *	Chairman and Chief Executive Officer, Slovnaft a.s.

* From 1st April, 2010.

In 2010, the Executive Board held 46 meetings and discussed 11 issues on a meeting on average.

Incentives provided for Board of Directors

To ensure uniformity and transparency, in addition to fixed remuneration, MOL operates an incentive scheme for directors, which supports commitment of the participants and by taking the Company's profitability into consideration can ensure that the interests of the participants in the compensation program can coincide with those of the shareholders.
The basis of the effective incentive scheme for directors was approved by the Annual General Meeting (AGM) on 23rd April 2008.

Elements of the incentive scheme:

– **Profit sharing incentive system (based on value added methodology)**
From January 2009, the incentive system changed from convertible bond program to a value added, profit sharing incentive system. The annual incentive of the Board Members will be determined according to an economic value added methodology. The Economic Value Added will recognize performance as a result on top of the cost of capital invested.
The incentive will consist of two parts: an absolute part (recognizing the performance only of the given year) and an incremental part (recognizing the performance of the given year compared to the average of the previous years).
The profit sharing based incentive system supports the commitment of the participants, thus the methodology will reward the Board Members for increasing shareholder value on long-term and as a sustainable improvement.
The new incentive system applies to non-executive and executive Board members as well.

– **Fixed remuneration:** In addition to the Profit sharing incentive as of 1st January 2009, directors are provided with the following fixed net remuneration, following each AGM:

Directors	25,000 EUR/year
Chairmen of the Committees	31,250 EUR/year

Other benefits

Directors who are not Hungarian citizens and do not have a permanent address in Hungary are provided with gross 1,500 EUR for each Board or Committee meeting (maximum 15 times) they travel to Hungary for.

Incentive system for the top management

The incentive system for the top management from 2010 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:

a) Corporate and division level key financial and non financial indicators (e.g. ROACE, operating cash-flow, lost time injury frequency, CAPEX efficiency, unit production, processing, operating, logistics costs, etc.).
b) 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.Complex long term managerial incentive system
The complex long term managerial system which changes and supplements the previous, solely stock option based system, has been implemented uniformly in the Company as of 1st January 2010.

Purpose of the new incentive system is the implementation of a new and outstanding, long-term incentive system for top managers which corresponds to the incentive system of the members of the Board of Directors and keeps management's long term interest in the increase of the MOL stock price.

Two incentives employed parallel in the new system:

50% Incentive based on option + 50% Profit-sharing incentive

Main characteristics of the two incentives:

a) Incentive stock option
Purpose of the incentive: to create the long-term interest of MOL Group management in the increase of MOL stock price. The incentive stock option is a material incentive disbursed in cash, calculated based on call options concerning MOL shares; it is determined as a gross benefit. Cycle time: 5 year periods (2 year long waiting period and 3 year long redemption period) starting annually.

b) Profit sharing incentive
The Profit-sharing incentive incites the long-term, sustainable increase of profitability, based on the value added methodology, thus ensuring that the interest of the participants of the incentive system corresponds with that of shareholders of MOL Plc . The Profit-sharing incentive is a cash-paid annual net bonus calculated on the basis of the increase of the value added. (Value added: recognises a profit performance generated on top of the cost of capital invested).

Since the base of the determination of one unit of the profit-sharing incentive for the given year is the audited financial statement for the given year approved by the AGM (MOL Plc.), the incentive should be disbursed following the AGM (MOL Plc.) summoned to close the given year .

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, 1/3 of the members shall be representatives of the employees, accordingly three members of the MOL Supervisory Board are employee representatives with the other six external persons 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
József Kohán	non-independent (employee representative)
István Töröcskei *	independent

* Before István Töröcskei, until 29 April 2010 István Vásárhelyi was the member of the Supervisory Board.

The chairman of the Supervisory Board will be the permanent invitee to the meetings of the Board of Directors and the Finance and Risk Management Committee.

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 2010 the Supervisory Board held 5 meetings with an 83% 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 among others:

– providing opinion on the report as prescribed by the Accounting Act,
– proposal for the auditor and its 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 to the Supervisory Board on 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 2010 activities

In 2010, the Audit Committee held 5 meetings with an 87% 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 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 continuously monitored the Company's financial position in particular with regard to the impacts caused by the crisis. 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 2010 and 2009, excluding INA Group and Energopetrol (audited by Deloitte in both years) and the operating company of the Fedorovsky Block and (audited by PricewaterhouseCoopers, 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, formerly IAS). 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 2010 and 2009 are as follows (HUF mn):

	2010	2009
Audit fee for MOL plc (including audit fee for interim financial statements)	156	156
Audit fee for subsidiaries	427	425
Other non-audit services	73	10
Tax advisory services	90	40
Total	746	631

Other non-audit services in 2010 included primarily the comfort letter issued with respect to the issuance of MOL's EUR 750M bond and various due diligence and valuation services. 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. Regular 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 2010 MOL participated in 8 roadshows and investor conferences (3 US and 5 European) having over 220 meetings with potential and existing shareholders. A 2 day Investor and Analyst day was organised in Croatia (Pula), where our key financial investors and analysts participated. 8 top managers hold presentations on MOL Group's growth opportunities focusing on the key projects of upstream and downstream divisions. An offshore platform visit to an exploration and a production platform were organised for the participants as well. In 2010, MOL issued EUR 750 million fixed rate note and participated on a European roadshow afterwards.

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 Annual 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 MOL Group carries 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 requests from its employees, in line with the laws and MOL's insider trading regulation, that they:

– 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 if they have permission to do so and to the extent 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 – at the shareholder's identification related to the closing of the share registry prior to the next general meeting –, 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.

Further, the shareholder shall, for the request of the Board of Directors, immediately identify the ultimate beneficial owner with respect to the shares owned by such shareholder. In case the shareholder fails to comply with the above request or in case there is a reasonable ground to assume that a shareholder made false representation to the Board of Directors, the shareholder's voting right shall be suspended and shall be prevented from exercising it until full compliance with said requirements.

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 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 one per cent of the voting rights may request the Board of Directors to add an item to the agenda of the General Meeting, and may submit resolution proposals with respect to the points of the agenda. 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 according to the Articles of Association. 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 the general meeting deciding on the payment of dividend.

Integrated risk management function – at work

Integrated risk management function – at work

It is an accentuated aim for Risk Management to deal with all of the external challenges (including new industry-specific taxes) in order to support the stable and sustainable financial position of MOL. It is a necessity to have an effective and comprehensive risk management as a prerequisite tool of good corporate governance. MOL Group can state that it has developed risk management function as an integral part of its corporate governance structure. This was confirmed by SAM Research AG again in its 2010 benchmarking report for Dow Jones Sustainability Index that ranked MOL's risk management as one of the best in class with 88% performance, 28 percentage points above the sector's average underlying 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.

Multi-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 group level for all division. ERM integrates financial and operational risks along with a wide range of strategic and reputation 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) as part of the ERM is to handle short-term, market related risks. Commodity price, FX and interest rate risks are measured by using a complex model based on 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 by Risk Management 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 and liability 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, INA, Slovnaft, TVK, IES and Slovnaft Petrochemicals), MOL Group is able to exploit considerable synergy effects.

Business Continuity Management (BCM) is the process of preparing for unexpected disruptions that have low probability for occurrence but high impact. Business Continuity Plans (BCP) and Crisis Management (CM) processes, Incident Management, Disaster Recovery 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 annual renewals, and consequently may decrease insurance costs.

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 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 IM 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.

Last year the whole oil and gas industry felt the aftermath of the oil spill in the Gulf of Mexico. In the meantime a red sludge flood in Hungary further increased the importance of operational safety and the liability issue towards environment and civil society. Both these events demonstrated that in spite of disposing insurance programs, operating risks have knock-on effect on a company's financial position and reputation. At MOL we made immediate steps in reconciling the status of operational risks in the Enterprise Risk Management (ERM) framework with current experiences and lessons learned. Together with that we re-validated our insurance program together with the Business Continuity Management (BCM).

Board of Directors

1. Mr. Zsolt Hernádi (50)

Chairman of the Board of Directors since 7th July, 2000, Chairman & 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.
Since September, 2009 he has become the honorary citizen of the Corvinus University of Budapest.

2. Dr. Sándor Csányi (57)

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 & Agriculture and at the Hungarian Credit Bank. From 1989 to 1992 he was Deputy CEO of the Commercial & Credit Bank (K&H), and since 1992, he has been the Chairman & CEO of the National Savings and Commercial Bank Plc. (OTP Bank Plc.). On 28th April, 2006, the annual shareholders meeting re-elected him for an other five-year term as Chairman & 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 & Employers (VOSZ), member of the Board of the Hungarian Banking Association. He is also Chairman of the Supervisory Board of OTP Bank Group member, 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.

3. Mr. Mulham Al-Jarf (40)

Member of the Board of Directors since 24th April 2008.

He graduated international Business and Finance from the USA and he is registered 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 Oil Marketing Co SAOG, Takamul Investments SAOC, and China Gas Holdings Ltd. And director in the Gulf Energy Maritime PSC. 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.

4. Dr. Miklós Dobák (55)

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 & Organisation at Corvinus University. He is an international partner of Horváth & Partners Consulting Company.

5. Dr. Gábor Horváth (54)

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.

6. Mr. Zsigmond Járai (59)

Member of the Board of Directors from 29th April, 2010.
Member of the Finance and Risk Management Committee.

Various managerial positions in the State Development Bank between 1976-1986. In the mean time consultant in the Ministry of Water Supply of Mongolia in 1977-78. Director, then Deputy General Manager in Budapest Bank Plc. in 1987-1989. Deputy minister in the Ministry of Finance and Director of State Bank Supervision in 1989-90. In 1990-92 Director of East-Europe in James Capel & Co., London. Between 1993 and 1995 Managing Director of Samuel Montagu Financial Consultant and Securities Company. Between 1995 and 1998 Chief Executive Officer, then Chairman & CEO of ABN AMRO Bank Rt. (formerly Hungarian Credit Bank Ltd.). At the same time Chairman of Budapest Stock Exchange in 1996-1998. Minister of Finance between 1998 and 2000, then Chairman of the National Bank of Hungary from 2001 until 2007. From 2007 founder and Chairman of Supervisory Board of CIG Pannonia Life Insurance Ltd. From 2010 chairman of the Supervisory Board of the National Bank of Hungary.

7. Mr. József Molnár (55)

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 & Controlling Director until his appointment as Group CFO in September 2004. Between 2004 and 2008 he was a Board member of SLOVNAFT a. s. Since April 2001, he has been a Board member of TVK, and he is also a member of INA Supervisory and Audit Committee since April 2010.

8. Mr. György Mosonyi (61)

Group CEO and member of the Board of Directors since 19th July, 1999.
Chairman of the Sustainable Development Committee.
Chairman of the Board of Directors 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 between 1994-1999 Chairman and Chief Executive Officer of Shell Hungary Plc. During this period he became Chairman of Shell's Central & East European Region and CEO of Shell Czech Republic in 1998. Vice-chairman of the Hungarian Chamber of Commerce & Industry., vice president of Confederation of Hungarian Employers and Industrialists.

9. Dr. László Parragh (48)

Member of the Board of Directors from 29th April, 2010.
Member of the Sustainable Development Committee.

From 1989 Chairman of the Parragh Trade and Holding Ltd. From 1993 member of the Presidium of the Confederation of Hungarian Employers and Industrialists (MGYOSZ), between 1994-2000 Vice President. Member of the Advisory Committee for Economic Affairs of the Prime Minister between 1998-2002. Since 2000 President of the Hungarian Chamber of Commerce and Industry, between 2003-2010 Vice President of GYSEV Plc. Since 2009 Chairman of KAVOSZ Garantiqa Plc. and the Economic and Social Council. Between 2002-2010 Board of Directors' membership in MEHIB Ltd, EXIM Bank Plc, GYESEV Plc. Since 2010 member of the Board of Directors of MALEV. Since 2003 Chairman of the Supervisory Board of KA-VOSZ Financial Services Trading Close Co. Since 2009 Honorary Professor of the Budapest Business School and the University of West Hungary.

10. Mr. Iain Paterson (63)

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 AnTech Limited and Chairman of Plebble Loyalty Limited Mr. Paterson is a British citizen.

11. Dr. Martin Roman (41)

Member of the Board of Directors from 29th April, 2010.
Member of the Corporate Governance and Remuneration Committee

Martin Roman started his professional career as sales director of the Czech branch of Wolf Bergstrasse; in 1994 he became CEO of Janka Radotín, where he was appointed Chairman of the Board after the entry of a strategic partner, the US company LENNOX. Between 2000 and 2004 he restructured a traditional Czech mechanical engineering company, becoming Chairman and CEO of the new ŠKODA HOLDING. Since February 2004, Mr. Roman has been the Chairman of the Board and CEO of ČEZ, a. s.

Besides his membership in CEZ and MOL Boards, Mr. Roman is also Member of the Supervisory Board of the Prague Stock Exchange, Member of the Board of Directors of Akenerji Elektrik Üretim A.S.; Vice President of the Confederation of Industry and Transport of the Czech Republic (he served as Member of the Supervisory Board of Czech Railways in 2007-2009). In 2010 he became Member of the Supervisory Board of VIG (Vienna Insurance Group). In addition, Mr. Roman is a member of governing or supervisory bodies in several foundations and academic institutions. He is a Czech citizen.


1.


2.


3.


4.


5.


6.


7.

Executive Board

1. Mr. Zsolt Hernádi (50)

Chairman of the Board of Directors since 7th July, 2000, Chairman & 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.
Since September, 2009 he has become the honorary citizen of the Corvinus University of Budapest.

2. Mr. György Mosonyi (61)

Group CEO and member of the Board of Directors since 19th July, 1999.
Chairman of the Sustainable Development Committee.
Chairman of the Board of Directors 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 between 1994-1999 Chairman and Chief Executive Officer of Shell Hungary Rt. During this period he became Chairman of Shell's Central & East European Region and CEO of Shell Czech Republic in 1998. Vice-chairman of the Hungarian Chamber of Commerce & Industry., vice president of Confederation of Hungarian Employers and Industrialists.

3. Mr. József Molnár (55)

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 & Controlling Director until his appointment as Group CFO in September 2004. Between 2004 and 2008 he was a Board member of SLOVNAFT a. s. Since April 2001, he has been a Board member of TVK, and he is also a member of INA Supervisory and Audit Committee since April 2010.

4. Mr. Zoltán Áldott (42)

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 was the Manager of MOL Privatization Department, and from 1997 until 1999 Director of Capital Markets. From 1999, Mr. Áldott served as Director of Strategy & 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 the Executive Vice President of MOL Exploration & Production Division and together with this position from 1st April 2010 he has been the President of the Management Board of INA d.d. He is also a member of the Board of Directors of the Budapest Stock Exchange.

5. Mr. Ferenc Horváth (50)

Executive Vice President of MOL Refining & Marketing Division, a unit integrated with SLOVNAFT since November 2003. He is the Chairman of the Board of Directors of IES Mantua since November, 2007 and he has member of the Board of Directors of SLOVNAFT since May, 2007.

From 1984 until 1991, 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 crude 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 (petrol, diesel, petroleum products, bitumen, LPG, lubricants, and so on). In 2002, he became Commercial Director, sales activities having broadened to encompass the supply of crude oil and raw materials necessary for the refining of crude oil.

6. Mr. József Simola (44)

Corporate Centre Executive Vice President since April 2006.

From 1991 to 1992 he was employed as an SAP expert at General Electric – Tungsram. He subsequently joined Arthur Andersen as an auditor and consultant. In 1996 he moved on to the Boston Consulting Group, where he held various managerial positions in Hungary, Germany and Australia.

Mr. Simola joined MOL Plc. in 2003 and has been a member of the Executive Board since April 2006. His current positions are: Chairman of the Supervisory Board of SLOVNAFT a. s., Member of the Supervisory Board of INA d.d, and Member of the Board of Directors of IES S.p.A.

7. Mr. Oszkár Világi (47)

Chairman of the Board of Directors and CEO of SLOVNAFT.

Mr. Világi graduated from the Faculty of Law at the Commenius University in Bratislava in 1985 and achieved the academic title D.C.L. Since 1992 he is the member of the Slovak Bar Association. During 1990-1992 he was the member of the Czechoslovak Parliament in Prague. From 1996 he was performing in governing bodies of various Slovak companies including former Poľnobanka, Slovenská poisťovňa and Slovak Railways (ŽSR). He has been the legal advisor of several foreign investors in big restructuring projects of Slovak industry (US Steel, France Telecom, OTP, MOL), since 2002 he was member of the team preparing strategic partnership and integration of SLOVNAFT and MOL. Before becoming a member of the Board of Directors in SLOVNAFT in 2005 he was a member of its Supervisory Board. In March 2006 Mr. Világi was appointed CEO of SLOVNAFT. In April 2010 he became the Member of the Executive Board of MOL Group.

Supervisory Board

1. Dr. Mihály Kupa (69)

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 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 Council of Governors and President of the World Bank and IMF in 1993 in Hungary. From 1991, and again in 1998 he was Member of the Parliament (Independent). He is Chairman of the Supervisory Board of the National Theatre Company.

2. Dr. Attila Chikán (66)

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. In 1998 and 1999 he acted as Minister of Economic Affairs. He was Rector of Budapest University of Economic Sciences between 2000 and 2003. Since then he has been Director of Competitiveness Research Centre of the University. He is a Corresponding Member 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. Mr. Lajos Benedek (38)

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 Technology Department since 2009. He has also been member of the MOL Trade Union of Mining Workers and Work Council.

4. Mr. John I. Charody (83)

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 M.B.E. by H.M. 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. Mr. Slavomír Hatina (63)

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 and CEO of Slovintegra a.s. Mr Hatina is a citizen of Slovakia.

6. Mr. Attila Juhász (47)

Member of the Supervisory Board since 12th October, 2007, delegated by the employees.

Joined the Company in 1986. During his total employment held various positions in the Exploration and Production. Vice Chairman of the 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.Mr. József Kohán (59)

Member of the Supervisory Board since 1th May, 2009, delegated by the employees.

Employed by MOL as a chemical engineer M.Sc. since 1977. Held various positions in the Refining business. At Downstream Development he is working as responsible for preparing development projects in the area of refining since 1998. Author of several technical publications, member of the Society of Hungarian Chemists. Member of MOL Plc. Oil industrial Trade-union.

8. Dr. Sándor Lámfalussy (81)

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 of the Management Board. On a leave of absence from his bank he was visiting professor at Yale University during the academic year 1961-62. 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 on the Regulation of European Securities Markets, the recommendations of which was accepted by the European Council, and is now being implemented. Throughout his professional carrier he was teaching at the Catholic University of Louvain (Belgium), of which he is now a Professor Emeritus. He is a Belgian citizen.

9. Mr. István Töröcskei (61)

Member of the Supervisory Board since 29th April, 2010.

Held senior positions in the following banks between 1973 and 1989: National Bank of Hungary, HIB London.
In 1989-1991 Managing Director of Hungarian Credit Bank Ltd., in 1991-1992 Chairman of Kultúrbank Ltd., then between 1992 and 1994 CEO, then Chairman-CEO of Hungarian Credit Bank Ltd. Between 1995 and 1997 Chairman of Interbanka Prague, and also Advisor in T and T Ltd. From 1997 until 2007 CEO of Equilor Investor Ltd., then from 2007 again Advisor in T and T Ltd. Chairman of the Supervisory Board in Hír TV and Gresco Ltd., and member of the Board of Directors in PannErgy Ltd., Pro-Aurum Ltd. Chairman of the Széchenyi Credit Cooperative and Széchenyi Commercial Bank Ltd.

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 2010, the Supervisory Board dealt in detail with the business situation of the MOL Group, the strategic development of the Group and its Divisions. The Supervisory Board regularly got information about the decisions of the Board of Directors and issues concerning the Company.

MOL is a leading integrated energy company in Central and Eastern Europe, and with the parent company's net sales of HUF 2,161 billion and the Group's net sales of HUF 4,299 billion according to the International Financial Reporting Standards (IFRS), one of the largest company in Hungary. MOL is a decisive Company in the region with its USD 10 billion market capitalisation. In 2009, the weighted average stock exchange price of MOL shares was HUF 12,595, while in 2010 it increased to HUF 19,505. MOL's share price increased from the HUF 17,000 closing price of the last year to HUF 20,790 by the end of 2010.

The Company's 2010 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 127 companies were fully, and a further 16 companies were partially consolidated, using the equity method. Last year the ownership structure changed: at the end of 2010, compared to the end of last year the shareholding of foreign institutional investors increased from 25.7% to 26.1%, while the ownership of domestic institutional and private investors decreased from 8.4% to 8.3%. According to the received request for the registration of the shares and the published shareholders notifications the Company had seven shareholders that held more than 5% voting rights on the 31st December 2010. The Company held 7.1% treasury shares at the end of December 2010.

The global economy went through a transition period in recent years, the signs of the recovery were already visible in 2010 and MOL closed a successful year. MOL continuously adjusts its operation to the external environment and became more international, more efficient and more upstream driven in the recent years.

Despite the challenging macro and regulatory environment, MOL not just remained committed to keep its financial stability but continue the key development projects, hereby established an outstanding position for the upturn period in each business division. MOL aims to exploit the significant organic growth potential of our integrated portfolio by operating the existing asset base on maximum efficiency.

The share of international operations in profit contribution increased significantly in 2010 and the Company expects this tendency to continue further in the coming years. In 2010 approximately half of the Group EBITDA was generated outside Hungary as share of international operation increased further considerably.
In the first full financial year together with INA, integration stepped on a higher level, which accompanied with effects of previous investments and ongoing efficiency improvement projects already reflected in the improving contribution.

The Company's main goal for the coming years is to maximize the value of its extended portfolio by harmonizing the operation and exploiting the synergies.

The Supervisory Board endorses the recommendation of the Board of Directors not to pay dividend in 2011 connected to the year ended 31 December 2010 and the total net income shall increase retained earnings.

The Supervisory Board proposes that the General Meeting approves the audited financial statements of MOL Plc for 2010, with a balance-sheet total of HUF 2,949 billion, net income for the period of HUF 103 billion, and tie-up reserve of HUF 153 billion and the audited consolidated financial statements of the MOL Group for 2010, with a balance sheet total of HUF 4,486 billion and profit attributable to equity holders of HUF 104 billion.

Budapest, 31st March, 2011

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.: October 1, 1991. Registered by the Budapest Court of Justice acting as Court of Registration on June 10, 1992 with effect as of October 1, 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, 2009. 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 2010: 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

	31.12.2009		31.12.2010	
	Par value of shares (HUF th)	%	Par value of shares (HUF th)	%
Foreign investors	26,910,802	25.7	27,268,101	26.1
Surgutneftegas OJSC	22,179,488	21.2	22,179,488	21.2
CEZ MH B.V.	7,677,285	7.3	7,677,285	7.3
Oman Oil (Budapest) Limited	7,316,294	7.0	7,316,294	7.0
Magnolia Finance Ltd.	6,007,479	5.7	6,007,479	5.7
ING Bank N.V.	5,220,000	5.0	5,220,000	5.0
Crescent Petroleum	3,161,116	3.0	3,161,116	3.0
Dana Gas PJSC	3,161,116	3.0	3,161,116	3.0
OTP Bank Plc.	6,707,832	6.4	6,446,999	6.2
Hungarian institutional and private investors	8,742,336	8.4	8,645,870	8.3
MOL Plc. (treasury shares)	7,435,316	7.1	7,435,316	7.1
Total:	104.519.064	100,0	104.519.064	100,0

Please note, that data above do not fully reflect the ownership structure in the Share Registrar. It is based on the received request for registration of the shares and the published shareholders notifications. The registration is not mandatory. The shareholder may exercise its rights towards the company, if the shareholder is registered in the Share Registrar. According to the Articles of Association no shareholder or shareholder group may exercise more than 10% of the voting rights.

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 DRs on IOB can be monitored using the RIC code MOLBq.L on Thomson Reuters or MOLD LI on Bloomberg. MOL shares and DRs are traded on one of the US OTC market, Pink Sheet.
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.

The following table shows trading data on MOL shares each quarter of 2010.

Period	BSE volume	BSE closing price (HUF/share)
1st quarter	12,609,785	20,100
2nd quarter	12,460,311	19,400
3rd quarter	8,489,583	21,295
4th quarter	10,075,619	20,790

Treasury shares

During 2010 the following treasury shares transactions happened:

Reasons for change	Number of "A" series shares	Number of "C" shares
Number of Treasury shares on 31 December 2009	7,434,737	578
The option contracted with ING Bank N.V. was settled	5,220,000	
New option agreement with ING Bank N.V.	-5,220,000	
Number of Treasury shares on 31 December 2010	7,434,737	578

Changes in organisation and senior management

On 26 February 2010. President of INA Management Board, Mr. László Geszti announced to resign from his position due to health reasons. Mr. Zoltán Áldott, Executive Vice President of Exploration and Production Division of MOL Group is nominated as his successor, while retaining his position in MOL Plc. Mr. László Geszti will continue to serve MOL Group as senior advisor to Mr. Zsolt Hernádi, Chairman and CEO of MOL Plc. At the meeting held on 31 March 2010, the Supervisory Board of INA unanimously elected Mr Zoltán Áldott as new President of the Management Board of INA commencing as of 1 April 2010 with a five year term of office.

On 12 April 2010 Mr. László Akar, Mr. Miklós Kamarás and Dr. Ernő Kemenes, the members of the Board of Directors of MOL notified the Board of Directors about their intention to resign by the Annual General Meeting which will be held on 29 April 2010. The Board of Directors of MOL acknowledged their resignation from their membership.

The AGM approved to elect Mr. Zsigmond Járai, dr. László Parragh and dr. Martin Roman to be member of the Board of Directors from April 29 2010 to April 28 2015 and the AGM elected István Töröcskei as member of the Supervisory Board from April 29 2010 to April 28 2015.

MOL securities held by Directors and Officers of the company as of 31 December, 2010

Name	Current position	Number of MOL shares
Zsolt Hernádi	Chairman and Chief Executive Officer, Chairman 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	62,920
József Molnár	Executive Vice President of Finance, member of the Board of Directors	18,201
Mulham Basheer Abdullah Al Jarf	member of the Board of Directors	0
Dr. Miklós Dobák	member of the Board of Directors	20,000
Dr. Gábor Horváth	member of the Board of Directors	14,945
Zsigmond Járai	member of the Board of Directors	0
Dr. László Parragh	member of the Board of Directors	0
Iain Paterson	member of the Board of Directors	6,000
Dr. Martin Roman	member of the Board of Directors	0
Dr. Mihály Kupa	Chairman of the Supervisory Board	0
Lajos Benedek	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
Dr. Sándor Lámfalussy	member of the Supervisory Board	380
József Kohán	member of the Supervisory Board representative of the employee	0
István Töröcskei	member of the Supervisory Board	0
Zoltán Áldott	Executive Vice President, Exploration and Production	65,000
Ábel Galácz	Senior Vice President, Corporate Business Development	58
Ferenc Horváth	Executive Vice President, Refining and Marketing	28,198
József Simola	Executive Vice President, Corporate Centre	16,310
Oszkár Világi	Slovnaft a.s. Chief Executive Officer	0

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.

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). One of the most important method of the modern mineral oil processing, is a cracking process, promoted by using catalysts, at the temperature of 480-540 °C, during which hard distillates and distillate residues are used to produce motor oil having good quality, while other malleable gases arise.

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
FCC- Fluid Catalytic Cracking plant

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 consisting of propane and buthane, liquefied 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.

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 and natural gas.

Natural gas liquids
Liquefied hydrocarbons separated from natural gas, ranging from propanes to gasolines and also containing heavier components.

NCI (Nelson complexity index)
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, having the production license for the field.

Proved developed producing reserve
The reserve that can be extracted from existing wells with existing facilities, 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
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

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, as well as refining, logistics related to procurement or sales, and 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, 1,200 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.

Transmission pipeline
This pipeline, including its accessories and fittings, is used for transmitting natural gas, and its starting or kick-off points are the national border of the country, inlet points of gas production facilities, inlet and outlet points of underground gas storage facilities, and the end or terminal points are the national border of the country, outlet points of gas transfer stations (city gates), inlet and outlet points of underground gas storage facilities.

Ural Blend
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.

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 Expenditures

Cash Flow at Risk (CF@R)
Methodology to measure the risks of the MOL Group. It takes into account the exposures to external factors (product price, rate of interest) of the different businesses within the MOL Group portfolio, as well as the volatilities and correlation between those factors.

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
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 Less Adjusted Taxes

Operating cash flow
Net cash provided by operating activities to be used for investment activities, interest payments and dividend payments to shareholders.

ROACE (Return on average capital employed)
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 – short term liabilities + short term loans and credits

ROE (Return on Equity)
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.

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.

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.

FTE
Full-time equivalent

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, SF6).

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

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.

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).

Spills
Unintended or uncontrolled release of hazardous materials exceeding 1 cubic metre to the external environment (groundwater, surface water, soil), except spills contained in impervious containments.

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 °C), 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

Content table

Content table

Topic of interest	Covered in this report	Online information	
ABOUT MOL			About MOL
Investor presentation		mol.hu/ir Click: IR presentation	
Key Group data	6, 166	mol.hu/ir Click: About MOL	
MOL		mol.hu/ir Click: About MOL	
Ownership structure	241	mol.hu/ir Click: About MOL	
Regulated information		mol.hu/ir Click: Regulated information	
Subsidiaries	118	mol.hu/ir Click: About MOL	
OUR BUSINESSES			Our businesses
Exploration and Production update of MOL		mol.hu/ir Click: Financial reports and presentations	
Strategic presentations		mol.hu/ir Click: Financial reports and presentations	
FINANCIAL REPORTS AND PRESENTATIONS			Financial reports and presentations
Annual report 2010 - online		mol.hu/ir Click: Financial reports	
Financial and operational data from 2001 (excel file)		mol.hu/ir Click: Financial reports	
Financial presentations and reports		mol.hu/ir Click: Financial reports	
Quarterly flash reports		mol.hu/ir Click: Financial reports	
SUSTAINABILITY: NON-FI NANCIAL PERFORMANCE			Sustainability
Air Emissions	182	mol.hu/environment Click: Emissions, Effluents and Waste	
Awards and Recognitions	5	mol.hu/sd Click: Awards and recognitions	
Biodiversity	185	mol.hu/environment Click: Biodiversity	
Business Ethics	195	mol.hu/sd Click: Managing the Group	
Climate Change	181	mol.hu/environment Click: Climate Change	
Code of Ethics	195	mol.hu/sd Click: Managing the Group	
Commitments to External Initiatives		mol.hu/sd Click: Managing the Group	
Contractor Management	187	mol.hu/people Click: Health and Safety	
Customers		mol.hu/economic Click: Product Responsibility	
Diversity	194	mol.hu/people Click: Managing our Human Capital	
Energy efficiency	181	mol.hu/environment Click: Improving energy efficiency	
Global Compact (UNGC)	205	mol.hu/sd Click: Managing the Group	
Glossary/definitions	244	mol.hu/sd Click: Introduction	
GRI compliance	205	mol.hu/sd Click: Introduction	
Health Protection	187	mol.hu/people Click: Health and Safety	
HSE Policy		mol.hu/sd Click: Managing the Group	
Human Capital Development	192	mol.hu/people Click: Managing our Human Capital	
Human Rights	194	mol.hu/people Click: Protecting Human Rights	
Letter from the Chairman	8	mol.hu/sd Click: Introduction	
Materiality	204	mol.hu/sd Click: Introduction	
Product Stewardship		mol.hu/economic Click: Product Responsibility	

Topic of interest	Covered in this report	Online information	
Quality Management		mol.hu/our_company	Sustainability
Renewables	181	mol.hu/environment Click: Climate Change	
Risk Management		mol.hu/sd Click: Managing the Group	
Road Safety	187	mol.hu/people Click: Health and Safety	
Safety at work	186	mol.hu/people Click: Health and Safety	
Social investments	197	mol.hu/people Click: Social Investments	
Stakeholder Engagement		mol.hu/sd Click: Managing the Group	
Supply Security		mol.hu/economic Click: Generating Value for Stakeholders	
Talent Attraction and Retention	189	mol.hu/people Click: Managing our Human Capital	
Targets and Results	179	mol.hu/sd Click: Introduction	
Waste Management	184	mol.hu/environment Click: Emissions, Effluents and Waste	
COPORATE GOVERNANCE		mol.hu/sd Click: Managing the Group	Coporate governance
Articles of association		mol.hu/ir Click: Corporate governance	
Charter of the Board of Directors, Committees		mol.hu/ir Click: Corporate governance	
Charter of the Supervisory Board		mol.hu/ir Click: Corporate governance	
Composition of Board committees	216	mol.hu/ir Click: Corporate governance	
Corporate Governance Code		mol.hu/ir Click: Corporate governance	
Corporate Governance Declaration - Budapest Stock Exchange		mol.hu/ir Click: Corporate governance	
Corporate Governance Declaration - Warsaw Stock Exchange		mol.hu/ir Click: Corporate governance	
Corporate Governance Policy		mol.hu/ir Click: Corporate governance	
Corporate Governance Report	212	mol.hu/ir Click: Corporate governance	
Independence criteria for the Members of the Board of Directors		mol.hu/ir Click: Corporate governance	
Insider training principles in MOL Plc. according to the Corporate Governance Recommendation of the Budapest Stock Exchange		mol.hu/ir Click: Corporate governance	
OTHER			Other
AGM documents		mol.hu/ir Click: General meetings	
AGM Resolutions		mol.hu/ir Click: General meetings	
Dividend		mol.hu/ir Click: General meetings	
Financial Calendar		mol.hu/ir Click: Events	
IR Contacts		mol.hu/ir Click: IR services	
RSS		mol.hu/ir Click: RSS	
Share Price		mol.hu/ir Click: Share Price Information	

Contact Information

Corporate Address
MOL Hungarian Oil and Gas Plc. (MOL Plc.)
H-1117 Budapest, Október huszonharmadika u. 18.
H-1502 Budapest, Pf.: 22
Phone: (+36-1) 209-0000, 209-1010, 209-2020

Share Registrar
KELER Zrt.
H-1075 Budapest, Asbóth u. 9-11.
Phone: (+36-1) 483-6251, (+36-1) 483-6289

Stock Exchange Trading Information
Budapest Stock Exchange
H-1062, Budapest, Andrássy út 93.
Phone: (+36-1) 429-6857
Fax: (+36-1) 429-6899
E-mail: info@bse.hu

Warsaw Stock Exchange
Giełda Papierów Wartosciowych w Warszawie S.A.
4 Ksiazeca Street 00-498, Warsaw Poland
Phone: (+4822) 628 32 32
Fax: (+4822) 628 17 54
E-mail: gpw@gpw.pl

DR Information
The Bank of New York Mellon
Slawek Soltowski, Vice President
101 Barclay Street, 22 West New York, NY 10286 USA
Phone: 00 1 212 815 3503
Fax: 00 1 212 571 3050
Email: slawek.soltowski@bnymellon.com

Announcements
The company publishes its announcements in MOL's website: www.mol.hu
and in Budapest Stock Exchange's website: www.bet.hu

Investor Relations
H-1117 Budapest, Október huszonharmadika u. 18.
Phone: (+36-1) 464-1395
Fax: (+36-1) 464-1335
E-mail: investorrelations@mol.hu

Investor Relations Director
Richárd Benke
E-mail: rbenke@mol.hu

Professional Secretary
Rita Palicska
E-mail: rpalicska@mol.hu

Analyst and shareholder contacts
Ádám Horváth
E-mail: adhorvath@mol.hu
Gábor Horváth
E-mail: gabhorvath@mol.hu
Attila Czafit
E-mail: aczafit@mol.hu

Small shareholder and custody contact
Zoltán Fogarasi
E-mail: zfogarasi@mol.hu

Sustainable Development
Pál Kapusy
E-mail: sd@mol.hu

Imprint
Executive publisher: Dóra Somlyai, Richárd Benke, Pál Kapusy
Managing editor: Attila Czafit, Rita Palicska, Gábor Haraszti
Design: Virág Simon
Publisher: Hamu és Gyémánt Kiadó

Statement of responsibility

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 2010, 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, 29 April 2011

György Mosonyi
Group Chief Executive Officer

József Molnár
Executive Vice President
of Finance