

MOL Group Annual Report

2011

Economic, Social and Environmental Performance

Content



Bratislava Refinery, Slovakia

MOL GROUP ANNUAL REPORTING

As a demonstration of MOL Group's resolve to integrate a sustainability approach into day-to-day 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.

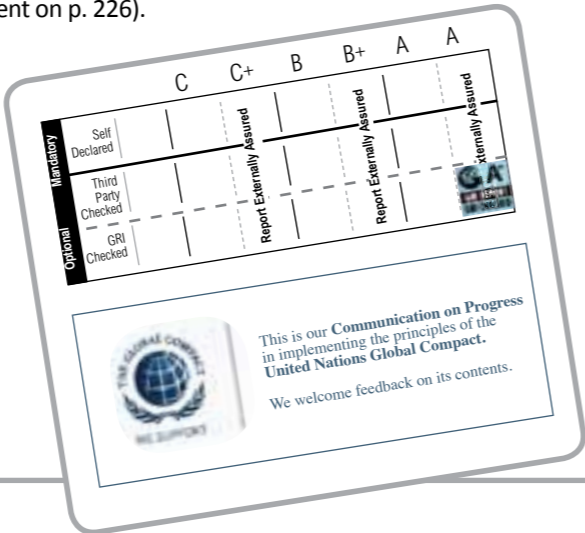
MOL Group follows the international standards for financial and non-financial reporting, such as:

- International Financial Reporting Standards (IFRS)
- Global Reporting Initiative (GRI) G3 Sustainability Reporting Guidelines (level A+)
- UN Global Compact, Communication on Progress
- IPIECA Oil & Gas Voluntary Guidance on Sustainability Reporting.

This Annual Report concentrates on performance, results and activities from 1 January to 31 December 2011 as well as comparison with the prior period.

Beyond this report, one can find a general presentation of MOL Group policies, management approaches and other useful regularly maintained and updated information at www.mol.hu. Our webpage is tailored to answering the information needs of all of our stakeholders. In addition, financial reports, regulated stock exchange announcements, corporate governance-related information, investor presentations and other documents are also available on the MOL Investor Relations microsite at <http://ir.mol.hu>.

This Annual Report, together with MOL Group's website, meet the requirements of the A+ rating of the GRI G3 Sustainability Guidelines in accordance with the GRI (please see the assurance statement on p. 226).



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MOL Group at a glance

MOL Group is a leading integrated Central and East European oil and gas corporation with an extensive international Upstream portfolio.

Market capitalisation was over USD 7.5 bn at the end of 2011 and our shares are listed on the Budapest, Luxembourg and Warsaw Stock Exchanges. Our depository receipts are traded on London's International Order Book and 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 and to excellence in its social and environmental performance.

Our core activities in a snapshot

The **Upstream segment** has a diverse portfolio with oil and gas exploration activities in 12 countries and valuable producing assets in 8 countries. MOL Group's SPE 2P reserves reached 682 MMboe as of 31 December, 2011, while hydrocarbon production amounted to 147 Mboe/day in 2011. MOL Group has more than seven decades of oil and gas industry experience in the CEE region and a proven international track record of over 20 years and is now in the position of reaping the benefits of its outstanding exploration drilling successes. Several discoveries were recorded in Hungary, Russia, Kazakhstan, Pakistan and the Kurdistan Region of Iraq in recent years. Besides our traditional core Central and East European arena, recent focus has been on Russia and Kazakhstan due to their reserve addition as well as on our flagship assets in the Kurdistan Region of Iraq.

The **Downstream segment** operates 5 refineries, 2 petrochemicals units and a modern retail filling station network supplied by a region-wide logistics system, all optimised by very effective supply chain management. The segment's integration was significantly enhanced in 2011– to exploit sequential and interactive business processes, keeping the focus on operating efficiency whilst moderating negative effects of the external economic environment. The Group's two most complex refineries, Bratislava and Danube, continue to enjoy the advantages of their strong asset structure, high net cash margins and central positions in landlocked markets.

Gas Midstream: FGSZ Ltd. is the exclusive holder of 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 transits natural gas to Serbia and Bosnia-Herzegovina as well as transfer to Romania and Croatia. MOL Group is an active participant in the gas storage business through the gas storage facility of MMBF Ltd. which finished its second year of successful operations in 2011. MOL is now analysing the opportunity to create a diversified power generation portfolio.

In recognition of its long-term economic, social and environmental performance, MOL was included in the Dow Jones Sustainability World Index for the second time, in 2011.



Member of the Dow Jones Sustainability World Index SAM research	Best Sustainability Report 2011 in Central Europe (Green Frog Award) Deloitte Hungary
MOL Danube Refinery received Environmental Protection Award local government of Százhalombatta	HCM Excellence Award in the Recruitment category Human Asset conference
MOL is the second favourite workplace for fresh graduates Aon Hewitt research	The Best Employer of Central-Eastern Europe 2010/2011 (FGSZ) Aon Hewitt Associates
TOP youth company for Slovnaft Junior Chamber International	INA was officially awarded recognition with an Employer Partner Certificate for its high quality HR management. Employer Partner Certificate
Business Superbrands and Magyarbrands 2008/2009/2010/2011 (TVK) Superbrands Hungary	Bicyclist Friendly Workplace 2009/2010/2011 (TVK) Ministry of National Development

2011 AWARDS

MOL Group at a glance

Key financial and operating data

Key exploration and Production data*	2010	2011	11/10 (%)
Gross crude oil reserves, SPE 2P (MM bbl)	271.0	325.2	20.0
Gross natural gas and condensate reserves, SPE 2P (MM boe)	347.8	357.1	2.7
Total gross hydrocarbon reserves, SPE 2P (MM boe)	618.8	682.3	10.3
Average crude oil production (M bbl/day)	63.0	61.8	(1.9)
Average natural gas production (M boe/day)	80.5	85.6	6.3
Total hydrocarbon production (M boe/day)	143.5	147.4	2.7
Key Refining & Marketing data*	2010	2011	11/10 (%)
Total refinery throughput (kt)	21,834	21,802	(0.1)
White products yield (% change in percentage point)	77.9	78.9	1.0
Total crude oil product sales (kt)	20,940	20,337	(2.9)
Motor fuel sales (kt)	13,176	13,603	3.2
Total retail fuel sales (m litre)	4,390.1	4,337.0	(1.2)
Total retail sales (kt)	3,545.4	3,507.0	(1.1)
Key Petrochemical data*	2010	2011	11/10 (%)
Olefin sales (kt)	270	341	26.3
Polymer sales (kt)	1,145	1,163	1.6
Key Natural Gas data*	2010	2011	11/10 (%)
Hungarian natural gas transmission (m cm)	13,833	12,492	(9.7)
Transit natural gas transmission (m cm)	2,201	2,761	25.4
Environmental and social performance data*	2010	2011	11/10 (%)
Carbon Dioxide (CO ₂) emissions (Mt)	7.14	6.93	(2.9)
Lost time injury frequency (LTIF)	2.25	2.15	(4.0)
Total score in the Dow Jones Sustainability Index assessment	75	68	(9.3)

* Detailed data analysis are in the Management Discussion and Analysis and in the Sustainability: non-financial performance chapters.

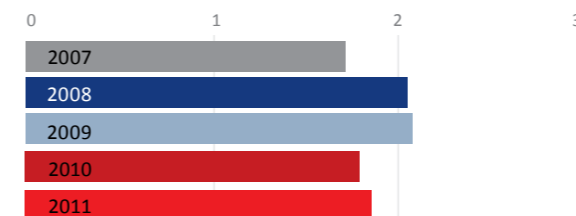
Key financial data - IFRS (HUF bn)*	2010	2011	11/10 (%)	2011 (USD mn)***
Net revenue	4,299.7	5,343.2	24.3	26,596
EBITDA	526.0	603.0	14.6	3,002
EBITDA excluding special items	606.1	645.1	6.4	3,211
o/w Upstream	400.8	483.6	20.7	2,407
o/w Downstream	178.0	118.7	(33.3)	591
o/w Gas Midstream	71.8	86.0	19.8	428
Operating profit	245.5	253.2	3.1	1,260
Operating profit excluding special items	336.6	336.9	0.1	1,677
Profit before tax	172.0	218.4	27.0	1,087
Profit for the year attributable to equity holders of the parent	104.0	153.7	47.8	765
Profit for the year attributable to equity holders of the parent excluding special item	165.6	223.0	34.7	1,110
Operating cash flow	378.9	373.0	(1.6)	1,857
Capital expenditures and investments	332.8	274.9	(17.4)	1,368
o/w Upstream	123.0	111.8	(9.1)	556
o/w Downstream	123.2	110.7	(10.1)	551
o/w Gas Midstream	79.7	18.3	(77.0)	91
Basic EPS - HUF and USD	1,231	1,766	43.5	9
Return On Capital Employed (ROACE) % **	6.8	6.5	(4.4)	n.a.
Clean ROACE %**	9.1	8.7	(4.3)	n.a.

* Detailed data analysis are in the Management Discussion and Analysis.

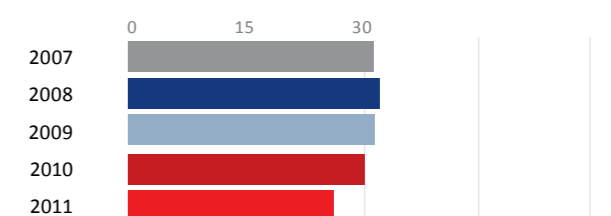
** Based on profit after taxes

***In converting HUF financial data into USD, the average NBH rate was used (1 USD=200,9 HUF).

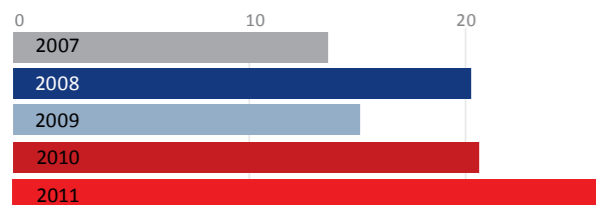
Operating Cash flow (USD bn)



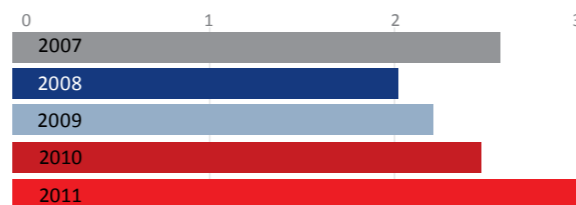
Gearing (%)



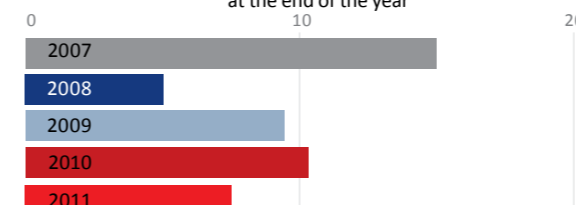
Net sales revenue (USD bn)



EBITDA (USD bn)



Market capitalisation (USD bn)
at the end of the year



MOL Shares on BSE



Letter from the Chairman CEO and Group CEO



Letter from the
Chairman CEO and
Group CEO

MOL closed another successful year in 2011 despite mixed business environment.

High crude oil prices supported Upstream results while external conditions proved unexpectedly tough on Downstream operations. However, despite the developments in Syria and further tightening of the regulatory environment, we were still able to grow further in 2011. Strong operating results derived from our diversified international Upstream portfolio. More than 70% of Group EBITDA was generated by our Upstream Division with half our operating results coming from outside Hungary as the share of international operations increases year by year.

The Upstream Division, the Group's main profit contributor, achieved particularly outstanding results in 2011.

Our 219% reserve replacement ratio which boosted SPE 2P reserves to 682 MMboe as a result of earlier exploration successes in Kazakhstan and extensive field development in Russia was an important achievement. MOL achieved 10 new discoveries worldwide: 5 discoveries internationally and 5 in Hungary and achieved a 3-year average drilling success ratio of 64%. During 2011, the focus in the CEE region remained on the implementation of early cash-generating development projects and maximizing the value of our existing resource base through enhanced and improved recovery in our existing producing fields. MOL also maintained focus on the appraisal of and further exploration in the Kurdistan Region of Iraq, Kazakhstan and Russia which will support the sustainability of increased reserves and production growth in the long term.

In 2011, MOL **Downstream** suffered from extraordinarily unfavourable developments in the external environment and some unplanned refinery stoppages in Croatia which together put unusually heavy pressure on Downstream profitability. However, **our two largest refineries performed relatively well, which demonstrates the strength of these complex assets.**

In 2011, MOL further strengthened its financial position as evidenced by lower gearing and net debt at EBITDA level. Our investment grade credit rating was endorsed by Fitch which also underlined our strong financial position. Thanks to MOL's diversified maturity profile, in 2012 there will be no pressure on additional external financing. In a tough regulatory environment, we remained disciplined and financed our capital expenditure requirements from operating cash flow. We are highly committed to maintaining this strong financial position in the coming years and we continuously monitor the macro environment, ready to commence further growth projects depending on cash flow generation.

We expect 2012 to be a challenging year, such as force majeure in Syria and a depressed refinery environment year-to-date; however we believe that MOL Group is well-positioned to deliver outstanding growth in the mid-term. Our key tasks are to unlock the value of our exploration portfolio and increase our reserve base, which will provide a solid basis for mid-term production growth in Upstream. The next two years will be crucial for operations in the Kurdistan

Region of Iraq since we are planning to drill two exploration and seven appraisal wells. In Downstream, our aim is to maintain the leading position of our core assets and improve the overall profitability of the Division through comprehensive efficiency programmes. With the enhanced level of the Division's integration, MOL will be in a position to optimise its assets and processes at Group level. Our aim with our market driven operations is to increase our captive markets in the region.

In 2011, MOL Group was the first and only company from the region to be listed in the **Dow Jones Sustainability World Index** for the second time. To be selected as one of the 12 best sustainable companies in the oil and gas producer industry is significant acknowledgement of the efforts we have invested in recent years. In 2011, all our business units defined detailed sets of sustainability objectives for the next five years, to remain among the top performers in this field. The progress towards our sustainability goals contributes also to the implementation of the principles of the UN Global Compact which we still support.

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 certain that all our efforts in 2011, undertaken in a mixed and challenging environment, have further strengthened the basis for MOL Group's organic development over the coming years.


Zsolt HERNÁDI
Chairman and CEO


József MOLNÁR
Group CEO

Kurdistan Region of Iraq, Bijell-1 exploration well

Overview of the macro environment

World economy: Decelerating growth

2011 saw a marked but not very surprising slowdown in the global economy following the unsustainable boom of 2010. The winding down of stimulus packages across the globe and concerns regarding the future of the Eurozone left their imprint on global economic performance which only grew by 3.8 percent in 2011 versus 5.2 percent in 2010, a broadly-based loss of momentum, especially at the end of the year. The advanced economies grew by 1.6 percent in 2011 while emerging countries experienced a hefty 6.2 percent growth. The International Monetary Fund (IMF) estimates that further deceleration will come in 2012 as the Eurozone slips into recession, while developing economies will also slow down due to a worsening external environment and a weakening of internal demand. The IMF forecasts global GDP will grow by 3.3 percent, mostly driven by the developing regions. Central & Eastern Europe, however, will only expand by 1.1 percent in 2012, mainly due to adverse knock-on effects from the euro area trade and financial channels. There is also a downside risk to global growth if the Eurozone crisis worsens.

Oil markets: Significant price increases supported by supply issues, despite lower demand growth

The economic downturn heavily affected oil demand during 2011. However, a supply fallout due to the civil war in Libya and geopolitical concerns about the Middle East worked massively against the effects of the global economic backdrop. The International Energy Agency reported that global oil demand grew only 0.8mb/d to 89.1mb/d in 2011 after an outstanding year's growth of 2.8mb/d due to a post-recessionary bounce back in 2010. The increase mostly derived from non-OECD Asian growth in demand, whereas OECD demand contracted throughout the year. OPEC countries were able to increase their supply to 30.9mb/d since high levels of output from Saudi Arabia, Iraq and the UAE more than offset the fall in Libyan output. OPEC's effective spare capacity consequently declined sharply to 2.8mb/d last year. In 2011, OECD industry stocks declined further to 57 days of forward demand cover throughout the year compared to 58-day figures throughout most of 2010. In 2011, average oil prices went up significantly by 40 percent to USD 111/bbl moving in a wide USD 30/bbl range. Supply worries resulting from Arab Spring events pushed prices up, reaching a maximum level of USD 126/bbl in April, which was followed by a gradual decrease through to year-end.

Refining margins: European refineries suffered

Similar to the previous year, 2011 was an extremely tough one for refineries, especially for European players. Refining margins remained mostly below the 5-year average throughout in 2011. Geography and configuration, however, were crucial determinants in refinery profitability. While Asian and US refiners benefited from demand growth and comparatively low costs, respectively, their European peers suffered mainly due to the loss of Libyan crude supplies, the narrowing of the Brent-Urals spread and weak domestic demand for oil products. As a result, European refinery runs fell to a record low during 2011. European refining margins (calculated as NWE cracking) averaged USD 1.35/bbl in 2011, significantly lower versus USD 2.68/bbl in 2010 and the market was extremely volatile. The Libyan civil war resulted in the loss of more than 1 mb/d of crude exports during the course of 2011, which gave a comparative advantage to more complex refiners able to process heavier sour crude. As a result, many more vulnerable refiners were obliged to cease operations. Other factors also played an important role in hectic refining margin movements, such as increased volumes coming from Saudi Arabia and other Middle East Gulf producers, production problems in the North Sea, the tragic earthquake in Japan and increasing WTI crude discounts against internationally traded crudes.

The gasoline crack spread did not change much year-on-year but saw large seasonal variations. Naphtha crack spreads historically move in line with gasoline since naphtha is used as a blending component. Last year, price movements were distorted by poor petrochemicals markets and significant discounts in propane prices, the latter being used as alternative feedstock. Diesel's improved crack spread was mainly the result of bullish demand expectations in H1, the refinery maintenance season and Japan's Fukushima disaster. In H2 2011, lower refinery throughput and the loss of Russian export volumes supported strong crack spreads. Historically negative fuel oil cracks moved in a relatively narrow range during 2011. At the beginning of the year, fuel oil prices were under pressure as medium sour crude was processed as an alternative to lost sweet crude volumes. Later in the year, fuel oil cracks recovered as a result of lower local production and a strong Asian market.

The Brent-Urals spread narrowed significantly over most of H2 2011 and the traditional Urals discount even reversed itself at some point in Q4 2011. Pricing followed a rather volatile pattern during the year, trading in the range of -USD 0.43 and 4.07/bbl (n.b. these figures show the Brent-Ural spread on a positive scale). It reached its peak by the middle of April due to the usual extensive refinery maintenance season, widening light-heavy product spreads and the loss of Libyan production. From Q3, sharp narrowing occurred, reaching zero spread by September, due to declining Russian export volumes, concerns regarding payment for Iranian crude due to financial sanctions and disruption to Kirkuk supplies.

CEE: Two-speed recovery with a widening gap between gasoline and diesel demand

The CEE region's two-speed recovery continued in 2011 with Poland, Slovakia and Romania performing strongly, while Croatia and Hungary, among others, continued to lag behind. Overall, the region expanded by 5.1 percent in 2011 according to the IMF. At the end of 2011, the region experienced net capital outflows for the first time since 2009 and Western banks were also deleveraging which created deterrents for growth prospects. Due to high exposure to Eurozone stress, Central & East European GDP growth is projected to slow down dramatically in 2012 to 1.1 percent, with some countries falling back into recession.

The gap between diesel and gasoline demand widened further in 2011. Gasoline demand decreased in all countries by 5.7 percent on an aggregated level, except in Slovenia, which experienced a slight increase. Demand for diesel was mixed but on average it increased by 1.6 percent.

Relatively high unemployment rates affected private spending, which translated mainly into lower gasoline sales. Meanwhile GDP growth stimulated transportation needs through export activities, which strengthened demand for diesel. Some markets experienced changes in tax which also affected motor fuel demand, for example increased excise tax in Austria and excise tax cuts in Slovenia.

Hungary: Slow recovery hit fuel demand

The Hungarian economy grew by 1.7 percent in 2011, according to preliminary data by the Hungarian Statistics Office, supported solely by exports, while domestic demand contracted still further.

External financing uncertainties forced the Government to request IMF assistance. Negotiations are now in progress but the potential terms of a loan are still in question.

Hungary's motor fuel demand decreased further last year by 2.7 percent y-o-y. Gasoline demand went down by 5.8 percent, while consumption of diesel shrank by 1.1 percent. From January 2011, a lower commercial diesel excise tax for transport industry was announced, which fuelled demand but this was offset by an excise tax increase introduced in November, which raised diesel prices significantly.

Slovakia: Relatively good performance and rebound in motor fuel demand

The Slovak economy was among the better-performing countries in the region, reporting a 3.3 percent growth in 2011 thanks to its industrial production and export performance. A slowdown in the core economies of the Eurozone poses a near-term downside risk to this relatively healthy outlook, given Slovakia's high dependence on exports and continuously weak domestic consumption.

After an outstanding 2010, motor fuel demand dropped last year by 2.7 percent with gasoline consumption decreasing by 9.4 percent and diesel demand growing by a negligible 0.2 percent y-o-y. This decline was due to the introduction of a stockpiling fee, increased VAT in 2011, higher inflation and a slowdown in economic growth reflected in declining real wages and high unemployment.

Croatia: A slow return to recovery

According to the IMF, Croatia's comeback stalled in 2011, its economy growing only marginally and is expected to contract 1% in 2012. Industrial production remained low but a solid tourist season and declining merchandise imports resulted in a promising low current account deficit, only some 0.25 percent of GDP. External financing obligations remained significant and pose a threat to the vulnerable economy, due to the Eurozone crisis.

In 2011, Croatia experienced a dramatic decline of 9.2 percent in motor fuel demand comprising a 12.3 percent decrease in gasoline and a 7.7 percent shrinkage in diesel. Reasons for this fall were rising unemployment, falling real wages and tighter credit conditions.



Our businesses



Sucker rod pump in Hungary

HIGHLIGHTS

- Upstream presence in a total of 12 countries
- SPE 2P reserves of 682 MMboe as of end 2011
- 117 MMboe of SPE 2P reserve addition in 2011
- Daily production of 147.4 mboepd achieved in 2011



ir.mol.hu/en/about-mol/our-businesses

MOL Group's upstream portfolio is composed of valuable exploration assets in 12 countries with ongoing production in 8 countries. Our traditional core area is Central and Eastern Europe, with recent focus on Russia and Kazakhstan (due to their reserve addition) as well as on our flagship assets in the Kurdistan Region of Iraq. In the short and middle terms, field development and reserve bookings are expected to drive growth via reserve replacement ratios possibly exceeding 130%. With substantial production increases expected from 2014 onwards, our reserves base's long-term growth potential relies on our ability to further expand our existing exploration portfolio and to meet the challenges of an ever-changing industry environment.

COMPETITIVE ADVANTAGES

An integrated oil and gas company with over 70 years of experience in Central Europe and two decades of international exposure abroad, MOL Group is now in a position to reap the benefits of its proven track record and its outstanding exploration drilling success. In addition, it has been ranked among the leading European low-cost onshore producers. MOL Group boasts an outstanding exploration success rate in the past three years (close to 67% in Hungary and 60% abroad). Further organic growth in our diversified upstream portfolio is strengthened by MOL and INA's complementary skill bases. Our company has a well-established presence and thriving partnerships in the CIS region, the Middle East and North Africa, as well as Sub-Saharan Africa.

KEY ACHIEVEMENTS

Central and Eastern Europe

The CEE region is MOL Group's traditional core region. Besides ongoing exploration operations, MOL Group also applies EOR/ IOR methods to mitigate natural field decline.

- **Reserves (SPE 2P, 2011 Y/E):** 405 MMboe
- **Production (2011):** 99.6 mboepd

Hungarian production in 2011 amounted to 48.8 mboepd. Oil output reached 12.4 mboepd, whereas condensate production was 4.8 mboepd. Natural gas production (net dry gas value)

totalled 31.6 mboepd. Despite declining production, MOL maintained favourable efficiency ratings thanks to its 40-year track record in applying EOR/ IOR technologies. In 2011, the company fully completed the production-enhancement project in Algyő. Thanks to previous successful exploration activities, five new gas wells were put into production in Southern Békés county. MOL began the implementation of an energy rationalisation project at our two major gas plants in 2011; this project will be completed in the first half of 2012. In addition, MOL executed a production-enhancement project in Southern Hungary.

As for conventional exploration activities, MOL once again achieved a high success ratio of 56% in 2011. Out of a total nine exploration wells, five proved successful in identifying hydrocarbon in commercial quantities. As a result, we added 2.4 MMboe to our existing reserves base. MOL remained dedicated to maintaining strong partnerships in its domestic operations. For example, together with Hungarian Horizon Energy, MOL drilled and completed four wells in Eastern Hungary.

Significant strides were made in Hungarian unconventional exploration in 2011. Our main priorities are testing commercial production (Beru-4) and drilling to increase hydrocarbon volume (Beru-6). Exploration in the Derecske basin continued: the hydraulic fracturing of the Beru-4 well at the end of 2011 proved technically successful. The start of the pilot production phase is expected in the first half of 2012. A new well (Beru-6) was drilled to prove gas at a greater depth to increase initial gas volumes. Preliminary results suggest the well found gas in the expected reservoirs. In addition, the Beru-6 well encountered gas in a conventional reservoir on top of the target areas. The test is scheduled for early 2012. In the Makó and Békés basins, MOL met all local authority conditions and converted potential areas into mining plots.

In 2011, total **Croatian** production amounted to 9.1 mboepd crude oil, 6.0 mboepd condensate and 35.7 mboepd gas. As a result of field decline, this corresponds to decreases of 6% in crude oil, of 7% in onshore natural gas, as well as of 13% in condensate production compared to 2010. Offshore gas production was also lower than planned, decreasing by 4% compared to prior year, due to the delayed start-up of the Izabela field (EdINA), where production has still not yet commenced. Further decreases were caused by maintenance works in the Aiza Laura Contract Area

(INAgip) and by higher water cuts and natural decline in the North Adriatic Contract Area (INAgip). Most EOR project procurement activities were extended to 2012 under the Public Procurement Act, whereas procurement related to surface infrastructure and facilities began in October 2011. Regarding Croatian exploration activities, the drilling of two onshore wells was postponed to 2012 due to Croscó's delayed drilling rig move from Syria. Based on the results of the Dinaridi exploration study undertaken in 2011, the acquisition of 2D seismic surveys in the Dalmatia inland area is planned for the second half of 2012.

The exploration licence tender process of the Croatian Ministry of the Economy was cancelled. Despite the revocation of licences for exploration in the continental part of Croatia, INA remains dedicated to its Croatian commitments. It is currently the only entity with the necessary equipment, experience, knowledge and projects to accelerate exploration activities in continental Croatia, pending the decision of the new government regarding licensing.

In the field of unconventional exploration, INA completed preparations for the first unconventional operations on the Croatian side of the Drava basin.

MOL Group and its **Romanian** partner, Expert Petroleum, were awarded three blocks in Western Romania's Pannonian basin in July 2010. Relevant concession agreements, along with the Joint Operating Agreement (JOA), were signed on 19 April 2011; parliamentary ratification is expected in 2012. MOL Group is ready to begin the work programme of the mandatory exploration phase as soon as ratification is obtained. The planned work programme includes 600 km of 2D seismic survey acquisition, 1,700 sqkm of 3D seismic surveys and 19 exploration wells, including unconventional wells.

In Russia, MOL Group has four assets in different project phases with a significant undeveloped resource base. Increased production is expected from the Matjushkinsky and Baitex Blocks while MOL Group recently added significant reserves in Kazakhstan.

- **Reserves (SPE 2P, 2011 Y/E):** 222 MMboe
- **Production (2011):** 18.7 mboepd
- **ZMB field:** a mature developed field; a cash-generating project
- **Baitugan field:** a low-risk field under development with exploration activity
- **Matjushkinsky Block:** under development with intensive exploration activities
- **Surgut-7 Block:** ongoing exploration activities
- **Fedorovsky Block:** under appraisal and early development with first production expected in 2015

In **Russia's Zapadno-Malobalik (ZMB) field**, MOL Group's share of production in 2011 amounted to 10.6 mboepd. The gas utilisation programme was completed by the construction of a gas turbine power station with the implementation of three new generators in 2011. In accordance with governmental regulations, associated gas utilisation exceeded 95% at the end of the year. The construction of certain water injection system elements, the new office building and technology planning for the coming years were also completed in 2011. Currently, there are 144 production and 77 water injection wells in operation in this field.

In the **Matjushkinsky Block** production in 2011 increased to 3.3 mboepd, a 9% rise compared to 2010. This was mainly a consequence of development activities in the Severo-Ledovoye field, which continued with the drilling of 25 additional wells. A total of 23 wells were put into production by the end of the year while a further well was being drilled and one being tested. The necessary expansion of oil treatment facilities and a power generation plant were completed. The purchase and construction of a 40 km oil transmission pipeline, connecting central and local oil facilities, began. At the moment, 13 production and 5 injection wells are in operation in the Matjushkinsky field, along with 33 production and 3 injection wells in the Severo-Ledovoye field. In the Matjushkinsky Block, one exploration well was drilled on the Verkhne-Laryegan structure. The well produced surface-flowing oil when tested.

Production in 2011 reached 4.8 mboepd in the **Baitugan field**, an increase of 4% compared to 2010. In 2011, a total of 34 oil producer and 2 water injector wells were drilled. In parallel, the installation of remote measuring stations and water injection centres, the building of a fibreglass pipe water trunk line and a plastic-coated steel pipe water injection line as well as the

expansion of power systems were completed in 2011. The reconstruction of the central processing station continued. Installation activities at the gas turbine-based power station began for making use of associated gas. Moreover, preparations for a new field development plan, based on a 3D seismic survey, were completed and subsequently approved by state authorities.

In the **Surgut-7 Block**, the hydrofracturing of the Jurassic layers of Atayskaya-2 produced oil but, as a consequence of unusual weather conditions, testing was stopped. In lack of a winter road the 3D seismic survey and the reinterpretation of Ayskaya-1 and Atayskaya-2 wells could not be carried out in 2011.

In 2010, **Kazakhstan's** Ministry of Energy and Mineral Resources approved the extension of our exploration licence for the Rozhkovsky area of the Fedorovsky Block for additional four years. The Rozhkovsky U-21 appraisal well, spudded in October 2010, encountered significant amounts of gas and condensate reserves in the Tournaisian carbonate section. The drilling of the third appraisal well (Rozhkovsky U-22) was completed in June 2011. Rozhkovsky U-23, the next well, was finished, reaching a final depth of 4,500 m in October 2011, with promising hydrocarbon saturation. The wells are scheduled to be tested in 2012. Reserve calculation and trial production plans have been approved by the Kazakh Government. The reserve audit executed at end of 2011 resulted in a significant addition of 37 MMboe to MOL Group's SPE 2P reserves (corresponding to 5% of total Group reserves). The start of early production is scheduled for 2015.



MOL Group has a well-established presence and partnerships in the Middle East and South Asia. MOL Group also has a diverse African portfolio with assets in Egypt, Cameroon and Angola.

- **Reserves (SPE 2P, 2011 Y/E):** 55 MMboe
- **Production (2011):** 29.2 mboepd
- **Kurdistan Region of Iraq:** a flagship project under intensive appraisal
- **Oman:** a significant asset, now in the exploration phase
- **Syria** first oil production started in 2005
- **Pakistan:** four high potential blocks in different project stages

In the **Kurdistan Region of Iraq**, MOL Group's intensive drilling programme continued. In the **Akri-Bijeel Block**, the Bekhme-1 exploration well was completed in October 2011, reaching a total depth of 5,000 m. The well was then suspended and is currently awaiting further evaluation. However, the results provided MOL Group with substantial data on geological structures and will contribute to additional exploration activities. The block's reserve potential remains unchanged. The Bijell-3 appraisal well site was prepared and the drilling rig moved there from the Bekhme-1 site.

In the **Shaikan Block**, which is operated by Gulf Keystone Petroleum, the appraisal programme continued with the drilling of Shaikan-2 and Shaikan-4 appraisal wells along with the spudding of Shaikan-5 and Shaikan-6 wells. On testing, the Shaikan-2 well produced 8.1 mboepd of 26° API oil and 393 boepd of gas. Shaikan-1 and Shaikan-3 wells produced 197.4 mboe during 2011 in total (100% working interest). Extended well test surface technology is being improved to meet export pipeline specifications.

In **Oman's** Block 43B, new seismic data validated the previous model and a drillable object was mapped in the Hawasina area. Following volumetric and economic estimates, the geo-technical planning of the exploration well was completed. This plan was approved by the Omani Ministry of Oil and Gas. Well spudding is scheduled for mid-2012.

In **Syria's Hayan Block**, Gas Treatment Plant (GTP) commissioning was carried out as part of the scheduled work programme, resulting in significant increases in gas and condensate production and the commencement of LPG production. The provisional acceptance certificate was issued on 6 March 2011, after which the Hayan Petroleum Company took over the plant and the guarantee period commenced. Thanks to the successful drilling programme, GTP was operated at maximum capacity and production increment was higher than expected. Because of high crude oil prices, cost reimbursement was also higher.

Oil and condensate output in 2011 amounted to 6.8 mboepd on average, while gas production reached 13.5 mboepd.

In Syria's **Aphamia Block**, two exploration wells drilled in 2010 have encouraged further exploration activities. INA entered the second two-year extension of the initial exploration phase on 11 November 2010. The Beer As Sib-2H well was planned to confirm the commercial viability of the already proven saturated hydrocarbon structures, Beer As Sib and Mudawara. Well drilling was originally scheduled for 2011, but had to be postponed due to the security situation and the sanctions against Syria.

Syria's oil industry has been facing serious financial difficulties and operational obstacles since the introduction of European Union sanctions. Export sanctions and limited crude oil storage capacity in the country forced production companies to cut back on their output. INA closed five oil wells until the end of 2011 and four others until the end of February 2012. Since the last quarter of 2011, the company has encountered significant difficulties in the collection of receivables from its Syrian partner for its share of hydrocarbon production.

Due to the overall security situation in Syria and as employee safety is our primary concern, INA temporarily withdrew all employees not required for ongoing day-to-day operations.

According to Croatian Government regulations, INA cannot continue performing its regular business operations and activities in Syria. Therefore, INA announced on 27 February 2012 that it delivered force majeure notice to the General Petroleum Company (GPC) of Syria. Until the termination of the force majeure, no revenues and no production share are to be recognised. Force majeure does not mean the termination of the agreement and the simultaneous exit from the project. It is a protection mechanism for the agreement parties in the event of unforeseeable circumstances with the aim of continuing the agreement's execution after the cessation of these circumstances, without damages for the announcing party.

In **Pakistan**, MOL Group has interests in four blocks, namely the Tal Block (in the exploration/development/production phase), the Karak Block (in the appraisal phase), and the Margala and Margala North Blocks (both in the exploration phase).

Exploration, appraisal and development operations continued in Pakistan's **Tal Block**. MOL Group's share of 2011 production from the Tal Block amounted to 4.8 mboepd of gas and 0.7 mboepd of condensate. At 2011 year-end, ten producing wells were operating in the block. The Tolanj X-1 well was the sixth independent discovery. Early production from the Maramzai-1

and Mamikhel-1 wells is in progress, while the tie-in works of the Makori East-1 discovery to the Makori Early Production Facility are scheduled for early 2012. The drilling of the first appraisal well, Makori East-2, started in July 2011. The processing and interpretation of the 3D seismic survey carried out in 2010 were carried out successfully and located two appraisal wells on the Mami Khel and Maramzai structures, along with one new exploration well (MardanKhel-1). In the second half of 2011, one new development well, Manzalai-9, was successfully drilled.

In the *Karak Block*, the first exploration well, Halini-1, was spudded in January 2011 and drilled successfully to a final depth of 5,350 m. In September, the well was declared to be an oil discovery with two reservoir layers and has been considered for immediate completion so as to start early production. The consortium plans to acquire 3D seismic surveys of the structure in 2012 and upon its interpretation to drill additional wells to delineate the exact potential extent, size and reserves of the discovery.

In the *Margala and Margala North Blocks*, after the negative results of the Margala-1 well, the main purpose of subsequent exploration work was to explore the block’s remaining potential. A new 2D seismic survey of 150 km began in October 2011 along targeted areas to confirm drillable prospects.

In **India’s** Himalayan Foothills, the Kasauli-1 well on the HF-ONN-2001/1 Block was spudded in March 2010 and reached its targeted depth in July 2011. The well encountered no reservoir and was declared dry, then plugged and abandoned. Relinquishment of the block is ongoing.

In **Egypt**, INA is the operator of the Sidi Rahman and Rizk development leases of the East Yidma concession, while it has non-operator status in three other concessions (Ras Qattara, West Abu Gharadig and North Bahariya). Its share of production in Egypt was around 1.8 mboepd in 2011 (a 9% decrease

compared to 2010). Investment in 2011 primarily focused on drilling activities with nine wells drilled in total. Five development wells produced oil. The Zarif Deep-1 exploration well was drilled in the Ras Qattara concession to find possible hydrocarbon accumulations at deeper levels but the well was plugged and abandoned when found to be dry. The Abrar South-1 exploration well in the North Bahariya concession was put into production in July. In addition, a water injection well was also drilled in West Abu Gharadig concession to optimise the production rate.

Production from our non-operated offshore blocks in **Angola** contributed 1.6 mboepd to MOL Group results in 2011, remaining approximately at the same level as the previous year. Out of the previous three blocks, Block 3/85 was integrated into Block 3/05 during 2011, and the other one (Block 3/91) will also be integrated into Block 3/05 from 2013 onwards. Operations in 2011 focused on well interventions to improve performance; in addition, some major new development projects were started. However, annual workover activities were postponed to 2012 thanks to excellent well performance. The exploration period of Block 3/05A expired on 30 April 2011. Field development plans for Caco-Gazela and Punja fields in Block 3/05A were submitted for approval by the authorities.

Activities in **Cameroon’s** Ngosso Block in 2011 included the acquisition and interpretation of a 2D seismic survey and the completion of other G&G studies.

Technological considerations

To maintain our operations at the highest possible level and to remain up-to-date with industry developments, MOL Group places strong emphasis on developments in technology. In 2011, the company made significant strides in the area of ultra-high resolution 2D seismic acquisition. In addition, the first micro seismic monitoring survey was carried out during

Kurdistan Region of Iraq, Bijell-1 exploration well



Upstream

Manzalai Central Processing Facility, Pakistan



hydraulic fracturing operations on the Beru-4 well. Because of our commitment to applying the best available technology, new coring and well-site coring processing technology was put into practice in MOL Group operations in the Kurdistan Region of Iraq.

MOL Group joined an international consortium to develop next generation seismic sequence stratigraphic software. Intensive training programmes began so as to maintain our engineers’ technical and geo-knowledge. The first Ultra High Temperature High Pressure (UHTHP) well hydraulic fracturing design, planning and successful execution was carried out in the Derecske basin, an operation unique in continental Europe to date. Exploration laboratories expanded their service portfolios to suit the geological characteristics of formations under MOL Group’s exploration focus. MOL Group also supported the design and tendering of extended well test surface technology for the Bijeel-1 well in the Kurdistan Region of Iraq.

Finally, the use of reservoirs with high inert content (CO₂) hydrocarbon fields, primarily at Mezőcsokonya and Inke in Hungary, began, which involved power plant investment.

Based on our 2011 R&D successes, it is clear that MOL Group achieved significant results in increasing production capacity of oil and gas production wells and technologies in low productivity fields through the efficiency and reserve-enhancing operations of its Exploration & Production Division. Several domestic reserve grading and classification reports were prepared as well as two international ones for the Rozhkovsky area in Kazakhstan and the Baitugan field in Russia. The successful outcome of these activities will help pave the way for our operations in years to come.

SUSTAINABILITY

2011 Highlights

- Energy efficiency projects have been implemented at 6 sites in Hungary, resulting in up to 50% decreases in emissions and significant cost savings
- In Russia, as a result of the associated gas utilisation projects, 11 million cubic metres of gas was utilised with a reduction in CO₂ emissions of 22 kt
- In Hungary, preparation of a geotechnical plan for our first geothermal pilot system has started but we still await geothermal concession go-ahead
- To reduce environmental risk R&D projects were continued. These included H₂S removal in gas technology, developing new geo-electric methods of detecting oil pollution, developing new kinetic inhibitors to replace hazardous methanol to eliminate methane-hydrate in gaspipelines (their manufacture is now in preparation) and developing a VOC measuring tool
- The extension of the HSE Management System to all operational areas was continued
- High participation was achieved in workplace health promotion programmes in Hungary and Pakistan
- First steps were made in order to establish enhanced health management programme in the Kurdistan Region of Iraq
- An international Upstream Talent Programme was started in 2011 with the participation of 30 Hungarian, Croatian, Russian and Pakistani colleagues
- In Pakistan, stakeholder consultations were conducted in operating areas to improve the social and environmental design of projects - a total of 181 consultative sessions were held in 2011
- Broad scale social programmes were executed in Pakistan comprising two free eye hospitals, five free medical camps, three water schemes for local people and help in constructing schools and implementing plantation programmes
- Education-focused projects began in the Kurdistan Region of Iraq: local pupils received school satchels with equipment and education in Europe for some of the most talented students will be sponsored

Economic Sustainability

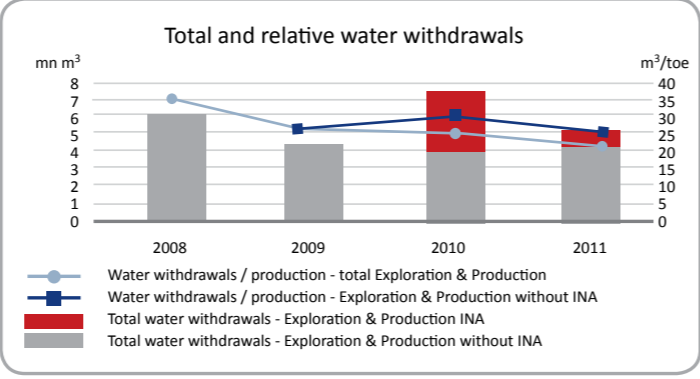
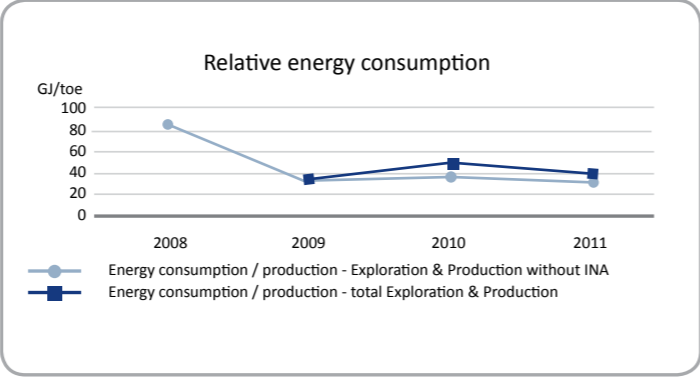
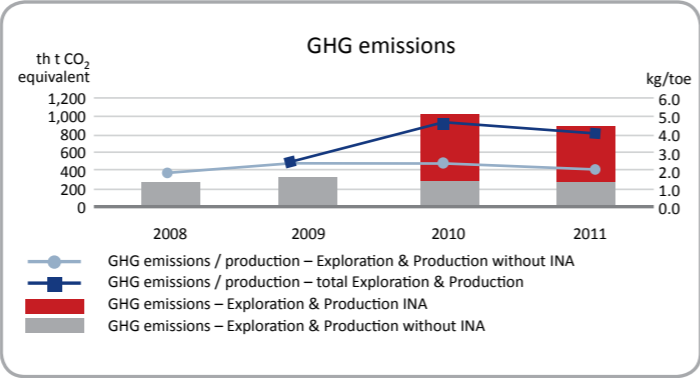
	2008	2009	2010	2011
Reserve Life Index (years)*	14	16	11	13
Organic Reserve Replacement Rate (%)*	140	(96)	15	217
Research and Development spending (mn HUF)	756.3	750.6	596.9	715.1

Communities

	2008	2009	2010	2011
Community investments** (mn HUF)	63.2	62	92	163

* Contains INA total reserves except Y2008 which covers 47.16% of INA reserves according to SPE 2P methodology. Production figures contain Total MOL Group including INA, except Y2008 which contains MOL Group and 25% of INA production and Y2009 which contains MOL Group and INA production Y2009 H2.
** Total MOL Group without INA Group

Climate Change

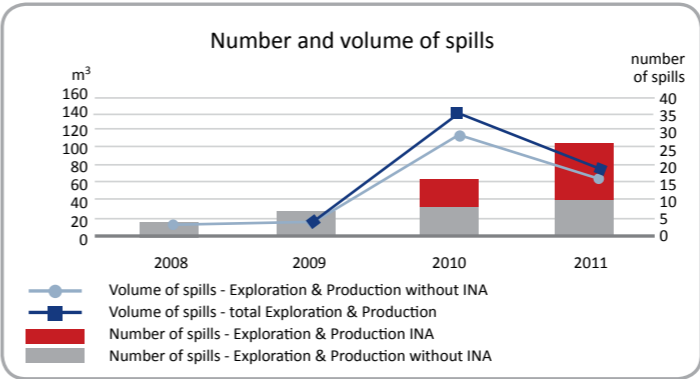


Human Capital***

	2009	2010	2011	2011
	excl. INA	excl. INA	excl. INA	Total MOL Group
Headcount	2,676	2,091	2,680	5,895
Male (%)	88	88	85	86
Female (%)	12	12	15	14
Turnover rate (%)	7.2	7.99	9.59	9.72
Training cost per capita (HUF '000')	73	87	136	78
Training hours per capita (hours)	21	33	45	28
Employee engagement level (%)	n.a.	76	n.a.	n.a

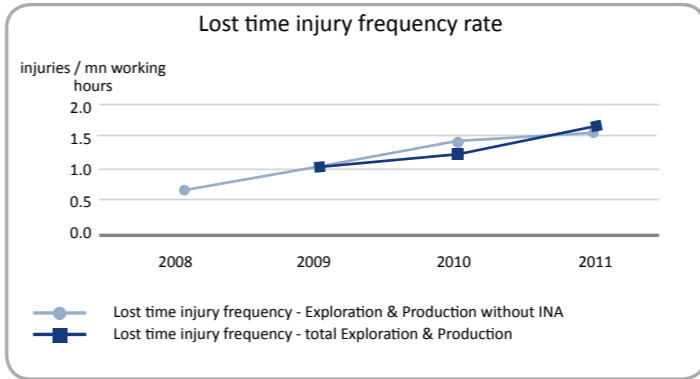
Environment***

	2008	2009	2010	2011	2010	2011
	excl. INA	excl. INA	excl. INA	excl. INA	Total MOL Group	Total MOL Group
Hazardous waste (t)	34,386	28,758	22,444	23,268	22,587	25,240
Hazardous waste / production (kg/toe)	0.20	0.18	0.14	0.14	0.09	0.10
Non-hazardous waste (t)	16,748	38,780	31,934	23,321	37,092	27,761
Non-hazardous waste / production (kg/toe)	0.10	0.25	0.20	0.14	0.15	0.11
Waste resused or recycled (t)	12,353	26,792	32,692	24,237	33,501	28,677
Ratio of reused of recycled waste (%)	24	40	60	52	56	54



Health and Safety***

	2008	2009	2010	2011	2010	2011
	excl. INA	excl. INA	excl. INA	excl. INA	Total MOL Group	Total MOL Group
Lost time injury frequency (LTIF) (injuries/mn working hours)	0.7	1.0	1.4	1.6	1.3	1.7
Fatalities - own staff	0	0	0	0	0	0
Fatalities - contractors + third party****	3	1	1	8	1	8
Road accident rate (RAR) (accidents/mn km driven)	n.d.	1.0	1.4	0.8	1.4	1.6



***Total MOL Group but only operationally controlled companies, therefore Joint Ventures (INA offshore, Syria, Egypt, Angola and ZMB in Russia) excluded; data covers 62% of production
****Five contractors and a third party fatalities due to non-HSE related event (fire fight in Pakistan), see details on page 191.

Interview with Mr Sándor Fasimon



Sándor Fasimon
Executive
Vice President,
Exploration &
Production
Division

How does MOL Group plan to counterbalance the production decline of its legacy assets?

Production from some of our Central European legacy assets started as long ago as the 1930s. As a result, production levels are declining today as part of the trend towards natural field depletion. However, it is important to note that the EOR/IOR techniques implemented have proved successful in counterbalancing this process to some degree. Nevertheless, MOL Group is aware that to maintain the competitive edge of its upstream portfolio, we must also enter into new exploration and production assets with substantial upside potential. This is precisely why we focus on large-scale projects such as those in the Kurdistan Region of Iraq, Russia, Kazakhstan and Pakistan.

What regions would MOL Group's future upstream acquisitions target?

Although Central Europe remains the home base of our operations, MOL Group already has a well-established presence in the CIS region, strategic partnerships and vital assets in the Middle East, as well as stakes in North African and Sub-Saharan African projects. In addition, as part of our exploration-led strategy, we have identified a number of other regions which meet MOL Group's selection criteria regarding geological potential, investment requirements, country risks and geographic distance. Right now we are actively monitoring opportunities, both in regions where we are already present as well as in areas new to us.

Which assets would you consider to be the flagships of MOL Group's upstream portfolio?

There is further value in Kazakhstan's Fedorovsky Block, where appraisal activities are underway. The start of production is currently scheduled for 2015. I think the time has come to unlock the potential of this asset. Our interests in the Kurdistan Region of Iraq's Akri-Bijeel and Shaikan Blocks are also of vital importance to MOL Group's exploration and production activities. These possibly company-maker projects can provide huge exploration upside potential in a region of strategic geopolitical importance. Following two major discoveries in the last few years, the projects are currently in the appraisal phase.

Speaking of the Kurdistan Region of Iraq, what are MOL Group's plans for the coming years?

Our work programme for our assets in the Kurdistan Region of Iraq includes an intensified exploration and appraisal programme with two exploration and seven appraisal wells planned for 2012-2013. In the Shaikan Block, the appraisal programme is nearing completion and early production is ongoing. In the Akri-Bijeel Block, exploration activities will take place in parallel with the appraisal of the Bijell discovery. The construction of surface facilities for early production in the Akri-Bijeel Block is scheduled for the second half of 2012, while we further assess marketing options.

How do the Exploration & Production Division's activities contribute to MOL Group's successful performance in the field of sustainable development?

Contributing to social and economic development in the countries where we operate has always been a primary MOL Group concern. In Pakistan, we take part in several high-impact social programmes: for example, MOL Group has supported eye hospitals, free medical camps, water schemes for the local population, the construction of school facilities as well as plantation programmes. In the Kurdistan Region of Iraq, our focus has been on investing in the future. We sponsor the European education of several local students and have even donated school satchels to elementary school children, for instance. Other points of our focus naturally include ensuring the safety of our operations and minimising their environmental impact. Furthermore, we stress the importance of human capability development through employee training.

What plans does MOL Group's Exploration & Production Division have for the longer term?

Most of our existing assets are scheduled for drilling in the next three years as a way of transforming our exploration assets into production. This would entail capital expenditure in excess of USD 3 bn to unlock the potential of key organic growth projects. Annual production growth rates are expected to exceed 3-4% from 2014 onwards. Our new, exploration-driven strategy will provide the basis for long-term growth. We aim to add further high-impact assets to our portfolio, while, of course, remaining open to non-organic growth opportunities as well.

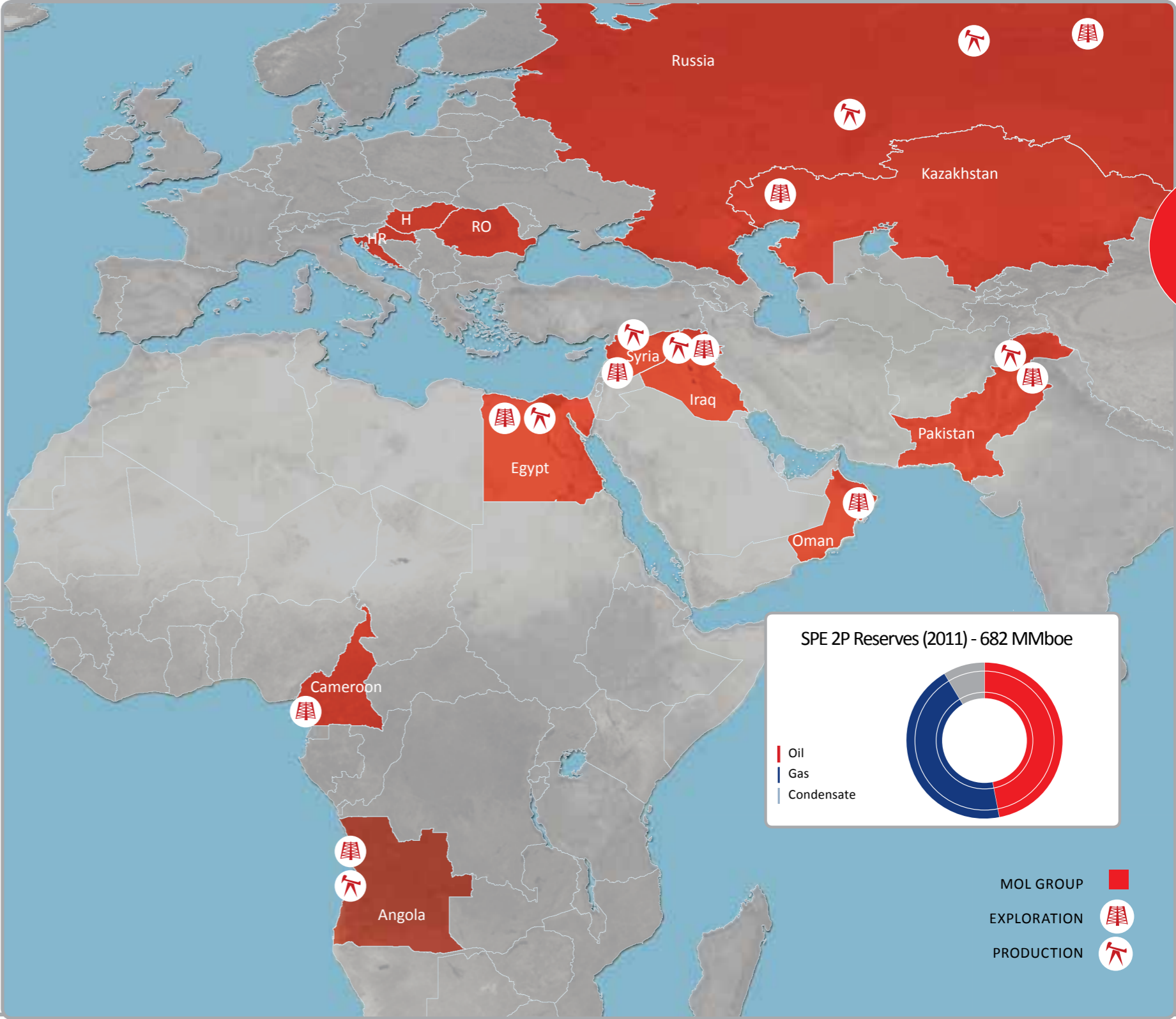
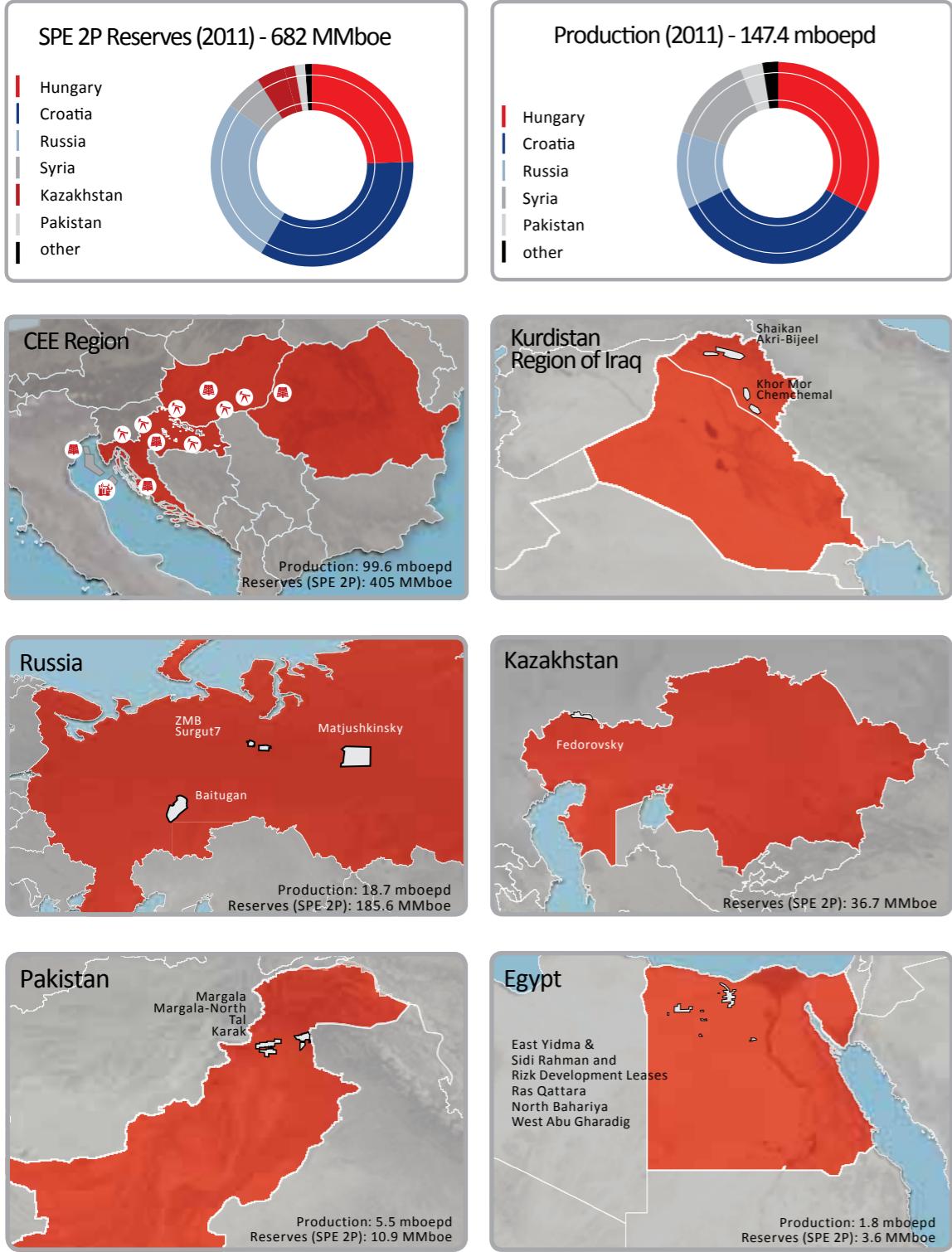
How have the events of the "Arab Spring" affected MOL Group operations in the region?

While the "Arab Spring" affected a number of countries in the Middle East and North Africa, from MOL Group's perspective the most profound impact was on our Syrian operations. MOL Group is in daily contact with its Syrian partners and has taken all necessary steps to comply with EU sanctions. We do all we can to ensure minimal losses, the safety of our employees remains our primary concern. On 27 February 2012, INA published it had delivered force majeure to the General Petroleum Company of Syria. MOL Group continuously monitors daily developments in Syria and we hope for a speedy and peaceful resolution of the current situation as soon as it is reasonably possible.

How would you describe the Exploration & Production Division's outlook for the coming year?

I believe 2012 will be an exciting year both for the oil and gas industry in general, as well as for MOL Group in particular. With the industry recovering from the crisis, we expect a number of new upstream opportunities to open up and for new trends to emerge. MOL Group will do its best to meet the challenges of the post-crisis environment. First, we wish to compensate for the production decline of some of our assets. Second, we intend to take on new projects and to increase our booked reserves. Overall, I am convinced that 2012 will be a year of challenges and opportunities and I am pleased to say I believe MOL Group is ready to face both.

Upstream Portfolio Elements



Downstream

Duna Refinery, Hungary



HIGHLIGHTS

Exploitation of MOL Group-level synergies, increased flexibility and global optimums through Downstream integration

Continued operational efficiency improvements and rigorous control of costs and spending attained

Reinforced regional stronghold position with logistics and retail investments to boost captive market

Downstream level value chain optimisation selective organic growth projects to maintain and improve flexibility and increase profitability

Continuous roll-out of sustainability principles among Business Units and countries at regional level accomplished



ir.mol.hu/en/about-mol/our-businesses

In 2011, we elevated Downstream integration to exploit sequential and interactive business processes. We also kept our focus on operating efficiency whilst moderating the negative effects of the external economic environment. The newly-formed Downstream Division operates 5 refineries, 2 petrochemicals units, more than 1,600 filling stations under 7 brands in 11 CEE countries, all supported by a far-reaching logistics system and driven by Supply Chain Management. With this new divisional structure, our aim is to increase our profitability through improved efficiency and more flexible operations while seeking to reach global optimums rather than local ones. Our Bratislava and Danube refineries continue to enjoy the advantages of their strong asset structure while major efforts to increase INA Downstream performance have been made.

In its core markets, MOL Group Retail performed above competitors' average resulting in increased shares of declining markets. Our petrochemicals business is the leading polymer player in Central Europe and delivers flexibility and captive markets to our refineries.

COMPETITIVE ADVANTAGE

Our strength derives from our geographical position and competitive asset base with its well-balanced product and customer portfolio. In addition, our "7 production unit model", optimised by our highly effective Supply Chain Management organisation, exploits available synergies in regional markets. As the main internal drivers of this complex system, we rely on our skilled sales and engineering teams.

Main competitive advantages

The two most complex refineries in Százhalombatta and Bratislava enjoy central positions in landlocked markets and high net cash margins.

Improved crude oil selection options: either uninterrupted supplies of Russian crude through a cost-effective direct pipeline system or refineries with seaborne crude supplies which benefit from crude cargo trading and related optimisation possibilities.

A **region-wide logistics network** to serve the marketplace: our extensive pipeline system and increased storage depot coverage ensure competitive crude and raw materials supplies and low-cost product distribution. Our diverse logistics network coupled with well-positioned commercial activities that reach end-users continue to be key advantages in capturing sales margin revenues.

Market-driven development: The revamping of our less efficient and sophisticated assets is now enabling all our refineries to produce Euro V quality motor fuels.

Enhancing our customer value proposition is a key element of our Retail strategy which aims at retaining customers and increasing market share.

Petrochemicals integration to manage our gasoline-naphtha pool: integration of our petrochemicals plants and refineries has improved the competitive position of our value chain. In addition, regional expertise, value-added services in logistics and technical support are the key factors to further improve the efficiency of MOL Petrochemicals business.

KEY ACHIEVEMENTS - 2011

Operating in an extremely negative environment

2011 was an extremely bad year due to the depressed environment for the refining and petrochemicals industry, which negatively influenced MOL Group Downstream from the operating and financial points of view. In general, crude prices increased and thus energy prices, compared with 2010, rose by more than 25%, compounded by unstable product crack spreads. Amid the economic crisis, fuel demand declined and markets shrank. The annual average integrated petrochemicals margin hit its lowest ever level and shrank by 14% compared with 2010, thereby blighting European petrochemicals markets.

An elevated level of Downstream integration: seeking global optimums and increasing flexibility

To stay out in front of fierce competition of downstream businesses in the European oil industry, sequential and interactive business processes were focussed on to optimise our operations

through the whole value chain. With the new structure in place, our aim is to increase profitability and reduce risk at MOL Group level through improved cost efficiency and more flexible operations and by achieving finding global optimums rather than local ones. The joint optimisation of 7 production sites, an extensive filling station system, a regional wholesale network, all supported by MOL Group Logistics shed light on synergies ready to be exploited.

Our strong asset structure: the basis of value creation

Our 2 top refineries have led the European field for a decade with one of the highest net cash margins in Europe, according to Wood Mackenzie. Modernisation programmes, focusing on our Rijeka refinery, aim at elevating our less efficient refineries to the 'top league'. In Croatia, new units have been successfully set up in our Rijeka and Sisak refineries to produce high quality motor fuels whilst increasing energy efficiency. As a consequence of these investments, not only all MOL Group refineries are capable of producing EURO V diesel and motor gasoline but our production units in Croatia now comply with all European environmental legislation. Furthermore We can proudly declare that the Nelson Complexity Index (NCI) rating of MOL Group refineries is above the European average which permits production of more valuable and marketable products and diversification of the whole yield structure.

High quality polymer supplies to European plastics markets are managed by TVK, located in Tiszaújváros, Hungary, and by SPC, located near our Bratislava refinery. These integrated petrochemicals units support our Downstream operations as captive markets.

We continue to focus on operational safety in our industrial processes. Our Process Safety Management (PSM) system reveals and investigates operating risks and events and monitors corrective actions.

Maintaining strong sales positions as a key player in the CEE region

Our sales and marketing strategy focuses on increasing sales in the CEE region, where we benefit from our central position in landlocked markets and our special understanding of customer requirements. Shorter sales radius reduce transportation and other logistics costs. Our diverse portfolio means that, while

in some countries our growth results in expansion, we are still ready to take the necessary rationalisation steps if demand trends dictate them.

To exploit synergies among our Retail, Wholesale and Logistics operations we synchronise these organisations' operations through rationalised Downstream integration and identification of shared commercial drivers and sales channels.

Domestic

Despite the unfavourable economic environment, our share of Hungarian and Slovakian wholesale fuel markets increased. Rationalisation of Croatian sales activities continued in 2011. As part of a new customer-based approach, Retail operations upgrading took place at INA. Despite generally negative market trends in Italy, our main products retained or even increased their market positions. Renovation of the Bosnian filling station network was also under way, with more than twenty stations already given a facelift.

Core but non domestic

De-bottlenecking of our Logistics system in Romania increased the proportion of our own products in our sales portfolio. Likewise, our wholesale position strengthened and Retail was able to put ambitious growth plans into effect by implementing several Greenfield projects. Compared with 2010, Austrian sales volumes increased last year, depot customer service further improved and cross-country road deliveries from our Bratislava refinery commenced. In a significant strategic step, we doubled the number of our Slovenian filling stations by taking over 19 filling stations from TUS Holding.

Paradigm shift to give a truly effective response

In general, Downstream industry profitability fell off significantly resulting in several refinery shut downs thereby causing many industry players to be dead in the water. However, even in this rather desperate environment, our complex assets performed relatively well but a paradigm shift is still needed to increase the overall efficiency of the portfolio since the outlook for 2012 is not getting any better. In addition to ongoing efficiency improvement programmes such as the EIFFEL bottom-up idea generation platform or the OptINA - Croatian top-down cost reduction programme, MOL is launching its New Downstream 2012-2014 programme comprising relevant initiatives to improve Downstream profitability. In this New Downstream 2012 programme, four areas of focus have been defined:

I.) **Value Chain optimisation** to take advantage of our extended value chain. Focal points include profit-driven raw materials selection, moving towards on-demand production through capacity optimisation, setting minimum quality targets to ensure product value in the most profitable way and sustaining already achieved petrochemicals integration.

II.) **Asset Management** initiatives that focus on energy cost and consumption-driven production optimisation, logistics asset optimisation, selective organic growth investments and implementation of more effective maintenance selection. Minimisation of fuel losses and discrepancies and improvement of production flexibility and our petrochemicals product portfolio all contribute to more effective and cost-conscious use of assets.

III.) **Market Management** to satisfy market needs on a broader geographical scale, mainly by exploiting Wholesale/Retail synergies and polymer, monomer and chemical sales opportunities, all supported by effective Logistics. New initiatives aim to increase sales of LPG, lubricants, fuel cards and implement the profit maximisation local market supply concept. Combination of global product lines and local country marketing strategies makes capture of increased sales margins possible.

IV.) **Resource and Process efficiency** programmes to exploit opportunities unrecognised thus far. In the short-term our goal will be to split global-local responsibilities, activities and operations, review tasks and responsibilities, analyse resource productivity and review FTE requirements and business processes. In the long term we are committed to "lean thinking" concept manifesting in a waste elimination program.

Selective investments to maintain leading position and improve profitability

Long-term trends justify our asset complexity and focus on diesel. The region's GDP growth potential remains, accompanied by significant additional diesel demand and the expectation of increasing diesel shortages. Meanwhile, flexible handling of the gasoline-naphtha pool remains crucially important in mitigating the effects of a stable gasoline surplus. These trends provide room for some selective investments in the long term, either focusing on increased diesel output (Rijeka refinery DC and/or Duna refinery HCK) or maintaining Refining/Petrochemicals integration.

Strengthening Croatian Downstream

Flexible operation of assets and short-term efficiency actions all aim gradually improving Croatian Downstream. Actions include rationalisation of logistics and retail networks, cutting back operating expenditures and setting up on-demand refinery operations. The planned new product pipeline connection of our Croatian refineries will further facilitate synergic operations and flexibility. In parallel, we are planning a residue upgrade project at our Rijeka refinery. As part of this project, a new coker unit is to be built to produce a higher proportion of valuable 'white'

products such as diesel and gasoline, key drivers of MOL Group Downstream's competitiveness.

Logistics and Retail investments will secure end-user markets

With synchronised improvements in our logistics operations and retail networks, our aim is to ensure expanded end-user markets. To ensure better market reach, our commercial activities are to be supported by new logistics depots. Our retail investments focus on growth markets and sites with favourable locations to increase market share and sales volumes. Reconstruction works and capacity increase is planned on the Adria and Friendship I pipeline to further increase supply security, not only for Hungary but for Slovakia as well.

Selective petrochemical developments will ensure on-going integration, renewal of polymer production and future integration of butadiene production

To maintain synergies from Refining/Petrochemicals integration, the reconstruction of a steam cracker and the installation of a new, 220 kt/year capacity LDPE unit are planned to take place in Bratislava. Replacing three old, subscale units, the new competitive asset will increase flexibility and ensure higher naphtha off-take from the refinery. In line with our strategic aim of improving olefin co-product value, MOL Group has decided to enter the attractive butadiene market by investing in a new 130 kt/year capacity plant. The start of butadiene production will provide us with a further option to enter attractive segments of the synthetic rubber market which is driven by automotive industry applications.

Tisza Chemical Group Plc. Hungary



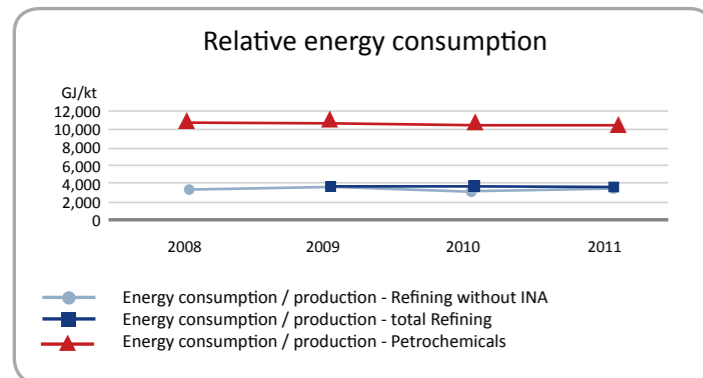
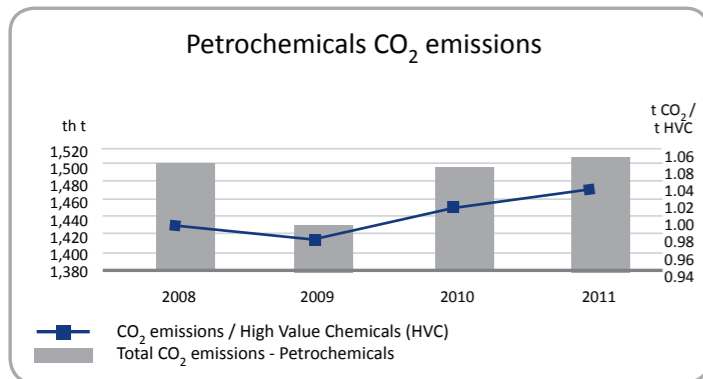
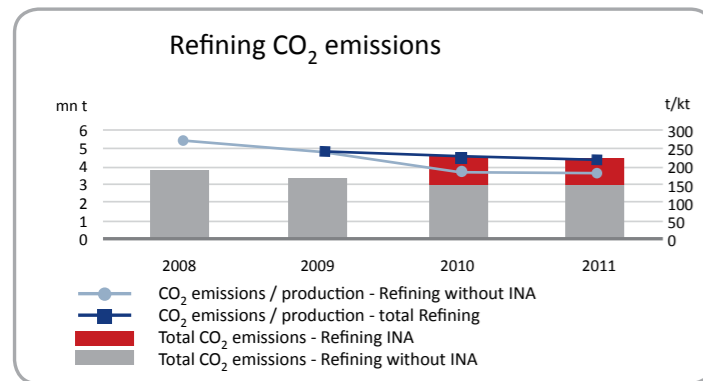
Downstream

SUSTAINABILITY

2011 Highlights

- Refining, Petrochemicals and Retail Business Units defined long-term sustainability objectives to be achieved by 2015
- An SD flagship filling station, piloting innovative and sustainable engineering solutions – including an electric fast charging facility - was commissioned in Budapest
- INA's Rijeka Refinery products now comply with Euro V requirements and bio-fuel implementation started: installation of technology for biodiesel blending was completed
- Ca. 51 kt of waste-based bio-component were used for diesel production, thanks to - inter alia - the campaign to collect used household cooking oil
- Energy efficiency and CO₂ reduction projects were ongoing at MOL, Slovnaft and IES refineries and petrochemicals plants; in

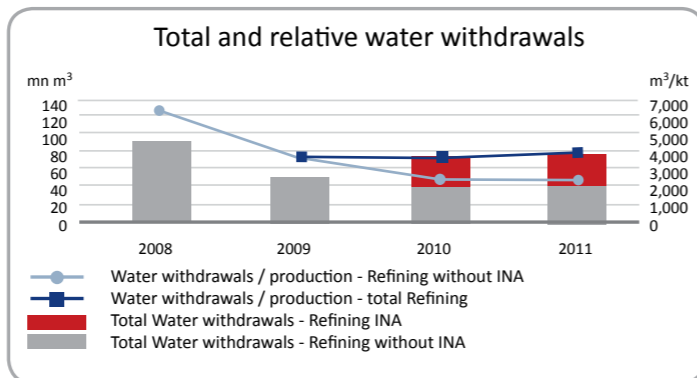
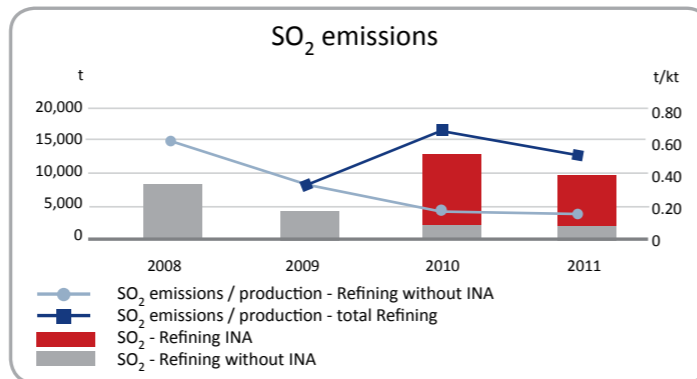
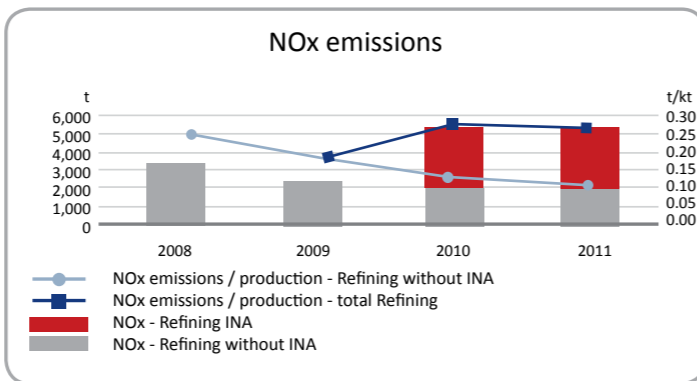
Climate Change



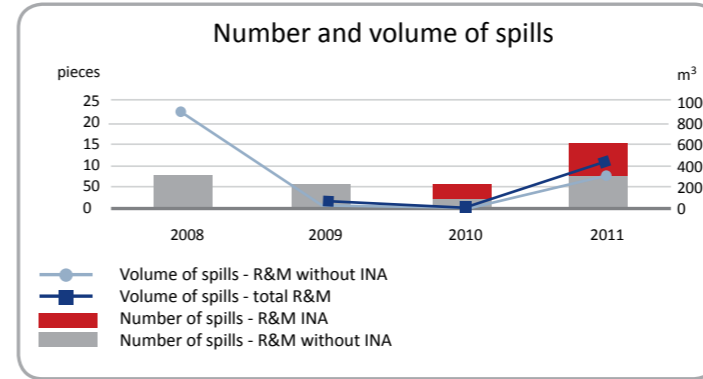
Mantova alone there was a resulting decrease of ca. 19,000 tons in emissions

- Projects were started to further decrease losses and VOC emissions at MOL, Slovnaft and IES refineries and petrochemicals sites
- A selective waste collection system was implemented at each INA Rijeka Refinery operating site
- Strong relationships were maintained with local communities, open days were organised at MOL and IES refineries and a Green Forum was held at the Danube Refinery with the participation of local environmental authorities
- Internal excellence awards with a focus on HSE were introduced by MOL Refining, Logistics and Retail Business Units
- High levels of Customer Satisfaction were maintained throughout the year

Environment



Environment



Environment

Refining	2008*	2009*	2010*	2011*	2010**	2011**
Hazardous waste (t)	33,486	28,063	37,936	40,774	42,142	43,163
Hazardous waste / production (t/kt)	2.37	2.07	2.34	2.45	2.12	2.19
Non-hazardous waste (t)	23,591	12,987	22,941	24,590	25,862	27,184
Non-hazardous waste / production (t/kt)	1.67	0.96	1.41	1.48	1.30	1.38
Waste reused or recycled (t)	17,009	26,481	40,725	44,554	41,846	45,730
Ratio of reused or recycled waste (%)	30%	65%	67%	68%	62%	65%

Health and Safety

Refining & Marketing	2008*	2009*	2010*	2011*	2010**	2011**
Fatalities - own staff	0	0	1	1	1	1
Fatalities- contractors+3 rd party	0	0	0	2	0	2
Road accident rate (RAR) (accidents/mn km driven)	n.d.	2.25	1.51	0.98	1.42	1.01

Human Capital

Refining & Marketing	2009	2010	2011
Headcount	7,288	7,632	9,103
Male (%)	76.7	77	79.6
Female (%)	23.3	23.1	20.4
Turnover rate (%)	8	7.6	6.4
Training cost per capita (th HUF)	48	67	54
Training hours per capita (hours)	16	21	22
Employee engagement level (%)	n.a.	69	n.a.

Economic Sustainability

Customer satisfaction	2009	2010	2011
Wholesale customer satisfaction (MOL) (%)	86	88	86
Wholesale customer satisfaction level (Slovnaft) (%)	90	90	90
Average Retail customer satisfaction (%)	44	43	43
Petchem customer loyalty (%)	19.5	15.5	16.5

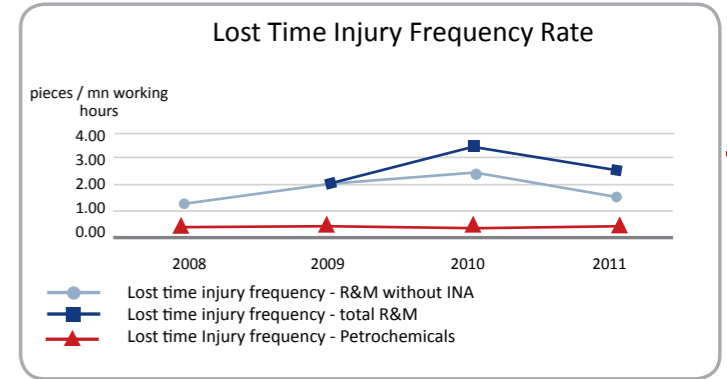
Research and Development spending	2008	2009	2010	2011
Total Downstream R&D (mn HUF)***	946.0	1,166.7	1,048.8	994.1
Total Petchem R&D (mn HUF)	192.7	203.0	197.0	200.7

* Total MOL Group without INA Group

**Total MOL Group

*** without Petrochemicals

Health and Safety



Interview with Mr Ferenc Horváth

Ferenc Horváth
Executive
Vice President
of Downstream



What was the key event in 2011?

2011 was the start of MOL Group Downstream integration. The Division's extended value chain operates an enormous number of assets. Under this significantly improved arrangement, our goal now is to build on the high performance and multinational experience base of previous years. The fundamental requirement of the three main Business Units (Refining & Marketing, Petrochemicals and Retail) is to be the most effective in their own areas and, in addition, work together with Supply Chain Management leadership to achieve optimal Downstream operations. It is a challenging process, but in MOL Group we have been working in a multinational environment for years and have a lot of experience in strengthening cooperation between organisations and employees. Of course there has already been strong cooperation between the three big units, but now it's getting more focused with synergies being explored and efficiency being improved.

How does MOL see the currently unfavourable external environment and industry profitability in general?

Unfortunately, hard times are upon us. Compared with 2010, in 2011 our 5 refineries alone generated USD 350 million additional expenses due to increased crude oil prices and growing purchased energy costs. Furthermore, both fuel and petrochemicals sales margins decreased. Although most consumers only face higher retail prices, it is not a favourable situation for producing companies anyway. As a consequence of the financial crisis and the factors I have just mentioned Europe still has significant refining overcapacity, markets and demand for almost every one of our products is shrinking. Financial figures for the second half of 2011 already show losses at nearly every European refinery. In 2011, Europe witnessed significant refining overcapacity and low utilisation rates. Around 10 refinery shut down and a further 20 operations will potentially be sold or shut down. The willingness to acquire is, of course, rather lukewarm in such a business environment.

What could the response be to these challenges? What is the outlook for the long term?

Our goal is to stay among the leaders in the present race and come out of the crisis strengthened by it. To achieve this, in the short term, a paradigm shift is needed to increase Downstream profitability. Our newly-established "New Downstream 2012-2014" programme focuses on this change, combining as it does all our efforts and actions through the value chain to increase efficiency. On the other hand, long-term global predictions have strengthened our opinions about changing trends in motor fuel demand. Our current asset structure with its selective investments, our focus on production complexity, flexibility and efficiency improvement actions coupled with GDP growth potential and possibly greater car penetration in the region give us grounds for confidence in the future. It is not by chance that the pillars of our Downstream directions are our regional commercial strategy, the enhancing of operating efficiency and the exploitation of organic and inorganic growth potential.

Can you highlight some of the key actions and projects which will contribute to achieving your targets?

Every business, indeed every country, just like MOL Group, has a mission. Our business objective is to maintain our strong position in the region by maintaining and strengthening our wholesale and retail positions in the most profitable domestic markets and increasing our role and position in countries near MOL Group refineries i.e. Romania, the Czech Republic, Slovenia, Serbia, Austria and Bosnia-Herzegovina. We also aim to execute some selective investment projects such as the recently approved ca. EUR 100 million butadiene project which will produce sales of a highly profitable product while simultaneously improving the efficiency of internal product flows. The new ca EUR 260 million LDPE plant and steam cracker reconstruction project will maintain integration of our refining and petrochemicals businesses and ensure the production of nearly 30 types of polyethylene to appeal to new customers and create new markets in Europe.

What is the future outlook of INA?

The main task is still to support our Croatian partner become an efficiently functioning, profitable Downstream market player. To reach this goal, we still have a lot to do but I think we are definitely on the right track.

Compared to 2010, we managed to increase our share of motor fuel sales, worth mentioning in a country which also has sea-borne supply channels. De-sulphurized products meeting EU quality and environment protection requirements opened channels to European markets.

As far as upcoming years are concerned, the most important things for INA will be economical growth and on-going efficiency improvements, which is also valid for the MOL Group portfolio as a whole, but for Croatia in particular. Our refining assets complement each other so that transfers between Rijeka and Sisak allow us to minimize low-value product output and maximize production of marketable diesel. We have to continue refinery modernisation. As part of this, we are planning a residue upgrade project at our Rijeka refinery, improving its product yield structure in favour of higher margin products.

Product costs have to be lowered by continuously improving production unit and logistics system efficiency, also keeping an eye on energy utilisation including our own in-house consumption of crude oil.

How is Sustainable Development connected to this progress?

We are highly committed to Sustainable Development principles. Since integration, our intellectual capital flourishes and the Downstream Division will pay even more attention to Research & Innovation to make the best of this opportunity. Several projects in this area are underway at the moment, including waste-based bio-component blending, second generation bio-diesel and algae research, chemically stabilised rubber bitumen production, investigation of the feasibility of biogas plant and waste plastics-based fuel production.

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

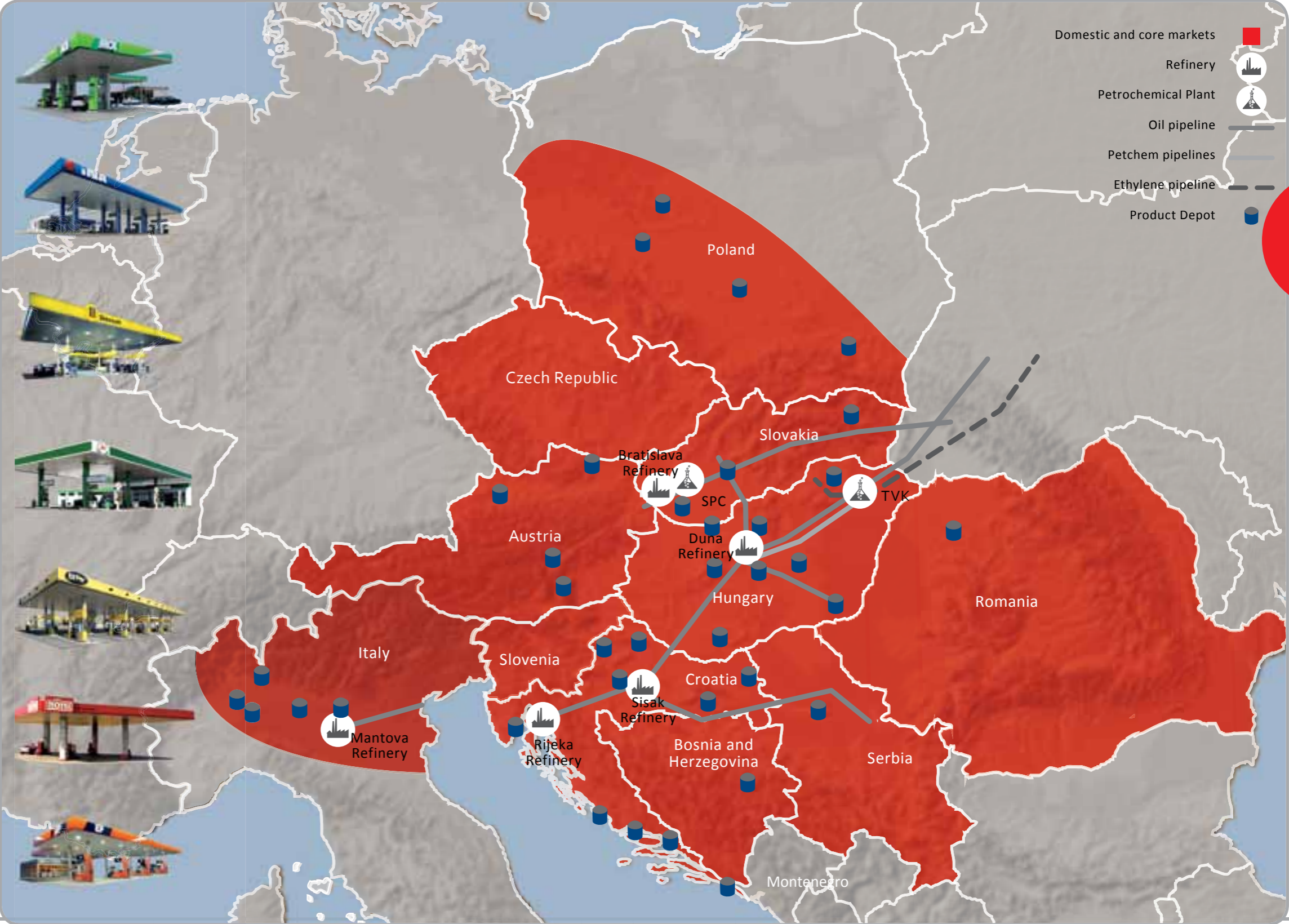
Crude Pipelines	capacity in mt/y
Friendship (Slovakian part, owned by Transpetrol)	22.0
Friendship II.	7.9
Adria (Hungarian part)	10.0
Algyő	2.0
Porto Marghera – Mantova	2.6
Adria – JANAF (12% owned by INA)	20.0
product Depot (pcs)	37
Product Pipeline system:	
MOL – 1,356 km	8.2
SN – 484 km	2.5

RETAIL

	Number of filling stations
MOL	579
INA	454
Slovnaft	234
IES	222
Tifon	43
Roth	38
Energopetrol	65

PETROCHEMICALS

Production	capacity in kt/y
TVK - Ethylene	660
TVK - Polyolefin	765
SPC- Ethylene	220
SPC - Polyolefin	435
Pipelines	
Feedstock and product pipelines	2,700
Ethylene (Kazincbarcika)	160
Ethylene (Kalush)	100



Natural gas transmission – FGSZ Ltd



Seszták Imre Compressor station
– Beregdaróc, Hungary

HIGHLIGHTS

5,800 km long pipeline system

17 domestic, 2 import input points,
nearly 400 gas outlet points

6 regional centers, 6 compressor stations

World-class operator center in Siófok

The implementation of the ITO
(Independent Transmission Operator)
model, expectedly among the first companies



www.fgsz.hu/en

In Hungary, FGSZ Földgázszállító Zrt. (FGSZ Natural Gas Transmission Ltd., hereinafter referred to as FGSZ) is the only company at present to carry out natural gas transmission and system operation activities. 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 and Herzegovina, as well as transfer towards 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 Europe's most significant natural gas suppliers.

The pipeline developments of strategic importance, carried out by FGSZ in the recent years, provide for the company's future, the completion of the company's role as a regional distributor, as well as Hungary's safe, environment friendly and competitively priced gas supply. FGSZ will face the challenges, tasks and requirements which derive from the establishment of a market which is liquid, integrated, diversified regarding its resources, and which is also supported by the European Union. Our strategic goals necessitate further efficient and well-planned infrastructure developments.

COMPETITIVE ADVANTAGES

Geographic location: FGSZ also has a key role in terms of regional transit transmission.

Quality assurance: Since 1997, FGSZ has been operating a quality assurance system in compliance with the ISO 9001 standards, which has been audited by a certifying agency. The certification was issued by SGS 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 and annually by the Hungarian Office of 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.

The Best Employer: FGSZ has been granted the title of best employer in Hungary and Central East Europe in the last three years. The research has been carried out by Világgazdaság (World Economy magazine) and Aon Hewitt jointly. The survey is based on the opinion of employees, whose participation exceeded 80 per cent in all three years, showing a stable 85 per cent loyalty and satisfaction rate that is significantly higher than the Hungarian average.

KEY ACHIEVEMENTS

FGSZ in 2011 – “where are we now?”

Recently, FGSZ has built a 210 km long pipeline with the attached compressor and measuring stations in the direction of the Ukrainian-Hungarian border. As a result, the import natural gas injection grew by 25%, contributing to the refilling of the strategic natural gas storage. By mid-2010, the construction of the Hungarian section of the Arad-Szeged pipeline interconnection was successfully completed, in cooperation with our Romanian partner Transgaz S.A. The Városföld–Slobodnica investment has been completed recently; its Hungarian part is 205 km long, while the section in Croatia, built by Plinacro, is 80 km long. Through the interconnections crossing the Hungarian-Romanian

and Hungarian-Croatian borders FGSZ transmits energy to our foreign partners, however, bidirectional traffic may also commence later.

Our present technical background being at a high standard and fulfilling all safety requirements creates the conditions for gas consumption in Hungary to increase. Our modern system coordinator center and the connecting regional centers make our infrastructure suitable for the constant and undisturbed fulfilment of user requirements.

ITO among the first ones

The so-called ITO (Independent Transmission Operator) model was implemented into the Hungarian Gas Act in accordance with Directive 2009/73/EC, and brought thorough changes into the life of FGSZ. The model stipulates that natural gas supplier companies, in accordance with their legal obligations, shall ensure equal and fair access to the network for all market participants, shall perform the necessary investments, and shall actively participate in the integration of the European gas market.

Within the frameworks of the ITO model, the natural gas supplier operates independently of both the holding companies and the subsidiaries. In accordance with the above, FGSZ has independent decision-making capacities concerning the measures relating to system operation, infrastructural development, maintenance and also in respect of financial resources. In addition to financial matters, the strict rules concerning separation are also applicable for management and for human resources management, and compliance with them is supervised by the national regulatory authority.

FGSZ has taken the necessary measures for being prepared to continue its system operation and gas transmission activities also within the framework of the new model. Due to these measures, FGSZ is expected to be the first company to receive the ITO license in 2012.

Daily Natural Gas and Capacity Trade Market

Pursuant to the Act on Gas Supply, FGSZ has been providing a special service to its clients for two years. NFKP (Daily Natural Gas and Capacity Trade Market) created an electronic trading platform. The NFKP is an important step on the road to which our Company has been committed for years and which will



lead to the foundations of a more competitive and more liquid Hungarian natural gas market.

The natural gas traders, proprietary users, natural gas producers and other system operators connected to the high-pressure natural gas system - such as natural gas storage owners and operators of distribution systems - are able to use this system for the trading in natural gas and the capacities of the high-pressure natural gas transmission system. They are able to trade among each other in the differences (whether surplus or deficit) between the gas volumes they feed into the transmission system and that they consume. They can do this quickly and efficiently, among transparent and competitive market conditions, and also in accordance with the genuine supply-demand situation. As a result of this, market players can plan their daily tasks; the day-end balancing will impose a lower risk on them than it does at present, and this means that they can offer a more consistent and reliable service to their own customers.

OUTLOOK

European dimensions

FGSZ is interested in creating a more efficient gas market, which rests on several pillars. Therefore, in the 10-year period between 2011 and 2020 it wishes to participate in comprehensive infrastructure developments at both Hungarian and international level to promote the creation of the domestic liquid gas market. The transformation of the gas market makes it possible for domestic consumers in the region to have access to gas available at the lowest price at any particular time.

As the first step of strategic investments, between 2006 and 2010 the Eastern import capacity was increased significantly, in line with the development of the strategic storage facility. FGSZ constructed the Hungarian-Croatian and Hungarian-Romanian interconnectors. All of these have significantly contributed to the increasing of the security of supply in Hungary, and are promoting the realization of a transmission network that is necessary for the future diversification of gas import.

The second stage of the strategic investments planned for the period 2011-2020 includes the North-West developments. Being connected to already existing capacities, by the creation of the Hungarian-Slovak and the Hungarian-Slovenian interconnectors, as well as by the expansion of the existing Western import capacities, it will constitute a unified structure that is interoperable from all directions.

The goal of FGSZ is to make sure that Hungary is safe from all sides and is fully integrated into the region surrounding it. The gas supply of Hungary will be made more secure by the connection of the Southern and South-Eastern territories, and later the Northern and Western gas sources, in addition to the Eastern ones.

The long-term strategic investments of FGSZ make it possible for Hungary to leave its current peripheral role in gas transmission and develop into a regional gas distribution centre in the next decade.

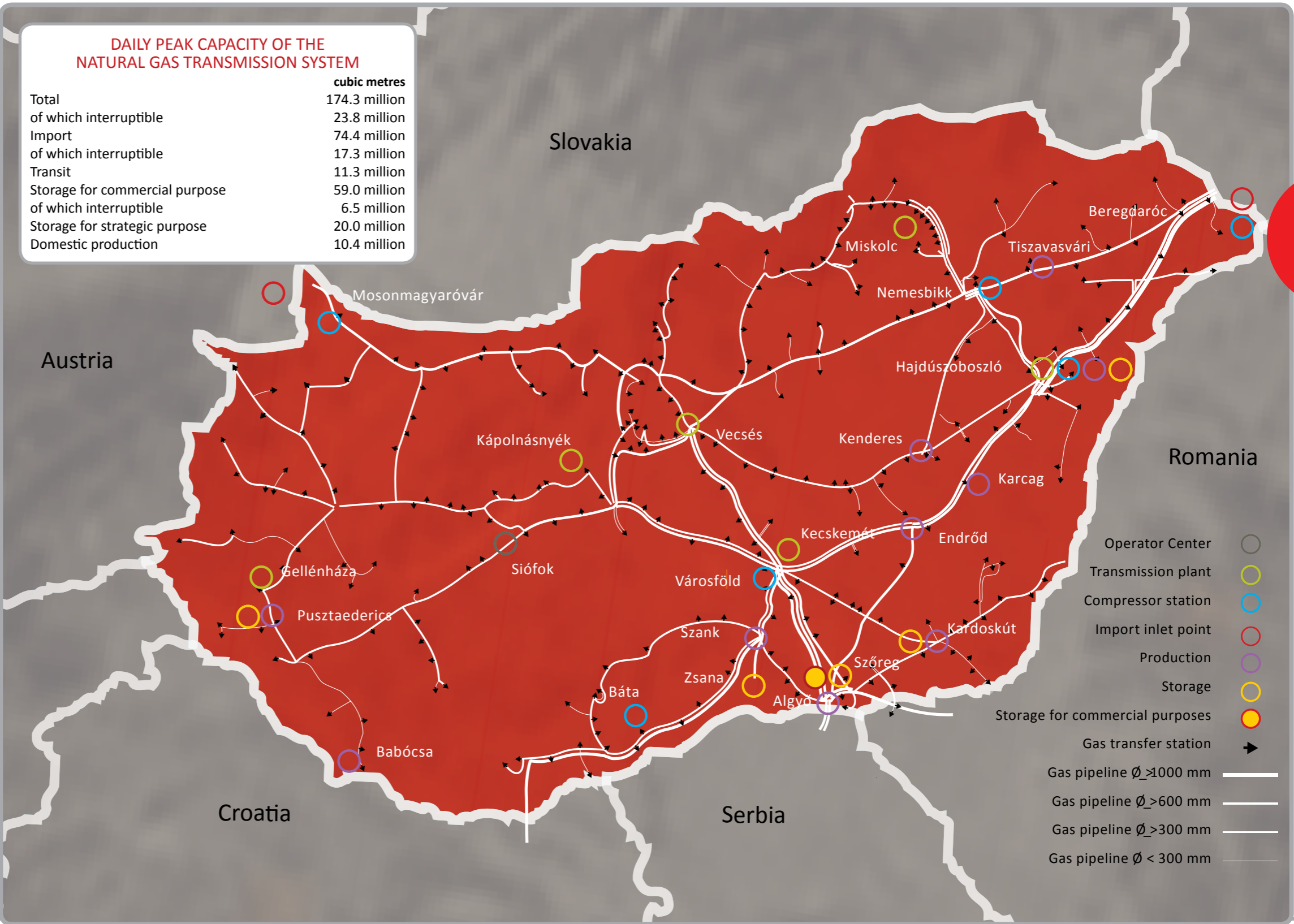
The opening of the gas market is in the interest of both Hungary and Europe but it can also motivate market players, and even end users i.e. consumers. The creation of real competition in the gas market and the expected reduction of price resulting from it, as well as the opportunity to establish the Liquid Gas Exchange, which is most welcome by the whole sector, are such detectable changes which FGSZ considers worth fighting for.

The purpose of the North-South Gas Corridor is the creation of a unified and transparent gas market in the Central and South Eastern European region. The European Commission gives priority support to the NETS (New European Transmission System) cooperation initiated by FGSZ in 2007. The NETS is built onto the strategic cooperation of the gas transmission companies in the region of Eastern Central Europe, along the jointly elaborated principles of energy policy. It facilitates a new approach to cooperation and an integrated network with the help of the strategic cooperation between the regional natural gas supplier companies. In the course of 2011-2012, the gas transmission companies operating in the interested countries prepare a joint study. In this they are to describe in detail the opportunities for regional gas transmission, especially with respect to the security of supply and the commercial opportunities provided by the interconnected gas markets.

Gas Transmission portfolio elements

CAPACITY DATA (AT 15 °C, CUBIC METRES)

UKRAINIAN/HUNGARIAN INTERCONNECTOR	
Entry point	cubic metres
Annual firm capacity	20.5 billion
Daily firm peak capacity	56.3million
Annual interruptible capacity	5.5 billion
Daily interruptible peak capacity	15.0 million
AUSTRIAN/HUNGARIAN INTERCONNECTOR (FROM HAG PIPELINE DIRECTION)	
Entry point	cubic metres
Annual firm capacity	4.4 billion
Daily firm peak capacity	12.1 million
Annual interruptible capacity	0.8 billion
Daily interruptible peak capacity	2.3 million
HUNGARIAN/SERBIAN INTERCONNECTOR	
Exit point	cubic metres
Annual firm capacity	4.8 billion
Daily firm peak capacity	13.2 million
HUNGARIAN/ROMANIAN INTERCONNECTOR	
Exit point	cubic metres
Annual firm capacity	1.7 billion
Daily firm peak capacity	4.8 million
HUNGARIAN/CROATIAN INTERCONNECTOR	
Exit point/Entry point	cubic metres
Annual firm capacity	6.5 billion
Daily firm peak capacity	19.2 million
DOMESTIC PRODUCTION	
Entry point	cubic metres
Annual firm capacity	2.5 billion
Daily firm peak capacity	10.4 million
CAPACITY OF UNDERGROUND STORAGES OF COMMERCIAL PURPOSES	
5 entry point	cubic metres
Annual firm capacity	5.0 billion
Daily peak capacity of which interruptible	59.0 million 6.5 million
CAPACITY OF UNDERGROUND STORAGES OF STRATEGIC PURPOSES	
1 entry point	cubic metres
Annual firm capacity	1.2 billion
Daily firm peak capacity	20.0 million



Gas & Power projects



Underground gas storage in Szőreg, Hungary

POWER AND HEAT GENERATION

In December 2007, MOL Group, together with its strategic partner CEZ, the Czech Energy Company, signed a joint venture agreement to carry out three major investments in the Group's Duna and Bratislava refineries: two combined cycle gas turbine technology units (CCGT), each with an installed capacity of 860 MW, which would result in a net electrical efficiency of 58% and thirdly, 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 energy sources to meet Duna and Bratislava refinery requirements. In addition, as a result of this strategic cooperation's original objectives, not only will MOL Group be enabled to enter and gain significant share of the very attractive power market but further synergetic benefits could add value to the new value chain.

Preparatory work on the two 860 MW CCGT power plants developments is now proceeding smoothly. Based on the results of the last year's cooperation, significant progress has been achieved: In the first half of 2011, the Hungarian CCGT received all the permits necessary to start construction. In October 2011, the main contracts were signed with Técnicas Reunidas S.A. for construction and with Siemens AG's service company for ensuring plant operations and maintenance of equipment.

With the signing of the contracts, the first phase of the investment started. The second phase, the construction – subject to the final investment decision by MOL Group and CEZ – is expected to be launched by the end of the first half of 2012. Total investment costs will be approximately EUR 600 million, 15% lower compared with preliminary feasibility study expectations due to lower actual implementation costs. This power plant will have one of the most modern technologies in the power generation with high efficiency and the lowest marginal cost.

The focus of the Slovak CCGT project was on support activities related to the submission of a Territory Decision request to the Regulatory Office for Network Industries (URSO), in line with an approved and valid Environmental Impact Assessment (EIA) at the end of 2010. The TPP project, that was launched in Bratislava in 2010 is now proceeding according to schedule. The Flue Gas Desulphurization unit will be completed by the first quarter of 2012. With this investment, the TPP will comply with stringent long-term EU norms regarding sulphur dioxide (SO₂) and dust. From 2013, after the capacity increase of the power plant in parallel with the environmental investment, the TPP will satisfy more effectively the Bratislava refinery's full electricity and heat demands due to the higher efficiency of the new equipment.

MMBF LTD.

With two years operational experience, the underground gas storage facility, with a total mobile gas capacity of 1.9 bn m³ (of which 1.2 bn m³ is strategic and 0.7 bn m³ commercial) has proved to be a reliable part of Hungary's domestic gas infrastructure which guarantees security of supply. In its second full-length commercial period the facility's injection and withdrawal units ran smoothly.

MMBF has succeeded in delivering satisfactory business solutions to challenges caused by changes in the domestic regulatory environment with regard to the strategic underground storage business. The risks associated with the activity have increased slightly, the changes have had no effect on the commercial storage business. The company's ability to generate cash flow remains secure.

MMBF's financial status also remains stable. The redemption of one of its investment loans, which was issued by the European Bank for Reconstruction and Development, with a value of EUR 200 mn, is on schedule.

OTHER PROJECTS

Besides its core business, MOL Group Upstream Portfolio Development strives to make use of existing, but so far untapped, resources such as geothermal energy and highly inert gases. MOL intends to investigate the energy utilization potential of gas reserves with high inert content in a pilot project. After completing the permitting and implementation phases, the pilot small scale power plant will start operations with an electric capacity of 0.6 MW, in the first quarter of 2012. A number of similar investments aiming at utilizing low calorific value gases are under preparation on a much larger scale than the pilot project. The total portfolio of gas-powered engines and turbines planned for installation close to inert gas fields will enable MOL to establish sizeable market presence in the small-scale power plant sector.

In 2011, geothermal project development was influenced by some external, mainly regulatory, changes. Pursuant to the Government decree of 29 June 2011, complex environmental impact and sensitivity analyses were carried out in 4 areas which

made the announcement of concession tenders and the launch of our effective geothermal strategy implementation possible. Meanwhile CEGE Ltd. specified its financial and geological model and now awaits the publication of geothermal concession tenders in the first part of 2012.

Underground gas storage Szőreg, Hungary





Financial and Operating Performance



Management discussion and analysis

SUMMARY OF 2011 RESULTS

In 2011 MOL delivered strong operational result despite the still challenging environment. HUF 645 bn EBITDA represented a 6% y-o-y improvement, while operating profit of HUF 337 bn (both excluding special items) practically the same as the result of the previous year. International operations, especially in upstream had a increased share in the operating profit in 2011. Upstream delivered more than 70% of Group EBITDA in line with higher realized hydrocarbon prices and increasing production. Performance was hit by higher royalty payment (in Hungary HUF 102 bn, +14% yoy) and regulated gas prices in Hungary. Downstream delivered losses due to depressed external environment and refinery stoppages in Croatia. Gas Midstream remained an important contributor showing further year-on-year increase on operating profit level. Furthermore, implementation of net investment hedge accounting led to a significant improvement on the financial line. As a result, net profit of the Group reached HUF 154 bn in 2011 after HUF 104 bn net profit in 2010.

MOL remained committed to keep its financial stability: As a response of the new wave of crisis our CAPEX spending (HUF 274 bn, 18% lower than in the previous year) remained below our operating cash flow, our net debt position decreased resulting in an improved, 28% gearing ratio at the end of December 2011 compared to 31.3% at the end of 2010. Continuation and finalization of the key development projects established an outstanding position for the upturn period in each business division.

- **Upstream** operating profit, excluding special items increased by 16% to HUF 330 bn in 2011 compared to the previous year. This profit growth derived from the combination of positive effects, such as increased production volumes in foreign markets and 26% higher realized hydrocarbon prices in line with increasing international quotations. Positive effects were moderated by the lack of Syrian revenues in Q4 and stronger HUF against USD. Royalties on Hungarian production of MOL amounted to HUF 102 bn, which is 14% increase compared to the prior period. As a result of remarkable exploration successes achieved in the previous years, first of all in Russia and Kazakhstan, MOL booked 117 MMboe reserves in 2011, representing a reserve replacement ratio of over 200%. Total approved 2P reserves according to SPE guidelines were 682 MMboe as of 31, December 2011, while the current best estimate of the recoverable resource potential is 1.4 Bboe.

- **Downstream** realized an operating loss of HUF 0.5 bn in 2011, excluding special items. Profitability was negatively influenced by external factors, like higher oil price, which increased the costs of own consumption, lower average crack spreads, worsening petrochemical environment as well as refinery stoppages. The improving product slate and further internal efficiency improvements just partly mitigated the negative effect of the depressed environment. On the other hand, operating profit of the segment, excluding INA contribution and special items was still relatively high and reached HUF 59 bn.

- **Gas Midstream** segment's operating profit, excluding special items accounted for HUF 66 bn in 2011. The most important profit contributor remained the FGSZ Ltd (gas transmission business), however the temporary freeze of gas tariffs from 1 July 2010 carried over negative effect for the H1 2011 result of gas transmission business.

- **The net financial expenses** were halved compared to 2010 level and amounted to HUF 55 bn in 2011. In 2011 a net foreign exchange gain of HUF 56 bn was recognized (due to the fact that from Q3 2011 foreign exchange losses has been recognized in equity due to the implementation of net investment hedge accounting), compared to the loss of HUF 47 bn in 2010. Fair valuation gain on the conversion option embedded in the capital security issued in the monetization of treasury shares by Magnolia Finance Ltd. was HUF 10.5 bn. In addition, a loss of HUF 60.8 bn has been incurred on the fair valuation of the call option on MOL shares owned by CEZ. The change in the fair values of both instruments reflects the stressed MOL share prices and weakening HUF against EUR experienced in H2 2011.

- **CAPEX spending** was HUF 275 bn (17% lower than in the previous year) in full year. The investments focused on CEE region, Russia and Kurdistan Region of Iraq in Upstream, on Thermal Power Plant revamp at Bratislava refinery and finalization of Rijeka refinery modernization in Downstream.

- **Net profit for the period** increased to HUF 154 bn in 2011, increasing by 48% year-on-year, as a combined effect of stable operating performance and improving financial line.

- **Operating cash inflow** decreased by 2% compared to FY 2010 and amounted to HUF 373 bn. Operating cash flow before movements in working capital increased by 19%.

- **Net debt position** decreased to HUF 871 bn during the year, despite weakening forint, resulting in an improved, 28.0% gearing ratio at the end of December 2011 compared to 31.3% at the end of 2010.

Key financial data by business segments

Net sales revenues	2011	2010	2011	2010
	HUF mn	HUF mn	(USD mn) ⁴	(USD mn) ⁴
Upstream	795,305	712,093	3,959	3,422
Downstream	4,807,180	4,149,991	23,928	19,942
Gas Midstream	430,184	698,347	2,141	3,356
Corporate and other	164,998	164,486	821	790
Total	6,197,667	5,724,917	30,849	27,510
Net external sales revenues ¹	2011	2010	2011	2010
	HUF mn	HUF mn	(USD mn) ⁴	(USD mn) ⁴
Upstream	358,800	308,206	1,786	1,481
Downstream	4,547,765	3,558,800	22,637	17,101
Gas Midstream	397,715	399,493	1,979	1,920
Corporate and other	38,954	33,155	194	159
Total	5,343,234	4,299,654	26,596	20,661
EBITDA	2011	2010	2011	2010
	HUF mn	HUF mn	(USD mn) ⁴	(USD mn) ⁴
Upstream	475,893	364,158	2,369	1,750
Downstream	85,789	151,030	427	726
Gas Midstream	81,844	67,280	407	323
Corporate and other	(26,772)	(44,853)	(133)	(215)
Inter-segment transfers ²	(13,732)	(11,577)	(68)	(56)
Total	603,022	526,038	3,002	2,528
EBITDA excl. special items ³	2011	2010	2011	2010
	HUF mn	HUF mn	(USD mn) ⁴	(USD mn) ⁴
Upstream	483,624	400,819	2,407	1,926
Downstream	118,670	178,042	591	856
Gas Midstream	85,992	71,771	428	345
Corporate and other	(29,462)	(32,945)	(147)	(158)
Inter-segment transfers ²	(13,732)	(11,577)	(68)	(56)
Total	645,092	606,110	3,211	2,913
Operating profit	2011	2010	2011	2010
	HUF mn	HUF mn	(USD mn) ⁴	(USD mn) ⁴
Upstream	321,639	236,519	1,601	1,137
Downstream	(74,230)	31,586	(369)	152
Gas Midstream	61,905	48,387	308	232
Corporate and other	(44,510)	(62,891)	(222)	(302)
Inter-segment transfers ²	(11,622)	(8,123)	(58)	(39)
Total	253,182	245,478	1,260	1,180
Operating profit excl. special items ³	2011	2010	2011	2010
	HUF mn	HUF mn	(USD mn) ⁴	(USD mn) ⁴
Upstream	330,140	284,196	1,643	1,365
Downstream	(463)	58,598	(2)	282
Gas Midstream	66,053	52,878	329	254
Corporate and other	(47,200)	(50,983)	(235)	(245)
Inter-segment transfers ²	(11,622)	(8,123)	(58)	(39)
Total	336,908	336,566	1,677	1,617

Notes and special items listed in Appendix I and II.

OUTLOOK ON STRATEGIC HORIZON

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

Upstream: targeted 130% reserve replacement ratio in the next 3 years on average ensures mid-term production growth

Downstream: Improve profitability and efficiency

2012-2014 CAPEX (up to USD 2 bn p.a.) should be financed from operating cash flow

In 2011 more than half of Group all time high EBITDA was generated outside Hungary as share of international operation increased further considerably and we expect this tendency to continue in mid and long term. The Upstream division's contribution has grown significantly in the last years and achieved more than 70% of Group EBITDA in 2011. Downstream put more emphasis on integration of assets, yield optimalization and energy efficiency improvement to respond unfavourable conditions.

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 will focus on growth type projects also in the future, like our exploration and developments in Kurdistan Region of Iraq, Russia and Kazakhstan, selective investments in Downstream with special focus on logistic and retail developments. The main objective for the coming years will be to maximise the value of our existing portfolio, which is a solid basis for further growth with sizeable production in 8 countries and exploration potential in 12 countries. The focus will be on field development projects in Russia, Pakistan, Kazakhstan to increase production levels, with increasing contribution to Group level EBITDA. In CEE with maximization of recovery rate we intend to mitigate the decline in production. We further pursue to extend MOL's outstanding efficiency to the whole Upstream portfolio. On the other hand we are carrying out extensive and intensifying exploration and appraisal activity, with special focus on the Kurdistan Region of Iraq, to further increase our reserve base. Due to the earlier years' exploration driven strategy, the reserve replacement rate is expected to reach an average 130% in the next three years. The elevated reserve level will provide a good basis for the estimated 3-4% production increase from 2014.

Regarding the downstream business MOL Group's main goal is to focus on market driven selective developments and efficiency improvement in current unfavorable market environment. The Group is focusing on exploiting further synergies through the whole value chain. MOL will optimize its assets on Group level and reshape less efficient assets. Our aim is to gradually improve the Croatian downstream profitability in the coming years. Moreover, residue upgrade modernization program will be elevated in the Rijeka refinery on a long-term horizon. Harmonized development of logistics, commercial and retail will serve the increase of profitable captive market and growth.

In the 2012-2014 period MOL aims to finance its CAPEX spending, which is targeted up to USD 2bn per annum, fully from the operating cash flow. The focus will be on high return projects at the two key business divisions, upstream and downstream. 50% of the CAPEX is allocated to the Upstream, 25% for Downstream, 4% for Gas Midstream while 21% serves as contingency. On the other hand, MOL continuously monitors the macro environment and is ready to cut its CAPEX program.

UPSTREAM OVERVIEW

Highlights

- EBITDA excluding special items grew over 20%, driven by international operations
- In 2011 MOL booked 117 MMboe SPE 2P reserves, which represents more than 200% reserve replacement.
- The Group’s total SPE 2P reserves were 682 MMboe as of 31 December 2011, while the current best estimates of the unrisks recoverable resource potential is 1.4 Bboe (on working interest basis).
- In 2012 we are expecting around 121 mboepd hydrocarbon production, without any Syrian contribution.
- In the Kurdistan Region of Iraq MOL plans to intensify its exploration and appraisal programs in 2012-2013 to fully explore the blocks’ potential.
- Due to the earlier years’ exploration driven strategy, the reserve replacement rate is expected to reach an average 130% in the next three years.
- The elevated reserve level will provide a good basis for the estimated 3-4% production increase from 2014.

Overview of 2011

In 2011 Upstream remained the main driver of operating profit

Strong cash generation of the segment is proved by 21% higher EBITDA excluding special items in 2011. Operating profit excluding special items, increased by 16% compared to 2010. This profit growth derived from the combination of:

- positive effects of: (1) higher average hydrocarbon production, driven by increased volumes from Syria and (2) higher realised hydrocarbon prices in line with increasing international quotations (26%),
- which were moderated by negative effects of: (3) Hungarian regulated natural gas price for household customers, with major impact in Q4, (4) slightly weaker USD and (5) higher depreciation due to asset capitalisations in Syria.

Very competitive level of unit OPEX was maintained in 2011 as well

Upstream expenditures, excluding special items, increased by HUF 46 bn to HUF 479 bn. Royalties on Hungarian production of MOL amounted to HUF 102 bn, increased by 14% as a result of increased hydrocarbon prices, which also triggered an automated royalty rate increase to 18% from 12% due to Brent quotation being over USD 90/bbl in 2011. Mining tax and export duty paid in Russia increased by HUF 8 bn to HUF 53 bn. Unit OPEX (excluding DD&A) in 2011 was maintained at a very competitive 6.3 USD/boe in line with our strong efforts to increase overall efficiency.

Higher daily production level due to increased international contribution

Average daily hydrocarbon production increased to 147.4 mboe, by 3%, as a result of higher international gas and condensate production mostly driven by significantly higher Syrian contribution. Pakistani production from Tal Block contributed positively as well.

Hydrocarbon Production (mboepd)	FY 2010	FY 2011	Ch. %
Crude oil production	49.4	46.4	(6)
Hungary	13.4	12.4	(7)
Croatia	9.7	9.1	(6)
Russia	19.7	18.7	(5)
Syria	3.1	2.8	(10)
Other International	3.5	3.4	(3)
Natural gas production	80.5	85.6	6
Hungary	34.3	31.6	(8)
Croatia	37.6	35.7	(5)
ow. Croatia offshore	22.7	21.8	(4)
Syria	4.4	13.5	207
Other International	4.2	4.8	14
Condensate (mboe/d) (7)	13.7	15.4	12
Hungary	6.0	4.8	(20)
Croatia	6.8	6.0	(12)
Syria	0.4	4.0	900
Other International	0.5	0.7	40
Average daily hydrocarbon production	143.5	147.4	3

Main reasons behind production change:

- **Hungarian hydrocarbon production decreased** as a consequence of natural depletion. In 2011, the company fully completed a production-enhancement project in Algyő to further increase the recovery factor.
- In 2011, total **Croatian** production decreased as a result of natural field decline. Offshore gas production decreased by 4% compared to the prior year, due to the delayed start-up of Izabela field (EdINA), where production has not yet commenced. Further decreases were caused by maintenance works on the Aiza Laura Contract Area (INAgip) and by higher water cut and natural decline on the North Adriatic Contract Area (INAgip).
- **Russia:**
 - i.) In **Zapadno-Malobalik (ZMB)** field, MOL Group’s share of production in 2011 amounted to 10.6 mboepd. Currently, there are 144 production and 77 water injection wells in operation in the field.
 - ii.) In **Matjushkinsky Block** production increased to 3.3 mboepd, a 9% rise compared to 2010. This was mainly a consequence of development activities in Severo-Ledovoye field, which continued with the drilling of 25 additional wells. A total of 23 wells were put into production until the end of the year. The necessary expansion of oil treatment facilities and a power generation plant were completed and the further purchase and construction of a 40-km oil transmission pipeline, connecting the central and local oil facilities, began. At the moment, 13 production and 5 injection wells are in operation in Matjushkinsky field; 33 production and 3 injection wells are in operation in Severo-Ledovoye field.
 - iii.) Production reached 4.8 mboepd in **Baitugan field** (an increase of 4% compared to 2010). In 2011, a total of 34 oil producer and 2 water injector wells were drilled. In parallel, the installation of remote measuring stations and water injection centres, the building of a water trunk line (fibreglass pipe) and a water injection line (plastic-coated steel pipe), as well as the expansion of power systems were completed in 2011.
- In **Syria’s** Hayan Block, gas treatment plant commissioning was performed in line with the scheduled work program, resulting in a significant increase in gas and condensate production and

the commencement of LPG production. The Company encountered significant obstacles in the collection of receivables from the Syrian partner for its share of hydrocarbon production in Q4; there has been no significant payment since October 2011. On February 26, 2012 INA delivered the “force majeure” notice to the General Petroleum Company of Syria related to the Production Sharing Agreement for the Hayan Block signed in 1998 and Production Sharing Agreement for the Aphia Block signed in 2004. Neither INA nor MOL Group do not expect to receive any revenues neither to realize its production share from Syria for the foreseeable future, i.e. until the termination of the “force majeure”.

• In **Pakistan’s** Tal Block in the second half of 2011, one new development well (Manzalai-9) was drilled successfully. The Tolanj X-1 well was the sixth independent discovery. Early production of Mami Khel-1 and Maramzai-1 wells are in progress, while the tie-in works of the Makori East-1 discovery to the Makori Early Production Facility are scheduled for early 2012. The drilling of the first appraisal well (Makori East-2) started in July 2011. The processing and interpretation of the 3D seismic acquired in 2010 was carried out successfully, locating two appraisal wells on the Mami Khel and Maramzai structures.

Exploration activity in 2011

Our intensive exploration activity delivered successes in Kurdistan Region of Iraq, Pakistan, Russia, Egypt and Hungary.

In 2011 MOL reached 10 new discoveries worldwide out of the 18 wells tested: 5 discoveries internationally and 5 in Hungary, resulting in a bold 56% drilling success ratio and achieved a 3-year average drilling success ratio of 64%. In Pakistan, 3 wells were drilled and tested, and 2 resulted in discovery; in Kurdistan Region of Iraq, 1 of the 2 tested wells resulted in discovery; in Russia 1 exploratory well was drilled and successfully tested; while in Egypt 1 well of the 2 wells drilled was successful (see details in below table).

The 3-year average drilling success ratio is 64%.

Country	Block	Exploration wells	Progress	Comment /Test result
Kurdistan Region of Iraq	Shaikan	Shaikan-2	tested	Maximal inflow in an interval: 8064 boepd oil and 2.44 MMcfpd gas on 128/64 choke.
		Shaikan-4	under testing	Ongoing test. Initial test result: 4970 bopd oil and 7.0 MMcfpd gas (1167 boepd).
		Shaikan-5	under drilling	
		Shaikan-6	under drilling	
	Akri Bijeel	Bekhme-1	tested	Negative test.
Russia	Surgut	Surgut Ayskaya 1	waiting for test	
		Surgut Atayskaya 2	waiting for test	
	Matjush-kinsky	Verkhne-Laryegan-201	tested	Discovery. Initial test result: 75.5 bblpd oil on 5 mm choke. Well test was performed without hydraulic fracturing.
Pakistan	Tal	Tolanj-X1	tested	Discovery. Test result: 2900 boepd gas on 32/64 choke. After completion the well was capable to deliver 3914 boepd gas and 126 boepd condensate.
		Makori-East-2	under drilling	
	Margala	Margala-1	tested	Dry
	Karak	Halini-1	tested	Discovery. Test result: 1700 bblpd oil on 32/64 choke
Kazakh-stan	Fedorovs-koye	Roshkovsky U-21	waiting for test	Hydrocarbon column present based on logging.
		Roshkovsky U-22	waiting for test	
		Roshkovsky U-23	waiting for test	
Hungary	Several	Mpi-K-1	tested	Discovery. Test result: 523 boepd gas via 6 mm choke
		Méhkerék-1	tested	Discovery. Test result: 187 boepd gas via 9 mm choke
		Tófej-1	tested	Discovery. Test result: 426 boepd gas on 10 mm choke.
		Tóalmás-D-5	tested	Discovery. Test result: 36 boepd oil
		Sark-2	tested	Discovery. Test result: 395 boepd gas on 8 mm choke
		Méhkerék-4	tested	Dry
		Mezőgyán-D-1	tested	
		Hatvan-É-1	tested	
		Tiszi-3	tested	
		Nagyszénás-ÉK-1	under testing	
		Komádi-Ny-2	under testing	
		Nagykörös-D-3	under testing	
		Vízvár-S-2	under drilling	
		Beru-4	waiting for test	Drilled, fracturing program completed, waiting for early production test
		Beru-6	under testing	Drilling completed, conventional test is ongoing
India	HF-ONN-2001-1	Kasauli-1	tested	Dry
Syria *	Aphia	Mudawara 3	waiting for test	
Egypt	Ras Qattara	Zarif Deep-1	drilled	Dry (without testing)
	North Bahariya	Abrar South-1	tested	Discovery. Test result: 1206 boepd oil rate on choke size /64”

* Activities are fully in line with US and EU sanctions; forward looking work program and expenditures depend on the termination of the “force majeure”

Significant increase in SPE 2P

MOL Group’s SPE proved plus probable figures are 682 MMboe, which presents an increase of 63 MMboe compared to the previous year. Outstanding, 217% reserve replacement ratio boosted SPE 2P reserves as a results of earlier exploration success in Kazakhstan and extensive field development in Russia.

Yearly hydrocarbon production, MMboe		FY 2011
Hungary		18.1
Croatia		18.5
Russia		6.8
Syria		7.4
Pakistan		2.0
Other international		1.3
Total		54.1

The annual production of 2011 reduced our gross proved plus probable reserves by 54.1 MMboe (including 0.3 MMboe MMBF Ltd’s production), while the total reserves addition was 117 MMboe.

SPE 2P reserves, MMboe	FY 2010	FY 2011
Hungary	172.5	170.5
Croatia	250.9	234.3
Russia	129.8	185.6
Syria	45.7	37.0
Kazakhstan	0	36.7
Other	19.9	18.2
Total	618.8	682.3

Changes in the upstream regulatory environment

Upstream: Changes of the Mining royalty framework in Hungary regarding regulated volumes of natural gas

The Mining Act, which regulates the mining royalty regime in Hungary introduced changes from 01.01.2011 as a royalty regime compensation in connection with regulated gas price for eligible customers in Hungary from December 2010. This changes taking into consideration only available volumes from fields put into production before 1998.

MOL paid 39% 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 2011. In 2011, the average rate of the mining royalty payable on natural gas (non inert) produced from fields put into production after 1998 and for crude oil production was 18% (excluding volumes from enhanced oil recovery which represented 13% of oil production and which is subject to a zero royalty rate in Hungary).

As per the bilateral agreement between MOL and the Ministry of Economy and Transport signed in 2005 there were selected fields for which the mining royalty was determined by in accordance with the regulations effective as at end of 2005 combined with a multiplication factor of 1.02-1.05 as per the agreement. As per the September 2010 adjustment to the named agreement the mining royalty of the selected fields shall be calculated in line with the ruling Mining Act and the related by-laws multiplied with 1.02.

Changes in export duty regulation 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

...changes in royalty regulation in Croatia

as of 31 December 2011 was USD 20.6/bbl; with an annual average extraction tax rate of 19.2%, based upon the annual average Urals blend price in 2011. The export duty rate as of 31 December 2011 was USD 53.6/bbl; with an annual average export duty rate of 51.6%, based upon the annual average Urals blend price in 2011. Favourable regulatory change took place in export duty, with effect from 2011 October: the percentage above the highest threshold has been reduced from 65% to 60%.

As per the Croatian royalty regulation in effect from 2010, royalty rate was increased to 3.1% in 2010 (for exploitation fields approved by 31 December 2009) and in subsequent years it would have increased year by year by a 0.5%-point per annum rate until 2015, and would have been fixed at 10% for ten years thereafter. Royalty regulation was changed with effect from April 2011, and royalty rate was raised to 5.0%.

Upstream outlook

Although Central Europe remains the starting point of the operations, MOL Group already has a well-established presence in the CIS region, strategic partnerships and vital assets in the Middle East, which is a good basis to position Upstream as a strong growth pillar of the group via:

- I.) Dynamic exploration strategy, which based on competency based target setting.
 - Most of our existing prospects will be drilled within three years
 - Opening towards higher impact elements, aiming to add further elements to the portfolio
- II.) Transforming of existing exploration assets to production in the mid-term
- III.) Focus on field development with short-term impact
- IV.) Active management of the portfolio
 - a geographically and life-cycle-wise
 - Continuous monitoring of inorganic growth opportunities

Unlock value with intensive appraisal program in Kurdistan Region of Iraq

The interests in the Kurdistan Region of Iraq’s Akri-Bijeel and Shaikan Blocks are also of vital importance to MOL Group’s exploration and production activities. These possibly company-making projects can provide huge exploration upside potential in a region of strategic geopolitical importance. Following two major discoveries in the last few years, the projects are currently in the appraisal phase. The work programme in the Kurdistan Region of Iraq includes an intensified exploration and appraisal programme with 2 exploration and 7 appraisal wells planned for 2012-2013. In the Shaikan Block, the appraisal programme is nearing completion and early production is ongoing. In the Akri-Bijeel Block, exploration activities will take place in parallel with the appraisal of the Bijell discovery. The construction of surface facilities for early production in the Akri-Bijeel Block is scheduled for the second half of 2012 with the further assess marketing options.

Production growth potential in short and midterm in Russia

Russia is a core country with short and mid-term production growth potential. 100% exploration success rate was achieved in the last years, while both the Matjushkinsky and Baitex Blocks have sizeable exploration potential with several undrilled prospects. It is expected that MOL will drill yearly 50-60 production and injection wells and yearly 2-3 exploration wells in the next 3 years.

...and in Kazakhstan from 2015

There is further value in Kazakhstan’s Fedorovsky Block, where appraisal activities are underway. The start of production is currently scheduled for 2015. The Group focus both on drilling appraisal wells and development for early production phase. In the next two years MOL plans to drill 3 appraisal wells and test 6 wells.

Pakistan: continuing exploration of the Tal Blocks’ potential

In Pakistan, in the Tal Block the aim is to continue appraisal activity on recent discoveries (Mami Khel, Maramzai, Makori East and Tolanj) and to continue exploration of remaining potential of the block. MOL could increase reserve base and production in the next years with the necessity of increase capacity of the surface facilities to be able to handle growing production. In the Karak Block, as a consequence of the oil discovery in Q4 2011 (1,700 bbl/d; - 100% WI, total consortium share), the work program in 2012-2013 is the tie-in of well to early production and the drilling of one appraisal well.

CEE: maximizing recovery rate

In the CEE region, our aim is to maximize recovery rates and mitigate decline rate. To achieve this goal several oil and recovery enhancement projects are launched from 2012 in Algyő, Üllés and other Hungarian fields. In Hungary, 12 new conventional exploratory wells and 2 unconventional wells will be drilled furthermore two seismic measurements and several new field developments including efficiency improvement projects will be implemented in 2012. In Croatia, an extensive drilling campaign will start with the drilling of several exploration and development wells on existing oil and gas fields, the implementation of EOR projects will continue, while 3 gas fields will be put into production. The start of the exploration in Romania is expected in the 2012 as well.

Outstanding reserves and production growth is expected in midterm

Due to the earlier years’ exploration driven strategy, the reserve replacement rate is expected to reach an average 130% in the next three years, while the elevated reserve level will provide a good basis for the estimated 3-4% production increase from 2014.

DOWNSTREAM OVERVIEW

- Highlights**
- In 2011 MOL Downstream suffered from the tightening external environment, but...
 - ...our two largest refineries performed relatively well, which highlights the strength of our complex assets.
 - Our aim is to maintain the top position of our core assets and improve overall profitability of the segment.
 - MOL will optimize its assets on Group level with selective organic growth projects and reshape less efficient assets.
 - Flexible operation of assets and short-term efficiency actions all aim gradually improving Croatian Downstream.

Overview of 2011

Elevated level of integration

In 2011, we formed a Downstream division which consists of Refining & Marketing, Retail and Petrochemical segments. With this elevated level of integration we aim to exploit sequential and interacting business processes, keeping in focus the operational efficiency by moderating negative effects of the external economic environment. The newly formed Downstream division operates 5 refineries, 2 petrochemical units, more than 1600 filling stations under 7 brands in 11 CEE countries, supplied by a far-reaching logistics system, all driven by Supply Chain Management.

Extraordinary external environment...

2011 was a challenging year for the Downstream segment, characterized by extraordinarily unfavorable developments in the external environment and some unplanned refinery stoppages in Croatia. After a rebound in 2010, refining margins have fallen back to 2009 levels which were among the worst in 10 years. An increase in gasoil spread (vs. 2010) could not offset the weaker cracks of naphtha and fuel oil. Crude oil price increased significantly and consequently, energy prices compared to 2010 had risen more than, energy prices compared to 2010 had risen more than 25 % in 2011.

	FY 2010	FY 2011	Ch. %
Brent dated (USD/bbl)	79.5	111.3	40
Brent Ural spread (USD/bbl)	1.38	1.67	21
Crack spread – premium unleaded (USD/t)	133.9	142.9	7
Crack spread – gasoil 10ppm (USD/t)	87.1	117.1	34
Crack spread – naphtha (USD/t)	88.8	63.6	(28)
Crack spread – fuel oil 3.5 (USD/t)	(164.8)	(238.1)	44
Crack spread – premium unleaded (USD/bbl)	8.8	6.9	(21)
Crack spread – gasoil 10ppm (USD/bbl)	12.9	17.4	35
Crack spread – naphtha (USD/bbl)	(2.0)	(9.6)	(390)
Crack spread – fuel oil 3.5 (USD/bbl)	(10.5)	(15.9)	(51)
Integrated petrochemical margin (EUR/t)	323	279	(14)

The annual average of integrated petrochemical margin hit its ever lowest level, representing the general situation in the European petrochemical markets.

...derived moderate operating results on Group level...

Downstream operating profit, excluding special items showed a loss of HUF 0.5 bn versus previous year’s profit of HUF 59 bn. Both external conditions and refinery stoppages had a serious negative effect on our reported results compared to FY 2010:

- negative effects of: (1) higher volume of own consumption and loss due to refinery stoppages (~HUF 10 bn); (2) increased price of purchased energy as well as higher price of crude oil utilized for own consumption; (3) lower average crack spread; (4) lower integrated petrochemical margin; (5) stronger HUF against USD;
- These effects were just partially moderated by (6) still higher light heavy crude differentials; (7) improving product slate (increasing diesel production while decreasing fuel oil output) and (8) efficiency improvement programs.

Reported operating profit was weighed by HUF 74 bn one-off items, including a HUF 35 bn impairment on IES goodwill reflecting deteriorating downstream outlook pursuing the Group’s conservative accounting policy as well as HUF 26 bn crisis tax imposed on the energy sector.

...despite still solid performance of complex assets

CCS-based R&M operating profit/(loss) excl. special items ⁽¹⁾	FY 2010	FY 2011	Ch. %
MOL Group	20.9	(19.9)	n.a
MOL excl. INA	63.8	51.6	(19)
INA	(42.9)	(71.5)	n.a

1 Special items listed in Appendix II

However, Refining and Marketing segment’s ‘clean’ CCS-based operating performance turned into negative, in the seriously deteriorating external environment MOL refineries, excluding INA’s contribution, remained profitable, even on ‘clean’ basis (HUF 52 bn), which emphasizes the strength of our complex assets.

The weak performance on Group level mainly came from INA downstream (HUF –72 bn contribution) primary as a result of (1) higher volume of own consumption and loss due to operational challenges at the new plants in Rijeka and fire incident in Sisak refinery and (2) lower sales on domestic markets in line with deteriorating market demand.

Petrochemicals turned into negative

In the Petrochemical business operating result, excluding special items, turned into negative during H2, resulting HUF 10.6 bn loss in 2011 as integrated margins dropped to historically low levels. Moreover, profitability was also weighed by increasing energy costs. Total refinery throughput remained flat in 2011. Utilization of our most complex assets increased further but the utilization of Croatian refineries remained under pressure.

Flat refinery throughput...

Refinery processing (kt)	FY 2010	FY 2011	Ch. %
Own produced crude oil	1,146	1,027	(10)
Imported crude oil	17,109	17,168	0
Condensates	297	276	(7)
Other feedstock	3 282	3,331	1
Total refinery throughput	21,834	21,802	(0)
Purchased and sold products	1,135	1,193	5

...and flat total sales volume...

External refined and petrochemical product sales by product (kt)	FY 2010	FY 2011	Ch. %
Total refined products	19,005	19,011	0
o/w Motor gasoline	4,151	4,211	1
o/w Diesel	9,025	9,392	4
o/w Fuel oil	943	740	(22)
o/w Bitumen	1,293	1,275	(1)
o/w Retail segment sales	3,545	3,507	(1)
o/w Motor gasoline	1,260	1,183	(6)
o/w Gas and heating oils	2,187	2,231	2
Total petrochemicals product sales	1,415	1,504	6
o/w Olefin products	270	341	26
o/w Polymer products	1,145	1,163	2
Total refined and petrochemicals product sales	20,420	20,515	0

...but sales of profitable motor fuels grow above market average

With improved product yield of refineries we successfully decreased the sales of loss making fuel oil sales and increased the share of valuable motor fuels within total sales.

The Group’s total motor fuels sales¹ in the CEE increased by 4% y-o-y while the core market stagnated. Accordingly, our market share increased slightly, to 21% in the CEE region. We were successfully maintaining and strenghtening further our market position on the domestic and on the most important and closest export markets. In Hungary and Slovakia despite decreasing market MOL was able to increase its wholesale fuel market share. Rationalization of Croatian sales activity continued in 2011. New customer-based approach in strategy resulted reinforced position in a close competition.

Change in % 2011/ 2010	Market demand ²			MOL Group sales ¹		
	Gasoline	Diesel	Motor	Gasoline	Diesel	Motor
Hungary	(5.7)	(0.8)	(2.4)	(3.3)	4.5	2.0
Slovakia	(9.4)	0.2	(2.6)	(1.0)	3.9	2.4
Croatia	(11.4)	(8.1)	(9.1)	(9.4)	(6.4)	(7.4)
Other	(4.8)	2.8	0.8	8.8	9.9	9.6
CEE 10 countries	(5.4)	2.0	(0.0)	0.2	5.0	3.6

1 Sales from own refinery production. Croatian sales is not fully refinery product sales, as it contains purchased Euro V quality diesel from the Med region

2 Company estimates

Weak motor fuel demand, especially gasoline

Regional diesel demand increased due to strengthening export activity of regional economies especially in the first half of the year as well as higher agricultural consumption due to favourable weather conditions. Consumption has stagnated in H2 due to slower economic growth in some countries and “basis-effect” with strong demand in H2 2010. Gasoline consumption dropped significantly (mainly private sector) due to weaker purchasing power and record high fuel prices.

Within the region our key domestic markets performed weaker, especially Croatia, following stagnating GDP and reduced spending, which was stressed through industry, mostly construction and transport.

Demand grew above regional average in Slovenia, supported by transit consumption, in Poland, supported by infrastructural investments and in Serbia.

Retail: successful implementation of strategy continued...

MOL continued the implementation its retail strategy in order to increase coverage within the supply radius of refineries, ensuring higher captive market, and to increase overall efficiency of the network. We doubled the number of our Slovenian filling stations, by taking over 19 filling stations from TUS Holding.

...including improve visual identity of stations

MOL Retail also focuses on customer satisfaction and on improving its filling stations in order to increase revenue per site and network efficiency. MOL’s new ‘Retail Visual Identity’ (RVI) is continuously introduced at newly-built and re-branded filling stations. Renovation of the Bosnian network is also under way; more than twenty stations have already been given a facelift. On core markets (Hungary, Slovakia, Romania) cca. 150 face-lift and shop reconstruction projects were executed to enhance customer value proposition and promote new gastro services. As a flagship of our sustainable approach a zero emissions filling station was built in Hungary comprising all the latest technologies and solutions: solar power; ultra fast recharging for electric car batteries; furniture from recycled materials and highly economical LED-based lighting.

Broadly flat retail sales despite depressed demand

Total retail product sales (kt)	FY 2010	FY 2011	Ch %
Hungary	812	804	(1)
Slovakia	467	452	(3)
Croatia	1,274	1,226	(4)
Romania	433	451	4
Other	559	574	3
Total retail product sales	3,545	3,507	(1)

In *Hungary*, gasoline sales dropped due to extremely high fuel prices, diesel and LPG volume increase in line with export driven economic growth. Our retail fuel sales volume remained mostly flat but our market share increased to 36.4%.

In *Slovakia*, more than doubled CAPEX (facelift program) helped to keep the market share above 36% according to SAPPO (Slovakian Oil Association).

In *Croatia*, sales volume decreased. There are 22 less petrol stations at the end of the year is resulted by closure of non-profitable filling stations.

In *Romania*, market share increased above 12%, shop sales revenue went up by 8% as a result from an intensive promotional activity.

Higher petrochemical production and sales

In the Petrochemical segment olefin and polymer production volumes have slightly increased. Sales of olefin products have notably improved, while the polymer sales volume advanced the favorable market conditions in H1 2011.

Downstream outlook

Reinforce Regional Downstream by utilising all synergies of integrated operation

With the new Downstream structure our aim is to increase our profitability and maintain the top position of our core assets with improved efficiency and flexible operation, finding global optimums instead of local ones. According to our ‘crude to plastic’ philosophy we optimize our refining and petrochemical production through the whole hydrocarbon value chain. We are aiming to remain on the front in the close competition of downstream businesses in the European arena of oil industry.

‘New Downstream Program’ started to improve profitability

Current environment requires comprehensive, adequate answers, thus MOL is launching New Downstream Program 2012 in order to improve Downstream profitability. In the frame of the New Downstream Program four focus areas have been defined:

- I.) *Value Chain optimization* for taking the advantages of our extended value chain. Focal points include profit driven raw material selection, moving toward on demand production through capacity optimization
- II.) *Asset Management* initiatives focusing on energy cost and consumption driven production optimization, logistic asset optimization, selective organic growth investments (new Butadiene and LDPE units, Rijeka modernization), improvement of production flexibility and petrochemical product portfolio all contribute to a more effective and cost conscious asset utilization.
- III.) *Market Management* exploiting Wholesale – Retail synergies and polymer, monomer and chemical sales opportunities, all supported by Logistics.
- IV.) *Resource and Process efficiency programs* for exploiting hidden possibilities, review tasks and responsibilities, analyze resource productivity and review FTE requirements, business processes.

Logistics and Retail developments for better market-reach

With synchronized improvement of our logistics and retail networks our aim is to ensure higher end-user market. Further investments are focuses on growth markets and filling stations with favourable position. Similar to 2011 with several greenfield projects Romania will be a key growth region for retail in the future as well.

Improve Croatian Downstream

Flexible operation of assets and short-term efficiency actions are aiming improve the Croatian downstream profitability. Actions include rationalization of logistics and retail networks, cutting back operational expenditures. Planned new product pipeline connection of Croatian refineries further facilitates synergic operation and flexibility. Parallel we are preparing for residue upgrade project of Rijeka refinery, to produce higher proportion of valuable ‘white’ products (e.g. diesel, gasoline).

Selective petrochemical projects for maintain flexibility...

Petrochemical integration ensures significant captive market for refining and it is crucial to handle surplus gasoline-naphtha pool. In order to maintain synergies from Refining – Petrochemicals integration, reconstruction of steam cracker to be launched and a new, 220 kt/year capacity LDPE unit is planned to be established in Bratislava with start up in 2015. Substituting 3 old, subscale units, the new competitive scale asset increases flexibility and ensures higher naphtha off-take from refineries. Expected CAPEX of the project is cca. EUR 260 mn.

...and increase profitability

In line with our strategic aim of improving olefin co-product value, MOL has decided to enter the highly profitable butadiene market by investing in a new 130 kt/year capacity butadiene extraction unit. Expected CAPEX of the project is cca. EUR 100 mn, while the unit should start up in 2015.

GAS MIDSTREAM SEGMENT OVERVIEW

The Gas Midstream segment’s operating profit, excluding special items, increased by 25% to HUF 66 bn in 2011. FGSZ Ltd. remained the most important profit contributor, however the temporary freeze of gas tariffs from 1 July 2010 carried over negative effect for the first half of 2011 result of gas transmission business.

The structural modification, influencing the former Gas and Power segment, called Gas Midstream from Q2 2011. Energy generation was transferred to the Downstream segment, regarding the determinant internal sales within the MOL Group to the Downstream segment, while INA’s gas wholesale trading subsidiary has been also reclassified to this segment.

FGSZ Ltd.

FGSZ is expected to receive ITO license among the first ones

In line with the directive 2009/73/EC, the natural gas supplier shall operate independently of both the holding companies and the subsidiaries. FGSZ has taken the necessary measures for being prepared to continue its system operation and gas transmission activities also within the framework of the new model. Therefore, FGSZ is expected to be the first company to receive the ITO (Independent Transmission Operator) license in 2012.

Stable operating profit contribution

Operating profit for FGSZ was HUF 46.7 bn in 2011, 7% higher year-on-year as higher revenues were able to compensate increased expenditures.

Domestic transmission revenue increased by 10%

Revenue from domestic transmission was HUF 73.9 bn, 10% higher than the base period

- mainly due to surplus daily and monthly capacity bookings,
- recognition of Croatian interconnector pipeline in tariffs
- and from July new tariffs were calculated in virtue of the actual capacity bookings (in line with the tariff amendment principles specified by laws).

The transit transported volumes show a significant increase

Revenue from Serbian and Bosnian natural gas transit was HUF 19.6 bn which shows 12% increase compared to the base period as southward transit transmission volumes increased by 4% and favourable change in foreign exchange rate had a positive impact on revenue of transit transmission. Revenue from capacity booked on the Hungarian- Romanian interconnector increased by 51% compared to the base period because capacity booking started from July 2010.

Higher gas price and depreciation on Hungarian-Croatian interconnector increased costs

Operating costs were HUF 7.1 bn higher than the base mainly due to increased natural gas consumption of the transmission system, increased natural gas price and due to depreciation recognised on the Hungarian- Croatian interconnector recently capitalized.

Changes in the regulatory environment

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 in virtue of the 4.5% return on RAB for the consumer group entitled to universal service while the 8.78% return on RAB remained for other consumers who purchase natural gas trough the competitive market. This dual transmission tariff system has not changed since its introduction.
In case of tariffs there is a significant step, the regulatory authority included the RAB of the Croatian interconnector pipeline into the tariff from 1 January 2011.

The regulatory authority complied with the statutory duty by 1 July 2011, the tariff maintenance mechanism defined by laws was carried out, and in case of determination of the current tariffs, new actual capacity bookings for the new gas year and increase in gas price were taken into account pursuant to the rules effective from 4 December 2010.
On the whole, this nominally resulted in a significant increase in tariff, as compared to the prior gas year’s frozen transmission tariffs.

In 2011 the average yield of the natural gas system was around 6.5% taking into account the rates used to calculate the transmission charges published by the Hungarian Energy Office.
The carry-over effect of frozen tariffs to H1 2011 was compensated by extraordinary savings and measures to increase revenues, therefore the regulated profit of FGSZ in 2011 became slightly higher than the regulated profit cap according to the regulations effective in 2011. Nevertheless, profit after tax did not reach the level of Y2010.

MMBF Ltd.

Strategic and commercial gas storage

With two years operational experience, the underground gas storage facility, has proved to be a reliable part of Hungary’s domestic gas infrastructure which guarantees security of supply.

Operating profit, excluding special items of MMBF Ltd. was HUF 13.5 bn in 2011. The company accounted for capacity booking fee on the 1.2 bn cm strategic gas storage and on 700 mcm commercial gas storage. In addition to storage activity, MMBF has sold the oil and condensate production of Szőreg-1 field with profit.

Prirodni Plin d.o.o.

New supply contract with Italian ENI

Prirodni Plin, gas trading company of INA, concluded a contract for natural gas supply with Italian ENI, ensuring required quantities of natural gas for the domestic market, improving further the stability of energy supply in Croatia.

Still loss making Croatian gas trading

It booked a EBIT loss of HUF 5.1 bn loss in Q4 as a result of increasing import natural gas prices price freeze at part of eligible customers from September 2011. It finished 2011 also in the red. Fixed price level for household customers (1.7 HRK/cm, valid as of beginning 2010) and further unfavourable changes in sales price for eligible customers were the main reason behind the loss making operation.

Changes in the regulatory environment

Regulatory changes in gas trading in Croatia (Prirodni Plin)

According to regulation of Croatian State sales price for eligible customers had to be frozen on 2.13 HRK per cm as of September 2011. Stated price applies for eligible customers, with the exception of households, conducting production activities with annual consumption less than 100 million cm of gas, and for customers that are purchasing gas for production of thermal energy for tariff customers, pursuant to provisions of the Act on production, distribution and supply of heating energy. The regulation is valid until 31 March 2012.

Power – Joint Venture with CEZ

Significant progress for the Hungarian CCGT

In 2011, the joint venture of MOL Group and CEZ made a significant progress for the implementation of the combined cycle gas turbine technology unit (CCGT) at Duna refinery. The plant received all the permits necessary to start construction in the first half of the year. Then the first phase of the investment started in October as the main contract was signed. The second phase, the construction is subject to an additional investment decision of MOL Group and CEZ. This decision is expected to be made by the end of the first half of 2012.

CAPITAL EXPENDITURE PROGRAM

Capital expenditures	2010	2011
	(HUF bn)	(HUF bn)
Upstream	123.0	111.8
Downstream	123.2	110.7
Gas Midstream	79.7	18.3
Corporate	6.9	33.4
Intersegment	0.5	0,6
Total	332.8	274.9

Disciplined, selective investment policy

Our Group capital expenditure (CAPEX) was HUF 275 bn (17% lower than previous year) in 2011, bellow our operating cash flow. The investments focused on growth type projects, like our exploration and developments in Kurdistan Region of Iraq and Russia. In Downstream the modernization of Rijeka refinery in Downstream and the Thermal Power Plant revamp in Bratislava refinery were the main projects.

Upstream CAPEX

2011 (HUF bn)	Hungary	Russia	Kurd- istan Region of Iraq	Syria	Croatia	Pakistan	Other	Total (HUF bn)
Exploration	15.6	2.5	12.5	0.6	1.0	3.3	Kazakhstan: 2.2 Cameroon: 0.9 India: 0.7 Other: 0.7	40.0 (36% of total)
Development	14.9	24.0	1.1	10.5	4.4	0.5	Egypt: 2.3 Angola: 0.5 Kazakhstan: 0.	58.2 (52%)
Other projects (upgrade, main- tainance, service companies)	2.4				11.2			13.6 (12%)
Total Exploration and Development	32.9	26.5	13.6	11.1	16.6	3.8	7.3	111.8 (100%)

Exploration & Production
CAPEX with more focus on
Kurdistan Region of Iraq and
Russia

Upstream CAPEX decreased by 9% year-on-year, to HUF 111.8 bn, primary as a result of lower Syrian spending after finishing major development in 2010, and political upheaval in 2011. However, exploration costs remained practically flat as MOL allocated more CAPEX on its activity in Kurdistan Region of Iraq. Within development main focus turned to Russia from Syria, however, Hungarian spending increased as well.

Downstream CAPEX

HUF bn	FY 2010	FY 2011	Ch. %	Main projects in 2011
Refining & Marketing	92.2	63.3	(31)	Finalization of Rijeka Modernization Phase I VGO hydrocrack
Retail	11.7	21.9	86	26 new filling stations 174 filling stations face-lifted
Petrochemicals	9.8	7.2	(26)	Maintenance projects
Power	9.5	18.3	93	Thermal PP in Bratislava
Total	123.2	110.7	(10)	

Downstream CAPEX down by
10% after finishing Phase I
upgrade in Rijeka

Downstream CAPEX was HUF 111 bn, down by 10% year-on-year after Phase I of Rijeka refinery upgrade finished in the first half of 2011. Our biggest project in 2011 was the Thermal Power Plant investment in the Bratislava refinery. In Retail, MOL acquired 19 new filling stations from Slovenian TUS. In Petchem, the vast majority of projects were maintenance type.

Gas Midstream CAPEX

HUF bn	FY 2010	FY 2011	Ch. %	Main projects in 2011
FGSZ Zrt.	74.7	16.4	(78)	Croatian tranzit
MMBF	2.4	1.1	(54)	Minor CAPEX
Other	2.6	0.8	(69)	
Total	79.7	18.3	(77)	

Gas Midstream
CAPEX much lower

Total CAPEX of the Gas and Power segment was HUF 18.3 showing noteworthy drop from HUF 80bn CAPEX spent in 2010 when the Hungarian-Croatian cross border pipeline was implemented.

Corporate & Other segment
CAPEX increased due to INA
share purchase

Capital expenditures of the Corporate and Other segment was HUF 33.4 bn in 2010 versus HUF 6.9 bn in 2010.

FINANCING OVERVIEW

MOL further improved its
strong financial position

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's key target for 2011, to keep its strong liquidity position, was successfully persuaded as a result of MOL's improving financial results.

Sufficient external financing

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

Refinancing of maturing
credit facilities

In June 2011, MOL Plc. signed a EUR 1 billion revolving credit facility agreement that refinanced the EUR 700 million revolving credit facility expiring on 18 May 2012, and partially refinances EUR 825 million revolving credit facility expiring 25 July 2013. The EUR 700 million revolving credit facility, concluded back in May 2005, was cancelled as part of the transaction. The tenor of the new facility is 5 years which can be extended by further 1 plus 1 year. In addition, MOL extended the maturity of EUR 470 million out of its EUR 500 million revolving credit facility, signed on September 2010 with 3 year tenor, by one additional year until 10 September 2014.

Our gearing ratio decreased
below 30%

Indebtness

	2010	2011	Ch. %.
Simplified Net debt/EBITDA	1.71	1.44	(15)
Net gearing	31.3%	28.0%	n.a.

70% EUR-denominated debt

Proportion and amount of total debt denominated in the following currencies

31 Dec 2010 (bn own currency)	31 Dec 2010 (bn HUF)	Proportion %	Currency	31 Dec 2010 (bn own currency)	31 Dec 2010 (bn HUF)	Proportion %
1.73	361	34.4	USD	1.18	283	27.1
2.29	639	60.9	EUR	2.34	728	69.6
n.a.	50	4.7	Other*	n.a.	35	3.3
n.a.	1,050	100	Total	n.a.	1,046	100

NOTES TO THE PROFIT & LOSS STATEMENT

Sales, Operating Expenses and Operating Profit

Increase in Net sales revenue	In 2011, Group net sales revenues increased by 24% to HUF 5,343.2 bn, primarily reflecting higher commodity price quotations, resulting in higher average sales prices. Other operating income in 2011 remained at the prior year level (HUF 25.0 bn).
Increase in Cost of raw materials	The cost of raw materials and consumables used increased by 31%, in accordance with the rising sales. In Raw material costs increased by 33%, mainly as result of the higher value of purchased crude oil due to the higher prices (HUF 677.2 bn including the effect of FX rate change) and higher volumes (HUF 30.3 bn) compared to 2010. The cost of goods sold increased by 34% to HUF 655.1 bn, mainly due to the increased cost of oil industry goods sold (HUF 145.5 bn), due to higher prices. The value of material-type services used decreased by 6% to HUF 185.3 bn.
Increase in Other operating expenses	Other operating expenses increased by 3% to HUF 381.3 bn in 2011, mainly as a combined effect of increase in impairment recognised on trade receivables (HUF 13.3 bn in 2011) and increase in fees paid to Slovakian Stockpiling Association (HUF 9.3 bn) which was partly offset by the decrease in net foreign exchange loss recognized on trade receivables and payables (HUF 7.8 bn) and release of provision, which was made for litigation in 2010 at INA (HUF 4.0 bn).
Lower Personal expenses due to lower average headcount	Personnel expenses decreased by 6% to HUF 256.0 bn in FY 2011, mainly due to the lower average headcount (-5%), and the lower amount of provision made for redundancy at INA in 2011 compared to the prior year amount.
Non-recurring items in Total operating expenses	The temporary crisis tax imposed on the energy sector increased other operating expenses by HUF 29.0 and HUF 25.8 bn in the year 2011 and 2010, respectively. As a result of the 2011 annual impairment test on the goodwill allocated to the Group’s Italian refining and wholesale activities (IES Group), a HUF 34.8 bn impairment charge was recognized on goodwill due to the combined effect of decreased crack spreads, higher feedstock and energy costs. Additional impairment in 2011 was recognized on certain upstream assets in INA Group in the amount of HUF 5.2 bn. Further increase in the 2011 amount was caused by the non-recurring provision charge of HUF 5.6 bn with respect to a fine imposed by the Romanian Competition Council.

Financial results

Decrease in net financial expense	A net financial expense of HUF 54.9 bn was recorded in 2011 (compared to a net financial expense of HUF 85.5 bn in 2010). Interest payable was HUF 41.2 bn in 2011 (HUF 34.5 bn in 2010) reflecting mainly coupons paid on bonds, while interest received amounted to HUF 9.4 bn in 2011 (HUF 7.4 bn in 2010). In 2011 a net foreign exchange gain of HUF 55.6 bn was recognized, compared to the loss of HUF 46.7 bn in 2010. The fair valuation gain on the conversion option embedded in the capital security issued by Magnolia Finance Ltd. was HUF 10.5 bn (compared to the unrealized loss of HUF 5.4 bn in FY 2010). In addition, a loss of HUF 60.8 bn has been incurred on the fair valuation of the call option on MOL shares owned by CEZ. Both changes reflect significant share price decrease in the second half of 2011.
	Income from associates
Decrease in net financial expense	Income from associates recorded HUF 20.1 bn in FY 2011 (main contributors were MET Zrt. and MOL’s 10% share from the operations of Pearl Petroleum Company).

Profit before Taxation

As a result of the above-mentioned items, the Group’s profit before taxation in 2011 was HUF 218.4 bn, compared to HUF 172.0 bn in 2010.

Taxation

Income tax expense decreased by HUF 29.9 bn from the comparative period to HUF 33.4 bn in FY 2011. 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 17.6 bn decrease in our tax expense. The current income tax expense was the result of the contribution from MOL parent company of HUF 20.1 bn (19% corporate income tax, 8% ‘Robin Hood tax’ and 2% local trade tax), INA of HUF 35.4 bn (20% corporate income tax), FGSZ Zrt. of HUF 2.3 bn and MMBF Zrt. of HUF 1.2 bn.

CASH FLOW

Consolidated Cash flow	2010	2011
	(HUF mn)	(HUF mn)
Net cash provided by operating activities	378,886	372,950
of which: movements in working capital	(97,952)	(183,983)
Net cash used in investing activities	(279,475)	(198,709)
Net cash provided by/(used in) financing activities	24,764	(188,903)
Net increase/(decrease) in cash and cash equivalents	124,175	(14,662)

Operating cash flow decreased by 2%	Operating cash inflow in 2011 was HUF 373.0 bn, compared to HUF 378.9 bn in 2010. Operating cash flow before movements in working capital increased by 19%. Refinancing of the working capital decreased funds by HUF 184.0 bn, driven mainly by the combination of higher FX rates and commodity prices. Income taxes paid amounted to HUF 52.8 bn.
Cash used in investing activities decreased by 29%	Net cash used in investing activities was HUF 198.7 bn in 2011, compared to net cash used of HUF 279.5 bn in 2010.
Net financing cash outflows from the repayment of long-term debt	Net financing cash outflow was HUF 188.9 bn, primarily as a result of the repayment of long-term debt, representing the Group’s strong liquidity position.

SUSTAINABILITY

Retained position in the Dow Jones Sustainability Index	In 2011, MOL Group was included into Dow Jones Sustainability World Index for the second time as the first and sole company from the region. To be selected as one of the best 12 sustainable companies (best 10%) of the oil and gas producers segment is a significant acknowledgement of the efforts invested in recent years. In 2011 all business divisions defined a detailed set of sustainability objectives on the 6 SD Focus Areas to be achieved by 2015 ensuring MOL Group will remain among top performers.
Maintained focus on environmental and energy efficiency	We pay focused attention to improve our CO ₂ intensity to be able to maintain our competitiveness in carbon constrained world. Energy efficiency programs throughout MOL Group deliver improvements in CO ₂ intensity per unit of production at different business units. On aggregate, our energy efficiency efforts meant reduction of CO ₂ emissions by 3% compared to 2010, or more than 200 kt in absolute figure.

	<p>In order to achieve our strategic target to decrease our VOC emissions, we rolled out ‘leak detection and repair’ (LDAR) program and started pilot projects at Hungarian installations. The projects will contribute not only to air quality improvement in neighbourhood, but will also deliver decrease of hydrocarbon losses.</p>	
Improvement in work safety performance	<p>MOL Group has a challenging long-term target in work safety, the tolerable maximum is one lost-time injury per million hours worked (LTIF). In 2011 the LTIF was 1.23 (without INA Group) which is 21% improvement compared to previous year, but unfortunately still worse than target. In INA the LTIF dropped to 2.6 which represents a 24% decrease. However, the majority of the injuries is not related to the hazardous technology but rather slips and falls.</p> <p>Compared to the previous years, our road accident indicator shows a decreasing trend. In 2011 we decreased our road accident rate (RAR, number of accidents per 1 million km driven) to 0.99 without INA, with INA Group RAR is 1.7. Besides the improving results, unfortunately we need to report about one employee fatal road accident in 2011.</p> <p>All main programmes were continued and rolled-out to further companies, e.g. Contractor Safety, Process Safety Management or the Workplace Health Promotion programme called ‘STEP – Take a step for your health’.</p>	
Best-in-Class talent attraction programs continued	<p>In 2011, the fifth, jubilee international contest called ‘Freshhh’ was organised for students. More than 2,500 students have registered for the contest and finally 596 teams have been formed from 62 countries and 200 universities. ‘Freshhh’ is a great & unique tool for finding those talented youngsters who are eager to work in the oil and gas industry. This is proved by more than 60 colleagues, who have joined MOL Group since 2007, after being finalists in the competition.</p> <p>MOL has also been maintaining close and regular cooperation with secondary schools. A lack of natural science experts has been observed on the global as well as on the local market. Therefore, special attention has been given to promote natural science studies among secondary schools. A variety of programs were carried on in 2011, e.g. ‘MesterM Award’, ‘Dialogue Conference’ or ‘Junior Freshhh’.</p> <p>By 2011 MOL Group companies established strategic partnerships with a total of 17 universities in all key countries of operations.</p> <p>MOL Group’s ‘Growww’ Programme offers one year-long job opportunities for fresh graduates. In 2011, similarly to previous years, about 300 new positions were advertised group-wide. More than 20,000 applications were received from 7,500 candidates. Finally, a total of 279 positions were filled by applicants from 7 countries (Croatia, Hungary, Iraq, Italy, Romania, Russia and Slovakia).</p>	
MOL’s integrated risk management is one of the best according to SAM	<p>INTEGRATED RISK MANAGEMENT</p> <p>It is an accentuated aim for Risk Management to deal with all of the external challenges 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 repeatedly confirmed by SAM Research AG in its 2011 benchmarking report for Dow Jones Sustainability Index that ranked MOL’s risk management as one of the best in class with 94% performance, 30 percentage points above the sector’s average. This underlines 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.</p>	
	<p>Enterprise Risk Management</p> <p>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 compliance risks. The time horizon of the model emphasizes long term view: up to 10 years and even beyond, when analyzing the variability of net present values. The ERM process identifies the most significant risks to the performance of the company and calls for a decision to be made regarding which risks should be retained and which should be mitigated and how. The main risk drivers of the Group are commodity price risk, foreign exchange risk, regulatory risk, country risk, drilling risks, equipment breakdown, market demand uncertainties, and reputation risk. Generally, the risks are aggregated, measured and mitigated at group level. Some of the risks are managed centrally, while some are dealt with the divisions, overseen by nominated risk owners.</p>	
	<p>Main risk management tools:</p> <ul style="list-style-type: none"> - Financial Risk Management <p>To ensure the profitability and the financial stability of the Group Financial Risk Management (FRM) as part of the ERM is in place in order to handle short-term, market related risks. Commodity price, FX and interest rate risks are measured by using a complex model based on Value-at-Risk model in and are managed – if necessary - with risk mitigation tools (such as swaps, forwards and options). This function concentrates on a 12-month time horizon.</p>	
	<ul style="list-style-type: none"> - Insurance Management <p>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).</p>	
	<ul style="list-style-type: none"> - Business Continuity Management <p>Business Continuity Management (BCM) is the process of preparing for unexpected disruptions that have low probability but high impact. Crisis Management (CM) processes, Incident Management, Disaster Recovery, Business Continuity Plans (BCP) and other risk control programs are crucial in such a business where operational risk exposure is significant as a result of the chemical and physical processes underlying most of the operations. The quality of BCP and CM is often measured in financial terms when dealing with insurance agencies and may result in decreasing insurance premiums at annual renewals.</p>	
	<p>APPENDIX</p> <p>APPENDIX I</p> <p>Notes</p> <p>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. Upstream transfers domestically produced crude oil, condensates and LPG to Downstream and natural gas to the Gas Midstream segment. Internal transfer prices are based on prevailing market prices. Gas transfer price equals the average import price. Segmental figures contain the results of the fully consolidated subsidiaries engaged in the respective segments.</p> <p>2 This line shows the effect on operating profit of the change in the amount of unrealised profit in respect of intersegment transfers. Unrealised profits arise where the item transferred is held in inventory by the receiving segment and a third party sale takes place only in a subsequent quarter. For segmental reporting purposes the transferor segment records a profit immediately at the point of transfer. However, at the company level profit is only reported when the related third party sale has taken place. In previous years this unrealised profit effect was not shown separately, but was included in the reported segmental result of the receiving segment. Unrealised profits arise principally in respect of transfers from Upstream to Gas Midstream.</p> <p>3 See Appendix II.</p> <p>4 In converting HUF financial data into USD, the following average NBH rates were used: for FY 2010: 208.1 HUF/USD, for FY 2011: 200.9 HUF/USD.</p>	

APPENDIX II

IMPACT OF SPECIAL ITEMS ON OPERATING PROFIT AND EBITDA (in HUF million)

	FY 2011	FY 2010 restated
MOL GROUP		
Total impact of special items on operating profit	83,726	91,088
Total impact of special items on EBITDA	42,070	80,072
UPSTREAM	8,501	47,677
Provision made for the additional mining royalty based on the decision of the EU Commission		35,826
Reclassification of the interest element of the provision to financial expenses		(5,439)
Crisis tax imposed by the Hungarian state on domestic energy sector	2,599	2,562
Provision for redundancy at INA	711	3,712
Impairment on certain exploration assets in Russia		11,016
Impairment / (reversal of impairment) on certain up-stream assets in INA Group	5,191	
DOWNSTREAM	73,767	27,012
Turnover of inventories valued at fair market value upon INA initial consolidation		180
Impairment related to the treatment of gas bottles at Proplin which needed to be harmonized with the current situation	6,058	
Crisis tax imposed by the Hungarian state on domestic energy sector	25,549	22,198
Provision for redundancy at INA	1,688	4,634
Impairment on Goodwill of IES	34,828	
Provision for Romanian Competition Council fine	5,644	
GAS MIDSTREAM	4,148	4,491
Turnover of inventories valued at fair market value upon INA initial consolidation		4,038
Crisis tax imposed by the Hungarian state on domestic energy sector	252	453
Impairment on certain receivables	3,896	
CORPORATE and OTHER	(2,690)	11,908
Crisis tax imposed by the Hungarian state on domestic energy sector	560	541
Recognition and release of provision made for penalty at INA	(4,053)	4,219
Provision for redundancy at INA	803	7,148

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 2011

This is a translation of the Hungarian Report

INDEPENDENT AUDITORS' REPORT

To the Shareholders MOL Hungarian Oil and Gas Plc.

Report on financial statements

1.) We have audited the accompanying 2011 consolidated annual financial statements of MOL Hungarian Oil and Gas Plc. ("the Company"), which comprise the consolidated statement of financial position as at 31 December 2011 - showing a balance sheet total of HUF 4,992,801 million and a profit for the year of HUF 185,019 million -, the related consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

2.) Management is responsible for the preparation and presentation of consolidated financial statements that give a true and fair view in accordance with the International Financial Reporting Standards as adopted by EU, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

3.) Our responsibility is to express an opinion on these consolidated financial statements based on our audit. 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 about whether the consolidated financial statements are free from material misstatement.

4.) 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 of consolidated financial statements that give a true and fair view 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.

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

Opinion

6.) 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 2011 and of the results of its operations for the year then ended.

Other reporting requirement - The consolidated business report

7.) We have reviewed the consolidated business report of MOL Hungarian Oil and Gas Plc. for 2011. Management is responsible for the preparation of the consolidated business report in accordance with the Hungarian legal requirements. Our responsibility is to assess whether the consolidated business report is consistent with the consolidated financial statements for the same financial year. Our work regarding the consolidated business report has been restricted to assessing whether the consolidated business report is consistent with the consolidated annual financial statements and did not include reviewing other information originated from non-audited financial records. In our opinion, the consolidated business report of MOL Hungarian Oil and Gas Plc. for 2011 corresponds to the disclosures in the 2011 consolidated annual financial statements of MOL Hungarian Oil and Gas Plc.

Budapest, 21 March 2012,

Judit Szilágyi
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 2011

Budapest, 21 March 2012



Zsolt HERNÁDI
Chairman of the Board
of Directors
Chief Executive Officer



József SIMOLA
Executive Vice
President for
Finance

CONSOLIDATED BALANCE SHEET

31 DECEMBER 2011

	Notes	2011	2010 Restated
		HUF million	HUF million
ASSETS			
Non-current assets			
Intangible assets	4	338,552	318,158
Property, plant and equipment, net	5	2,824,917	2,685,785
Investments in associated companies	10	104,797	73,004
Available-for-sale investments	11	20,649	21,501
Deferred tax assets	30	43,315	12,682
Other non-current assets	12	36,948	42,104
Total non-current assets		3,369,178	3,153,234
Current assets			
Inventories	13	545,234	408,538
Trade receivables, net	14	619,723	463,672
Other current assets	15	125,134	141,508
Prepaid taxes		22,399	5,611
Cash and cash equivalents	16, 37	311,133	313,166
Total current assets		1,623,623	1,332,495
TOTAL ASSETS		4,992,801	4,485,729
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Share capital	17	79,202	79,202
Reserves	18	1,419,026	1,251,910
Profit for the year attributable to equity holders of the parent		153,674	103,958
Equity attributable to equity holders of the parent		1,651,902	1,435,070
Non-controlling interests		591,203	539,407
Total equity		2,243,105	1,974,477
Non-current liabilities			
Long-term debt, net of current portion	19	862,149	947,910
Provisions	20	314,315	280,535
Deferred tax liabilities	29	118,802	118,312
Other non-current liabilities	21	51,046	46,110
Total non-current liabilities		1,346,312	1,392,867
Current liabilities			
Trade and other payables	22	1,008,780	800,958
Current tax payable		37,184	10,672
Provisions	20	37,227	43,842
Short-term debt	23	136,288	160,863
Current portion of long-term debt	19	183,905	102,050
Total current liabilities		1,403,384	1,118,385
TOTAL EQUITY AND LIABILITIES		4,992,801	4,485,729

Consolidated financial
statements (IFRS)

CONSOLIDATED INCOME STATEMENT

31 DECEMBER 2011

	Notes	2011	2010 Restated
		HUF million	HUF million
Net revenue	3, 24	5,343,234	4,299,654
Other operating income	25	24,955	24,894
Total operating income		5,368,189	4,324,548
Raw materials and consumables used		4,248,949	3,253,448
Personnel expenses	26	255,927	271,968
Depreciation, depletion, amortisation and impairment		349,840	280,560
Other operating expenses	27	381,304	368,524
Change in inventories of finished goods and work in progress		(78,867)	(50,932)
Work performed by the enterprise and capitalized		(42,146)	(44,498)
Total operating expenses		5,115,007	4,079,070
Operating profit		253,182	245,478
Financial income	28	80,148	24,731
Of which: Fair valuation difference of conversion option	28	10,548	-
Financial expense	28	135,000	110,208
Of which: Fair valuation difference of conversion option	28	-	5,381
Financial expense, net	28	54,852	85,477
Income from associates		20,066	12,013
Profit before tax		218,396	172,014
Income tax expense	30	33,377	63,297
Profit for the year		185,019	108,717
Attributable to:			
Equity holders of the parent		153,674	103,958
Non-controlling interests		31,345	4,759
Basic earnings per share attributable to ordinary equity holders of the parent (HUF)	32	1,766	1,231
Diluted earnings per share attributable to ordinary equity holders of the parent (HUF)	32	1,538	1,209

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

31 DECEMBER 2011

	Notes	2011	2010 Restated
		HUF million	HUF million
Profit for the year		185,019	108,717
Other comprehensive income			
Exchange differences on translating foreign operations including net investment hedge, net of tax	29	107,569	42,875
Available-for-sale financial assets, net of deferred tax	29	(2,860)	(1,423)
Cash flow hedges, net of deferred tax	29	1,160	351
Share of other comprehensive income for associates	29	14,938	7,672
Other comprehensive income for the year, net of tax		120,807	49,475
Total comprehensive income for the year		305,826	158,192
Attributable to:			
Equity holders of the parent		221,197	145,599
Non-controlling interest		84,629	12,593

	SHARE CAPITAL	SHARE PREMIUM	FAIR VALUATION RESERVE	TRANS- LATION 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 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
Retained profit for the year	-	-	-	-	-	-	-	153,674	153,674	31,345	185,019
Other comprehensive income for the year	-	-	(1,916)	59,519	-	9,920	67,523	-	67,523	53,284	120,807
Total comprehensive income for the year	-	-	(1,916)	59,519	-	9,920	67,523	153,674	221,197	84,629	305,826
Transfer to reserves of retained profit for the previous year	-	-	-	-	-	103,958	103,958	(103,958)	-	-	-
Dividends to non-controlling interests	-	-	-	-	-	-	-	-	-	(17,620)	(17,620)
Net change in balance of treasury shares held, net of tax	-	-	-	-	-	5,307	5,307	-	5,307	-	5,307
Transactions with non-controlling interests	-	-	-	-	-	(9,672)	(9,672)	-	(9,672)	(15,213)	(24,885)
Closing balance 31 December 2011	79,202	(325,669)	5,618	213,182	(8,074)	1,533,969	1,419,026	153,674	1,651,902	591,203	2,243,105

CONSOLIDATED CASH FLOW STATEMENT

31 DECEMBER 2011

	Notes	2011	2010 Restated
		HUF million	HUF million
Profit before tax		218,396	172,014
Depreciation, depletion, amortisation and impairment		349,840	280,560
Write-off of inventories, net		4,587	(138)
Increase / (decrease) in provisions		(3,212)	17,650
Net (gain) / loss on sale of property, plant and equipment		(6,286)	(2,228)
Write-off / (reversal of write-off) of receivables		15,115	(11,836)
Unrealised foreign exchange (gain) / loss on trade receivables and trade payables		4,530	563
Net gain on sale of subsidiaries		-	(756)
Interest income		(9,389)	(7,437)
Interest on borrowings		41,171	34,536
Net foreign exchange (gain) / loss excluding foreign exchange differences on trade receivables and trade payables		(55,642)	46,722
Fair valuation difference of conversion option (see Note 28)		(10,548)	5,381
Other financial (gain) / loss, net		75,651	(9,945)
Share of net profit of associate		(20,066)	(12,013)
Other non cash items		5,539	1,278
Operating cash flow before changes in working capital		609,686	514,351
Decrease / (increase) in inventories		(108,264)	(63,032)
Decrease / (increase) in trade receivables		(113,815)	(16,339)
Decrease / (increase) in other current assets		1,231	(2,553)
(Decrease) / increase in trade payables		18,357	5,874
(Decrease) / increase in other payables		18,508	(21,902)
Income taxes paid		(52,753)	(37,513)
Net cash provided by operating activities		372,950	378,886
Capital expenditures, exploration and development costs		(224,751)	(305,401)
Proceeds from disposals of property, plant and equipment		6,911	3,558
Acquisition of subsidiaries and non-controlling interests, net cash	37	(25,314)	(541)
Acquisition of associated companies and other investments		(1,695)	(2,102)
Net cash inflow / (outflow) on sale of subsidiary undertakings (see Note 8)		805	(1,513)
Proceeds from disposal of associated companies and other investments		-	630
Changes in loans given and long-term bank deposits		12,545	13,488
Changes in short-term investments		209	(5)
Interest received and other financial income		27,247	8,052
Dividends received		5,334	4,359
Net cash used in investing activities		(198,709)	(279,475)
Issuance of long-term notes		11,000	200,921
Long-term debt drawn down	37	191,222	442,134
Repayments of long-term debt		(304,725)	(580,699)
Changes in other long-term liabilities		(768)	(319)
Changes in short-term debt		(8,513)	19,986
Interest paid and other financial costs		(60,204)	(48,513)
Dividends paid to shareholders		(23)	(19)
Dividends paid to non-controlling interest		(16,892)	(8,727)
Minority shareholders contribution		-	-

CONSOLIDATED CASH FLOW STATEMENT

31 DECEMBER 2011

	Notes	2011	2010 Restated
		HUF million	HUF million
Issuance of treasury shares		-	-
Repurchase of treasury shares		-	-
Net cash provided by / (used in) financing activities		(188,903)	24,764
(Decrease) / increase in cash and cash equivalents		(14,662)	124,175
Cash and cash equivalents at the beginning of the year		313,166	178,703
Exchange differences of cash and cash equivalents of consolidated foreign subsidiaries		12,190	9,650
Unrealised foreign exchange difference on cash and cash equivalents		439	638
Cash and cash equivalents at the end of the year	37	311,133	313,166

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



Duna Refinery, Hungary

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 2011 and 2010 was 31,471 and 32,394, 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 21 March 2012.

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 2011.

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 differs 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 except for reclassifying costs related to bank loans from Operating to Financial expenses. While the comparative period has been restated, an opening balance sheet has not been included as the reclassifications made were not considered material.

Starting from 1 January 2011, the Group has revised its operational segments to reflect changes in organizational responsibilities as well as the approach of the Group's chief operating decision making bodies with respect to resource allocation and performance analysis. As a consequence,

- Petrochemical segment ceased to report separately and is included in Downstream
- Heating operations have been reclassified to Downstream from former Gas and Power
- INA' gas wholesale trading subsidiary has been reclassified to Gas Midstream from Upstream

As a result of this resegmentation, the Group has the following three reporting segments: Upstream, Downstream, Gas Midstream. Comparative periods have been restated accordingly.

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.

- *IAS 24 Related Party Disclosures (amendment) effective 1 January 2011*
- *IAS 32 Financial Instruments: Presentation (amendment) effective 1 February 2010*
- *IFRIC 14 Prepayments of a Minimum Funding Requirement (amendment) effective 1 January 2011*
- *IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments*
- *Improvements to IFRSs (May 2010)*

The principal effects of these changes are as follows:

IAS 24 Related Party Transactions (Amendment)

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.

IAS 32 Financial Instruments: Presentation (Amendment)

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.

IFRIC 14 Prepayments of a Minimum Funding Requirement (Amendment)

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.

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.

Improvements to IFRSs

In May 2010, the IASB issued its third omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. The adoption of the following amendments resulted in changes to accounting policies, but no impact on the financial position or performance of the Group.

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 Statements

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.

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 and Goodwill

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 2011 and 2010, 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 form periodic maintenance costs), are normally charged to income statement 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 automatisaton 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 Company 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) Sales taxes

Revenues, expenses and assets are recognised net of the amount of sales tax, except:

- when the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case, the sales tax is recognised as part of the cost of acquisition of the asset or as part of the expense item, as applicable
- receivables and payables that are stated with the amount of sales tax included

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position

XXIX) 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.

Foreign exchange differences on monetary items with a foreign operation are recognised in other comprehensive income if settlement is neither planned nor likely to occur in the foreseeable future.

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.

XXX) 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.

XXXI) Segmental Disclosure

For management purposes the Group is organised into three major operating business units: Upstream, Downstream, Gas Midstream. 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.

XXXII) 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:

Revenue recognition for oil and gas activities in Syria

Consequent to the recent political turmoil and the sanctions posed by US and EU on Syria, treatment of revenues from operations therein requires judgement. Having assessed the probability of receiving economic benefits from sales activities in INA Group's Syrian operations, including counterparty risk associated with GPC, the Syrian National Oil Company, the management decided that criteria set out in IAS 18 – Revenue Recognition are not met. Therefore, beginning from early 2011, revenue is recognized only once cash is received from GPC. These circumstances also give rise to an impairment indicator with respect to the Group's Syrian assets (being a separate cash generating unit).

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 2009, 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 76,171 million and HUF 70,027 million, while field abandonment provision amounts to HUF 210,311 million and HUF 184,792 million as of 31 December 2011 and 2010, respectively (see Note 20).

Application of Successful Efforts method of accounting for exploration and evaluation assets

Management uses judgment when capitalized exploration and evaluation assets are reviewed to determine capability and continuing intent of further development. Carrying amount of exploration and evaluation assets is HUF 214,266 million and HUF 171,791 million as of 31 December 2011 and 2010, 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 in the near past, current difficulties of the euro-zone and risks attributed to Central-Eastern-European economies, such fair value measurements contain an increased uncertainty. In case of the conversion option embedded in MOL's perpetual exchangeable capital securities, valuation 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 3.7% (2010: 4.8%). Consequently, the carrying amount of these obligations (in case of environmental liabilities HUF 76,171 million and HUF 70,027 million, in case of field abandonment provision HUF 210,311 million and HUF 184,792 million as of 31 December 2011 and 2010, 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 economic difficulties experienced worldwide, in the euro-zone and also in the Central-Eastern European region where the Group operates. In addition, recent turmoil in North-African and Middle-East countries add a further uncertainty to the recoverability assumptions of non-current assets therein. Discount rates were derived from the USD-based weighted average cost of capital for the Group (2011: 7.9%, 2010: 8.4%). 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 50,925 million and HUF 17,548 million in 2011 and 2010, respectively. These charges include an impairment loss of HUF 34,828 million on goodwill allocated to the refining and wholesale activities of IES, an impairment loss HUF 10,107 million on other intangible assets (2010: HUF 15,074 million on other intangible assets), an impairment loss of HUF 15,546 million (2010: HUF 10,017 million) and a reversal of impairment of HUF 9,556 million (2010: HUF 7,543 million) on property, plant and equipment. Carrying amount of goodwill is HUF 42,850 million and HUF 71,031 million as of 31 December 2011 and 2010, 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 38,213 million and HUF 10,290 million as of 31 December 2011 and 2010, respectively (see Note 30).

Actuarial estimates applied for calculation of retirement benefit obligation

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 16,804 million and HUF 15,144 million at 31 December 2011 and 2010, 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 judgement when probability of future outflow of economic benefits is determined and 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 24,484 million and HUF 20,067 million at 31 December 2011 and 2010, 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:

IAS 1 Financial Statement Presentation – Presentation of Items of Other Comprehensive Income

The amendments to IAS 1 change the grouping of items presented in other comprehensive income. Items that could be reclassified (or 'recycled') to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. The amendment affects presentation only and has therefore no impact on the Group's financial position or performance. The amendment becomes effective for annual periods beginning on or after 1 July 2012.

IAS 12 Income Taxes – Recovery of Underlying Assets

The amendment clarified the determination of deferred tax on investment property measured at fair value. The amendment introduces a rebuttable presumption that deferred tax on investment property measured using the fair value model in IAS 40 should be determined on the basis that its carrying amount will be recovered through sale. Furthermore, it introduces the requirement that deferred tax on non-depreciable assets that are measured using the revaluation model in IAS 16 always be measured on a sale basis of the asset. The amendment becomes effective for annual periods beginning on or after 1 January 2012 and will have no impact on the Group.

IAS 19 Employee Benefits (Amendment)

The IASB has issued numerous amendments to IAS 19. These range from fundamental changes such as recognition of unvested past service cost and transferring the remeasurement component of the defined benefit cost to Other comprehensive income to simple clarifications and re-wording. The Group is currently assessing the full impact of the amendments but expects those not to be material. The amendment becomes effective for annual periods beginning on or after 1 January 2013.

IAS 27 Separate Financial Statements (as revised in 2011)

As a consequence of the new IFRS 10 and IFRS 12, what remains of IAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. The Group does not present separate financial statements prepared in accordance with IFRS. The amendment becomes effective for

annual periods beginning on or after 1 January 2013.

IAS 28 Investments in Associates and Joint Ventures (as revised in 2011)

As a consequence of the new IFRS 11 and IFRS 12, IAS 28 has been renamed IAS 28 Investments in Associates and Joint Ventures, and describes the application of the equity method to investments in joint ventures in addition to associates. The amendment becomes effective for annual periods beginning on or after 1 January 2013.

IAS 32 Financial instruments: Presentation and IFRS 7 Financial Instruments: Disclosures - Clarification on asset/liability offsetting

The IAS 32 amendments clarify some of the requirements for offsetting financial assets and financial liabilities in the statement of financial position, i.e. that the right of set-off must be available today and legally enforceable for all counterparties in the normal course of business, as well as in the event of default, insolvency or bankruptcy. Consequent change to IFRS 7 intends to enhance current offsetting disclosures. The amendments become effective for annual periods beginning on or after 1 January 2014 and 1 January 2013, respectively.

IFRS 7 Financial Instruments: Disclosures — Enhanced Derecognition Disclosure Requirements

The amendment requires additional disclosure about financial assets that have been transferred but not derecognised to enable the user of the Group's financial statements to understand the relationship with those assets that have not been derecognised and their associated liabilities. In addition, the amendment requires disclosures about continuing involvement in derecognised assets to enable the user to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognised assets. The amendment becomes effective for annual periods beginning on or after 1 July 2011. The amendment affects disclosure only and has no impact on the Group's financial position or performance.

IFRS 9 Financial Instruments: Classification and Measurement

IFRS 9 as issued reflects the first phase of the IASBs work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard is effective for annual periods beginning on or after 1 January 2015. In subsequent phases, the IASB will also address hedge accounting and impairment of financial assets. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Group’s financial assets, but will potentially have no impact on classification and measurements of financial liabilities. The Group will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

IFRS 10 Consolidated Financial Statements

IFRS 10 replaces the portion of IAS 27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC-12 Consolidation — Special Purpose Entities. IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgement to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in IAS 27. Based on the preliminary evaluation of the Group, the amendment will have no material impact. This standard becomes effective for annual periods beginning on or after 1 January 2013.

IFRS 11 Joint Arrangements

IFRS 11 replaces IAS 31 Interests in Joint Ventures and SIC-13 Jointly-controlled Entities — Non-monetary Contributions by Venturers. IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. The application of this new standard will impact the financial position of the Group. This is due to the cessation of proportionate consolidation of jointly controlled entities (see note 9) meeting the definition of joint ventures in IFRS 11 to equity accounting for these investments. Based on the preliminary evaluation of the Group such impact will not be significant. This standard becomes effective for annual periods beginning on or after 1 January 2013.

IFRS 12 Disclosure of Involvement with Other Entities

IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity’s interests in

subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. This standard becomes effective for annual periods beginning on or after 1 January 2013.

IFRS 13 Fair Value Measurement

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The Group is currently assessing the impact that this standard will have on the financial position and performance. This standard becomes effective for annual periods beginning on or after 1 January 2013.

IFRIC 20 Stripping costs in the production phase of a surface mine

The interpretation sets out the accounting for overburden waste removal (stripping) costs in the production phase of a mine and becomes effective from 1 January 2013.

3 SEGMENTAL INFORMATION

2011	Upstream	Down-stream	Gas Midstream	Corporate and other	Inter-segment transfers	Total
	HUF million	HUF million	HUF million	HUF million	HUF million	HUF million
Net Revenue						
Sales to external customers	358,800	4,547,765	397,715	38,954		5,343,234
Inter-segment sales	436,505	259,415	32,469	126,044	(854,433)	-
Total revenue	795,305	4,807,180	430,184	164,998	(854,433)	5,343,234
Results						
Profit/(loss) from operations	321,639	(74,230)	61,905	(44,510)	(11,622)	253,182
Net finance costs						54,852
Income from associates				20,066		20,066
Profit before tax						218,396
Income tax expense/(benefit)						33,377
Profit for the year						185,019

2010	Upstream	Down-stream	Gas Midstream	Corporate and other	Inter-segment transfers	Total
	HUF million (restated)	HUF million (restated)	HUF million (restated)	HUF million (restated)	HUF million (restated)	HUF million (restated)
Net Revenue						
Sales to external customers	308,206	3,558,800	399,493	33,155	-	4,299,654
Inter-segment sales	403,887	591,191	298,854	131,331	(1,425,263)	-
Total revenue	712,093	4,149,991	698,347	164,486	(1,425,263)	4,299,654
Results						
Profit/(loss) from operations	236,519	31,586	48,387	(62,891)	(8,123)	245,478
Net finance costs						85,477
Income from associates				12,013		12,013
Profit before tax						172,014
Income tax expense/(benefit)						63,297
Profit for the year						108,717

2011 Assets and liabilities	Upstream	Down-stream	Gas Midstream	Corporate and other	Inter-segment transfers	Total
	HUF million	HUF million	HUF million	HUF million	HUF million	HUF million
Property, plant and equipment, net	1,119,479	1,267,913	414,006	93,901	(70,382)	2,824,917
Intangible assets, net	234,902	73,174	6,260	24,474	(258)	338,552
Inventories	34,286	481,806	32,513	13,211	(16,582)	545,234
Trade receivables, net	125,984	511,863	61,296	40,132	(119,552)	619,723
Investments in associates				104,797		104,797
Not allocated assets						559,578
Total assets						4,992,801
Trade payables	52,469	433,280	97,312	51,358	(119,552)	514,867
Not allocated liabilities						2,234,829
Total liabilities						2,749,696

Notes to the financial statements

2011 Other segment information	Upstream	Down-stream	Gas Midstream	Corporate and other	Inter-segment transfers	Total
	HUF million	HUF million	HUF million	HUF million	HUF million	HUF million
Capital expenditure:	105,577	110,621	17,878	8,342	-	242,418
Property, plant and equipment	67,437	108,793	16,217	5,129	-	197,576
Intangible assets	38,140	1,828	1,661	3,213	-	44,842
Depreciation and amortization	154,254	160,019	19,939	17,738	(2,110)	349,840
From this: impairment losses recognized in income statement	14,112	44,949	691	796	-	60,548
From this: reversal of impairment recognized in income statement	(5,725)	(3,898)	-	-	-	(9,623)

2010 Assets and liabilities	Upstream	Down-stream	Gas Midstream	Corporate and other	Inter-segment transfers	Total
	HUF million (restated)	HUF million (restated)	HUF million (restated)	HUF million (restated)	HUF million (restated)	HUF million (restated)
Property, plant and equipment, net	1,065,969	1,185,565	403,193	96,268	(65,210)	2,685,785
Intangible assets, net	192,560	99,140	9,170	20,332	(3,044)	318,158
Inventories	25,358	357,967	29,072	9,965	(13,824)	408,538
Trade receivables, net	140,480	401,221	54,501	32,237	(164,767)	463,672
Investments in associates				73,004		73,004
Not allocated assets						536,572
Total assets						4,485,729
Trade payables	51,069	384,415	121,891	45,113	(169,540)	432,948
Not allocated liabilities						2,078,304
Total liabilities						2,511,252

2010 Other segment information	Upstream	Down-stream	Gas Midstream	Corporate and other	Inter-segment transfers	Total
	HUF million (restated)	HUF million (restated)	HUF million (restated)	HUF million (restated)	HUF million (restated)	HUF million (restated)
Capital expenditure:	109,324	125,122	78,261	7,237	-	319,944
Property, plant and equipment	79,590	122,604	76,543	3,556	-	282,293
Intangible assets	29,734	2,518	1,718	3,681	-	37,651
Depreciation and amortization	127,639	119,444	18,893	18,038	(3,454)	280,560
From this: impairment losses recognized in income statement	19,128	5,277	448	238	-	25,091
From this: reversal of impairment recognized in income statement	(5,727)	(1,816)	-	-	-	(7,543)

Impact of the crisis tax on the profit from operations was HUF 28,960 million and HUF 25,754 million in 2011 and 2010 respectively. The portion of the crisis tax in 2011 by reporting segments of the Group were as follows: HUF 2,599 million at Upstream segment, HUF 25,549 million at Downstream segment, HUF 252 million at Gas Midstream segment, and HUF 560 million recorded at Corporate segment.

There was a non-recurring HUF 30,387 million retroactively paid mining royalty according to the declaration of the European Committee in 2010 (see Note 27). The HUF 30,387 mining royalty paid retroactively has been recorded at Upstream segment in 2010.

The operating profit of the segments includes the profit arising both from sales to third parties and transfers to the other business segments. Upstream transfers crude oil, condensates and LPG to Downstream and natural gas to the Gas Midstream segment. 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.

Geographic information

Assets by geographic areas

At 31 December, 2011	Intangible assets	Property, plant and equipment	Investment in associated companies
	HUF million	HUF million	HUF million
Hungary	64,727	833,879	13,693
Croatia	114,875	1,036,299	-
Slovakia	7,376	425,939	1,031
Rest of European Union	33,640	207,740	3,560
Rest of Europe	36,274	143,923	-
Rest of world	81,660	177,137	86,513
Total	338,552	2,824,917	104,797

At 31 December, 2010	Intangible assets	Property, plant and equipment	Investment in associated companies
	HUF million	HUF million	HUF million
Hungary	49,225	831,295	3,721
Croatia	113,178	982,385	-
Slovakia	5,820	381,607	788
Rest of European Union	64,531	189,422	3,638
Rest of Europe	27,813	109,209	-
Rest of world	57,591	191,867	64,857
Total	318,158	2,685,785	73,004

Sales by geographical area

	2011	2010
	HUF million	HUF million
Hungary	1,440,160	1,236,270
Croatia	658,930	625,515
Italy	632,856	461,627
Austria	470,066	362,909
Slovakia	408,827	312,401
Czech Republic	330,948	238,241
Romania	256,092	186,008
Poland	221,828	166,807
Switzerland	124,607	136,332
Germany	134,737	115,372
Bosnia-Herzegovina	145,289	97,541
Serbia	105,197	61,454
Slovenia	56,967	46,775
Russia	42,190	29,818
United Kingdom	30,065	15,369
Rest of Europe	91,738	71,747
Rest of Central-Eastern Europe	24,735	13,684
Rest of the World	168,002	121,784
Total	5,343,234	4,299,654

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 2011 and 2010.

4 INTANGIBLE ASSETS

	Rights	Software	Exploration and evaluation assets	Goodwill	Total
	HUF million	HUF million	HUF million	HUF million	HUF million
At 1 January, 2010					
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
Year ended 31 December, 2011					
- additions	18,580	4,372	37,404	-	60,356
- amortization for the year	(8,520)	(5,281)	(240)	-	(14,041)
- impairment	(709)	(32)	(8,632)	(35,630)	(45,003)
- reversal of impairment	67	-	-	-	67
- disposals	(2,511)	(18)	-	-	(2,529)
- revaluation of emission quotas	(6,460)	-	-	-	(6,460)
- exchange adjustment	4,707	625	19,246	6,954	31,532
- transfers and other movements	9,357	(8,077)	(5,303)	495	(3,528)
Closing net book value	67,671	13,765	214,266	42,850	338,552
At 31 December, 2011					
Gross book value	135,420	51,244	239,266	85,407	511,337
Accumulated amortization and impairment	(67,749)	(37,479)	(25,000)	(42,557)	(172,785)
Net book value	67,671	13,765	214,266	42,850	338,552

Exploration and evaluation assets

Impairment in 2011 related to exploration activities qualified unsuccessful in Hungary, India and Pakistan. 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.

Transfers from exploration and evaluation assets 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.).

In addition to these exploration and evaluation assets, a further HUF 2,267 million and HUF 6,486 million exploration expenses were incurred in 2011 and 2010, respectively, which were not eligible for capitalization. Consistent with the successful effort method of accounting they were charged to various operating cost captions of the consolidated income statement as incurred.

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:

	2011			2010		
	Net book value before impairment	Impairment	Net book value	Net book value before impairment	Impairment	Net book value
	HUF million	HUF million	HUF million	HUF million	HUF million	HUF million
Downstream	74,377	34,828	39,549	67,298	-	67,298
- Roth Group	7,918		7,918	6,644	-	6,644
- Romanian retail network	4,732		4,732	4,273	-	4,273
- IES Group	44,607	34,828	9,779	40,664	-	40,664
- Croatian retail network	15,354		15,354	14,045	-	14,045
- I&C Energo	1,196		1,196	1,102	-	1,102
- TVK	477		477	477	-	477
- TVK Polska	93		93	93	-	93
Upstream	4,103	802	3,301	3,733	-	3,733
- Rotary (former DrillTrans)	4,103	802	3,301	3,733	-	3,733
Total goodwill	78,480	35,630	42,850	71,031	-	71,031

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 2011 goodwill of HUF 7,918 million (2010: 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 Downstream 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 Downstream 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 1,789 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 1.2 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 2011 goodwill of HUF 4,732 million (2010: 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 units) 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 13% 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 2011 goodwill of HUF 44,607 million (2010: 40,664 million) was allocated to the Italian refining and wholesale activities of the Group, prior to testing for impairment. 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. Crude oil prices and crack spreads take into consideration benchmark industry forecasts; wholesale margins used in the calculations 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. As a result of the annual impairment test, an impairment loss of HUF 34,828 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. Any further changes in these key assumptions may result in further impairment in the future.

Croatian retail network

At 31 December 2011 goodwill of HUF 15,354 million (2010: 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 extrapolated cash flows for the average residual useful life of the filling stations based on an estimated growth rate which varies between 2% and 4% in the long-term. The rates used to discount the forecast cash flows reflecting risks specific to the Retail segment vary between 9% and 11% 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.

Rotary

Subsequent to an impairment test performed at the end of 2011 an impairment of HUF 802 million (2010: nil) has been recognized on the goodwill relating to the activities of Rotary, drilling subsidiary of INA d.d., due to decreased profitability outlook of the related activities. Discounted cash flow was calculated using a pre-tax discount rate of 10.76% (2010: 13%).

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 14,201 million as of 31 December 2011. 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 equip-ment	Other machinery and equipment	Construc-tion in progress	Total
	HUF million	HUF million	HUF million	HUF million	HUF million
At 1 January, 2010					
Gross book value	2,049,830	1,458,394	118,856	425,584	4,052,664
Accumulated depreciation and impairment	(569,205)	(844,205)	(75,043)	(186)	(1,488,639)
Net book value	1,480,625	614,189	43,813	425,398	2,564,025
Year ended 31 December, 2010					
- additions and capitalizations	94,346	101,018	8,140	282,293	485,797
- depreciation for the year	(138,372)	(98,045)	(11,725)	-	(248,142)
- 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	545	5,148	42,919
- transfer and capitalizations	52,609	7,358	(24)	(214,903)	(154,960)
Closing net book value	1,518,314	629,600	40,544	497,327	2,685,785
At 31 December, 2010					
Gross book value	2,276,114	1,569,842	122,670	497,667	4,466,293
Accumulated depreciation and impairment	(757,800)	(940,242)	(82,126)	(340)	(1,780,508)
Net book value	1,518,314	629,600	40,544	497,327	2,685,785
Year ended 31 December, 2011					
- additions and capitalizations	214,211	247,100	8,319	197,575	667,205
- depreciation for the year	(158,881)	(115,604)	(10,389)	-	(284,874)
- impairment	(6,946)	(964)	(7,124)	(511)	(15,545)
- reversal of impairment	9,035	281	227	13	9,556
- disposals	(1,166)	(65)	(20)	(54)	(1,305)
- exchange adjustment	129,733	61,766	2,704	19,235	213,438
- transfer and capitalizations	4,988	183	520	(455,034)	(449,343)
Closing net book value	1,709,288	822,297	34,781	258,551	2,824,917
At 31 December, 2011					
Gross book value	2,660,147	1,923,766	122,728	259,257	4,965,898
Accumulated depreciation and impairment	(950,859)	(1,101,469)	(87,947)	(706)	(2,140,981)
Net book value	1,709,288	822,297	34,781	258,551	2,824,917

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 2011 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

Impairment test of non-current assets in Syria

Changes in revenue recognition in Syria (see Note 2.4 on critical judgements) are considered as an impairment indicator, therefore

the Group performed an impairment test on its Syrian non-current assets (including exploration and evaluation assets, see Note 4), qualifying as a cash generating unit. Such impairment calculation requires an estimate of the recoverable amount of the Syrian cash generating unit, that is, the higher of fair value less costs to sell and value in use. Value in use has been determined on the basis of discounted estimated future net cash flows. The most significant variables in determining cash flows are discount rates, the period for which cash flow projections are made, as well as the assumptions and estimates used to determine the amount and timing of cash inflows and outflows, including crude oil and natural gas prices (considering the price formulae set out in the respective Production Sharing Agreement), operating expenses and future annual production volumes. While such cash flows reflect the management’s best estimate for the future, these estimates are exposed to an increased uncertainty as a result of the political, security and economic conditions in Syria. Asset-specific discount rates were derived from the USD-based weighted average cost of capital for the Group and are adjusted for project-specific risks, as applicable. Discount rate applied was 15%. Based on these calculations the management did not record any impairment since carrying amount of non-current assets in Syria (HUF 179,511 million as of 31 December 2011) are recoverable based on the net present value of discounted future cash flows, and the management believes that no reasonably possible change in any of the key assumptions would cause the carrying value of these assets to materially exceed its recoverable amount.

The management regularly monitors and, if needed, re-assesses impairment calculations based on latest developments in the country.

Other impairment expenses

Reversal of impairment expense of HUF 22 million and HUF 284 million were recorded with respect to the revision of field abandonment provision of maturing and suspended oil and gas producing fields in 2011 and 2010, respectively. Reversal of impairment expense of HUF 856 million in 2011 and impairment expense of HUF 1,688 million were recorded with respect to filling stations and retail sites in 2010. In 2011, no material impairment expense was recognised related to refineries, in 2010 an impairment expense of HUF 1,042 million was recognised as a result of expired catalysts and closure of certain facilities at the Danube and Bratislava refineries. Additional impairment expenses of HUF 668 million and of HUF 356 million were recorded for certain gas transmission assets of FGSZ Földgázszállító Zrt. in 2011 and 2010, respectively. Impairment expense of HUF 6,058 million was recorded with respect to used propane-butane gas cylinders of Proplin, physical recoverability of which is not probable. Other individually non-material impairment losses of HUF 141 million and reversal of impairment losses of HUF 328 million have been recognized in 2011 and 2010, respectively.

Leased assets

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

	2011	2010
	HUF million	HUF million
Cost	8,256	8,072
Accumulated depreciation	(3,816)	(2,951)
Net book value	4,440	5,121

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 17,506 million and HUF 18,058 million in 2011 and 2010, respectively. In 2011 and 2010 the applicable capitalisation rates (including the impact of foreign exchange differences) were 7.5% and 5.5%, respectively.

Government Grants

Property, plant and equipment include assets with a value of HUF 13,264 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 Hungarian-Romanian and the Hungarian-Croatian natural gas interconnector and transformation of nodes, and the assets of SLOVNAFT a.s. 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 126,096 million have been pledged by the Group of which HUF 10,565 million as collateral for loans utilized by TVK-Erőmű Kft. and Tisza WTP Kft. as of 31 December 2011, HUF 2,888 million at SLOVNAFT a.s., HUF 1,277 million at Rossi Biofuel Zrt., HUF 103,657 million at IES S.p.A., HUF 1,859 million at I&C Energo and HUF 5,850 million at INA d.d. As of 31 December 2010 the net book value of pledged assets was HUF 120,527 million.

Company name	Country Incorporation / Branch)	Range of activity	Ownership 2011	Ownership 2010
Integrated subsidiaries				
INA-Industrija nafte d.d.	Croatia	Integrated oil and gas company	49%	47%
Upstream				
Adriagas S.r.l.	Italy	Pipeline project company	49%	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%
CEGE Közép-európai Geotermikus Energia Termelő Zrt. (joint venture)	Hungary	Geothermal energy production	50%	b)
Croscos Naftni Servisi d.o.o.	Croatia	Oilfield services	49%	47%
CorteCros d.o.o.	Croatia	Production of anticorrosion products	29%	28%
Croscos B.V.	Netherlands	Oilfield services	49%	47%
Nordic Shipping Ltd.	Marshall Islands	Platform ownership	49%	47%
Croscos International d.o.o. (Slovenia)	Slovenia	Oilfield services	49%	47%
Croscos International d.o.o. (Tuzla)	Bosnia and Herze- govina	Oilfield services	49%	47%
Croscos International Ltd.	United Kingdom	Oilfield services	49%	47%
Croscos S.A. DE C.V	Mexico	Maintaining services	49%	47%
Geotechnika International LLC	United Arab Emir- ates	Oilfield services, drilling wells	24%	23%
Mideast Integrated Drilling & Well Services Company LLC	Oman	Integrated drilling and completion services	24%	23%
Rotary Zrt.	Hungary	Oilfield services	49%	47%
Sea Horse Shipping Inc.	Marshall Islands	Platform ownership	49%	47%
Geoinform Kft.	Hungary	Hydrocarbon exploration	100%	100%
GES Kft.	Hungary	Geophysical surveying and data pro- cessing	100%	100%
Geophysical Services Middle-East LLC	Oman	Geophysical surveying and data pro- cessing	70%	70%
Hawasina GmbH	Switzerland / Oman	Exploration and production activity	100%	100%
INA Naftaplin International Exploration and Production Ltd	United Kingdom	Exploration and production activity	49%	47%
Kalegran Ltd.	Cyprus / Iraq	Exploration investment management / Exploration and production activity	100%	100%
MOL Caspian Oil and Gas Ltd	Cyprus / Kazakh- stan	Exploration investment management	100%	100%
Ural Group Ltd. (joint venture)	British Virgin Island	Exploration and production activity	28%	28%

Company name	Country Incorporation / Branch)	Range of activity	Ownership 2011	Ownership 2010
Ural Oil Group Ltd. (joint venture)	Kazakhstan	Exploration and production activity	28%	28%
MOL Oman Ltd. (former Lamorak Enterprises Ltd.)	Cyprus / Tunisia	Exploration and production activity	100%	100%
MOL Central Asia Oil and Gas Co. B.V.	Netherlands / Syria / Kazakhstan	Exploration and production activity	100%	100%
MOL Pakistan Oil and Gas Co. B.V.	Netherlands / Pakistan	Exploration and production activity	100%	100%
MOL-RUSS Ooo.	Russia	Management services	100%	100%
MOL Yemen Oil and Gas (Cyprus) Ltd	Cyprus / Yemen	Exploration and production activity	100%	100%
Panfora Oil and Gas s.r.l.	Romania	Exploration and production activity	100%	c)
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%
Theathola Ltd.	Cyprus	Exploration investment management	100%	c)
Greentrade Ltd.	Cyprus	Exploration investment management	100%	100%
Matjushkinskaya Vertical LLC	Russia	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%
SHM Seven Investments Ltd.	Cyprus	Exploration investment management	100%	100%
MOL Western Siberia LLC	Russia	Exploration and production activity	100%	100%
USI Ltd.	Cyprus	Exploration investment management	100%	100%
BaiTex LLC	Russia	Exploration and production activity	100%	100%
UBA Services Ltd.	Cyprus / Russia	Exploration investment management	100%	100%
Gas Midstream				
FGSZ Földgázszállító Zrt.	Hungary	Natural gas transmission	100%	100%
MMBF Földgáztároló Zrt.	Hungary	Strategic natural gas storage	72%	72%
Prirodni plin d.o.o.	Croatia	Natural gas trading	49%	47%
Downstream				
CM European Power International B.V. (joint venture)	Netherlands	Power plant investment management	50%	50%
CM European Power Interna- tional 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)

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Company name	Country Incorporation / Branch)	Range of activity	Ownership 2011	Ownership 2010
MOL-CEZ European Power Hungary Kft. (joint venture)	Hungary	Steam and hot water supply, electricity production	50%	50%
Energopetrol d.d.	Bosnia and Herzegovina	Retail trade	50%	49%
FPC Ltd.	United Kingdom	Trading of oil products	49%	47%
Holdina (Guernsey) Ltd	United Kingdom	Trading of oil products	49%	47%
Inter Ina (Guernsey) Ltd	United Kingdom	Trading of oil products	49%	47%
Holdina (Cyprus) Ltd	Cyprus	Intermediate holding company	49%	47%
Holdina (Ireland) Ltd	Ireland	Supply of technical services	e)	47%
Holdina d.o.o.	Bosnia and Herzegovina	Trading of oil products	49%	47%
IES SpA	Italy	Refinery and marketing of oil products	100%	100%
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	49%	47%
INA BH d.d.	Bosnia and Herze- govina	Trading of oil products	49%	47%
INA BL d.o.o.	Bosnia and Herzegovina	Trading of oil products	49%	47%
INA Crna Gora d.o.o	Montenegro	Trading of oil products	49%	47%
INA Hungary Kft.	Hungary	Trading of oil products	49%	47%
INA Kosovo d.o.o	Kosovo	Trading of oil products	49%	47%
INA-Osijek – Petrol d.d.	Croatia	Trading of oil products	38%	36%
Interina d.o.o. Ljubljana	Slovenia	Trading of oil products	49%	47%
Interina d.o.o. Skopje (under liquidation)	Macedonia	Trading of oil products	49%	47%
Inter Ina Ltd (under liquidation)	United Kingdom	Trading of oil products	49%	47%
Intermol d.o.o.	Serbia	Retail trade of fuels and lubricants	100%	100%
Maziva Zagreb d.o.o.	Croatia	Lubricants production and trading	49%	47%
MOL Austria GmbH.	Austria	Wholesale trade of lubricants and oil products	100%	100%
MOL Tankstellen GmbH.	Austria	Retail trade	f)	100%
Roth Heizöle GmbH.	Austria	Trading of oil products	100%	100%
Rumpold Festbrennstoffe GmbH.	Austria	Trading of solid fuels and other prod- ucts	100%	100%
MOL Commodity Trading Kft.	Hungary	Financial services	100%	100%
MCT Slovakia s.r.o	Slovakia	Financial services	100%	c)
MOL Germany GmbH (former MK Mineralkontor GmbH)	Germany	Trade of oil products	100%	100%
MOL-LUB Kft.	Hungary	Production and trade of lubricants	100%	100%
MOL-LUB Russ. Llc.	Russia	Production and trade of lubricants	100%	c)
MOL Romania PP s.r.l.	Romania	Retail and wholesale trade of fuels and lubricants	100%	100%

Company name	Country Incorporation / Branch)	Range of activity	Ownership 2011	Ownership 2010
MOL Slovenija d.o.o.	Slovenia	Retail trade of fuels and lubricants	100%	100%
Moltrans Kft.	Hungary	Transportation services	100%	100%
MOLTRADE-Mineralimpex Zrt.	Hungary	Importing and exporting energetical products	100%	100%
Petrol d.d.	Croatia	Trading of oil products	41%	39%
Polybit d.o.o. (under liquidation)	Croatia	Production and trading	49%	47%
Proplin, d.o.o.	Croatia	Production and LPG trading	d)	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 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 Petrochemicals s.r.o.	Slovakia	Petrochemical production and trading	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%
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	g)	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 t.o.v.	Ukraine	Wholesale and retail trade	95%	95%
TVK Italia Srl.	Italy	Wholesale and retail trade	100%	95%

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Company name	Country Incorporation / Branch)	Range of activity	Ownership 2011	Ownership 2010
Corporate and other				
Balatongáz Kft. (under liquidation)	Hungary	Gas-utility development and manage- ment	77%	77%
EMS Management Services Ltd.	Cyprus	Management services	100%	100%
FER Tűzoltóság és Szolgáltató Kft.	Hungary	Fire service, ambulance service	92%	92%
Hermész Tanácsadó Kft.	Hungary	Consultancy	100%	100%
Hostin d.o.o.	Croatia	Tourism	49%	47%
I&C Energo a.s.	Czech Republic	Power plant engineering	100%	100%
ITR d.o.o.	Croatia	Car rental	49%	47%
Magnolia Finance Ltd.	Jersey	Financial services	0%, a)	0%, a)
MOL Reinsurance Ltd.	Cyprus	Captive insurance	100%	100%
MULTIPONT Program Zrt.	Hungary	Marketing agent activity	81%	c)
Petrolszolg Kft.	Hungary	Maintenance services	100%	100%
Sinaco d.o.o.	Croatia	Security	49%	47%
Slovnaft Montáže a opravy a.s.	Slovakia	Repairs and maintenance	98%	98%
STSI integrirani tehnički servisi d.o.o.	Croatia	Technical services	49%	47%
Top Računovodstvo Servisi d.o.o.	Croatia	Accounting services	49%	c)
TVK Ingatlankezelő Kft.	Hungary	Real estate management	95%	95%

- a) Consolidated as required by SIC-12 Consolidation - Special Purpose Entities
- b) Consolidated from 2011.
- c) Established in 2011.
- d) Merged into INA d.d. in 2011.
- e) Divested in 2011.
- f) Merged into MOL Austria GmbH. in 2011.
- g) Merged into MOL Germany GmbH (former MK Mineralkontor GmbH.) in 2011.

7 BUSINESS COMBINATIONS, TRANSACTIONS WITH NON-CONTROLLING INTERESTS

Acquisitions in 2011

INA Group

In 2011 MOL has increased its ownership in INA to 49.1% by acquiring shares from minority shareholders in consideration of HUF 24,921 million. As MOL has already obtained control over INA, the increase in ownership qualifies as transaction with non-controlling interests.

Roth Group

In June, 2011 MOL paid an additional HUF 393 million contingent consideration for the acquisition of Roth Group pursuant to obtaining the remaining 25% minority shareholding in 2009. This subsequent consideration has been accounted for as an adjustment to goodwill.

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

	2011	2010
	HUF million	HUF million
Cash consideration	(25,314)	(277)
Cash at bank or on hand acquired	-	-
Net cash outflow on acquisition of subsidiaries and non-controlling interest	(25,314)	(277)

Acquisitions in 2010

No major acquisition took place in 2010.

8 DISPOSALS

Disposals in 2011

No major disposal took place in 2011.

Disposals in 2010

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)

9JOINT 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 2011 and 2010 and for the years then ended:

			2011			2010
	ZMB	Other	Total	ZMB	Other	Total
	HUF million	HUF million	HUF million	HUF million	HUF million	HUF million
Current assets	6,815	14,307	21,122	4,469	9,018	13,487
Non-current assets	15,535	18,781	34,316	16,531	13,671	30,202
	22,350	33,088	55,438	21,000	22,689	43,689
Current liabilities	3,008	5,395	8,403	2,730	4,685	7,415
Non-current liabilities	2,388	5,003	7,391	1,183	977	2,160
	5,396	10,398	15,794	3,913	5,662	9,575
Net assets	16,954	22,690	39,644	17,087	17,027	34,114
Net sales	51,290	24,910	76,200	49,750	16,497	66,247
Cost of sales	(9,744)	(23,553)	(33,297)	(10,318)	(15,472)	(25,790)
Other expenses	(31,357)	(672)	(32,029)	(17,123)	(336)	(17,459)
Financial (expense) / income, net	(451)	(66)	(517)	(217)	170	(47)
Profit before income tax	9,738	619	10,357	22,092	859	22,951
Income tax expense	(2,795)	(366)	(3,161)	(5,715)	(127)	(5,842)
Net profit / (loss)	6,943	253	7,196	16,377	732	17,109

10INVESTMENTS IN ASSOCIATED COMPANIES

Company name	Country	Range of activity	Owner-ship	Owner-ship	Net book vale of invest ment	Net book vale of invest ment
			2011	2010	2011	2010
					HUF million	HUF million
Pearl Petroleum Ltd.	Iraq	Exploration of gas	10%	10%	86,513	64,856
MET Zrt.	Hungary	Natural gas trading	50%	50%	13,273	3,307
Mazzola & Bignardi S.r.l.	Italy	Retail trade	50%	50%	1,620	1,630
Mazzola & Bignardi Commerciale S.r.l.	Italy	Marketing of oil products	40%	40%	1,080	1,217
Messer Slovnaft s.r.o	Slovakia	Production of technical gases	49%	49%	997	758
Batec S.r.l.	Italy	Bitumen production	50%	50%	712	699
Other associated companies					602	537
Total					104,797	73,004

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 Chemchemical gas-condensate fields in the Kurdistan Region of Iraq. 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 using the equity method accordingly.

The Group’s interest (10%) as of 31 December 2011 in Pearl was as follows:

	2011	2010
	HUF million	HUF million
Share of the associate’s balance sheet:		
Non-current assets	86,204	75,259
Current assets	16,461	7,199
Non-current liabilities	(15,488)	(16,320)
Current liabilities	(664)	(1,282)
Net assets	86,513	64,856
Share of the associate’s income statement:		
Net sales	11,362	4,265
Profit from operations	9,926	3,989
Net income attributable to equity-holders	9,769	4,095
Carrying amount of the investment	86,513	64,856

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.

MET Zrt.

The Group’s interest (50%) as of 31 December 2011 in MET Zrt. was as follows:

	2011	2010
	HUF million	HUF million
Share of the associate’s balance sheet:		
Non-current assets	148	189
Current assets	55,912	25,649
Non-current liabilities	420	-
Current liabilities	41,147	19,906
Net assets	14,493	5,932
Share of the associate’s income statement:		
Net sales	168,351	106,148
Profit from operations	15,611	10,354
Net income attributable to equity-holders	10,374	7,723
Carrying amount of the investment	13,273	3,307

11AVAILABLE-FOR-SALE INVESTMENTS

	2011	2010
	Net book value of investment	Net book value of investment
	HUF million	HUF million
Quoted - Jadranski Naftovod d.d.	10,938	13,460
Nabucco Gas Pipeline International GmbH	4,220	2,453
Other ordinary shares – unquoted	5,491	5,588
Total	20,649	21,501

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 2011. 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

	2011	2010
	HUF million	HUF million
Loans given	22,762	23,431
Prepaid mining royalty	6,759	8,498
Net receivable from currency risk hedging derivatives as cash flow hedge (see Note 33 and 34)	2,955	4,116
Advance payments for assets under construction	2,265	2,852
Long-term receivables from operating agreements	1,211	1,126
Advance payments for intangible assets	495	1,450
Net receivable from currency risk hedging derivatives as fair value hedge (see Note 33 and 34)	214	155
Other	287	476
Total	36,948	42,104

Loans given primarily contain the HUF 15,488 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 2011 and 2010 was HUF 1,739 million and HUF 2,209 million, respectively, and is expected to maintain a similar pattern in the forthcoming years.

13 INVENTORIES

	2011 At cost	2011 Lower of cost or net realisable value	2010 At cost	2010 Lower of cost or net realisable value
	HUF million	HUF million	HUF million	HUF million
Work in progress and finished goods	356,018	347,505	253,521	248,935
Other raw materials	55,138	47,817	59,521	53,059
Purchased crude oil	115,442	111,741	73,064	71,007
Other goods for resale	30,105	29,739	26,072	25,975
Purchased natural gas	11,393	8,432	12,727	9,562
Total	568,096	545,234	424,905	408,538

Impairment of 4,587 million HUF was recorded in 2011 and reversal of impairment of HUF 138 million was recorded in 2010.

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 45,508 million and HUF 20,198 million at 31 December 2011 and 2010.

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 17,359 million and HUF 16,176 million at 31 December 2011 and 2010, respectively.

INA d.d., the Croatian subsidiary of MOL was 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 at 31 December 2010. Pursuant to the Decision on quantity and structure of compulsory stocks of oil and oil derivates for 2011 dated 17 March 2011, the Croatian Compulsory Oil Stocks Agency (HANDA) is obligated to keep oil derivatives of 502,000 ton, so INA has no further obligation to keep compulsory stocks as at 31 December 2011.

14 TRADE RECEIVABLES, NET

	2011	2010
	HUF million	HUF million
Trade rece ivables	644,438	477,660
Provision for doubtful receivables	(24,715)	(13,988)
Total	619,723	463,672

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

Movements in the provision for doubtful receivables were as follows:

	2011	2010
	HUF million	HUF million
At 1 January	13,988	28,779
Additions	17,982	7,631
Reversal	(4,687)	(24,798)
Amounts written off	(6,027)	(167)
Currency differences	3,459	2,543
At 31 December	24,715	13,988

As at 31 December 2011 and 2010 the analysis of the recoverable amount of trade receivables that were past due is as follows:

	2011	2010
	HUF million	HUF million
Neither past due nor impaired	568,930	415,375
Past due but not impaired	50,793	48,297
Within 90 days	37,397	33,251
91 - 180 days	6,724	5,450
Over 180 days	6,672	9,596
Total	619,723	463,672

Notes to the
financial statements

15 OTHER CURRENT ASSETS

	2011	2010
	HUF million	HUF million
Prepaid and recoverable taxes and duties (excluding income taxes)	68,611	60,471
Prepaid expenses and accrued income	12,591	13,055
Receivables from joint venture partners	11,436	7,697
Receivables from commodity hedging derivatives as cash flow hedge (see Note 33 and 34)	7,927	-
Advances paid	4,891	4,261
Margining receivables	1,810	725
Current portion of loans given	1,755	1,143
Interest receivable	1,398	1,360
Net receivables from closed, but not settled derivative transactions	1,154	-
Net receivables from commodity price transactions (see Note 33 and Note 34)	337	21
Fair value of firm commitments as hedged item under commodity price transactions (see Note 33 and Note 34)	185	61
Receivables from currency risk hedging derivatives as fair-value hedge (see Note 33 and 34)	74	29
Security deposits	10	10,637
Fair value of the option on MOL shares transferred to CEZ (see Note 17 and Note 34)	-	28,858
Unsettled sales price on Crobenz divestiture payable by Lukoil	-	717
Receivables from foreign exchange forward transactions (see Note 33 and Note 34)	-	8
Other	12,955	12,465
Total	125,134	141,508

Analysis of loans given

	2011	2010
	HUF million	HUF million
Current portion of loans given	2,086	1,473
Provision for doubtful loans receivable	(331)	(330)
Total	1,755	1,143

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

	2011	2010
	HUF million	HUF million
At 1 January	330	3,042
Additions	-	-
Reversal	-	-
Amounts written off	-	-
Reclassification between short-term and long-term	-	(2,712)
Acquisition / (sale) of subsidiaries	-	-
Currency differences	1	-
At 31 December	331	330

16 CASH AND CASH EQUIVALENTS

	2011	2010
	HUF million	HUF million
Cash at bank – EUR	39,552	50,527
Cash at bank – USD	12,928	5,758
Cash at bank - HRK	11,258	9,382
Cash at bank – RON	9,179	10,573
Cash at bank – CZK	7,664	4,711
Cash at bank – RUB	5,638	2,126
Cash at bank – HUF	4,732	7,409
Cash at bank – PLN	2,814	1,537
Cash at bank – other currencies	17,679	5,348
Short-term bank deposits – EUR	91,410	143,984
Short-term bank deposits – HUF	51,719	25,893
Short-term bank deposits – USD	36,795	31,409
Short-term bank deposits – RON	5,765	-
Short-term bank deposits – CZK	4,972	1,401
Short-term bank deposits – PLN	1,762	-
Short-term bank deposits - RUB	1,345	7,561
Cash on hand – other currencies	3,477	3,399
Cash on hand – HUF	1,754	1,072
Cash equivalents	690	1,076
Total	311,133	313,166

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:

	2011	2010
Current accounts		
EUR	0,1194% - 1,305%	0.100% - 0.707%
USD	0,01 - 0,05%	0 - 0.076%
HUF	4,33% - 5,71%	3.78% - 6.38%
Short-term bank deposits		
EUR	0,10 % - 4,00 %	0.05% - 6.01%
USD	0,01 % - 4,00 %	0.01% - 2.35%
HUF	4,70 % - 7,53 %	4.25% - 7.00%

As of 31 December 2011, 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 2010, 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 2011 and 2010 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 of 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; further, the “yes” vote of the holder of “B” series of share is required to adopt decisions on any proposal not supported by the Board of Directors in the following matters: election and dismissal of the members of the Board of Directors, the Supervisory Board and the auditors, decision of distribution of profit after taxation and amending of certain provisions of the Articles of Association.

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 ING Bank and UniCredit

On 11 March 2010 MOL exercised its American call option with cash-settlement method regarding 5,220,000 ‘A’ series MOL ordinary shares held by ING 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 75.4 per share.

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.

Based on the agreement between MOL and ING the options are exercised on 30 November 2011 with cash settlement method. Settlement took place on 5 December 2011, strike price was EUR 78.6 per share.

Simultaneously, MOL and ING signed a share option agreement on 30 November 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 59.52 per share.

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 which has been later amended to EUR 86.7.

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 EUR 78.7 per share which can be exercised until 2014. 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, measured at its fair value, determined by applying the binomial valuation model.

Fair value of the option as of 31 December 2011 was HUF 16,864 million financial liability (see Note 22), determined by applying the binomial valuation model. Spot market price (HUF 17,469 per share), implied volatility (41%) and an expected dividend yield of 3.3% have been used as input to the model.

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 (48%) 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. Fair value of the share swap agreement amounted to HUF 4,585 million as at 31 December 2011 which has been recorded as derivative financial liability (see Note 22 and 34). 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).

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 6,921 million and HUF 6,702 million in 2011 and 2010, 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 2011 and 2010 was HUF 14,532 million and HUF 25,079 million (see Note 21 and Note 34).

The fair valuation impact of the option was HUF 10,548 million gain and HUF 5,381 million loss in 2011 and 2010, respectively, recorded as financial gain / 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 issued	Number of repurchase issued	Number of shares outstanding	Authorised number of shares
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
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)	-	-
Option agreement with UniCredit Bank A.G.	-	2,914,692	(2,914,692)	-	-
Treasury shares call back from MFB Invest Zrt.	-	(1,273,271)	1,273,271	-	-
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)	-	-
Total	104,518,485	(5,793,316)	(19,523,973)	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 and included in the total of the authorized number of shares.

18 DIVIDENDS

The shareholders at the Annual General Meeting in April 2011 approved to pay no dividend in respect of 2010. The total amount of reserves legally available for distribution based on the statutory company only financial statements of MOL Plc. is HUF 1,456,854 million and HUF 1,254,362 million as of 31 December 2011 and 2010, respectively.

19 LONG-TERM DEBT

	Weighted average interest rate	Weighted average interest rate	Maturity	2011	2010
	2011	2010		2011	2010
	%	%		HUF million	HUF million
Unsecured bonds in EUR				475,007	424,982
Eurobond 1	3.96	3.96	2015	234,861	210,216
Eurobond 2	6.15	6.15	2017	240,146	214,766
Unsecured bank loans in USD	1.74	1.07		282,920	361,227
825 MEUR syndicated			2013	87,014	143,360
700 MEUR syndicated			2012	-	20,748
150 MEUR EIB			2018	47,492	41,172
1000 MEUR club loan			2016	18,292	-
1000 MUSD syndicated			2012-2013	91,272	121,917
210 MEUR EBRD			2017	38,795	33,952
other unsecured loans in USD			2012	55	78
Unsecured bank loans in EUR	2.79	2.23		233,316	202,765
825 MEUR syndicated			2013	-	6,969
200 MEUR EBRD			2017	53,337	55,750
1000 MEUR syndicated			2012-2013	141,883	85,875
210 MEUR EBRD			2017	27,193	24,255
other unsecured loans in EUR			2012-2017	10,903	29,916
Unsecured bank loans in HRK	5.20	5.10	2019	3,330	3,388
Unsecured bonds in HUF	6.65	6.10	2012 - 2014	16,574	5,099
Secured bank loans in EUR	2.30	1.79	2013 - 2018	19,971	11,475
Secured bank loans in HUF	8.88	8.05	2014	82	30,115
Financial lease payable	8.18	4.81	2014 - 2026	3,388	3,951
Other	1.84	0.53	2013 - 2015	11,466	6,958
Total				1,046,054	1,049,960
Current portion of long-term debt				183,905	102,050
Total long-term debt net of current portion				862,149	947,910

	2011	2010
	HUF million	HUF million
Maturity one to five years	594,517	690,852
Maturity over five years	267,632	257,058
Total	862,149	947,910

Notes to the financial statements

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 bank loans

Main elements of unsecured bank loans at MOL Plc. are the EUR 825 million syndicated multi-currency revolving loan facility maturing in July 2013 and the EUR 1 billion as well as EUR 500 million club facilities maturing in 5 and 3 years, respectively. Tenor of the EUR 1 billion club loan can be extended by 1 plus 1 year. As the EUR 500 million loan agreement provided extension option, in September 2011 an amount of EUR 470 million was extended by one additional year until 10 September 2014. The EUR 700 million revolving credit facility with expiry in May 2012 has been cancelled simultaneously with executing the EUR 1 billion credit agreement. In order to finance the strategic and commercial gas storage project MOL signed an 8-year loan agreement with EBRD (European Bank for Reconstruction and Development) on 17 June 2009. Besides these, INA Group has a USD 1 billion syndicated multi-currency revolving loan facility, maturing partially in 2012 and partially in 2013, and it concluded a 7-year loan agreement with EBRD in an amount of EUR 210 million in September 2010 for refinery modernisation (this credit facility is co-financed by ICF debt Pool and Cordiant Capital Fund).

Unsecured bonds in HUF

In April 2011 - following the issue of HUF 5 billion in October 2010 - MOL Plc issued a fixed rate bond in amount of HUF 11 billion under its domestic bond programme. The notes have 3 years maturity and pay an annual coupon of 7%.

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 2011 and 2010, respectively are as follows:

	Minimum lease payments	Present value of payments	Minimum lease payments	Present value of payments
	2011	2011	2010	2010
	HUF million	HUF million	HUF million	HUF million
Maturity not later than 1 year	764	655	788	674
Maturity two to five years	2,680	2,090	2,811	2,197
Maturity over five years	814	643	1,452	1,080
Total minimum lease payments	4,258		5,051	
Less amounts representing financial charges	(870)		(1,100)	
Present values of financial lease liabilities	3,388	3,388	3,951	3,951

20 PROVISIONS FOR LIABILITIES AND CHARGES

	Environ-mental	Redun-dancy	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 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	(15,717)	3,256	11,929	3,640
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)	(1,977)	(1,689)	(3,604)	(14,265)
Balance as of 31 December 2010	70,027	4,205	15,144	184,792	20,067	30,142	324,377
Acquisition / (sale) of subsidiaries	-	-	-	-	-	-	-
Additions and revision of previous estimates	591	4,245	2,879	6,112	3,812	(1,844)	15,795
Unwinding of the discount	2,675	-	817	10,116	-	-	13,608
Currency differences	6,131	321	860	9,595	1,104	577	18,588
Provision used during the year	(3,253)	(3,584)	(2,896)	(304)	(499)	(10,290)	(20,826)
Balance as of 31 December 2011	76,171	5,187	16,804	210,311	24,484	18,585	351,542
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
Current portion 2011	5,466	2,235	2,203	2,470	11,746	13,107	37,227
Non-current portion 2011	70,705	2,952	14,601	207,841	12,738	5,478	314,315

Notes to the financial statements

Environmental Provision

As of 31 December 2011 provision of HUF 76,171 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 2011 also includes a contingent liability of HUF 19,009 million recognized upon acquiring INA Group, representing its present environmental obligations and a further HUF 15,717 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 5,187 million and HUF 4,205 million as of 31 December 2011 and 2010, respectively.

Provision for Field Operation Suspension Liabilities

As of 31 December 2011 provision of HUF 210,311 million has been made for estimated total costs of plugging and abandoning wells upon termination of production. Approximately 5% of these costs are expected to be incurred between 2012 and 2016 and the remaining 95% between 2017 and 2060. 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 planned to be performed by hiring external resources. 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 2011 the Group has recognized a provision of HUF 16,804 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.

	2011	2010
	HUF million	HUF million
Present value of total defined benefit obligation at the beginning of the year	16,567	15,957
Past service cost not yet recognized at the beginning of the year	1,423	1,541
Balance as of the beginning of the year	15,144	14,416
Acquisitions / (disposals)	-	-
Past service cost	104	598
Current service cost	3,755	2,166
Interest costs	817	419
Provision used during the year	(2,896)	(2,299)
Net actuarial (gain)/loss	(980)	(347)
Exchange adjustment	860	191
Balance as at year end	16,804	15,144
Past service cost not yet recognized at year end	1,166	1,423
Present value of total defined benefit obligation at year end	17,970	16,567

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:

	2011	2010
	HUF million	HUF million
Current service cost	3,755	2,166
Net actuarial (gain)/loss	(980)	(347)
Past service cost	104	598
Net benefit expense (See Note 26)	2,879	2,417

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

	2011	2010
Discount rate in %	2.5-4.1	2.0-4.3
Average wage increase in %	0.5-2.1	0-2.3
Mortality index (male)	0.02-0.84	0.06 – 3.45
Mortality index (female)	0.01-0.35	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 2011 provision of HUF 24,484 million has been made for estimated total costs of litigations. As of 2011 MOL Group has been granted 6,348,847 emission quotas by the Hungarian, Slovak and Italian authorities. The total use of emission quotas amounted to 5,894,318 in 2011. 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 13,513 million in 2010 for the shortage of emission quotas. In 2011 the amount of such provision decreased to HUF 8,479 million.

21 OTHER NON-CURRENT LIABILITIES

	2011	2010
	HUF million	HUF million
Government grants received (see Note 5)	13,264	6,753
Conversion option of exchangeable capital securities issued by Magnolia Finance Ltd (see Note 17 and 34)	14,532	25,079
Trade payable to exploration partners	6,601	2,516
Deferred income	5,716	5,109
Liabilities to Government of Croatia for sold apartments	2,840	2,827
Compensation for property plant and equipments	4,467	-
Long term advances	1,281	1,656
Payable from currency risk hedging derivatives as fair value hedge (see Note 34)	748	205
Other	1,597	1,965
Total	51,046	46,110

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

	2011	2010
	HUF million	HUF million
Trade payables	514,867	432,948
Taxes, contributions payable (excluding corporate tax)	188,927	147,738
Shares sold with put and call options attached (see Note 17 and Note 34)	171,140	108,959
Amounts due to employees	25,514	25,861
Fair value of the option on MOL shares transferred to CEZ (see 17 and Note 34)	16,864	-
Advances from customers	13,321	14,068
Custom fees payable	12,676	11,100
Discount payable to customers	7,165	6,901
Accrued expenses	6,832	9,623
Fee payable for strategic inventory storage	6,643	6,090
Payables from commodity hedging derivatives as cash flow hedge (see Note 33 and 34)	5,457	-
Fair value of MOL - OTP share swap (see Note 17 and Note 34)	4,585	227
Bank interest payable	4,396	3,761
Strategic capacity booking fee	3,881	4,594
Net payables from closed, but not settled derivative transactions	2,932	857
Penalty payable to the Antimonopoly Office of the Slovak Republic	2,809	2,517
Liabilities to joint venture partners	2,617	5,002
Margining liability	2,530	146
Purchase price difference payable on Tifon and IC Energo acquisitions	365	340
Net payables from commodity price transactions designated as fair value hedge (see Note 33 and Note 34)	185	61
Payables from currency risk hedging derivatives as fair value hedge (see Note 34)	164	53
Accrual due to E.ON price revision	-	2,739
Other	14,910	17,373
Total	1,008,780	800,958

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

	2011	2010
	HUF million	HUF million
Secured bank loans in EUR	28,480	21,749
Secured bank loans in HUF	-	1,285
Unsecured bank loans in EUR	67,750	95,930
Unsecured bank loans in USD	34,979	27,838
Unsecured bank loans in HRK	2,544	10,514
Unsecured bank loans in PLN	2,296	3,541
Other	239	6
Total	136,288	160,863

24 SALES BY PRODUCT TYPES

	2011	2010
	HUF million	HUF million
Sales of oil products	3,486,645	2,645,366
Sales of petrochemicals	809,750	679,480
Sales of natural gas and gas products	603,125	569,777
Sales revenue of services	250,537	244,965
Sales of crude oil	100,622	72,100
Sales of other products	92,555	87,966
Total	5,343,234	4,299,654

25 OTHER OPERATING INCOME

	2011	2010
	HUF million	HUF million
Penalties received	8,197	6,285
Gain on sales of intangibles, property, plant and equipment	6,286	2,228
Discounts received	1,704	2,288
Allowances and subsidies received	1,335	2,358
Government grants released	795	957
Settlement of joint venture partner claim by natural gas transfer	-	3,591
Net gain realized on disposal of subsidiaries	-	756
Other	6,638	6,431
Total	24,955	24,894

26 PERSONNEL EXPENSES

	2011	2010
	HUF million	HUF million
Wages and salaries	180,863	184,798
Social security	45,389	48,837
Other personnel expenses	29,998	33,151
Pension costs and post-employment benefits (see Note 20)	2,879	2,417
Expense (reversal of expense) of share-based payments (See Note 39)	(3,202)	2,765
Total	255,927	271,968

27 OTHER OPERATING EXPENSES

	2011	2010
	HUF million	HUF million
Mining royalties	149,918	166,156
Rental costs	42,918	42,978
Taxes and contributions	40,914	38,904
Crisis tax for Hungarian energy suppliers and retail activities	28,960	25,754
Contribution to strategic inventory storage	27,004	17,667
Other services	20,964	19,253
Provision for doubtful receivables	15,115	(11,836)
Exchange loss of trade receivables and payables	10,529	18,308
Advertising expenses	6,723	5,846
Insurance	6,676	7,297
Consultancy fees	6,540	6,147
Revaluation of emission quotas	6,460	-
Cleaning costs	5,451	5,187
Bank charges	3,894	2,507
Site security costs	3,725	3,692
Outsourced bookkeeping services	3,366	3,378
Environmental protection expenses, net	1,814	1,202
Environmental levy	675	707
Late payment penalties	602	4,672
Environmental provision made during the year	591	(157)
Damages	167	200
Provision for legal and other claims	(1,828)	8,626
Provision for greenhouse gas emission over quota allocated free of charge	(5,015)	757
Provision for field abandonment	(5,700)	(5,372)
Other	10,841	6,651
Total	381,304	368,524

Mining royalties in 2010 include a one-off HUF 30,387 million reimbursement to the Hungarian state due to the decision of the EU Commission. An additional interest of HUF 4,840 million has been paid with respect to this reimbursement (see Note 28). Crisis tax of HUF 28,960 million (2010: 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 year.

28 FINANCIAL (INCOME) / EXPENSE

	2011	2010
	HUF million	HUF million
Foreign exchange gain on borrowings	55,495	-
Fair valuation gain on conversion option (see Note 17)	10,548	-
Interest received	9,389	7,437
Net gain on derivative transactions	-	7,710
Net gain on sales of investments	-	313
Dividends received	2,751	714
Other financial income, net	1,965	8,557
Total financial income	80,148	24,731
Net loss on derivative transactions	74,579	-
Foreign exchange loss on borrowings	-	42,231
Interest on borrowings	41,171	29,696
Interest on provisions	13,608	16,219
Fair valuation loss on conversion option (see Note 17)	-	5,381
Interest on mining fee reimbursement (see Note 27)	-	4,840
Other financial expenses, net	5,642	11,841
Total financial expenses	135,000	110,208
Total financial expense, net	54,852	85,477

Net loss on derivative transactions in 2011 contain HUF 60,798 million loss on the fair valuation of the call option held by the Group on the MOL shares representing 7% of its share capital owned by CEZ (for details see Note 17). In 2010 fair valuation difference on CEZ option was HUF 10,149 million gain, recorded as financial income.

29 COMPONENTS OF OTHER COMPREHENSIVE INCOME

	2011	2010
	HUF million	HUF million
Exchange differences on translating foreign operations including net investment hedge, net of tax		
Gains / (losses) arising during the year	97,649	42,875
Reclassification adjustments for gains and losses included in the income statement	-	-
Income tax effect	9,920	-
	107,569	42,875
Available-for-sale financial assets		
Gains / (losses) arising during the year	(3,515)	3,995
Reclassification adjustments for gains and losses included in the income statement	-	(5,257)
Income tax effect	655	(161)
	(2,860)	(1,423)
Cash flow hedges		
Gains / (losses) arising during the year	1,309	(23)
Reclassification adjustments for gains and losses included in the income statement	-	-
Income tax effect	(149)	374
	1,160	351
Share of other comprehensive income for associates		
Gains / (losses) arising during the year	14,145	7,180
Reclassification adjustments for gains and losses included in the income statement	1,058	589
Income tax effect	(265)	(97)
	14,938	7,672

30INCOME TAXES

Total applicable income taxes reported in the consolidated financial statements for the years ended 31 December 2011 and 2010 include the following components:

	2011	2010
	HUF million	HUF million
Current corporate income taxes	55,896	31,780
Local trade tax and innovation fee	12,878	12,992
Deferred corporate income taxes	(35,397)	18,525
Total income tax expense/(benefit)	33,377	63,297

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 2011 and in 2010 also. In addition, a further, temporary surplus tax of 8% applicable for domestic energy supplier entities until 2012. As per the Hungarian tax legislation effective in 2010, corporate tax rate was to decrease to 10% from 1 January 2013, however, the Hungarian Government withdrew this decrease in late 2011. Slovakian and Croatian tax rates were 19% (2010: 19%) and 20% (2010: 20%), respectively. Italian tax rate was increased following the crisis and government change, total tax rate applicable for 2011 is 41.9%, being an aggregate of a corporate income tax of 27.5%, a temporarily increased surcharge tax on energy sector of 10.5% and local tax rate of 3.9% (in 2010 the total tax rate was 37.9%). 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 municipalities. 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 16% personal income tax liability arises also withheld at source.

Income tax recognised in other comprehensive income

	2011	2010
	HUF million	HUF million
Deferred and current tax recognised in other comprehensive income:		
Revaluations of available-for-sale financial assets	655	(161)
Revaluations of financial instruments treated as cash flow hedges	(149)	374
Net gain/ (loss) on hedge of a net investment and foreign exchange differences of loans given	9,920	-
Revaluations of financial instruments of associated companies	21	122
	10,447	335
Reclassifications from equity to profit or loss:		
Relating to available-for-sale financial assets	-	-
Relating to cash flow hedges	-	-
Relating to hedges of net investments	-	-
Relating to associated companies	(286)	(219)
	(286)	(219)
Total income tax recognised in other comprehensive income	10,161	116

The deferred tax balances as of 31 December 2011 and 2010 in the consolidated balance sheet consist of the following items:

	balance sheet		recognized in income statement	
	2011	2010	2011	2010
	HUF million	HUF million	HUF million	HUF million
Breakdown of net deferred tax assets				
Unrealized gains on intra-group transfers	15,139	28,281	(13,902)	(6,072)
Provisions	10,620	6,995	3,442	(2,643)
Depreciation, depletion and amortization	(494)	(16,706)	16,329	(2,218)
Differences in accounting for domestic oil and gas exploration and development	(8,808)	(4,622)	(4,187)	1,315
Capitalization of certain borrowing costs	(2,925)	(4,661)	1,749	(1,422)
Embedded derivatives	-	(412)	-	-
Foreign exchange differences	8,074	1,739	(294)	478
Valuation of financial instruments	(1,131)	(522)	(610)	207
Capitalized periodic maintenance costs	(1,155)	(975)	(180)	135
Statutory tax losses carried forward	22,187	2,519	19,513	(11,919)
Receivables write off	961	378	564	(2,957)
Other	847	668	140	(17)
Deferred tax assets	43,315	12,682		
Breakdown of net deferred tax liabilities				
Fair valuation of assets on acquisitions	(119,376)	(111,756)	4,649	11,529
Depreciation, depletion and amortization	(57,447)	(27,638)	(26,999)	(3,576)
Provisions	8,432	7,591	169	1,593
Statutory losses carried forward	16,026	7,771	7,629	(6,089)
Elimination of inter-company transactions	17,377	(98)	17,471	29
Receivables write off	11,381	507	10,567	(310)
Capitalization of borrowing costs	(3,578)	(504)	(3,008)	(44)
Embedded derivatives	(561)	-	-	-
Foreign exchange differences	(66)	(59)	-	(93)
Inventory valuation difference	6,637	5,788	121	1,901
Valuation of financial instruments	4,745	2,524	2,026	1,228
Other	(2,372)	(2,438)	208	420
Deferred tax liabilities	(118,802)	(118,312)		
Net deferred tax asset / (liability)	(75,487)	(105,630)		
Deferred tax (expense) / income			35,397	(18,525)

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

	2011	2010
	HUF million	HUF million
Net deferred tax asset / (liability) at 1 January	(105,630)	(85,521)
Recognized in income statement	35,397	(18,525)
Recognized directly in fair valuation reserve	7,135	213
Sale of subsidiaries (see Note 8)	-	(79)
Exchange difference	(12,389)	(1,718)
Net deferred tax asset / (liability) at 31 December	(75,487)	(105,630)

Notes to the financial statements

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 2011 at MOL Plc. as a result of tax-deductible losses on certain investments and treasury share transactions under local accounting standards. Prior (2008) tax losses have been fully used by the parent company in 2010. Additional tax losses arose at INA (in 2009), at IES S.p.a. (in 2009 and 2010) and at TVK Plc. and some of TVK’s subsidiaries (in 2009, 2010 and 2011). 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 38,213 million and HUF 10,290 million has been recognized as of 31 December 2011 and 2010, 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 6,155 million and HUF 4,116 million in 2011 and 2010, respectively.

From the unused tax losses at the end of the period, HUF 173,408 million has no expiry, while HUF 48,740 million can be utilized between 2012 and 2016.

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

	2011	2010
	HUF million	HUF million
Profit before tax per consolidated income statement	218,396	172,014
Tax at the applicable tax rate (19%, 2010: 19%)	41,495	32,683
Tax holiday available	(1,903)	-
Surplus taxes and local trade tax	15,360	16,400
Differences not expected to reverse	(14,316)	3,800
Effect of different tax rates	(6,697)	(4,889)
Adjustment to the period of realisation	(683)	-
Losses of subsidiaries not recognized as an asset	6,155	7,357
Non-taxable income	1,447	(1,783)
Revaluation of deferred tax assets and liabilities	(5,884)	3,147
Impact of changes in Hungarian tax legislation	-	6,082
Other	(1,597)	500
Total income tax expense / (benefit) at the effective income tax rate of 15% (2010: 37%)	33,377	63,297

Differences not expected to reverse primarily include the tax impact of loss 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

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. had to be sold. The sale obligation has been met in September, 2010, see Note 8.

32 EARNINGS PER SHARE

Basic earnings per share are calculated by dividing the net profit for the period attributable to ordinary shareholders 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.

	Income (HUF million)	Weighted average number of shares	Earnings per share (HUF)
Basic Earnings Per Share 2010	103,958	84,421,196	1,231
Diluted Earnings Per Share 2010	109,339	90,428,675	1,209
Basic Earnings Per Share 2011	153,674	87,032,441	1,766
Diluted Earnings Per Share 2011	143,126	93,039,920	1,538

	2011	2010
	HUF million	HUF million
Net profit attributable to ordinary shareholders for basic earnings per share	153,674	103,958
Fair value of conversion option	(10,548)	5,381
Net profit attributable to ordinary shareholders for diluted earnings per share	143,126	109,339

	2011	2010
	HUF million	HUF million
Weighted average number of ordinary shares for basic earnings per share	87,032,441	84,421,196
Effect of dilution – Weighted average number of conversion of perpetual exchangeable securities	6,007,479	6,007,479
Adjusted weighted average number of ordinary shares for diluted earnings per share	93,039,920	90,428,675

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. MOL actively manages its commodity exposures for the following purposes only:

- Corporate Level Objectives – maintenance of financial ratios and targeted financial results, 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 (e.g.: 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 primary 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 to the protection of shareholder value by maintaining discipline in CAPEX spending, ensuring risk-aware project selection.

The Group is currently in Low Gearing status.

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 CO2 quota position and to manage the procurement of electricity. In order to improve control over the resulting market and credit risks, 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 2011 MOL concluded short term commodity swap transactions. These transactions are mainly dealt for inventory hedging purposes in order to mitigate the effects of the potential price movements during the non-business-as-usual refinery activities (e.g. maintenance periods), and they are also related to crude oil procurement and other trading possibilities. As of 31 December 2011 the fair value of open commodity derivative transactions designated as fair value hedge was a net payable of HUF 185 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 185 million (see Note 15).

At the end of 2011 MOL concluded swap deals on a significant volume of crude oil purchases and unleaded diesel sales forecasted for the next year (on a quarterly basis) with the economic purpose of capturing a favourable crack spread on this product during 2012. As of 31 December 2011 the fair value of open transactions designated as cash flow hedge was a receivable of HUF 7,927 million with respect to diesel swap (see Note 15) and a payable of HUF 5,457 million with respect to crude swap (see Note 22), with a corresponding adjustment of the fair valuation reserve in other comprehensive income. Deals will be settled subsequent to each quarter in the next year.

As of 31 December 2011 and 2010 the fair value of open commodity derivative transactions not designated as hedges were a net receivable of HUF 337 million and HUF 21 million (see Note 15), respectively.

Foreign Currency Risk Management

At group level, the Group has a net long USD, EUR, RON, and net short HUF, HRK, RUB operating cash flow position from economic point of view.

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 2011 and 2010, 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 2,955 million (HUF 2,394 million net of deferred tax) as of 31 December 2011 (see Note 12). The corresponding figure as of 31 December 2010 was HUF 4,116 million net receivable (HUF 3,704 million net of deferred tax). The decrease in the fair value of this instrument has been recognized in other comprehensive income.

INA has concluded certain long-term contracts on gas and crude- oil storage and transport which 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 288 million as of 31 December 2011 (see Note 12 and Note 15). The corresponding figure as of 31 December 2010 was HUF 184 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 2011 there were no open foreign exchange forward transactions. As of 31 December 2010 the fair value of open foreign exchange forward transactions was a net of receivable of HUF 8 million (see Note 15).

Hedge of net investments in foreign operations

Certain facilities of the Group’s long-term debt (USD 1,177 million and EUR 2,155 million) has been designated from 1 July 2011 as hedging instruments in a net investment hedge of foreign operations denominated in USD and EUR. These borrowings are used to hedge the Group’s exposure to the spot USD and EUR foreign exchange retranslation risk of these investments. Losses of HUF 111,267 million incurred on retranslating these borrowings are recorded in other comprehensive income to offset corresponding gains on translating the hedged net investments in foreign operations.

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 HUF 16 billion Hungarian retail bond transaction also in 2010-2011, the fixed portion of the total debt increased substantially. As of 31 December 2011 and 2010, 36.3% and 32.6% 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 2011 and 2010, 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	2011	2010
	HUF billion	HUF billion
Brent crude oil price (change by +/- 10 USD/bbl; with fixed crack spreads and petrochemical margin)		
Downstream	+ 9.6 / - 9.6	+ 9.5 / - 9.5
Upstream	+ 17.8 / - 17.5	+ 24.3 / - 21.3
Gas Midstream	+ 1.1 / - 1.0	+ 1.0 / - 2.0
Crack spread (change by +/- 10 USD/t)		
Downstream	+ 40.5 / -40.5	+ 42.3 / - 42.3
Upstream	+ 1.8 / - 2.1	+ 2.4 / -1.5
Integrated petrochemical margin (change by +/- 10 EUR/t)		
Downstream	+ 3.2 / - 3.2	+ 3.0 / - 3.0
Brent - Ural Spread (+/- 1 USD/bbl)		
Downstream	+ 18.4 / - 18.4	+ 18.0 / - 18.0
Upstream	- 0.7 / + 0.7	- 0.2 /+ 0.2
Exchange rates (change by +/- 10 HUF/USD; with fixed crack spreads)		
Downstream	- 0.9 / + 0.9	+ 3.5 / - 3.5
Upstream	+ 22.3 / - 22.3	+ 15.6 / - 15.7
Gas Midstream	- 1.9 / + 1.9	- 1.9 / + 1.8
Exchange rates (change by +/- 10 HUF/EUR; with fixed crack spreads / targeted petrochemical margin)		
Downstream	+ 13.5 / - 13.5	+ 14.4 / - 14.4
Gas Midstream	+ 0.6 / - 0.6	+ 1.1 / - 1.3

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 are 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 committed credit facilities as of 31 December 2011 consists of the following:

	HUF million
Long - term loan facilities available (general corporate purpose)	537,852
Short - term facilities available	100,972
Total loan facilities available	638,824

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.

The stabilizing capital markets environment during the first half of 2011 allowed MOL to conclude a new EUR 1 billion club loan facility maturing in 2016, with an extension option of 1 plus 1 year. Furthermore on 23 September 2011, out of the 500 million club facility an amount of EUR 470 million has been extended by one additional year until 10 September 2014.

To further diversify the funding portfolio of MOL Group, MOL under its 100 billion HUF bond programme for 2010-2011 - following the issue of HUF 5 billion in October 2010 - has issued a fixed rate bond in amount of HUF 11 billion with 3-year tenor in April 2011. 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 2011 and 2010 based on contractual undiscounted payments.

31 December 2011	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	-	41	723	2,680	814	4,258
Floating rate long-term bank loans	-	66,881	111,564	350,886	38,685	568,016
Floating-rate other long-term loans	-	17	358	6,616	-	6,991
Floating-rate short-term bank loans	-	26,335	109,133	-	-	135,468
Floating-rate other short-term loans	-	-	4,923	-	-	4,923
Fixed rate bonds	-	-	28,724	327,851	247,057	603,632
Other	-	-	-	-	-	-
Non-interest bearing long-term liabilities	-	22	237	4,130	5,012	9,401
Transferred “A” shares with put and call options attached	-	-	175,302	-	-	175,302
Maximum exposure under financial guarantees (see Note 35)	11,409	-	-	-	-	11,409
Trade and other payables (excluding Transferred “A” shares with put and call options attached and taxes and contributions)	76,261	304,283	252,691	-	-	633,235
Total	87,670	397,579	683,655	692,163	291,568	2,152,635

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	54,657	34,698	474,340	92,133	656,925
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	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	349,577	547,030	782,889	332,308	2,038,468

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 2011 and 31 December 2010.

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

	2011	2010
	HUF million	HUF million
Long-term debt, net of current portion	862,149	947,910
Current portion of long-term debt	183,905	102,050
Short-term debt	136,288	160,863
Less: Cash and cash equivalents	311,133	313,166
Net debt	871,209	897,657
Equity attributable to equity holders of the parent	1,651,902	1,435,070
Non-controlling interest	591,203	539,407
Total equity	2,243,105	1,974,477
Capital and net debt	3,114,314	2,872,134
Gearing ratio (%)	28.0%	31.3%

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:

	2011	2010
	HUF million	HUF million
Cash flow hedges		
Net receivable from currency risk hedging derivatives as cash flow hedge (see Note 12)	2,955	4,116
Receivables from commodity hedging derivatives as cash flow hedge (see Note 15)	7,927	-
Total cash flow hedges	10,882	4,116
Financial instruments at fair value through profit or loss		
Derivatives designated as hedges		
Receivables from currency risk hedging derivatives as fair-value hedge (see Note 12) - non current	214	155
Receivables from currency risk hedging derivatives as fair-value hedge (see Note 15) - current	74	29
Fair value of firm commitments as hedged item under commodity price transactions (see Note 15)	185	61
Derivatives not designated as hedges		
Fair value of the option on MOL shares transferred to CEZ (see Note 15 and 17)	-	28,858
Net receivables from commodity price transactions (see Note 15)	337	21
Receivables from foreign exchange forward transactions (see Note 15)	-	8
Total financial instruments at fair value through profit or loss	810	29,132
Loans and receivables		
Loans given, net of current portion (see Note 12)	22,762	23,431
Current portion of loans given (see Note 15)	1,755	1,143
Total loans and receivables	24,517	24,574
Available for sale investments (see Note 11)		
Quoted equity shares – Jadranski Naftovod d.d.	10,938	13,460
Unquoted equity shares	9,711	8,041
Total available for sale investments	20,649	21,501
Total financial assets	56,858	79,323
Total non-current	46,580	49,203
Total current	10,278	30,120

	2011	2010
	HUF million	HUF million
Cash flow hedges		
Payables from commodity hedging derivatives as cash flow hedge (see Note 22)	5,457	-
Total cash flow hedges	5,457	-
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)	14,532	25,079
Derivatives designated as hedges		
Net payables from commodity price transactions designated as fair value hedge (see Note 22)	185	61
Payables from currency risk hedging derivatives as fair value hedge (see Note 21)	748	205
Payables from currency risk hedging derivatives as fair value hedge (see Note 22)	164	53
Derivatives not designated as hedges		
Fair value of the option on MOL shares transferred to CEZ (see Note 17 and 22)	16,864	-
Fair value of MOL-OTP share swap (see Note 17 and 22)	4,585	227
Total financial liabilities at fair value through profit or loss	37,078	25,625
Financial liabilities at amortized cost		
Non-current interest bearing loans and borrowings	1,041,182	1,044,492
Current interest bearing loans and borrowings	136,288	160,863
Transferred “A” shares with put and call options attached (see Note 17 and 22)	171,140	108,959
Non-interest bearing long-term liabilities	4,872	5,468
Total financial liabilities at amortized cost	1,353,482	1,319,782
Total financial liabilities	1,396,017	1,345,407
Total non-current	1,061,334	1,075,244
Total current	334,683	270,163

Notes to the financial statements

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

	Carrying amount		Fair value	
	2011	2010	2011	2010
	HUF million	HUF million	HUF million	HUF million
Financial assets				
Net receivable from currency risk hedging derivatives (see Note 12)	2,955	4,116	2,955	4,116
Receivables from commodity hedging derivatives as cash flow hedge (see Note 15)	7,927	-	7,927	-
Available-for-sale investments (see Note 11)	20,649	21,501	20,649	21,501
Loans given (see Note 12 and 15)	24,517	24,574	24,517	24,574
Trade receivables (see Note 14)	619,723	463,672	619,723	463,672
Receivable from currency risk hedging derivatives as fair-value hedge (see Note 12 and 15)	288	184	288	184
Fair value of firm commitments as hedged item under commodity price transactions (see Note 15)	185	61	185	61
Receivables from foreign exchange forward transactions (see Note 15)	-	8	-	8
Net receivables from commodity price transactions (see Note 15)	337	21	337	21
Fair value of the option on MOL shares transferred to CEZ (see Note 15 and 17)	-	28,858	-	28,858
Other current assets (excluding derivatives, Loans given and prepaid and recoverable taxes, see Note 15)	46,245	50,917	46,245	50,917
Cash and cash equivalents (see Note 16)	311,133	313,166	311,133	313,166
Financial liabilities				
Interest-bearing loans and borrowings:				
Obligations under financial leases	3,388	3,951	3,388	3,951
Floating rate long-term bank loans	539,619	608,970	539,619	608,970
Floating rate other long-term loans	6,594	1,490	6,594	1,490
Floating rate short-term bank loans	136,049	160,857	136,049	160,857
Floating-rate other short-term loans	239	6	239	6
Fixed rate bonds	491,581	430,081	408,504	383,154
Non-interest bearing long-term liabilities	4,872	5,468	4,872	5,468
Payables from commodity hedging derivatives as cash flow hedge (see Note 22)	5,457	-	5,457	-
Conversion option of exchangeable capital securities by Magnolia Finance Ltd (see Note 17 and Note 21)	14,532	25,079	14,532	25,079
Transferred “A” shares with put and call options attached (see Note 17 and 22)	171,140	108,959	171,140	108,959
Fair value of the option on MOL shares transferred to CEZ (see Note 17 and 22)	16,864	-	16,864	-
Fair value of MOL-OTP share swap (see Note 17 and 22)	4,585	227	4,585	227
Payables from currency risk hedging derivatives as fair value hedge (see Note 21 and 22)	912	258	912	258
Net payables from commodity price transactions designated as fair value hedge (see Note 22 and Note 33)	185	61	185	61
Trade and other payables (excluding derivatives, Transferred “A” shares with put and call options attached and taxes and contributions, see Note 22)	595,449	519,619	595,449	519,619

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 2011 are categorised as follows:

	31 Dec 2011	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)	10,938	10,938	-	-
Net receivable from currency risk hedging derivatives (see Note 12)	2,955	-	2,955	-
Receivables from commodity hedging derivatives as cash flow hedge (see Note 15)	7,927	-	7,927	-
Receivables from currency risk hedging derivatives (see Note 12 and 15)	288	-	288	-
Fair value of firm commitments as hedged item under commodity price transactions (see Note 15)	185	-	185	-
Net receivables from commodity price transactions (see Note 15)	337	-	337	-
Financial liabilities				
Payables from commodity hedging derivatives as cash flow hedge (see Note 22)	5,457	-	5,457	-
Conversion option of exchangeable capital securities by Magnolia Finance Ltd (see Note 17 and Note 21)	14,532	-	14,532	-
Fair value of the option on MOL shares transferred to CEZ (see Note 17 and 22)	16,864	-	16,864	-
Fair value of MOL-OTP share swap (see Note 17 and 22)	4,585	-	4,585	-
Net payables from commodity price transactions designated as fair value hedge (see Note 22 and Note 33)	185	-	185	-
Payable from currency risk hedging derivatives as fair value hedge (see Note 21 and 22)	912	-	912	-

	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 MOL-OTP 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	-

35 COMMITMENTS AND CONTINGENT LIABILITIES

Guarantees

The total value of guarantees undertaken to parties outside the Group is HUF 11,409 million.

Capital and Contractual Commitments

The total value of capital commitments as of 31 December 2011 is HUF 45.4 billion, of which HUF 12.5 billion relates to capital and contractual commitments of INA, HUF 18.2 billion relates to capital and contractual commitments of SLOVNAFT, a.s. and HUF 5.6 billion relates to MOL Plc. (the majority of which will arise in 2012).

Gas Purchases Obligation, Take or Pay Contract

MOL Group has concluded a long-term gas purchase contract with MOL Energiakereskedő Zrt. in order to ensure the continuous natural gas supply of the Group’s plants. According to the agreement, contracted volumes have been set for each year for the period ending in 2015 but the volumes for the actual period are subject to annual renegotiation with the supplier. The major part of the renegotiated yearly contracted volumes are under take-or-pay commitment (94 mcm as of 31 December 2011). 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:

	2011	2010
	HUF million	HUF million
Due not later than 1 year	6,509	6,806
Due two to five years	7,534	12,226
Due over five years	150	214
Total	14,193	19,246

Out of the outstanding operating lease liabilities as of 31 December 2011 HUF 2,702 million were contracted by SLOVNAFT, a.s., HUF 3,403 million were contracted by INA and HUF 4,381 million were contracted by MOL Plc.

Authority procedures, litigation

CREDITOR procedures

CREDITOR GAMA s.r.o. („CREDITOR GAMA”) has submitted a compensation claim against MOL Plc.(“MOL”) which was served to MOL by Bratislava I. Court on 12 January 2011. In its pleading CREDITOR GAMA claims compensation in connection with the acquisition of SLOVNAFT a.s. shares by MOL in the amount of cca. SKK 380 million (EUR 12,6 million) plus delay interest 14.75% p.a from 28 November 2007. CREDITOR GAMA alleges that the buying offer of MOL for the SLOVNAFT a.s. shares was in breach of the Slovak Bonds and Investment Services Act, because the lawful price per share should have been higher. MOL refuses the claim of CREDITOR GAMA with special regard to the fact that the buying offer was approved by the Slovak financial authority (Úrad pre financny trh). The first hearing was held on 20 September 2011 on which the court ordered taking of evidences without setting the date of the next hearing.

In its claim submitted to the Bratislava I. Court the claimant CREDITOR BETA s.r.o. („CREDITOR BETA”) alleges that the buying offer of MOL in connection with the acquisition of SLOVNAFT a.s. shares was not approved by the Slovak financial authority (Úrad pre financny trh) and therefore it was not able to receive consideration for its shares for 213 days. It claims for compensation for damages suffered in connection with this delay (cca. EUR 3 million plus delay interest 10,48% p.a from 28 June 2007). The court of first instance accepted the claimant’s arguments and awarded the claim. MOL filed an appeal against this judgment. The court of second instance set aside the appealed judgment and referred the case back to the court of first Instance. The court of first instance ordered for appointing an expert. Preparation of the expert’s opinion is ongoing; the court has not set the date of the next hearing yet.

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.

Upon the possibility above, several former paraffin customers claimed their private damages before an English (2010) and a Dutch (2012) court. In these procedures the above-mentioned buyers claim for all damages suffered by them as a consequence of the activity pr practice which was considered as cartel infringement according to the not final decision of the European Commission since they were able to purchase the product only on an increased price. As regards the basis and the extent of the damages claim there are many argued factors on the table, so MOL is not in the position to make estimation regarding the length of the procedures.

Proceedings with respect to SLOVNAFT a.s.

The Anti-Monopoly Office of the Slovak Republic, Abuse of Dominance Department notified SLOVNAFT a.s. in a letter dated 21 November 2005 on the commencing of administrative proceedings against SLOVNAFT a.s. 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 a.s. 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 a.s. 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 a.s. to pay the fine, which was paid by SLOVNAFT a.s. 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 Anti-Monopoly 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 a.s. 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 a.s. 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 Anti-Monopoly Office challenging the first instance decision. The result of that proceeding is uncertain.

The Council of the Anti-Monopoly office adopted a final decision on merit of the case on July 8, 2011 upon which fully dismissed the Appeal lodged by the Company challenging decision of the first instance decision the Office dated on December 12, 2010 and confirmed the first instance decision as well as the amount of the imposed penalty.

Upon the last decisions of the Office adopted on first instance (2010) and second instance (2011) the merit of the abusing is given by the fact that the discounts and surcharges to the wholesale list price of gasoline in 2006 and diesel in 2005 - 2006 provided by the Company to its customers were discriminatory and due to that fact the company allegedly acquired an unjust enrichment of approximately SKK 203 million (EUR 6.7 million). The discriminatory practise of the company has been evaluated by the Anti-Monopoly office as practise not to excluding the competitors, or restricting or prejudicing the competition but rather the practise maximising the profit of the company (discrimination as an exploitative rather than expulsive practice). The exploitation practise of the company was allegedly realised by application of discrimination of individual customers, however at the same time the Anti-Monopoly office is stating that this practise is not considered as a serious breach of competition law.

As far as the Company do not agree with findings and decisions of the Office again challenged both of the last decisions of the Office by lodging of a new court complaint to the Regional Court of Bratislava, which was delivered to the court on September 2, 2011. Together with the court complaint the Company submitted to the court its request to suspend its obligation to pay the imposed penalty until the final and legally binding court decision on the merit of the case will be adopted. Based on that the full amount of the penalty was transferred by the Anti-Monopoly office back to the bank account of SLOVNAFT a.s. on October 3, 2011.

The litigation on the regional Court of Bratislava is open, the result is still very uncertain. The first hearing shall be held on March 22, 2012.

The International Commercial Arbitration Court at the Chamber of Commerce and Industry of the Russian Federation (Moscow Arbitration Court) imposed upon SLOVNAFT a.s. as defendant, a duty to pay Mende Rossi, a Russian company which claimed that it

entered into a contract with SLOVNAFT a.s. 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 (“Receivable”).

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.

On September 2005 Ashford Technologies Corporation (“Ashford”) initiated enforcement proceedings against the Company in territory of Czech Republic. Ashford claimed that the Receivable at issue had been assigned to it by Mende-Rossi. Ashford was a company registered in British Virgin Islands. In year 2010 SLOVNAFT a.s. was noticed that the company changed its business name to PCM Limited and transferred its registered seat to Seychelles. Later, in 2011 SLOVNAFT a.s. received another notification that starting from June 6, 2011 the alleged receivable was transferred from company PCM Limited to the company PROPERTY PROFESIONAL INVESTMENT LIMITED with registered seat in Great Britain (PPI).

Upon the successful negotiation between companies SLOVNAFT a.s. and PPI (as a new party entitled from the Receivable) an Out Of Court Settlement (“Settlement”) was signed on October 20, 2011 subject matter of which was the final settlement of mutual rights and obligations pertaining to Receivable. Based on the Settlement obligation of PPI is to perform all of the legal actions necessary for halting the ongoing distraintment by the court appointed distrainor. On the other side upon the Settlement SLOVNAFT a.s. is obliged to pay to PPI CZK 500,000 and USD 2,330,000 together with interest of 10% p.a. for the period of June 1, 2011 till final settlement, whereas the sum in amount of USD 2,330,000 shall be used as the basis for interest calculation.

The court appointed distrainor accepted demand of PPI to halt the distraintment against company and on October 25, 2011 halted the distraintment proceeding against the Company, which came into legal force on November 19, 2011.

The settlement payment in favor of PPI has been realized in February 2012 and the execution proceeding against SLOVNAFT a.s. in territory of Czech Republic had been finally and definitely closed.

Proceedings with respect to MOL Romania s.r.l.

MOL has been informed on 10 January, 2012 that the Romanian Competition Council’s Plenum has made a decision in relation with the alleged breach of the competition law by companies active in the fuels market. The alleged breach of antitrust regulations refers to the common withdrawal of the unleaded gasoline pre-mixed, called Eco Premium, from the Romanian fuel market, in 2008.

According to the minutes of the deliberations of the Romanian Competition Council’s Plenum, based on the applicable antitrust regulations, MOL Romania has been fined with RON 80.3 million (i.e. approximately EUR 18.5 million), that is 3% of the company’s turnover registered in the fiscal year 2010.

MOL Romania s.r.l. has got the decision of the Romanian Competition Council. They have filed with the Bucharest Court of Appeal applications for the suspension of execution and annulment of the decision.

MOL Romania states that withdrawing ECO Premium from its fuels portfolio was an individual business decision and not the result of an anticompetitive agreement/concerted practice.

Court proceedings at INA Group:

LJUBLJANSKA BANKA

A court procedure is being conducted before the Commercial Court in Zagreb for the collection of monetary claims of HRK 60.5 million with default interest.

The claims have arisen from two contracts of 1982 on the use of short-term foreign currency loan abroad which were concluded between INA- Rafinerija nafte Rijeka and Ljubljanska banka- Osnovna banka Zagreb.

The claims of Ljubljanska banka in the concerned dispute refer to default interest debt arising from the legally binding decision of the District Economic Court (the predecessor of Commercial Court) in Zagreb no. P-2969/87 which was rendered in the earlier court procedure conducted on the same, above-stated, legal grounds.

The procedure was initiated by motion for execution which was filed by Ljubljanska banka on 13 September 1995. The Commercial Court in Zagreb rendered the Decision on execution IV-17971/95, however INA filed an objection against the decision regarding the statute of limitations, the merits and the amount of the claims, so the procedure was continued as a civil procedure initiated by a lawsuit.

INA objected regarding the prematurity of lawsuit, since a procedure is already being conducted on the same legal grounds for the unlawfulness of execution (P-20434/93), which has in the meantime been ended by a legally effective decision, with the plaintiff requesting for a retrial. INA is also objecting in relation to the plaintiff’s capacity to sue.

The Commercial Court rendered the Decision of 24 November 2008 whereby it dismissed the lawsuit. The plaintiff lodged an appeal against the afore-stated decision, which was adopted by the High Commercial Court and returned to the court of first instance for a retrial.

During the retrial, the plaintiff by its application of 3 May 2010, along with the above-stated objections, also filed a claim preclusion (res iudicata) objection with reference to the above-stated procedure finalized by a legally effective decision.

The court of first instance found that the claim preclusion is applicable and, by its Decision of 29 September 2010, no. P-1117/1996 again dismissed the plaintiff's lawsuit. Pursuant to the plaintiff's appeal, the High Commercial Court in Zagreb rendered Decision no. PŽ-6625/10-3 whereby the above-stated Decision of the Commercial Court in Zagreb no. P-1117/1996 of 29 September 2010 was asserted, i.e. a legally effective decision was rendered in favour of INA by the court’s dismissal of the lawsuit of Ljubljanska banka for the payment of HRK 60.5 million with default interest and its decision that the plaintiff shall pay the defendant's procedural costs of HRK 369,000.

The plaintiff has applied for a review.

The outcome of the procedure is still uncertain due to the complexity of the legal matter (claims for altered default interest), however it is now more probable that the Supreme Court will take the same standpoint as the High Commercial Court, therefore no provision has been made for this case in the accompanying consolidated financial statements.

GWDF
In the dispute initiated by GWDF PARTNERSHIP Gesellschaft buergerlicher Rechts and GWDF LIMITED, Cyprus against INA-INDUSTRIJA NAFTE d.d. and INA-NAFTAPLIN before the Commercial Court in Zagreb, under the case Number P-2597/06, concerning the amount of EUR 7.9 million, the plaintiff claims compensation for damage incurred owing to the loss of rights resulting from the Joint Venture Agreement made with the company Saknavtobi, and which allegedly occurred by virtue of the defendant’s behaviour, i.e. due to its withdrawal from negotiations by which it should have become a party of the joint business venture. INA d.d. filed in September 2007 the answer to the claim, in which both, the foundation and the amount of the claim statement are being contested in their entirety, stating amongst the other that the defendants abandoned the negotiations because of a business decision, and that exactly the plaintiffs were those who had been negotiating contrary to the principle of consciousness and fairness. Furthermore, INA d.d. filed the objection to the lack of litigation capacity as regards GWDF Partnership, the objection to the misdirected passive personality in relation to INA d.d., stating also that the court is not competent as regards GWDF Limited Cyprus.

The court of first instance must first of all decide on the law applicable to this legal dispute as well as whether it is competent or not in this case. Up to now several hearings were held during the years 2008, 2009 and in 2010, and it was discussed upon the procedural issues (capacity of parties, jurisdiction, governing law).

At the last hearing, held on 8 February 2011, after the parties repeated their standpoints, the court decided to request from the German Republic and the Republic of Cyprus by diplomatic ways the text of the law relevant for making decisions in this case.

The status of INA d.d. has not changed even after the hearing held on 8 February 2011, delivery of the governing law shall for sure be

lasting for a certain time, and only at the hearings to be determined following the acquisition of the governing law it will be clear in which direction the proceedings will be continued. Upon providing the text of the governing law, and after the hearing has been held, it will be possible to give a more precise estimation of the status of defendants in this dispute. The proofs derived up to now have not essentially changed the position of the parties in relation to their status at the beginning of the proceedings and it is assessed that the position of INA d.d. in dispute is about equal to the position of the plaintiffs, that is to say that at the moment the parties have equal chances for success in dispute.

EDISON INTERNATIONAL S.p.A
Edison International S.p.a initiated an arbitration procedure against INA-INDUSTRIJA NAFTE d.d. before the Vienna International Arbitral Centre for the amount of cca EUR 140 million plus unspecified compensation for lost profit.

The plaintiff seeks compensation for actual damage and lost profit due to INA’s failure to comply with i.e. the breach of the provisions of Production Sharing Agreement. The subsidiary claim is that Senior Executives Minutes should be considered a binding arrangement for the sale of Edison's whole share of annual gas production. Unspecified damage compensation is claimed due to the afore-stated arrangement breach.

The plaintiff initiated the procedure on 29 June 2011, when INA d.d. received the Notice of Arbitration. INA d.d. filed a Response to the stated Notice on 19 July 2011, and also submitted a Counterclaim. The Arbitration Panel was formed on 23 September 2011, and an organizational teleconference was held on 17 November 2011. The Arbitration Panel adopted the Agreement between the parties and the arbitrator, Special Procedural Rules and Schedule by the means of the Procedural solution no. 1 of 06 December 2011. The deadline for the filing of the claim is 20 February 2012, and an oral hearing has been scheduled for the period between 10 and 19 December 2012.

Procedure on the merit of the dispute has not been initiated yet, and the plaintiff is yet to file a claim whereby it would offer its response and specify its claims in more detail. Consequently, the outcome of this dispute is currently uncertain.

CONCESSIONS
On July 29, 2011 the Ministry of Economy, Labour and Entrepreneurship (hereinafter: the Ministry) rendered three Decisions depriving INA-INDUSTRIJA NAFTE, d.d. (hereinafter: INA) of the license to explore hydrocarbons in exploration areas “Sava”, “Drava” and “North-West Croatia”, due to INA’s non-compliance with its obligations regarding regular informing of the Ministry on performed exploration works.

Given that the complaint against stated Decisions was not allowed, on August 29, 2011, INA filed three administrative lawsuits against the Ministry’s Decisions.

In its lawsuits, INA claims that the reasons why the Ministry rendered the contested Decisions are neither factually nor legally grounded, since INA had regularly performed exploration works and duly informed the Ministry thereon. For the stated reason, INA requests that the Administrative Court of the Republic of Croatia annuls the stated Decisions on the suspension of licenses for the exploration of hydrocarbons rendered by the Ministry.

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 34,725 million for which HUF 24,484 million provision has been made.

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 76,171 million for the estimated cost as at 31 December 2011 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, 2011, on Group level the aggregate amount of contingent liabilities recorded on the balance sheet as environmental liabilities was HUF 34.7 billion (HUF 30.7 billion at 31 December, 2010).

36EVENTS AFTER THE REPORTING PERIOD

Exercise of call option and share option agreement with Unicredit

Option rights under the share option agreement regarding 2,914,692 MOL Series “A” Ordinary shares concluded between UniCredit Bank AG and MOL on 8 February 2011 (see Note 17), were cash settled in respect of all the shares on 13 February 2012.

MOL and UniCredit concluded a share purchase agreement in respect of 646,361 shares and share option agreements in respect of 3,561,053 Shares. As a result of these transactions, MOL received an American call option and UniCredit received a European put option regarding 3,561,053 shares on 13 February 2012. The maturity of both options is one year, such maturity being subject to yearly extensions with one year, up to a total tenor of three years. The strike price of both call and put option is EUR 70.20 per share.

INA’s “force majeure” notice regarding its Syrian operation

In compliance with the Croatian Government Decision dated 23 February 2012 on the implementation of the EU Council Decision concerning restrictive measures against the Syrian Arab Republic issued on 1 December 2011, INA delivered the force majeure notice to the General Petroleum Company of Syria related to the Production Sharing Agreement for the Hayan Block signed in 1998 and Production Sharing Agreement for the Aphia Block signed in 2004. Based on the Croatian Government decision, as well as the overall security situation in Syria, INA is not able to continue performing its regular business operations and activities in Syria due to reasons which are beyond the control of the company. Therefore, the terms and conditions foreseen in the above stated Agreements have been met for announcing „force majeure“, i.e. for temporarily suspending all business activities in Syria until further notice, i.e. until the „force majeure“ circumstances cease to exist.

Force majeure is a legal term stipulated in the agreement that allows for suspension or temporary adjournment of obligations and activities coming due to the events which are beyond control of the agreement parties such as flood, earthquake, riots, unrests, state of war, etc. Announcing the “force majeure” is a regular mechanism and it doesn’t mean termination of the agreement and the simultaneous exit from the project. It is a protection mechanism for the agreement parties in the event of unforeseeable circumstance with an aim of continuation of the Agreement execution after ceasing of these circumstances, without damages for the announcing party.

INA does not expect to receive any revenues neither to realize its production share from its Syrian project for the foreseeable future, i.e. until the termination of the “force majeure”. Taking into consideration the difficulties with collection of receivables from the Syrian side in the last several months, the company used conservative calculations regarding revenues from Syria in its impairment test. INA, d.d. regularly performs impairment test so revision of impairment test is not needed.

The aim of this decision is to protect INA’s contractual rights and obligations and to fully comply with decision of the Croatian Government.

37NOTES TO THE CONSOLIDATED STATEMENTS OF CASH FLOWS

Cash and cash equivalents comprise the following at 31 December

	2011	2010
	HUF million	HUF million
Cash and cash equivalents according to Balance Sheet	311,133	313,166
Cash and cash equivalents as part of Disposal Group	-	-
Total Cash and cash equivalents	311,133	313,166

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

	2011	2010
	HUF million	HUF million
Cash consideration	(25,314)	(541)
Cash at bank or on hand acquired	-	-
Net cash outflow on acquisition of subsidiaries, joint ventures and non-controlling interests	(25,314)	(541)

Issuance of long-term debt

	2011	2010
	HUF million	HUF million
Increase in long-term debts	206,845	454,515
Non cash flow element: unrealised exchange gains / (losses)	(15,623)	(12,381)
Total issuance of long-term debt	191,222	442,134

38 RELATED PARTY TRANSACTIONS

Transactions with associated companies in the normal course of business

	2011	2010
	HUF million	HUF million
Trade and other receivables due from related parties	20,083	17,444
Trade and other payables due to related parties	8,518	5,763
Net sales to related parties	29,178	57,026

The Group purchased and sold goods and services with related parties during the ordinary course of business in 2011 and 2010. All of these transactions were conducted under market prices and conditions.

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

Directors’ total remuneration approximated HUF 117 million and HUF 158 million in 2011 and 2010, 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 83 million in 2011 and HUF 81 million in 2010.

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

	2011	2010
	Number of shares	Number of shares
Board of Directors	239,574	306,017
Supervisory Board	63,300	380
Senior Management (except executive Board members)	119,508	109,566
Total	422,382	415,963

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 2011 or 2010. All of these transactions are on an arm’s-length basis.

Mr. Martin Roman, member of the Board of Directors of the Company, is the Chairman of the Supervisory Board 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 2011 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 91 million (in 2010 HUF 589 million);
- I&C Energo a.s. provided various investments, service works and delivery of material to CEZ in the value of HUF 12,326 million (in 2010 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 114 million (in 2010 HUF 478 million);
- Slovnaft Česká Republika, a.s. delivered oil and lubricants to CEZ in the value of HUF 101 million (in 2010 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. The company provided consulting services to the Group in 2011 and 2010 in the value of HUF 8 million and HUF 6 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 2011 and 2010 amounted to HUF 4,789 million and HUF 4,668 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 BIATEC Group a.s. The Group has sold goods to this company in amount of HUF 8 million and HUF 9 million carried out on usual commercial terms and market prices during 2011 and 2010, respectively.

Mr. Oszkár Világi, member of the Board of Directors of the Company and Slovnaft’s Chief Executive Officer is a partner in legal firm Ruzicka Csekcs s.r.o. The company provided legal services to the Group in the value of HUF 56 million and HUF 48 million in 2011 and 2010, 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 a.s. or TVK Plc.

	2011	2010
	HUF million	HUF million
Salaries and other short-term employee benefits	1,298	964
Termination benefits	497	-
Post-employment benefits	-	-
Other long-term benefits	-	-
Share-based payments	994	3
Total	2,789	967

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:

	2011	2010
	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	(3,202)	2,765
Total expense / (reversal of expense) arising from share-based payment transactions	(3,202)	2,765

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 option units	Weighted average exercise price	Number of shares in conversion option units	Weighted average exercise price
	2011	2011	2010	2010
	share	HUF/share	share	HUF/share
Outstanding at the beginning of the year	740,269	17,465	658,112	18,410
Granted during the year	159,143	20,119	214,402	15,893
Forfeited during the year	(28,590)	19,522	(27,375)	17,506
Exercised during the year	(199,850)	15,140	(100,746)	20,170
Expired during the year	(66,973)	21,146	(4,124)	20,170
Outstanding at the end of the year	603,999	18,428	740,269	17,465
Exercisable at the end of the year	260,062	24,076	133,882	21,146

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. In 2011 as a consequence of decreasing share prices, expenses recorded in preceding years has been reversed in a value of HUF 3,202 million. In 2010 HUF 2,765 million expenses was recorded as personnel-type expenses with a corresponding increase in Trade and other payables. Liabilities in respect of share-based payment plans amounted to HUF 2,174 million as at 31 December 2011 (31 December 2010: HUF 5,435 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:

	2011	2010
Weighted average exercise price (HUF / share)	18,428	17,465
Share price as of 31 December (HUF / share)	17,470	20,870
Expected volatility based on historical data	46.42%	44.79%
Expected dividend yield	1.23%	1.26%
Estimated maturity (years)	2.59	2.72
Risk free interest rate	0.51%	1.46%

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 2011 based on this new incentive system.

Historical Summary Financial Information (IFRS)

CONSOLIDATED INCOME STATEMENTS FOR THE YEARS ENDED 31 DECEMBER

	2007 Restated	2008 Restated	2009 Restated	2010 Restated	2010 Restated	2011	2011
	HUF million	HUF million	HUF million	HUF million	USD million*	HUF million	USD million***
Net revenue and other operating income	2,669,014	3,554,752	3,366,738	4,324,548	20,781	5,368,189	26,720
Total operating expenses	2,313,509	3,355,528	3,134,359	4,079,070	19,601	5,115,007	25,460
Profit from operations	355,505	199,224	232,379	245,478	1,180	253,182	1,260
Profit for the year attributable to equity holders of the parent	141,418	141,418	95,058	103,958	500	153,674	765

CONSOLIDATED BALANCE SHEETS AS AT 31 DECEMBER

	2007 Restated	2008 Restated	2009 Restated	2010 Restated	2010 Restated	2011	2011
	HUF million	HUF million	HUF million	HUF million	USD million**	HUF million	USD million****
Non-current assets	1,544,236	2,027,899	3,073,859	3,153,234	15,152	3,369,178	13,997
Current assets	888,521	888,514	1,093,748	1,332,495	6,403	1,623,623	6,745
Total assets	2,432,757	2,916,413	4,167,607	4,485,729	21,555	4,992,801	20,742
Equity attributable to equity holders of the parent	792,164	1,112,981	1,294,005	1,435,070	6,896	1,651,902	6,863
Minority interest	127,417	118,419	535,647	539,407	2,592	591,203	2,456
Non-current liabilities	861,702	943,516	1,272,925	1,392,867	6,693	1,346,312	5,593
Current liabilities	651,474	741,497	1,065,030	1,118,385	5,374	1,403,384	5,830
Total equity and liabilities	2,432,757	2,916,413	4,167,607	4,485,729	21,555	4,992,801	20,742

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS

	2007 Restated	2008 Restated	2009 Restated	2010 Restated	2010 Restated	2011	2011
	HUF million	HUF million	HUF million	HUF million	USD million*	HUF million	USD million***
Net cash provided by operating activities	315,506	347,203	397,891	378,886	1,821	372,950	1,856
Net cash provided by / (used in) investing activities	(336,978)	(474,792)	(266,658)	(279,475)	(1,343)	(198,709)	(989)
Net cash provided by / (used in) financing activities	(245,951)	209,070	(169,713)	24,764	119	(188,903)	(940)
(Decrease)/increase in cash and cash equivalents	(267,423)	81,481	(38,480)	124,175	597	(14,662)	(73)

* 2010 Average huf/usd 208.1

** 2010 Year-end huf/usd 208.7

*** 2011 Average huf/usd 200.9

**** 2011 Year-end huf/usd 240.7

Key Group operating data

UPSTREAM

The tables presented below provide supplementary information for the Group upstream activities. These disclosures are not audited and are based on the primary financial statements (IFRS), but where there were no available disclosure rules regarding this topic under IFRS, MOL has elected to voluntarily provide the data that would have been required under ASC 932 as if it was reporting under US GAAP. These disclosures do not include information about MOL's share in equity consolidated Pearl project (in Kurdistan region of Iraq) due to the early stage of the investment.

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
Revision of previous estimates	1,912.2	67.5	230.5	1.7	10.6
Extension and discoveries	62.5	2.2	12.6	0.1	0.5
Production	(2,179.4)	(77.0)	(668.8)	(5.0)	(18.1)
Purchase/sale of minerals in place	0.0	0.0	0.0	0.0	0.0
Hungary as of December 31, 2011	10,389.9	366.9	3,274.2	24.7	86.6
Russia, Pakistan, Kazakhstan 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, Kazakhstan 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, Kazakhstan 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)

Proved reserves	Natural gas		Crude oil		Combined
	MCM	Bcf	kt	million bbl	million boe
Purchase/sale of minerals in place	0.0	0.0	0.0	0.0	0.0
Russia, Pakistan, Kazakhstan as of December 31, 2010	1,255.4	44.3	11,387.0	81.0	89.3
Revision of previous estimates	0.1	0.0	4,252.6	29.8	29.8
Extension and discoveries	4,080.3	144.1	49.8	0.4	24.5
Production	(269.0)	(9.5)	(976.8)	(7.1)	(8.8)
Purchase/sale of minerals in place	0.0	0.0	0.0	0.0	0.0
Russia, Pakistan, Kazakhstan as of December 31, 2011	5,066.8	178.9	14,712.5	104.1	134.7
INA d.d. (25%) as of December 31, 2007	7,964.7	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
Revision of previous estimates	119.8	4.2	1,359.7	6.2	4.8
Extension and discoveries	0.0	0.0	0.0	0.0	0.0
Production	(3,623.7)	(128.0)	(742.3)	(5.6)	(27.1)
Purchase/sale of minerals in place	0.0	0.0	0.0	0.0	0.0
INA d.d. as of December 31, 2011	22,080.2	779.8	10,239.1	75.7	223.8
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
Total (domestic+int') hydrocarbon reserves as of December 31, 2011	37,536.9	1,325.6	28,225.7	204.5	445.2

* 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 full year.

Key Group
operational data

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
Revision of previous estimates	2,669.3	94.3	387.1	2.9	13.8
Extension and discoveries	325.7	11.5	42.3	0.3	2.4
Production	(2,179.4)	(77.0)	(668.8)	(5.0)	(18.1)
Purchase/sale of minerals in place	0.0	0.0	0.0	0.0	0.0
Hungary as of December 31, 2011	21,958.8	775.5	6,350.1	47.9	170.5
Russia, Pakistan, Kazakhstan 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, Kazakhstan 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, Kazakhstan 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, Kazakhstan as of December 31, 2010	1,597.9	56.4	18,282.4	131.1	141.7
Revision of previous estimates	3.5	0.1	8,883.9	62.6	62.6
Extension and discoveries	6,350.9	224.3	49.8	0.4	37.8
Production	(269.0)	(9.5)	(976.8)	(7.1)	(8.8)
Purchase/sale of minerals in place	0.0	0.0	0.0	0.0	0.0
Russia, Pakistan, Kazakhstan as of December 31, 2011	7,683.3	271.3	26,239.3	187.0	233.3

Proved and probable reserves	Natural gas		Crude oil		Combined
	MCM	Bcf	kt	million bbl	million boe
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
Revision of previous estimates	(378.9)	(13.4)	730.4	5.6	1.0
Extension and discoveries	0.0	0.0	0.0	0.0	0.0
Production	(3,623.7)	(128.0)	(742.3)	(5.6)	(27.1)
Purchase/sale of minerals in place	0.0	0.0	0.0	0.0	0.0
INA d.d. as of December 31, 2011	27,987.8	988.4	12,187.8	90.2	278.4
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
Total (domestic+int') hydrocarbon reserves as of December 31, 2011	57,629.9	2,035.2	44,777.2	325.2	682.3

* 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 full year.

Key Group
operational data

Costs incurred (HUF Mn)*

	Consolidated companies					Associated companies	Total
	CEE**	Asia Russia***	Rest of Asia****	Africa*****	Total		
For year ended 31 December 2010							
Acquisition of properties	-	-	-	-	-	-	-
Proved	-	-	-	-	-	-	-
Unproved	-	-	-	-	-	-	-
Exploration	16,639	822	21,252	1,738	40,451	-	40,451
G&G	4,165	47	1,940	334	6,486	-	6,486
Drilling	11,992	608	16,428	953	29,981	-	29,981
Rental fee, other	482	168	2,883	451	3,984	-	3,984
Development	20,098	15,726	30,623	3,111	69,558	-	69,558
Total costs incurred	36,737	16,549	51,875	4,849	110,009	-	110,009
For year ended 31 December 2011							
Acquisition of properties	-	-	-	-	-	-	-
Proved	-	-	-	-	-	-	-
Unproved	-	-	-	-	-	-	-
Exploration	16,729	2,499	19,639	1,177	40,043	-	40,043
G&G	705	454	366	742	2,267	-	2,267
Drilling	15,515	1,663	16,491	71	33,739	-	33,739
Rental fee, other	509	382	2,781	364	4,037	-	4,037
Development	19,661	23,973	12,074	2,814	58,522	-	58,522
Total costs incurred	36,390	26,472	31,713	3,991	98,566	-	98,566

*Costs incurred by Group companies during the year in oil and gas property acquisition, exploration and development activities, whether capitalised or expensed directly, are shown in the table.
**CEE: Hungary, Croatia
*** Asia Russia: Russia
**** Rest of Asia: Syria, Pakistan, Kazakhstan, Kurdistan Region of Iraq, India, Oman, Iran, Yemen
***** Africa: Cameroon, Egypt, Angola, Namibia

Earnings (HUF Mn)*

	Consolidated companies					Associated companies	Total
	CEE**	Asia Russia***	Rest of Asia****	Africa*****	Total		
For year ended 31 December 2010							
Sales	392,921	25,342	48,171	21,627	488,062	-	488,062
third parties	87,630	25,342	48,171	21,627	182,771	-	182,771
intra-group	305,291	0	0	0	305,291	-	305,291
Production costs	(46,043)	(8,644)	(4,107)	(7,206)	(66,001)	-	(66,001)
Exploration expense	(4,210)	(213)	(3,492)	(557)	(8,472)	-	(8,472)
DD&A	(109,325)	(21,102)	(1,172)	(6,244)	(137,843)	-	(137,843)
Other income/(costs)	269	7,327	(884)	(7,917)	(1,204)	-	(1,204)
Earnings before taxation	233,612	2,711	38,515	(297)	274,541	-	274,541
Taxation	(71,782)	(2,038)	(1,399)	0	(75,219)	-	(75,219)
EARNINGS FROM OPERATION	161,830	673	37,116	(297)	199,322	-	199,322
For year ended 31 December 2011							
Sales	397,419	29,252	91,761	27,835	546,267	-	546,267
third parties	69,944	29,252	91,761	27,835	218,791	-	218,791
intra-group	327,475	0	0	0	327,475	-	327,475
Production costs	(46,535)	(8,915)	(3,632)	(5,429)	(64,510)	-	(64,510)
Exploration expense	(840)	(616)	(2,177)	(885)	(4,519)	-	(4,519)
DD&A	(101,414)	(11,238)	(33,992)	(917)	(147,560)	-	(147,560)
Other income/(costs)	22,655	144	522	(13,232)	10,089	-	10,089
Earnings before taxation	271,286	8,627	52,482	7,372	339,767	-	339,767
Taxation	(87,749)	(2,814)	(2,526)	0	(93,090)	-	(93,090)
EARNINGS FROM OPERATION	183,537	5,813	49,956	7,372	246,677	-	246,677

*Earnings of Group companies from exploration and production activities excluding financing costs and related tax effects. Other income/cost does not include the administration cost inside MOL Plc and INA Plc.
**CEE: Hungary, Croatia
*** Asia Russia: Russia
**** Rest of Asia: Syria, Pakistan, Kazakhstan, Kurdistan Region of Iraq, India, Oman, Iran, Yemen
***** Africa: Cameroon, Egypt, Angola, Namibia

Exploration and development data

Exploration and development data	2007	2008	2009*	2009**	2010*	2011*
Wells tested	52 (31)	32 (24)	73 (54)	57 (45)	103 (80)	87 (76)
of which exploration wells (of which foreign)	16 (3)	12 (6)	17 (8)	13 (5)	20 (8)	18 (9)
crude oil (of which foreign)	0(0)	2 (1)	5 (3)	3 (1)	7 (5)	5 (4)
natural gas (of which foreign)	8 (0)	6 (2)	6 (2)	6 (2)	7 (0)	5 (1)
dry/non commercial well (of which foreign)	8 (3)	4 (3)	6 (3)	4 (2)	6 (3)	8 (4)
of which development wells (of which foreign)	36 (28)	20 (18)	56 (46)	44 (40)	83 (72)	69 (67)
crude oil (of which foreign)	31 (26)	17 (16)	43 (41)	41 (39)	70 (65)	64 (64)
natural gas (of which foreign)	3 (2)	2 (2)	12 (4)	3 (1)	10 (5)	3 (2)
dry well (of which foreign)	2 (0)	1 (0)	1 (1)	0 (0)	3 (2)	2 (1)

*MOL and INA
**MOL

Key Group operational data

Hydrocarbon production

Daily hydrocarbon production by countries (thousand boepd)	2007	2008	2009*	2010**	2011**
Hungary	63.0	61.7	57.5	53.6	48.8
Russia	26.3	23.4	20.1	19.7	18.7
Pakistan	1.1	1.2	1.4	4.7	5.5
Kurdistan Region of Iraq	-	-	-	-	0.1
Croatia	-	-	24.1	54.1	50.8
Syria	-	-	2.3	7.9	20.3
Egypt	-	-	1.1	1.9	1.8
Angola	-	-	1.7	1.6	1.6
Total hydrocarbon production	90.4	86.3	108.0	143.5	147.4

* Including INA H2

**with INA

Daily hydrocarbon production by products (thousand boepd)	2007	2008	2009*	2010**	2011**
crude oil	42.8	38.7	43.8	49.4	46.4
natural gas	40.4	40.1	53.9	80.5	85.6
condensate	7.3	7.5	10.3	13.7	15.4
Total hydrocarbon production	90.4	86.3	108.0	143.5	147.4

* Including INA H2

**with INA

Costs

Total production costs *	2007	2008	2009	2009**	2010***	2011***
Total USD/boe	8.03	11.16	11.21	14.06	15.41	18.54

* Production costs are inclusive of DD&A and management costs, and exclusive of MMBF Plc. production from 2008

** MOL Group with INA from July 1, 2009

*** MOL Group with INA, costs are exclusive of fair value depreciation and impairment

Direct production costs *	2007	2008	2009	2009**	2010***	2011***
Total USD/boe	4.18	5.82	5.17	6.33	6.58	6.29

* Production costs are exclusive of DD&A and management costs, and of MMBF Plc. production from 2008

** MOL Group with INA from July 1, 2009

*** MOL Group with INA

DOWNSTREAM

The Group's major refineries with their total feedstock

kt	2007	2008	2009*	2010	2011
Duna Refinery	9,104	9,033	8,252	8,847	8,762
Bratislava Refinery	7,079	6,928	6,927	6,572	7,085
Mantova Refinery	298	2,395	2,447	2,521	2,636
INA refineries			2,409	4,285	3,781
Total	16,303	18,141	19,700	21,834	21,802

*MOL Group with INA Group from 1 July, 2009

Product yields of the Group refineries in 2011

Production yields (%)	Duna Refinery	Bratislava Refinery	Mantova Refinery	INA refineries	MOL Group total
LPG	1.0	3.2	1.9	5.3	2.7
Naphtha	14.6	7.6	3.2	2.4	8.5
Motor gasolines	14.7	21.0	15.5	25.6	19.0
Middle distillates	42.0	49.6	48.0	35.2	42.1
Fuel oils & Bitumens	8.7	6.2	24.6	15.7	13.1
Others	9.7	4.5	1.0	1.0	5.2
Used by own + losses	9.3	7.9	5.8	14.8	9.4

Crude oil product sales (kt) (without LPG and gas products)	2007	2008	2009*	2010	2011
Domestic sales	4,701	4,753	4,751	4,194	4,186
Gas and heating oils	2,438	2,577	2,614	2,447	2,525
Motor gasolines	1,331	1,297	1,319	1,102	1,065
Fuel oils	161	75	90	27	23
Bitumen	163	207	197	142	105
Lubricants	26	20	21	22	43
Other products	582	577	510	454	425
Sales in Slovakia	1,524	1,626	1,427	1,519	1,551
Gas and heating oils	838	905	807	926	962
Motor gasolines	444	457	412	407	403
Lubricants	10	8	9	5	21
Bitumen	85	93	77	69	55
Other products	147	163	122	112	110
Sales in Croatia			1,457	2,061	1,887
Gas and heating oils			784	1,194	1,093
Motor gasolines			314	507	446
Lubricants			6	9	9
Bitumen			70	67	95
Other products			283	284	244
Export sales	6,576	8,810	9,242	10,561	10,751
Gas and heating oils	3,671	5,013	4,949	5,498	5,751
Motor gasolines	1,365	1,667	1,911	2,136	2,298
Lubricants	26	22	24	22	30
Bitumen	300	885	878	989	1,020
Other products	1,214	1,223	1,480	1,916	1,652
Total crude oil product sales	12,801	15,189	16,877	18,335	18,375

*MOL Group with INA Group from 1 July, 2009

Petrochemicals

Petrochemical production (kt)	2007	2008	2009	2010	2011
Ethylene	870	812	789	794	786
LDPE	270	246	231	216	244
HDPE	404	361	387	417	388
PP	546	515	511	510	537

Petrochemical sales (kt)	2007	2008	2009	2010	2011
Domestic sales	491	447	385	462	515
Slovakia	84	78	80	82	79
Export sales	912	833	881	871	910
Total product sales	1,487	1,358	1,346	1,415	1,504

GAS MIDSTREAM

Natural gas transmission volume (mcm)	2007	2008	2009	2010	2011
Hungarian transmission	14,961	15,140	14,913	13,833	12,492
Transit	2,390	2,427	1,768	2,201	2,761

HUMAN RESOURCE

Average headcount (person)	2007	2008	2009*	2010	2011
Exploration and production	1,504	1,516	1,498	1,486	1,489
Refining and marketing	2,836	2,882	2,854	2,836	2,879
Gas and power	0	17	33	37	9
Corporate services	539	539	521	502	496
Headquarters and other	427	430	439	446	460
MOL Plc. Total	5,306	5,384	5,345	5,307	5,333
Subsidiaries	9,194	10,606	20,189	28,107	26,305
MOL group	14,500	15,990	25,534	33,414	31,638

* MOL Group with INA Group from 1 july, 2009

Closing headcount (person)	2007	2008	2009*	2010	2011
MOL Plc.	5,305	5,421	5,264	5,270	5,336
Subsidiaries	9,753	11,792	28,826	27,124	26,135
MOL Group	15,058	17,213	34,090	32,394	31,471

*MOL with INA

Duna Refinery, Hungary



Sustainability:
non-financial performance



Interview with Mr. Iain Paterson

Over recent years, MOL Group has evolved and its operations have become more international and more complex. How is this reflected in MOL's SD approach and the Board's perspective?

MOL Group entered a new phase in sustainability when in 2010 it became a listed company in the Dow Jones Sustainability World Index. In 2011, new strategic business directions were identified and, finally, due to personnel changes in the Board, the composition of the SDC also changed. So we updated the Committee Charter and agreed on a new direction: making progress in the 6 strategic focus areas and in the performance of our business divisions and subsidiaries. Moreover, we also aim to pay more attention to ensuring effective implementation of policies and tools such as our Code of Ethics and the new HSE and Social Impact Policy.

In 2011 MOL refreshed its group-level HSE Policy by adding social impact criteria. How can you ensure it is effectively implemented?

A policy remains only a nice piece of paper if it is not translated into tangible outcomes in the action and behaviour of individuals. The Board of Directors receives regular reports on the HSE performance of MOL Group, which includes details on significant incidents, key performance indicators and our main projects. Moreover, as 'Health and Safety' and 'Environment' are two important sustainability focus areas, we request that progress reports are compiled for the SD Committee meetings. And do not forget that one of the topics of the regular business division and company reports is HSE performance. Besides the Lost-Time Injury Frequency which remains a KPI in the incentive scheme for all managers within the Group, through concentrating on the above-mentioned focus areas we aim to express our sensitivity towards, and moreover start to really manage, the impacts of our operations on the affected social environment.

What kind of sustainability issues and challenges will be in focus for 2012?

We have long-term sustainability targets which define the main directions for the ongoing business year. To pick some examples: energy efficiency projects will be continued or launched at several sites; the roll-out of different safety programs (e.g. process, work, road and contractor safety) will be also continued; in Százhalombatta we plan to commence the construction of a biogas plant and our R&D programme for biofuels will continue as well. Regarding human capital related issues, we will carry on implementing various competency-development programs and tailor our systems to deal with the more international nature of our operations. Furthermore, a modified version of the Code of Ethics was recently issued and we (as members of the SD Committee) requested a report on the status of its implementation by the end of the year.

How do you evaluate performance in 2011 in the light of sustainability objectives?

Regarding safety, which is our first priority, I have ambivalent feelings. The Lost Time Injury Frequency was lower than for previous years and close to our long-term target objective (1.23, compared to our target of 1), and the majority of the accidents which happened were not technology-related but rather minor injuries caused as a result of slips and trips.

But, unfortunately, fatal incidents which were connected with MOL Group's activities also occurred, which is unacceptable. Most of the environmental targets were met, and the numerous HR-related awards we received during the year are a reliable validation of the ongoing investment into MOL's human capital.

Which sustainability challenge are you personally the most concerned about?

The key challenge is how humanity can more intelligently preserve the world's resources for future generations.

The human race will only be able to survive if productive land, water and other natural resources are preserved. However, I would like to highlight the word "intelligent": we should act in a conscious and systematic way to safeguard resources and be sure to not forget to pay attention to social development.



Mr. Iain Paterson
Chairman
of the Sustainable
Development
Committee (SDC)

Introduction and Overview



Duna Refinery Százhalombatta, Hungary

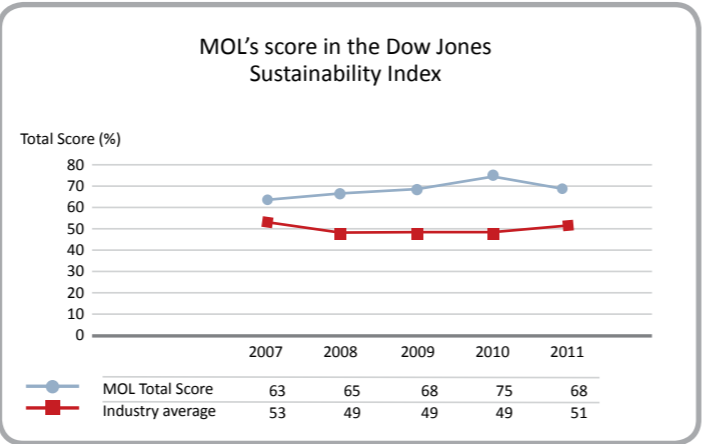
INTRODUCTION

Sustainability related data and information have been integrated into all sections of the MOL Group Annual Report 2011. This chapter aims to summarise our objectives and the progress made in the 6 sustainability focus areas of MOL Group. Besides this, a business division level summary can be found in the ‘Our businesses’ chapter. If you would like to read further, a more comprehensive overview of MOL Group’s sustainability strategy, activities and results can be found at www.mol.hu/sd.

At the beginning of 2011, MOL Group defined its general long-term sustainable development target to be reached by 2015: “Achieve and maintain an internationally-acknowledged leading position (in the top 20%) in sustainability performance”.

As a key performance indicator (KPI) we utilise the total score awarded by the Dow Jones Sustainability Index. According to this Index, MOL Group is among the 12 most sustainable companies (the top 10%) of the oil and gas producing sector and was included in the Dow Jones Sustainability World Index for the second time — the first and sole company from the region. In 2011, MOL’s best performing areas were ‘Risk Management’ (94%), ‘Codes of Conduct/Compliance/Corruption & Bribery’ (93%), ‘Environmental Reporting’ (93%) and ‘Social Reporting’ (92%).

The main reasons for the drop in our total score when comparing 2011 with 2010 were: (1) receiving a lower score for ‘Exploration & Production’ criteria; (2) the inclusion of a full set of INA data – which has lower sustainability performance - in the report; and (3) methodological changes in the scoring system.



OVERVIEW OF TARGETS FOR 2011

Targets for 2011 in the Six Sustainability Focus Areas	Status	Fulfilment of the Task*
1. Climate change		
Reduce specific GHG emissions by 1% (baseline YE2010) **	The Group stayed on track during the year and was very close to achieving its goals (Refining -1.3%; Petrochemicals +1.5%; Upstream -5%)	●
Obtain geothermal concession for the pilot project and execution of geothermal related R&D activities	No progress was made because the concession tender has not yet been published in Hungary	○
Finalise integrating the biogas plant into refinery systems and start construction work	Development of Biogas production technology using waste from the Rossi FAME Production Factory has been completed and integrated with the Duna Refinery. Preparation of the main contractor tender is ongoing. In parallel, a Test and Research Unit (which will support further development of the Biogas technology) is under construction	●
Continue investigation into the potential for using renewable energy sources in refining		
Continue research on algae-based technology for CO ₂ fixation and biocomponent production	Development of a new algae strain with 30%+ faster growth rate compared to original strains. Selection of a cold-resistant algae strain for extending the algae cultivation period in spring and autumn	●
R&D on new generation biofuels and further improvement of technology (including algal biomass utilisation as biogas or biodiesel feedstock)	Efficiency improvements in biomass harvesting. Optimization of cultivation media through utilizing refinery wastewater	●
Increase the ratio of recycled vegetable oil (used cooking oil) in the fuel pool	A further innovation has been made which affects the whole supply chain; it is now possible to use recycled vegetable oil (used cooking oil) as a base material for FAME production, even in the winter. This allows us to increase production of waste-based fuel. In 2011 more than 50,000 tonnes of waste-based bio-component was used for diesel production and as a result of the collection program at retail stations in Hungary, 30 tonnes of used cooking oil were collected	●
2. Environment		
Using a risk-based approach, decrease the amount of known (YE2010) environmental liabilities across MOL Group by 5%	The yearly target is considered as having been met: a decrease of 4.7% was recorded. The slight underperformance mainly resulted from the updating of liability data at both INA and IES; the two ‘newcomers’ in this regard	●
Establish a group and business unit biodiversity system	According to the result of an evaluation (using international best practice, oil and gas industry benchmarks and business activities) a MOL Group Biodiversity Programme (Primer, Strategy, Group Level Biodiversity Action Plan) was prepared	●

*level of fulfillment of the task (●=100%)
**The targets set and evaluated cover the HSE integrated companies of MOL Group in 2011 (this excludes the INA Group and Russian operations, etc.); the operations covered generate ca. 80% of total revenue.

Targets for 2011 in the Six Sustainability Focus Areas	Status	Fulfilment of the Task*
3. Health and Safety		
Ensure total reportable occupational illness frequency (TROIF) is zero **	No occupational illness cases have been recorded so TROIF is zero at present across the whole Group	●
Achieve a 15% 'Regularity Rate' in the STEP (WHP) Programme by the end of the year (MOL, TVK, SN - Slovnaft, SPC – Slovnaft Petrochemicals)	A 'Regularity Rate' of 25.8% was achieved in 2011, exceeding the target set	●
Zero work-related fatal accidents across MOL Group (staff, contractors and third parties) **	1 own staff, 5 contractor and 5 third party fatalities occurred	○
Ensure LTIF (Lost Time Injury Frequency) is less than 1.0 **	LTIF calculated according to target setting for 2011 is 1.23, slightly worse than the target. The LTIF for the whole Group is 2.15	◐
Ensure RAR (Road Accident Rate) is not higher than 1.6 **	A significant reduction in RAR to 0.98 was achieved. The overall RAR of the whole Group is 1.7	●
4. Communities		
Define general rules valid for all MOL Group companies engaged in advertising to guarantee responsible marketing	A Responsible Advertising Policy has been accepted and will be built into MOL Group's Regulations System	●
5. Human Capital		
Enhance employer branding (strategy and image design) based on the results of the Employer Branding Survey of 2010	Results in Hungary were analyzed and harmonized with MOL's corporate brand project. In Slovnaft and INA a survey was conducted	◐
Prepare to extend the Employee Performance Management System (EPMS) to INA	Extension to INA is postponed due to a management decision	○
Extend the Equal Opportunities Plan to major Hungarian subsidiaries	Equal opportunity coordinators have been nominated and the transmission of MOL Plc.'s experience on the initiation of the Equal Opportunity Plan (EOP) has started. TVK's EOP is expected to be approved in 2012	◐
Continue the Professional Competency Development Program (Petroskills) in Upstream and extend to R&M and HSE	Group level, in-house training schemes were started. 12 in-house training events were organised (with 177 participants) at Upstream. A similar pilot project was launched at the Refinery and HSE departments	◐
6. Economic Sustainability		
Issue a Business Continuity Management (BCM) regulation valid for the MOL Group, and roll out first phase	During a pilot project the entire process (from incident to production) was reviewed and modelled by Risk Management in one of the units at the Duna Refinery	◐
Increase awareness of ethics, improve ethics management at the Group level and implement all ethics-related activities planned for 2011	The renewed Code was reissued later than scheduled therefore several ethics-related activities are delayed.	◐

*level of fulfillment of the task (●=100%)

**The targets set and evaluated cover the HSE integrated companies of MOL Group in 2011 (this excludes the INA Group and Russian operations, etc.); the operations covered generate ca. 80% of total revenue.



MOL filling station Budapest, Hungary

Performance in the six sustainability areas of focus



MOL filling station Budapest, Hungary

HIGHLIGHTS

In 2011, ca. 51 kt waste-based bio-component was used for diesel production, thanks to - inter alia - a campaign to collect used cooking oil from households

MOL opened a concept Filling Station to test sustainability technologies

'LOWHIGHLIGHTS'

Construction of biogas plant will only commence in 2012

 mol.hu/climatechange

At the beginning of 2011, the management of MOL Group approved the SD strategic framework for the MOL Group for the years from 2011 to 2015. It consists of detailed objectives for the six focus areas at a Group and also at a Business division-level. The following chapter is a summary of the main activities, projects and data related to these areas and goals. We try to refer to long-term goals wherever it is applicable.

To see the detailed Group-level strategic objectives, please visit our [website](#).



CLIMATE CHANGE

General aim: 'Manage risks and opportunities related to climate change'

Future Product Portfolio

Related objective: 'Increase the share of low-carbon products and services'

We are committed to increasing the share of low-carbon products and services we offer. As a result of our efforts in this area, several Research and Development projects are underway in order to broaden our portfolio.

Waste-based bio-component blending

In 2011, as the next part of our corporate social responsibility contribution, we launched a successful waste cooking oil collection campaign. In our joint venture bio-diesel producing facilities (which have undergone technological development over the last two years) MOL is now able to blend bio-diesel which is based on the collected used cooking oil throughout the whole year, which contributes to improving the efficiency of Downstream.

Second generation bio-diesel research


To prepare for EU renewable energy regulations in a timely and sustainable manner, we need to start the production of second generation bio-diesel. Research has started in order to establish the pre-requisite conditions for cost efficient new generation bio-diesel production. The emerging new technologies promise a better product quality, increased raw material base and fewer by-products. As the result of the successfully finalized first phase of the project, we were able to register a product patent.

Algae research

Algae will presumably have a significant share in third generation bio-fuel production. We can exploit synergies at the Danube Refinery, since algae can be used to capture a vast amount of carbon dioxide from vented emissions. In addition, different kinds of waste water could be utilized. Another business driver for algae research is the goal of producing enough renewable feedstock for bio-diesel and bio-gas production. Based on laboratory research we set up a small-scale experiment in Százhalombatta as a first step towards catching up with the world's leading algae processing companies (which produce four times as much as we do currently).

Chemically stabilized rubber bitumen production

MOL, together with The University of Pannonia, developed a new, patented production method which is capable of producing Chemically Stabilized Rubber bitumen (CSRB). Through using suitable technological methods the unfavourably high viscosity of classic rubber bitumen can be reduced. Tests have proved that the performance of CSRB is comparable to high quality polymer modified bitumen, or even better. Not only can we reduce waste amount by processing waste rubber tires, but due to its longer lifespan and less need for maintenance, less CO₂ is emitted during asphalt production and road construction.


Click [here](#)  to read a relevant article from the MOL Scientific Magazine.

Bio-gas plant establishment

The biogas production concept has started being developed based on the renewable waste and the by-products of our bio-diesel units, which exploits refining synergies. Our goal is to produce a significant amount of bio-gas (capable of covering 10% of the heating gas needs of the Danube Refinery) in a renewable way.

Waste plastic-based fuel production

The aim of our plastic cracking project is to develop new technologies for creating so-called 'synthetic crude oil' out of plastic waste. Creation of industrial scale processing techniques may offer both sustainability and business benefits.

Click [here](#)  to read a relevant article from the MOL Scientific Magazine.

Geothermal energy

Unfortunately, in 2011 MOL was not able to move forward with geothermal energy exploration, production and utilization because a concession tender was still not published in Hungary.

Energy efficiency and GHG emissions

Related objective: 'Improve energy efficiency'

Energy Efficiency

Probably the most visible project of the year – undertaken by our Retail division – was the reconstruction and realization of our sustainable development flagship filling station (FS) in Budapest, Istenehyi road, in Hungary. The technologies utilised make a direct contribution to producing energy, save energy passively and have an indirect effect on the milieu of the filling station. The goal of the concept filling station – using a pioneering approach – is to find methods for solving future challenges and gain experience in operating systems that are in advance of present industrial standards. Based on the experience gained, MOL can decide which elements to implement across the filling station network.

The project scope includes the following energy efficiency-related elements:

The extended thermal insulation saves energy by using 3 pane portals with a special framework and extra thick thermal insulation on the walls and roof.

The green wall system protects the building on hot summer days, provides fresh oxygenated air to the city and reduces CO₂ emissions (66m² means a saving of 3t CO₂/year). It creates a positive psychological effect on customers and also ensures a pleasant micro-climate at the filling station.


The green roof system reduces temperature peaks both in summer and winter – saving energy. It uses rainwater and it ensures a pleasant micro-climate at the filling station.


The heat pump system heats and cools the building and the water it uses. The air-based system has no effect on the subsurface or groundwater. It works according to extra soundproof noise specifications.


The re-use of rainwater saves drinking water. Water is directed to the green building components (walls and roof) therefore less additional watering is needed.

LED illumination is energy efficient lighting. Due to its protracted lifespan (when compared to regular light bulbs) the use of LEDs also reduces waste.

The Solar / photo voltaic system provides renewable energy for the filling station and additionally provides shade for the service area. The systems produce approximately 30,800 kWh/year.

On the LED info panel information will be continuously broadcast to customers beyond the shop entrance to improve their awareness of Sustainability-related issues.
Click [here](#)  to read a relevant article from the MOL Scientific Magazine.

Retail made further achievements in reducing energy consumption in 2011. 100 filling stations in Hungary and 39 TIFON filling stations in Croatia have been equipped with motion sensors, minimizing the unnecessary consumption of electricity. Slovnaft ran a campaign across its entire network in order to identify and to repair possible water leakages and also to ensure that filling stations were heated to the appropriate temperature, to reduce wasted energy.
Click [here](#)  to read a relevant article from the MOL Scientific Magazine.

At Refining, Petrochemicals and Upstream we continued implementing our energy efficiency programmes. For further detailed information please refer to the GHG emissions chapter.
Click [here](#)  to read a relevant article from the MOL Scientific Magazine.

At MOL-LUB three main projects were implemented. A new lighting system was constructed for the Logistics warehouse: proper lighting conditions are now combined with a decrease in use of electricity. New precision instruments were installed in the plant to automatically produce Aluminium isopropyl. The Additive Production Plant and Lubrication Grease Production Plant can now operate at the same time and be supplied with electricity using the same furnace. A reduced duration of furnace operation leads to reductions in energy use. A new pipeline between the grease plant and oil blending plant has been installed and, due to this, transportation of raw materials can now be done via the pipeline, instead of using the railway – saving a large amount of fuel.

GHG emissions
Related objective: 'Ensure all sites move up one decile from current positions in their sectoral CO₂ benchmarks by 2015'

We pay focused attention to improving our CO₂ intensity to be able to maintain competitiveness in a carbon constrained world. Energy efficiency programs throughout MOL Group deliver improvements in CO₂ intensity per unit of production at different business units. Upstream initiated a full process revision and optimization process at the Algyő Gas plant which is expected to deliver a 20% CO₂

* The CO₂ benchmark value was calculated by ranking each installation in a specific sector using its CO₂ performance. The average of the best 10% was then taken as a Europe-wide benchmark. These results of the ranking were then split into 10 equal parts (deciles). The performance of each MOL sector was rated according to those deciles, based on its actual performance. Our goal is to improve performance by one decile for each installation.

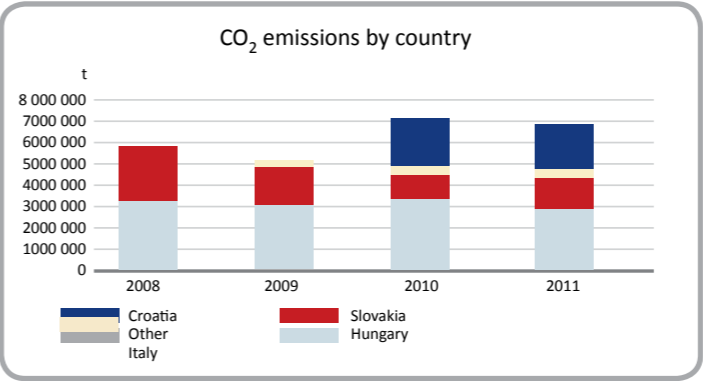
emissions decrease against 2010. In our Russian operations we focus on utilisation of process-associated gases (i.e. raw natural gas that comes from crude oil wells) to generate power for our own consumption. The 11 million m³ of utilized gas translates into a 22 kt reduction in CO₂ emissions according to newly-reported Russian data. We have started to implement modern lighting schemes in major Upstream plants, and in smaller units efforts are underway to separate peripheral lighting from main operational lighting.

At Refining, we completed energy efficiency improvements in production in 2011 at our AV2 unit in the Danube Refinery, and as part of the Eiffel programme, energy efficiency improvements at the Tisza Refinery mean that the use of 1,200 tonnes/year steam and 570 MWh/year electricity are avoided. An energy audit at the Slovnaft Refinery was also a contributor to improving refinery CO₂ intensity by 6% year-on-year. At the IES Mantova Refinery we increased the efficiency of operations through strict monitoring of fuel consumption, reduction of fuel oil consumption and virgin naphtha consumption and an increase of natural gas consumption, just to mention a few factors. These projects delivered decreases of 19 kt CO₂ with an additional 7.5 kt of avoided other air emissions. The Energy Conservation Team at the INA Rijeka Refinery created a comprehensive action plan (an “Energy Road Map”) which includes items such as network maintenance and a condensate recovery system.

For years, the majority of the projects included in the Petrochemical business plan have combined economic/technological improvements with a reduction of our environmental footprint. The one which delivered the most tangible reductions in CO₂ emissions was modification of fuel gas transfers between steam crackers and furnace reconstruction (which delivered almost 20 kt/year of avoided emissions). In future years we plan to implement projects such as replacing the quench oil in the steam cracker boiler with natural gas, putting into practice an Operational Management and Monitoring System and more. All these initiatives are expected to deliver an additional 17 kt of emission reductions per year.


On aggregate, our energy efficiency efforts have reduced CO₂ emissions by 3% compared to 2010 (equivalent to more than 200 kt).

Furthermore, 575,449 tonnes of CO₂ emissions were saved at group level in 2011 by blending components in fuels. Compared to the results of the past three years, a total decrease of 1,514,667 tonnes was made in the CO₂ emissions .



Renewable Energy
Related objective: 'Increase the share of renewable energy we consume'

All the renewable energy related projects and research which started earlier were continued. The main achievement of the year was the construction of our concept filling station which utilises solar and geothermal energy (see details above). In Pakistan, we introduced solar power systems for well sites, valve assemblies, cathode protection systems and security posts on hilltops to generate the power required. In 2011 the contribution of solar energy was approximately 6.6% of the total energy consumption of the central processing facility.

Click [here](#)  to read a relevant article from the MOL Scientific Magazine.

ENVIRONMENT

General aim: 'Reduce our environmental footprint'

HIGHLIGHTS

Total amount of waste was decreased by 6.9%

34% decrease in water withdrawals since 2008 (without INA)

‘LOWLIGHTS’

HUF 53 Mn paid in penalties

mol.hu/environment



Air emissions

Related objective: 'Measure/calculate & decrease VOC emissions through using LDAR methodology throughout the MOL Group'

In order to achieve our strategic target of decreasing our VOC emissions, we rolled out a ‘leak detection and repair’ (LDAR) program and started pilot projects at Hungarian installations. The projects will contribute not only to air quality improvement in local neighbourhoods, but will also decrease hydrocarbon losses.


In 2011 we focused on reducing VOC emissions. Most emissions come from the combustion of fossil fuels and from refining technologies. In MOL Group, the Refining division accounts for up to 72% (58% without INA Group) of total pollutants emitted to air. The most significant pollutants which refineries create are SO₂, NO_x and VOCs. We focus on reducing emissions by installing low NO_x burners and implementing programs to detect and eliminate VOC leakage. The LDAR program has been running in Slovnaft and IES Refineries for several years and we are now gradually introducing this program to Hungarian installations where LDAR pilot projects have already started. Among other VOC-related initiatives are pump seal replacements and covering waste water basins to prevent further VOC leaks. The increase in total VOC emissions between 2010 and 2011 was mainly due to the inclusion of data from Russian sites Matyuskinskaya Vertical (255 t) and Baitex LLC (842 t).

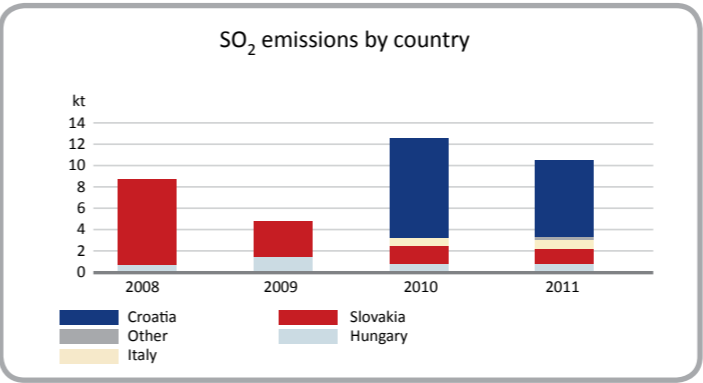
Total air emissions (excl. GHG) by type (t)

	2008	2009	2010 without INA	2011 without INA	2011/2008 (%)	2010 Total MOL Group	2011 Total MOL Group
SO ₂	8,805	4,389	2,940	2,690	(69.4)	13,142	10,625
NO _x (Nitrogen Oxides)	5,054	3,937	3,442	3,197	(36.8)	7,874	7,531
VOC (Volatile Organic Compounds)	5,627	3,683	4,133	4,834	(14.1)	4,211	4,901
CO (Carbon Monoxide)	824	880	864	2,413	192.7	1,599	3,295
PM (Particulate Matter)	298	205	184	359	20.3	361	492
Total	20,608	13,094	11,563	13,493	(34.5)	27,187	26,844

Even though the power generation assets at the Duna and Slovnaft Refinery are only partly owned by MOL, we do not ignore these sources of emissions. All the permits necessary for the construction of highly efficient CCGT (combined cycle gas turbine) plant at Duna refinery have successfully been obtained and the project is ready for implementation. The power plant at the Slovnaft refinery (which

burns heavy residues from the refinery) has been equipped with a flue gas desulphurisation unit which will significantly decrease its SO₂ emissions. At the same time, several boilers are being upgraded in Slovnaft to meet legal regulations. The use of natural gas to generate energy at the Rijeka refinery power plant has made an additional contribution to reducing SO₂ emissions.

Click [here](#)  to read a relevant article from the MOL Scientific Magazine.




Similarly to the Refining division, at Petrochemicals we are also paying increased attention to reducing VOC emissions. All of the planned data collection required by the LDAR program (including on the spot measurements of emissions) was completed at SPC. In TVK a project for installing fixed roofs on floating roof tanks is in progress. At SPC we prepared a feasibility study on filtering the naphtha feed for the Steam Cracker unit which would enable the reduction of CO₂, NO_x, SO_x and PM during the operation of furnaces.

Even though Upstream does not emit the same quantities of emissions as Downstream (Refining or Petchem), our goal is to continuously decrease emissions here too, and our target is to flare and vent gas for only technological and emergency reasons. At the Upstream R&D unit a project is in progress whose goal is to develop a measuring tool which can measure the VOC emissions of glycol regenerators. In 2011 there was a pilot measuring experiment at the Ferencszállás gathering station. The next step is to adapt the tool to meet criteria specified in regulations designed to reduce the risk of explosions. An additional project that the R&D organization is working on is H₂S removal from natural gas technologies.

As the most significant pollutants at Logistics and Retail divisions are VOCs, it is self-explanatory that we followed the focus of other divisions and dedicated our efforts to reducing this substance. At Logistics in Slovakia, LDAR methodology has been used for many years due to legal requirements. Now, MOL Hungary and MOL Romania are expected to introduce LDAR in 2012 through pilot projects. In our Komárom depot we have successfully finished the reconstruction of the vapour recovery unit (VRU).

The approach to VOCs at the Retail division is that we utilise technical solutions that provide a higher level of environmental protection than required by local legal regulation. Each filling station under reconstruction is fitted with phase II VRU (Vapour Recovery Units). Besides this, to reduce emissions associated with the use of our products, we are gradually phasing in an additive (‘AdBlue’) to our fuels at filling stations.

Click [here](#)  to read a relevant article from the MOL Scientific Magazine.

Water management

Related objective: 'Reduce total water withdrawals by 5% by 2015 (baseline: 2010)'

Water withdrawals

In accordance with MOL Group strategic targets we aim to reduce our total water withdrawals by 5% within the next 5 years. In order to achieve this target all business units are making concerted efforts; major projects have been launched and are now operational.


Total water withdrawals by source (th m³)

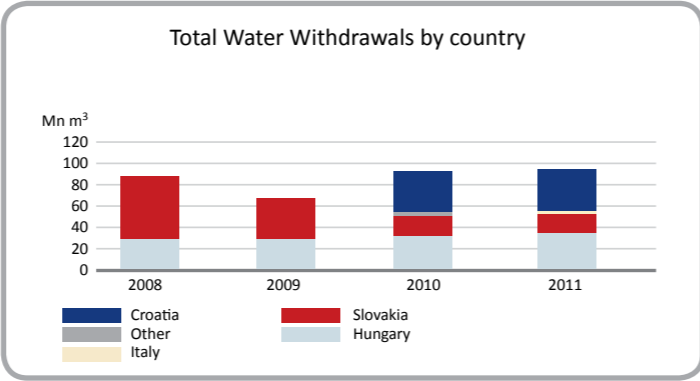
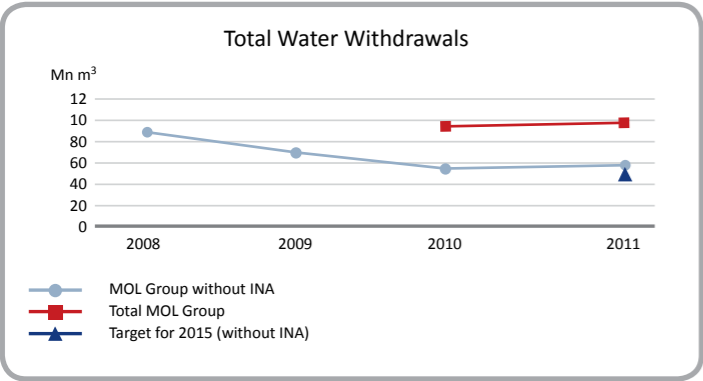
	2008	2009	2010 without INA	2011 without INA	2011/ 2008 (%)	2010 Total MOL Group	2011 Total MOL Group
Municipal Water Supplies or Other Water Utilities	2,186.4	2,175.5	2,449.1	2,298.1	5.1	3,523.7	3,478.0
Surface Water Withdrawals	65,612.4	50,653.2	36,267.6	36,475.0	(44.4)	68,512.4	72,795.3
Ground Water Withdrawals	9,421.9	8,950.4	10,610.4	11,536.1	22.4	12,571.9	12,785.3
Rainwater Collected Directly and Stored	591.1	583.8	9.0	6.5	(98.9)	565.3	487.8
Wastewater from Other Organisations	8,233.9	6,054.6	6,794.3	6,383.7	(22.5)	6,794.3	6,383.7
Total water withdrawals	86,045.8	68,417.5	56,130.4	56,699.4	(34.1)	91,967.7	95,930.1

Compared with 2010, total water withdrawals increased by almost 4.3% (4 million m³) but it should be noted that this increase basically originates from a new investment (a Hydrogen Generation Unit) at the INA Rijeka Refinery which resulted in increased demands for water. In 2011, four additional Upstream companies were involved in reporting, increasing Group withdrawals by 0.3% (0.3 Mn m³). At Refining, the total water withdrawals of our Danube Refinery remained the same as for the previous two years. With decreased crude oil processing, specific water use amounted to 1.64 m³/ton crude. In 2012 we plan to launch a fresh water saving project which reuses treated wastewater (at 500 m³/h) which will enable us to achieve a reduction in water use to 1 m³ freshwater/ton crude, or less, from 2014. At our Hungarian and Slovakian refineries we sustained the good quality of discharged effluent, as has been managed since 2008. The Bratislava Refinery received a new permit for its waste water treatment plant while the Ethyl benzene, Cumen and Phenol production units were closed down. Due to this, water withdrawals decreased by 33% compared to the previous year. At the INA Sisak Refinery, due to a lower level of production in 2011, reductions in water withdrawals of 28% were recorded (more than projected in our last report).

At Upstream, in the framework of the ENRAC project (Hungary), steam boilers were replaced by hot-water or thermo-oil boilers, thereby reducing fresh water consumption. Due to this replacement an estimated 5% reduction in water withdrawals was achieved for Upstream in Hungary. In Pakistan, a 31% reduction in freshwater consumption was recorded (compared to 2010) by identifying & repairing leakages in water storage tanks & distribution systems. At INA Upstream operation of the gas treatment plant CPS Molve was optimised, leading to a 5% decrease in steam and related boiler supply water.

At the Retail division, Energopetrol (Bosnia), the main strategic target is modernisation of filling stations. The reconstruction works involve installing double-walled tanks, new separators, leakage detection systems, dispensers and remediating excavated contaminated soil. Up to now, 18 filling stations have been renovated and an additional 9 filling stations are under reconstruction. Due to these improvements, environmental performance (including water conservation) was significantly enhanced at the filling stations. After piloting the use of some waterless toilets in the TIFON network, similar ones have been installed at one of MOL's filling stations (Fóti út, Budapest) as a test run.

Click [here](#)  to read a relevant article from the MOL Scientific Magazine.



Water discharge

Compared with 2010, total water discharge was reduced by 6.3% (approx. 6.7 Mn m³). Overhaul and renovation of wastewater systems and a more conscious use of water has resulted in a significant reduction in water discharge across the MOL Group. We significantly reduced the quantity of emitted pollutants in water discharges, too. The decrease is especially notable for TPH and COD components compared to last year's performance; TPH decreased by 23.7% (17.7 tonnes), while COD was reduced by 11.9% (281.8 tonnes).

This year a project started which is designed to improve the environmental performance of the Danube Refinery wastewater treatment plant and to fulfill likely new demands from future investments. Effort was also spent on reconstructing sewer systems to reveal leakages and stop any contamination of soil and groundwater.

Amount of contaminants (t)

	2008	2009	2010 without INA	2011 without INA	2011/ 2008 (%)	2010 Total Group	2011 Total Group
Total Petroleum Hydrocarbons (TPH)	29.8	44.1	46.2	39.9	33.9	74.8	57.1
Chemical Oxygen Demand (COD)	1802.0	1807.0	1773.4	1649.1	(8.5)	2376.5	2094.7
Biological Oxygen Demand (BOD)	378.0	387.4	433.7	424.6	12.3	582.7	568.0
Solid Substances (SS)	978.0	909.3	948.3	921.1	(5.8)	1055.5	1038.4

Waste management, spills and site remediation

Waste management

Related objective: 'Reduce specific generated wastes from routine operations by 5% and increase the ratio of waste reuse/recycling by 2015 (baseline: 2010)'

In 2011, the total amount of waste arising from MOL Group operations was approximately 158.7 thousand tonnes, which represents a 6.9% decrease compared to 2010. Due to the efforts, the ratio of reused or recycled waste has increased by more than 36.5% since 2008.

Total weight of waste by type and by waste handling methods (t)

	2008	2009	2010 without INA	2011 without INA	2011/ 2008 (%)	2010 Total MOL Group	2011 Total MOL Group
Hazardous Waste	98,791	66,782	88,083	84,700	(14.3)	92,918	89,895
Non-hazardous Waste	57,619	66,873	69,246	59,726	3.7	77,604	68,783
Total Waste	156,410	133,655	157,329	144,426	(7.7)	170,522	158,678
Waste Disposed / Landfilled	92,175	68,198	68,975	63,449	(31.2)	80,202	74,656
Waste Reused / Recycled	64,235	65,456	88,355	80,977	26.1	90,320	84,023
Total Waste	156,410	133,655	157,329	144,426	(7.7)	170,522	158,678
Ratio of reused/recycled waste	41%	49%	56%	56%	36.5	53%	53%

In 2011, due to the reduction in production from Upstream Hungarian sites there was a significant decrease (approx. 10,000 tonnes, compared to the former year) in the amount of non-hazardous waste.

Examples of waste management activities:

- In Slovnaft Refinery, due to a change in the treatment technology for processing water (use of a Reverse Osmosis unit), a decrease of more than 1,500 tonnes was recorded. Almost 98 % of spent catalysts were recovered; only the waste remaining from production was landfilled (after solidification). Moreover, from the separate waste collection system, 27 tonnes of paper and cardboard packaging, 1.18 tonnes of waste glass and 2.88 tonnes of plastics were recycled.
- In Upstream in MOL Pakistan we reduced by 3.1% waste at production sites. We found a professional waste collection company for recyclable wastes, chemicals and chemical drums. In Pakistan, we treated 1,700 tonnes of oil-based mud cuttings through a biological-based remediation process.
- A selective waste collection system was integrated into each operational site of the INA Rijeka Refinery. Both hazardous and non-hazardous waste are collected and disposed in accordance with legal requirements.
- In Croatia, separate collection of packaging waste (and its attendant recycling) was organized at more than 50% of filling stations; plans are to extend collection and recycling to all of them.
- Slovnaft Retail created an HSE awareness campaign for customers, calling their attention to the importance of selective waste collection and to the collection bins that are available across the Slovnaft filling station network. Selective trash bins have also been employed at the Sarajevo region in Bosnia, and in the Novi Sad region in Serbia.
- At certain Hungarian Retail sites (165 filling stations) we expanded the scope of our residential services with our used cooking oil program. By now, 51.3 tonnes of used cooking oil has already been collected from the collection points; a great success. The used oil is reused as a feedstock in biofuel-component production. For more information please visit our website.

In our Lubricants division, 28.3% (2009: 9.2%; 2010 19%) of sold products were recollected and used as raw material for bitumen production in our refineries.

Click [here](#)  to read a relevant article from the MOL Scientific Magazine.

Spills

In 2011 a total of 28 spills (above 1 m³) occurred, including 10 cases at our Croatian operations (INA).

The majority of spills (13 cases) happened at Upstream 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 theft of condensate from pipelines. In order to prevent further spills, Upstream continuously invests in efforts to replace or repair critical pipeline corridors; in Hungary a section of 3 kilometres was changed.

The rest of the spills happened in Downstream. The details are the following:

- 10 cases in three different refineries, including the incident with the second biggest volume of spillage (90 m³ petroleum which was spilt due to freezing of a pipeline at the Duna Refinery)
- At four Logistics sites there were 5 cases of spillage, one of them with the biggest volume (200 m³ diesel at the Bratislava Refinery depot due to corrosion of an underground pipeline leading to the port).

After detecting the incidents, all necessary measures for alleviating the damage and its consequences – remediation included – were immediately put into effect.

The total volume of the spills – not only, but mainly as the consequence of the two aforementioned bigger events – amounted to 525 m³ in 2011.

Remediation

Related objective: 'To reduce by 25% the known environmental liabilities of MOL Group applying the risk-based approach'

In accordance with MOL Group strategic targets we aim to reduce our liabilities by 25% within the next 5 years. In order to meet this target we operate a Group-level remediation programme aimed at eliminating environmental damages. In Y2011 we reduced our liabilities by 4.7%, which indicates that the current strategic goal is realistic.

In the frame of the basic remediation programme – launched at MOL, Slovnaft, TVK – we completed 10 remediation projects, and at further 13 locations the file was closed after the post-monitoring phase. Currently we have approximately 230 open files where the remediation processes are at various stages of completion. Annual spending was HUF 1.15 billion in Hungary, while the Slovak implementation cost HUF 1.25 billion.

In the case of IES, the main goal was integrating remediation projects into the Group programme. Considering the local demand for improved control, more water withdrawals will be necessary in the future. Since a significant volume of water will be produced, we are investigating different opportunities for using this water in the Refinery and thereby decreasing water intake from other sources. Annual spending for IES was HUF 0.29 billion.

The INA remediation programme is still at a preliminarily phase of development. Knowledge transfer has begun and we have supported future implementation through strategy building and provision of detailed tender materials. Remediation works are continuously ongoing at the Rijeka Refinery, and new activity, harmonised with the reconstruction of 3 Filling Stations – namely, the remediation of the network – has begun. Annual spending was HUF 262.7 million.

Click [here](#)  to read a relevant article from the MOL Scientific Magazine.

Biodiversity

Related objective: 'Implement biodiversity action plan for new projects from 2012 and monitor ecological status at critical operations from 2014'

The MOL Group level Biodiversity System has been established. We have collected details on international best practises, oil and gas benchmarks and MOL group's business activities that are already in place related to the protection of nature. According to the results of the evaluation we undertook, MOL Group Biodiversity Program (Primer, Strategy, Group Level Biodiversity Action Plan) was prepared and accepted by management. In 2012 we aim to prepare business-level Biodiversity Action Plans, define standard (minimum requirements) for Environmental Impact Assessments (EIA) and prepare further awareness-raising materials (posters, presentations, internal newsletters etc.).

HSE Compliance

In 2011, the MOL Group had to pay a total of HUF 53.35 million in HSE-related penalties, including HUF 6.05 million for companies in the INA Group. The largest fine – HUF 33.35 million – was paid by the Hajdúszoboszló site (Hungarian Upstream), because the temperature of treated, discharged wastewater exceeded the threshold defined by authority by 4 °C in a period of hot summer weather.

Furthermore, certain administrative mistakes in environmental data reporting (e.g. signatures on reports, or delays in reporting, HUF 2 million) and the faulty work-safety performance of our contractors (HUF 1.5 million) were responsible for some of the fines as well. However, incident-related occasional minor breaches of environmental regulations (e.g. pollution related to spills) also resulted in approx. HUF 12.7 million of penalties being awarded.

Considering the HSE aspects of the oil and gas industry, we can state that as result of our continuous efforts MOL's level of compliance has clearly improved in recent years, although in this report we have to admit to incurring more penalties than last year. We are not satisfied with this figure and are still committed to reducing all health, safety and environmentally related penalties to zero throughout the entire MOL Group.

HIGHLIGHTS

From 7% to 47% improvement in lost time injury rate since 2005

Enhanced control of contractor safety due to the renewal of the safety programme

Process safety management implementation started in IES

‘LOWLIGHTS’

HUF 53 Mn paid in penalties

mol.hu/safety



Personal Safety

Related objective: 'Implement a program with the goal of zero injuries and occupational illnesses and eliminate high health-risk workplaces by 2014'

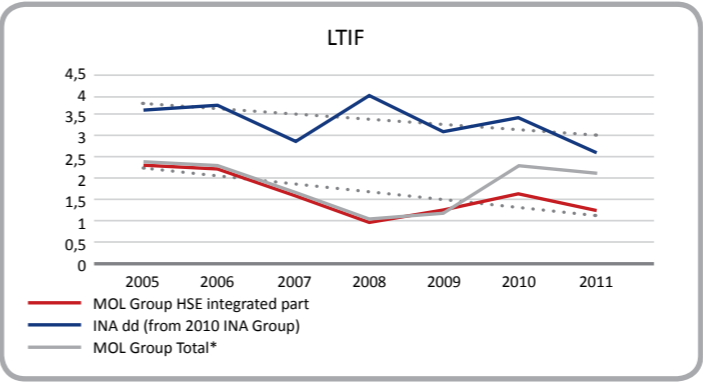
Workforce Safety

The challenging 1.0 LTIF target for year 2011 for the MOL Group (INA, its subsidiaries and some other companies under integration excluded) was not achieved; LTIF was 1.23. Although this is a better result (by more than 21%) than the LTIF of the previous year (LTIF in 2010 was 1.56) and is better than the CONCAWE benchmark (1.9 for both 2008 and 2009, 2.0 for 2010), it is still not considered fully acceptable by MOL due to our demanding HSE targets. One of the main causes of injury is still the high number of slips, trips and falls (15 out of total 30 LTI cases) and other non-technology related LTIs which are not really related to the prime risks of our hazardous industry.

Frequency of lost time injuries (LTIF)

	2005	2006	2007	2008	2009	2010	2011	2011/ 2005 (%)
MOL Group, HSE integrated part	2.31	2.2	1.55	0.97	1.19	1.56	1.23	(47)
INA dd. (from 2010 INA Group)	3.6	3.7	3.4	4.0	3.1	3.4	2.6	(28)
Total MOL Group*	2.31	2.2	1.55	0.99	1.13	2.25	2.15	(7)

*from 2010 including INA Group, from 2011 all HSE relevant MOL Group Companies



We are sad to report on one own staff fatality (one of our employees caused a road accident on a Hungarian highway in which he lost his life), five contractor fatalities (contractors shot in a firefight in Pakistan) and five third party fatalities (one person shot in Pakistan, four people died in different road accidents, partly caused by them, partly by MOL Group contractors), despite our zero fatalities target. The most serious own staff LTI, besides the above-mentioned fatal road accident, happened at Logistics MOL in the Duna Refinery, when an employee – who was called to a scene outside of his general operational area – climbed onto the top of a rail tank car, although this was forbidden, and received a high voltage (22 kV) shock. Fortunately, with immediate first aid and professional medical treatment in hospital he recovered fully without any further consequences to his health.

In 2011 there were no own staff fatalities in INA operations and the LTIF target of 2.5 was almost met: INA showed significant improvement compared to 2010. In 2011, INA Group LTIF was 2.6 (due to the 73 recorded LTI cases, out of which 29 were categorized as technology-related, 28 as slips/ trips/ falls and the remaining 16 as other non-technology) which represents a 24% improvement compared to the previous year.

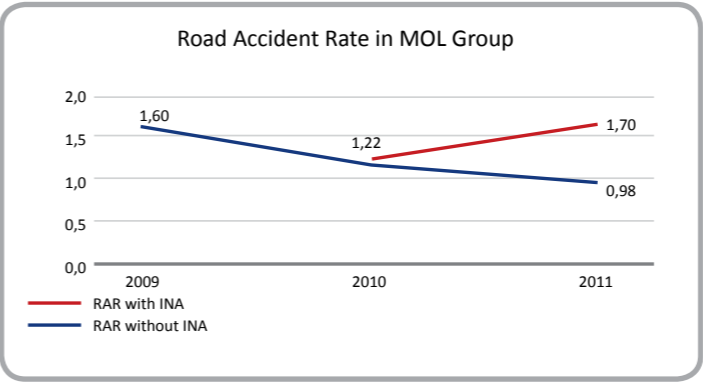
The oil industry requires high awareness of the protection of health and safety at work, so these are among the top priorities and basic prerequisites for the successful operation of any oil company. The MOL Group has set up an all-encompassing system of managing occupational health and safety at work, with the aim of continuously improving the level of safety and regularly monitoring the status of employees’ health. Special attention is given to adequate employee training, to ensuring that work takes place in a safe manner and to minimizing risks related to daily work activities.

No Occupational illnesses were discovered or reported in 2011.

Road Safety

Related objective: 'Extend Defensive & Eco vehicle-driving practices to all relevant employees and maintain top quartile road accident performance rates'

Compared to previous years, our road accident indicator shows a decrease. According to our target setting coverage in 2011 we decreased our road accident rate (RAR, number of accidents per 1 million km driven) to 0.98. If INA data is included, RAR was 1.7 for 2011.



Besides this improvement, we must unfortunately report one own employee and four 3rd party fatal road accidents in 2011. We deeply regret the loss of these lives.

To maintain interest in safer driving, we have continued the Defensive Driving Programme and the advanced driving courses (slippery roads, driving off-road, driving at night and in poor visibility conditions, and untrained drivers training). This year, approximately 200 MOL Group employees participated in the training seminars. Since 2007, more than 1,700 employees have taken part in theoretical courses, and almost 1,000 participants have attended practical training sessions.

As an HSE Catalyst cultural change initiative, INA launched its 'Safe Driving Programme' to support the National Road Safety Program 2011-2020. This programme improves employees' awareness of traffic hazards and promotes more responsible driving. The programme consists of a number of initiatives: policy & standards, communication, 'drive safely' presentations, quick wins, training & testing, and near miss reporting. The results achieved over a period of two months exceeded expectations, and finally in 2011: 21 trained safe driving ambassadors and 316 commentary drives were undertaken and 386 theory tests were passed. As a new element of the HSE cultural change, there is a major focus on Near Miss reporting. A total of 163 traffic-related near misses were reported in June alone. These reports permit the analysis of critical situations on the road and facilitate avoidance of such kind of incidents in the future. In addition to training our own employees, we draw also drivers' and customers' attention to traffic risks and to safe behaviour on the roads. We have started a safe driving campaign in our corporate magazine 'Stílus & Lendület' in Hungary, Slovakia, Croatia, and Romania, providing season-specific safe driving tips for customers of filling stations. The MOL Retail Network displays posters, pictures and leaflets in filling stations and our internal company magazine ('Panorama') publishes certain road safety alerts and other articles in connection with road safety and eco-driving for employees and their family members.

Our popular outdoor Family Fitness Park project has extended to some filling stations and provides the opportunity for drivers to refresh themselves by doing simple and fun physical exercises. The new facilities are available in Balatonlelle, Hungary and at two more filling stations in the Tifon network in Croatia.

Contractor Safety
Related objective: 'Develop an effective contractor HSE Management programme and associated assurance mechanisms by the end of 2012'

As a reaction to the serious HSE events that occurred in connection with the work performance of sub-contractors in 2010, MOL Group has updated its risk management programme related to sub-contractor operations. The program contains various types of control mechanisms, covering every phase of the sub-contractors' 'life cycle' (pre-qualification, tender process, work performance and post implementation appraisal) and specifically focuses on prevention, but also contains notification of consequence-type elements (e.g. penalties, suspension of work permits, etc.).

Program implementation has been continuously progressing. In MOL Plc., Slovnaft a.s., TVK Plc., MOL-LUB, SPC and in our so-called maintenance companies (Petrolszolg and SMaO) – covering 100% of the so-called HSE 'critical contractors' – we introduced the following key control elements:

- HSE pre-audit of contractors with an HSE-focus
This is a pre-screening function. Each sub-contractor who undertakes work at any of the MOL Group sites should comply with this HSE audit which is conducted in accordance with a pre-determined criteria system. This is also a pre-condition for contracting with MOL. In 2011 we executed 150 contractor HSE pre-audits.
- Minimum requirements for the HSE plan
This method supports the assessment and management of HSE risks that can be foreseen and expected before or during the carrying out of work. The need for the preparation of an HSE plan and its minimum content are clarified.
- Unified permit to work (PtW) system
This tool can support the control of specific work performance under the given circumstances. We have introduced a standardised permit form for every HSE-critical operation in Hungary. This system is also being implemented in Slovnaft.
- HSE audit during execution of work
This process is partly to call attention (where necessary, give a warning) and partly a performance assessment (which may result in negative consequences; e.g. penalties). We audit and assess the sub-contractor's work performance and its HSE aspects based on a pre-defined criteria system. In 2011 we conducted approximately 1500 on-site HSE audits.
- Supplier HSE forum

We organise forums for our partners where we provide information about the HSE expectations of MOL Group and we receive regular feedback related to the operation and application of our systems.

Although several new and enhanced HSE control functions (e.g. an increasing frequency of audits) have been introduced, the number of contractor-related HSE events in the short term has not yet decreased. On the other hand, a slight improvement can be identified in the decreasing severity of contractor-related HSE events.

Number of contractor related LTI and non-LTI (only HU and SK operations)

Severity of injury	Non-LTI	LTI (lost-time injury)	Serious LTI	Fatality	Total
2010	12	16	0	1	29
2011	19	11	0	0	30

We have just set the system up, and the figures above show the obvious need for MOL to continue implementing the aforementioned Contractor Safety Program elements. We may need to take further steps as well and we understand that we have to strengthen the existing elements to make them effective enough to make significant improvements in the performance of contractors.

In 2012 we aim to further continue introducing various elements while simultaneously involving new members of MOL Group in the system. The program is worth being implemented at all those companies that have a high asset value and undertake complex maintenance and investment work. Based on these criteria MOL has selected the following companies to roll-out the Contractor Safety Program to: INA d.d., IES s.p.a., MOL Austria, MOL Romania and Tifon.

Besides rolling out the program to more MOL Group companies, we continuously review each existing element of the Program and also enrich it with new elements. For the first half of 2012 we have the following plans:

- to improve the effectiveness of communicating HSE requirements
- to enhance our contractor pre-screening methodology by applying cardinal HSE requirements to them at the beginning of the bidding process
- to review the effectiveness of the application of the HSE Plan, to make it more user-friendly, to make it 'live' at the shop-floor level and to increase the quantity of on-site supervision.

Health Protection and Promotion
Related objective: 'Implement a health promotion programme in all countries and keep regularity rates up at a level of at least 30% from the end of the implementation programme'

Occupational Health
The protection of employees from occupational health hazards is assured by MOL's internal Occupational Health Management system and a high quality operating staff. Similarly to 2010, no occupational illnesses were recorded in 2011. According to the psycho-social risk levels assessed during the COMPASS Workplace Risk Assessment we have introduced tailor-made stress reduction training for dedicated groups of employees. MOL's production unit staff is regularly monitored through biological tests to minimize occupational exposures (to less than 50% of the legally mandated limits).

Our cytogenetic program – which we believe is the leading monitoring program of the oil industry – was also enlarged: a total of 110 employees were examined. In our Compliance with Occupational Health of Ergonomics and Stress Identification Optimum (COHESIO) Project, ergonomics assessments were completed at all Business Units of MOL Plc. In the SHIFT Program (a thematic part of COHESIO), workplace stress assessments of shift employees were completed for all Business Units of MOL Plc. and TVK Plc. According to the results of the SHIFT assessment and the assessment of the psycho-social risks included in the Workplace Risk Assessment process, stress reduction training was introduced and completed with participation of employees from all affected positions.

Workplace Health Promotion

In the MOL Group Workplace Health Promotion Program (‘STEP - take a step for your health’) we also registered progress in 2011. Due to a decentralization process, each business unit completed a yearly STEP program based on the local initiatives of employees. In addition to medical screenings, the plans contain more and more movement-based activities, local sports competitions, outdoor sport events, etc. with the goal of achieving the targeted Regularity Rate of 15% by the end of 2011. Beside this, we are continually focusing on the prevention of musculo-skeletal disorders in our office employees who work in front of visual displays. The key performance indicator for the programme, the STEP Regularity Rate, reached 25.8%, thereby exceeding the 15% target (n.b. Regularity rate: ratio of employees participating at least 3 times in STEP programs in one year). Total participation in different STEP programs was also very high (11,477 people).

Process Safety and Risk Assessment

COMPASS – the HSE risk assessment framework

In order to successfully implement our HSE risk assessment framework we have continued our COMPASS (comprehensive risk assessment) project and are now in Phase II. The program uses 10 internationally-accepted risk assessment methodologies which fully cover the workplace, technological process and environment-related areas of risk analysis (e.g. HAZID, ENVID, JSA, EIA, etc.).

Main achievements by the end of 2011:

- The use of the risk methodologies was continued on the MOL, Slovnaft, TVK and SPC sites where, following the HSE risk assessment pilots, all the qualitative analytical documents were prepared. They cover the areas of exploration and production, refining, logistics, petrochemical and retail activities;
- with regard to quantitative process-related risks, HAZOP assessments were undertaken. As a result, cca. 85% of critical operations are covered;

In the second part of 2011, the program was extended to IES, MOL Austria and MOL Romania. From 2012 the program will focus on INA, Tifon dd., Energopetrol, Russia and MOL Pakistan. The full implementation of COMPASS at a Group-level will be completed by the end of 2013.

Process Safety Management

Related objective: 'Roll out a Process Safety Management System (PSM) and standards to all companies by end 2014'

In 2011 we revised our internal PSM regulation. The reason for the change was the need to define and issue a common and comprehensive audit checklist which will be used in future for assessing the compliance level of different businesses. PSM Networks established in all relevant businesses worked on implementing the following main procedures:

- Management of Technology change procedure
- LOTO procedure – control of hazardous energy sources
- Improvement of the investigation of process incidents and information sharing (e.g. via regular newsletters)

Several PSM training events have been held by our partner, DuPont. Key topics included PSM Basics, Process Safety Information, Process Hazard Analysis, Mechanical Integrity and Auditing. Trainees should in future ensure the further training of local line management and operational employees. Pilot implementation of PSM in IES (Italy) has also commenced with the establishment of the local PSM network and initial gap analysis (PSM requirements vs. current practice).

Click [here](#)  to read a relevant article from the MOL Scientific Magazine.

Emergency preparedness and response

Related objective: Create and operate a Group-wide emergency response framework that supports business continuity

Even though the mainstay of our fire safety strategy is prevention (using modern and effective fire-detection and built-in fire-fighting systems), renewal of fire water networks and the use of the most modern fire-fighting agents and equipment has contributed even further to improving MOL Group’s fire-fighting efficiency.

In 2011, a total of 40 fire cases were reported within the MOL Group (including INA Group companies). The majority of the blazes in production areas were caused by small leakages when escaping hot hydrocarbons self-ignited. With the Retail network, the background in the majority of 19 recorded cases – where only sparking and charring happened with some associated smoke (ignition in the shop

or the canopy) – was a negligible electrical failure, dealt with immediately by the filling station operators. Some filling stations had to deal with customers arriving with cars on fire as well – in these cases the filling station operators always extinguished the fire with the available equipment. Thankfully, none of these conflagrations resulted in serious injuries or losses of assets or any other real damages. However, some serious fires also occurred: one notable event happened at Upstream where (due to a problem with hydraulic equipment) a gas leakage occurred at a compressor, which resulted in an explosion. No serious injuries were caused but damage was considerable.

Another serious fire happened at a filling station in MOL Romania, resulting not only in material loss, but a serious lost time injury as well. This was due to a filling station operator trying to steal few litres of fuel during sampling.

The most serious event occurred at the Sisak Refinery when a fire broke out in an open pipe trench situated between the process and storage area. 1,174 m³ of spilled light naphtha burned up. The fire was only extinguished 2 hours and 50 minutes later. Immediately after the incident, investigation and recovery teams were appointed. The investigation was based on root-cause analysis of the failed checks and controls and preconditions and active and latent system failures. The overall cost to MOL of the fire was around EUR 10 million.

Having considered the lessons of all the events which occurred, the conclusion was that (besides effective fire prevention) two of the main elements of successful emergency preparedness are fire exercises and drills. As a result, emergency drills and exercises are conducted regularly at all sites, not only for our professional and voluntary industrial fire brigades, but for the operators as well – often with the participation of local (municipal or state) fire brigades, especially at refineries and petrochemical sites. Besides preparation from the point of view of skills-development, we continuously invest in maintaining and updating our fire detection and fire-fighting systems (both the in-built (fixed) and mobile components).

HIGHLIGHTS

- MOL is the 2nd most attractive workplace in Hungary
- Successful talent attraction and development programs
- Equal opportunity action plan implemented in MOL Plc

‘LOWLIGHTS’

PMS in INA will be implemented later

mol.hu/social

Stakeholder review: the opinions of employee representatives

The European Works Council (EWC) of MOL Group reviewed the “Human Capital” chapter of the company’s 2011 Annual Report and the section titled “Investment in Human Capital” at the www.mol.hu website. This was followed by a roundtable meeting where open questions were discussed with corporate HR and SD managers. Based on the above event, the EWC formed the following opinion:

- According to the members of the EWC, the disclosed information is complete and covers all material topics which are relevant to a group-level report;
- The published information is accurate and the disclosed statements are valid.

Attracting Employees

Competitive compensation and the career opportunities provided by the expansion of the MOL Group, coupled with a prosperous relationship with secondary and higher education institutes and active career management, have 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 88.6 percent of MOL Group (without INA) employee positions were graded. HAY enables the company to create 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 provide the basis for a fair compensation system. We follow a ‘dragging’ compensation policy; that is our compensation packages – based on HAY grades and performance appraisals – are designed to exceed the average of the local average wages of our sector, but they 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	2011
Austria (Roth Heizöle GmbH)	n.a.	111%	100%
Bosnia Herzegovina (Energopetrol d.d.)	n.a.	148%	101%
Croatia (INA d.d.)	133%	133%	136%
Hungary (MOL Plc.)	171%	173%	169%
Italy (IES S.p.A.)	n.a.	168%	112%
Romania (MOL Romania PP s.r.l.)	n.a.	152%	187%
Pakistan (MOL Pakistan Ltd.)	250%	349%	247%
Russia (BaiTex LLC)	n.a.	142%	151%
Serbia (Intermol d.o.o.)	113%	112%	112%
Slovakia (Slovnaft a.s.)	152%	170%	142%
Slovenia (MOL Slovenija d.o.o.)	n.a	100%	115%

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 MOL’s stock price, and the company’s performance/results.

Click [here](#) to see more information.

Our fringe benefit system differs by country but amounts to 10-40 percent of the annual compensation package. It is subject to national tax, health and pension deductions. The system ensures a 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.

Click [here](#) to see more information.

Investing in education

Related objective: 'Expand strategic cooperation with key educational institutes in all regions / operating countries'

MOL was recognised in 2011 as being the second most desirable company to work for in Hungary according to the ‘Most Desired Company 2011’ survey conducted among university students by AIESEC, an international association for students of economics studies. According to the results of a survey carried out by AON-Hewitt and Figyelő, MOL was the second most desirable company to work for in 2011 and the top one in the financial sector. These results are the highest recognition of our long-term efforts to attract and retain talent.

Partnerships with secondary schools

MOL has been maintaining close and regular cooperation with secondary schools. A lack of natural science experts has been observed at the global level as well as on the local market. Special attention has therefore been paid to promoting natural science studies among secondary schools to build a longer term “supply” for our talent pipeline.

In 2011, we still supported 80 vocational schools and offered internships to more than 500 students at MOL Group – primarily for those attending chemical, gas industrial and mechanical courses. Furthermore, MOL sponsored numerous competitions in mathematics, physics and chemistry; we cooperated with vocational organisations operating in the field of chemistry, mathematics and physics, and with domestic organisations of talented students and science teachers.

Investment in education by the type of support provided

		2008*	2009*	2010*	2011**
Internship		307	332	293	532
Development support	Vocational school (institution)	51	62	79	80
	Universities (institution)	9	10	12	20
Scholarship	Study support (person)	34	27	20	59
	PhD (person)	5	7	6	6
	Professorship (person)	1	1	1	1

*data only from Hungary

** data includes Hungarian operations, Slovnaft, INA and IES (covering ca. 85% of total workforce)

UNIVERSITY PARTNERSHIPS

We would like to gain maximum advantage from our university relations in order to support MOL’s long term interests through influencing the quality of MOL-specific education and the interests of the next generation.

We work in strategic partnership with eight Hungarian universities – The University of Pannonia, Eötvös Loránd University, The Budapest University of Technology and Economics, Corvinus University of Budapest, The University of Szeged, The University of Miskolc, The University of Debrecen, and the College of Kecskemét.

The long-term cooperation activities cover internship programmes, support for 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 about corporate issues, thesis assignments and consulting and scholarships and support given via foundations and sponsorships.

The number of participating students on the masters program developed by MOL & The Pannon University is constantly increasing. Following the 9 students who won admission in 2010, 14 students started their MSc studies in 2011, out of which 9 are from Slovakia. The MOL-focused oil and gas engineering MSc Faculty at the University of Miskolc has been successfully running with MOL employees attending as presenters and lecturers. The number of students at the faculty has tripled in the last three years.

FRESHHH – MOL GROUP’S INTERNATIONAL CONTEST

The fifth, jubilee Freshhh international contest was organised in the spring of 2011. More than 2500 students registered for the contest. Ultimately, 596 3-strong teams were formed from 62 countries and 200 Universities. Freshhh is a great and unique tool that MOL uses to find those talented youngsters who are eager to work in the industry. This is proved by more than 60 employees who have joined us since 2007 after being finalists in the competition.

The contest began with an online round which dealt with the technological and strategic issues of the oil and gas industry. In the second ‘creative’ round, the teams had to consider current topics (e.g. the long term effects of the Fukushima catastrophe on the energy sector, and MOL’s role/opportunities from this) in an essay.

The 10 best teams participated in the finals in Budapest where they presented their proposed solutions to the top management of MOL and had to complete challenging professional assignments.

The number of participants has doubled in the past five years. In 2011 five times more countries were represented than on the first occasion of the competition.

Freshhh participants

	2007	2008	2009	2010	2011
Number of teams	271	273	342	580	596
Number of countries	12	29	35	25	62
Number of universities	35	60	95	117	Over 200

Click [here](#)  to read a relevant article from the MOL Scientific Magazine

GROWWW – OUR FRESH GRADUATE PROGRAMME

MOL Group’s Growww Programme offers one year-long jobs to fresh graduates. In 2011, similarly to previous years, about 300 new positions were advertised group-wide. More than 20000 applications were received from 7500 candidates (candidates were allowed to apply for multiple positions). 279 positions were filled by applicants from 7 countries (Croatia, Hungary, Iraq, Italy, Romania, Russia and Slovakia).

Our main target groups are students with degrees in engineering or geosciences. In 2011 they made up more than 2/3 of the employees hired. However, we advertise jobs for economists and other fresh graduates as well. For the second consecutive year, more than 2/3 of the fresh graduates were hired outside of Hungary from other MOL Group countries.

Retaining and Motivating Employees

Related objective: 'Achieve and maintain an employee engagement rate of over 70%'

Performance management


The Employee Performance Management System (EPMS) links corporate objectives to individual contributions and individual performance to compensation and long term career growth. It is thus capable of stimulating the required competency development of employees.

MOL’s Employee Performance Management System (EPMS), which is already operating in TVK Plc., Slovnaft a.s. and MOL Plc. was extended and fine-tuned to incorporate the rules and values of the managerial Performance Management System (PMS). By 2012, we will have implemented the EPMS system in MOL-LUB Ltd. Petrolszolg Ltd. and SMAO with IT support and extended the EPMS process to other subsidiaries without IT support.

From 2009, the pre-condition which sets the size of employee bonuses has been the fulfilment of specified business results (defined as being a certain level of the targeted MOL Group’s EBIT-in 2010 and EBITDA in 2011).

Participants in managerial and employee PMS in MOL Group in 2011

Employee group	Number of participants	Ratio to the total number of positions
Managerial positions PMS	882	100%
Non-managerial positions EPMS (cca.)	12,000	42% (without INA: 75%)

Click [here](#)  to read a relevant article from the MOL Scientific Magazine.

Career management

The objective of the Career Management System (CMS) is to identify and support accurate planning for successions and organisational/employee development based on the requirements set by the business strategy.

To date, 1,300 participants from 37 MOL Group companies have been appraised under the CMS system, including about 80 INA managers/experts. Further involvement of local INA managers is planned for 2012.

Employee engagement

We conduct a Group level employee engagement survey bi-annually to measure the engagement and satisfaction levels of our employees; the next survey is due in 2012. After each survey, all units have to identify the activities needed for addressing areas of weakness. In 2011 the focus was on the implementation of these activities. Examples include:

- Award ceremonies for outstanding performance and loyalty for improving recognition;
- Information-sharing programs (monthly internal newsletters, regular regional meetings and workshops) for improving effective operations;
- Professional internal and external training events which support professional growth;
- More attention is being placed on HSE issues regarding the improvement of the work environment;
- Long-term competency assessment and organizational development.

Career awards

MOL Group rewards those employees who have supported MOL Group’s targets and interests throughout their careers and professional activities for decades. In all major Hungarian companies (MOL, TVK, Petrolszolg, MOL-LUB, FGSZ) and at Slovnaft lifelong career awards are handed out each year to employees (who are nominated by local managers) who have performed outstandingly (during at least 25 years of MOL Group employment) in their value creating professional activities. Blue and white collar employees, managers, and co-workers can all be found among the recognised employees. The awards are handed over at a formal ceremony, attended by top management.

Development of Human capital

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 without INA	2011 without INA	2011/ 2009 (%)	2010 Total MOL Group	2011 Total MOL Group
Average hours of training per employee (hours)	21	25	26	+24%	18	22
Average training cost per employee (thHUF)	55.9	60.5	69.7	+25%	43.1	50.9

Complex Development Programs in 2011

UPSTREAM

The one year-long Upstream Talent Programme 1 (UTP 1) was aimed at identifying and assessing 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 discover those employees that are capable of performing outstandingly in an intercultural environment in the case of acquisitions. The extension of the UTP, the International Talent Program (ITP), is being implemented in 2011-2012 with Hungarian, Croatian, Russian and Pakistani participants. The main topics will cover project management, cultural awareness and highly professional use of English.

The results of the Upstream Talent programs

	UTP1	UTP2	ITP
Start of the Program	2006	2008	2011
Countries participating	MOL Plc.	MOL Plc.	MOL Plc., INA d.d., MOL Pakistan, MOL RUSS
Number of registered and tested participants	113	72	189
Number of participants in assessment centres (AC)	40	30	63
Number of participants in training and development	25	12	30
Number nominated to managerial positions	9	3	n.a.
Number nominated to higher expert positions	6	5	n.a.

Moreover, almost 120 key professionals and project managers from the Upstream division were reached through a series of workshops at a Group level. In addition to this, professional days were held at several sites. In 2012 a junior education program will be launched for manual/plant workers.

DOWNSTREAM

In Refining MOL, we continued our Navigátor Development Programme, which was initiated in 2009. In 2011 with the participation of 30 employees we focused 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. The improvement of the groups which participated in training was measured using a competency assessment in 2012.

In Slovnaft Refinery, due to its success, the Master Academy was continued in 2011 with 4 new groups of employees. Another Downstream training scheme 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 2011, the program focused on the managerial succession pool and on 71 employees who recently joined MOL. The success of this programme will be measured using a competency assessment in 2012.

The Commercial Department continued its Leadership Reinforcement Programme which aims to develop talent and develop leadership competencies. In 2011 the programme continued within the framework of expanding the managerial succession pool to MOL-LUB employees.

In Retail, based on the success of previous years, we continued our Retail Business Academy in 2011. It was advertised to current petrol station operators with the aim of contributing to their careers by continuously supporting them in managing a Hungarian petrol station. The candidates (selected through a multi-stage selection process) started to manage the petrol stations in September 2011 after a month of professional training.

Following the success of the Staféta Programme, the Petrochemicals division started the one year development of 12 future shift leaders in 2011. The Basic and Advanced Programmes (lasting 2 years) 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 21 participants.

With regards to Functional units, the competency development programme continued in 2011 for employees in MOL Plc.’s IT Department. The IT Development Programme, a continuation and completion phase of the previously organised Development Centre, both ensures a way for the company to increase its competitiveness and also motivate employees to plan their career paths. The programme focuses mainly on strengthening competencies employees will need in the near future, and thus results in better individual and overall performance. Several learning methodologies were integrated into the IT Development Programme, including training, mentoring, workshops, learning groups, rotation and on-the-job development.

For more information please click [here](#).



Professional competency training

In 2011 we continued our technical competency management pilot programme within the Upstream division using PetroSkills, a leading oil industry alliance’s learning and development package. The results of the competency gap analysis are being utilised as a basis for the Upstream professional training planning process. By the end of 2011 the system was launched for the earth science, technical and business professionals of MOL’s and INA’s Upstream organisations. In 2011 we started setting up group level in-house training schemes based on the previously identified requirements (Upstream Business Academy). 12 in-house training events were organised (with 177 participants attending) for the Upstream division (4 of these using cooperation between MOL and INA). Groups responsible for designing content were set up and planning of our long-term operating model started and will continue in 2012. A similar pilot project was launched for our Refinery and HSE organisations and we are planning to extend the programme to other professionals in Refinery and HSE.

Additional development programmes continued to run in 2011. For example, the Upstream Jolly Joker Programme successfully improves the maintenance skills of operators and supports them in everyday maintenance-related tasks. The training not only increases the value of human capital, but also helps to reduce maintenance costs.

At 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 drawn up. The long-term goal is to define both the general and professional competencies which need 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 continued in 2011, but needs to be enhanced to include a revision of professional skill development material for shift workers at Refineries in Hungary and Slovakia, and competency development for shift leaders.

Knowledge Management

To continually improve the culture of knowledge sharing is highly important to MOL Group. In 2009 the dedicated unit responsible for knowledge management (KM) was reorganized in order to focus more on supporting internal knowledge transfer and the holistic execution of the KM development concept. In 2011, a new corporate intranet KM portal was launched which includes a Training Site with a continuously growing quantity of e-learning materials and a collection of useful tools and the internal newsletters of MOL Group, plus other materials. A scorecard was also developed to track knowledge the sharing maturity of different units.

The Business Education Program also continued: in 2010/2011 250 fresh graduates took part (in 3 locations -Budapest, Zagreb, and Mantova) in our Business Education Program. The aim of the events is to make young professionals familiar with the operations and activities of MOL Group. Throughout the program, business and functional organisations provided a complex picture of the company (using technical data, financial and legal knowledge and through providing insight into core activities) and shared corporate and local best practices. The program was complemented by site visits to the Danube Refinery at Százhalombatta, the lubricant manufacturing site at Komárom, the gas site at Algyő, and the Petrochemicals site at Tiszaújváros and Bratislava. Participants not only listened to lectures but in groups of 3 they had to hold a presentation on a given topic. At the end of the program the best performers received a diploma and further training. In 2011 almost 60 % of the participants received a diploma and those teams which delivered the best 4 presentations received further training (15 people). This program will also continue in 2012 but be extended to the Bratislava location and include 250 newly-hired graduates.

Commitment to Fair Employment

Related objective: 'Enhance responsible employer practices to ensure the engagement and diversity of the workforce'
As Hungary has ratified the UN Universal Declaration of Human Rights, the ILO Tripartite Declaration of Principles Concerning Multinational Enterprises and Social Policy and the OECD Guidelines for Multinational Enterprises, MOL Group considers these agreements to be compulsory company codes.

Employee relations

The right to exercise freedom of association and collective bargaining is considered to be a crucial aspect:


Employee representation

	2008	2009 without INA	2010 without INA	2011 without INA	2010 Total MOL Group	2011 Total MOL Group
Employees represented by trade unions (%)	93.3	91.4	92.8	91.2	94.5	94.8
Employees covered by collective bargaining agreements (%)	94.5	93.4	92.7	91.6	94.5	95.0

Employee representation is ensured via employee representative bodies:

- The European Works Council (all MOL's companies in the EU are represented proportionately - this keeps our staff constantly informed about decisions taken in different countries and about international practice and experience),
- Local Works Councils,
- Trade Unions,
- Labour safety Committees, and
- Participation of employee representatives in the MOL, Slovnaft, INA, TVK, FGSZ Supervisory Board (Although MOL Supervisory Board members are elected at the Annual General Meeting of shareholders, employee representatives (comprising one-third of the members) are elected by the MOL Works Council).

Collective bargaining is traditionally initiated by the employer at periodic intervals. Beyond legal requirements, not only representative trade unions but all employee representative bodies are invited to the bargaining process. Before significant operational changes, trade unions and Work Councils are informed in compliance with national legislation and also according to the Collective Agreements of certain member companies.

For more information please click [here](#) 

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 accordance with our previous plans and the results of the equal opportunities survey, MOL managers and employee representative bodies signed the Equal Opportunity Plan (EOP) of MOL Plc which is valid for the period 2010-2012. The plan covers all the employees of MOL Plc., and pays special attention to the rights of women, single parents, parents with two or more children under ten years of age, those persons with any kind of disability and employees who are over 50 years of age or those who belong to a national or ethnic minority. The main purpose of the plan is to improve the situation of the above-mentioned groups.

In 2010 an Equal Opportunity Board was also established and an equal opportunity officer was nominated. According to the Equal Opportunity Plan employees can submit complaints if the employment-related principles of equal treatment are violated. Our aim is to extend the Equal Opportunity Plan to all of our Hungarian subsidiaries. For this reason we compiled a handbook to promote the preparation and implementation of our own equal opportunity plan. The preparation of TVK Plc.'s Equal Opportunity Plan started in 2011 and is expected to be approved in 2012.

Activities MOL undertakes to improve the situation of disabled employees and employees with reduced working capacity deserve special attention. In 2011 a survey was carried out regarding the employment of these employee groups at the larger MOL Group companies. Based on the survey we found that, although in the European Union legislation clearly supports equal opportunities and employment of the above mentioned groups, this matter needs to be handled differently by different companies according to their own country-specific regulations. Thus EU legislation-based central Group guidelines should be considered by MOL's subsidiaries but they need to be coupled with understanding of local conditions and opportunities in order to achieve the most effective results.

At the larger Mol Group companies (to varying degrees) we employ disabled people and people with reduced working capacity. Besides this, we pay attention to the special situation of these employee groups. According to their health status they are provided with safe equipment, a safe work environment and working conditions. Thanks to the favourable conditions ensured by local regulations at Slovnaft we purchase products (such as clothes) from companies which employ disabled people, thus improving the conditions of employment of this target group. It is recorded in the collective agreement of MOL Plc. and Petrolszolg Ltd. that once a year MOL's employees with reduced working capacity receive a health insurance assistance contribution that equals the prevailing national monthly minimum wage. With this financial assistance we contribute to higher medical costs and ensuring the health of these employees. Besides this, rehabilitation committees operate at MOL Plc., TVK Plc. and Petrolszolg Ltd. in order to rehabilitate employees whose work capacity has been reduced during their period of employment meaning that they have become unable to perform their jobs. It is the Committee's task to investigate where, how and with what conditions would further employment be possible.

Further steps have been made to improve the situation of pregnant women and new mothers. Our aim is to keep them connected to the company and ensure they consciously prepare to return to work after maternity leave. In order to promote this goal we launched a newsletter for new mothers. In this monthly electronic publication we let them know about the latest news (personnel, organisational changes, operations related information, information regarding employees, internal job advertisements and the STEP health preservation corporate programmes) from the Group. Besides this, new mothers are invited to bigger corporate events (the MOL summer party, family days, the annual Christmas concert), where activities are also organised for families with small children. Depending on the job, the needs and interests of new mothers and the specific company we offer reduced working hours and make telework available for those who return to work.

In 2011 we continued to support the ‘Romaster’ talent program launched by the Hungarian Business Leaders Forum (HBLF) in 2007. The aim of the program is to provide help for talented Roma high school students to obtain college/university degrees and later enter the labour market. In 2011 Mol Plc. supported 3 young Roma people. One of the people supported in previous years was hired at TVK Plc. as a fresh graduate in 2011.

In 2011 Mol Plc. signed up to the ‘HBLF for diversity’ code founded by HBLF. We believe that an open business environment that promotes equal opportunities can bring out the best in our employees and for this reason the development and maintenance of this environment is a prerequisite for the success of our companies and for society.

Work-life balance

Although there is not presently a Group level set of policies which addresses work-life balance, in 2011 MOL took initial steps towards the encouragement of non-typical employment. We carried out a survey to measure which jobs are suitable for atypical employment. Part-time work and telecommuting are not an option for those involved in production activities because of the type and timing of work (e.g. the need for shift-work); however, they are accessible to other employees in certain positions. Building on the results of the survey, our aim is to extend the number of employees who participate in atypical employment, focusing on certain target groups (employees with small children or large families or people with reduced working capacity) identified in the MOL Equal Opportunity Plan.

The number of telecommuters at MOL Plc. was not very high in 2011, but the number of those who have gained managerial approval to work from home is much higher.

Number and ratio of part time employees

	2007	2008	2009 without INA	2010 without INA	2011 without INA	2011/ 2007 (%)	2010 Total MOL Group	2011 Total MOL Group
Part time employees (number of people)	92	125	114	143	193	110%	191	261
Ratio of part time employees to the total workforce (%)	0.60%	0.73%	0.64%	0.79%	1.1%	83%	0.59%	0.83%

COMMUNITIES

HIGHLIGHTS

More than 3 Bn HUF invested in community development programs

'The Largest Social Impact' award received for our Green Belt programme in Hungary


mol.hu/socialinvestments



Social investment


In the past years MOL Group has become not only one of the largest companies in Central Europe, but one of the most outstanding sponsors of various civil initiatives, education, culture, young talents and sports.

As MOL Group is present in more than 40 countries and is also determined to show leadership in the field of good corporate citizenship, its sponsorship and donation decisions are adopted in a structured, transparent and regulated manner instead of being provided in an ad hoc fashion.

Click [here](#)  to read our Corporate Giving Principles.

MOL supports several initiatives in the field of sustainable development (environmental protection, minorities, culture, sports, health and safety). In 2011 alone the company received nearly 5,000 applications for support or donations from private persons, societies clubs, institutions and foundations. MOL, perhaps as a unique example among large companies, evaluates every such application and provides a response.

The company is paying more and more attention to the actual needs of society and is striving to embrace its responsibility for resolving societal problems in accordance with its economic role. As a result, in 2011 it spent more than HUF 2.3 billion to support initiatives such as the OTP-MOL Bozsik Program which supports the development of young talented football players. It also supported Hungarian theatres and sports clubs and federations that have significant financial difficulties.

Click [here](#)  for more detailed information on our support and cooperation activities.

Social investments in key countries and regions in 2011:

Indicator	unit	Hungary	Slovakia	Croatia	Romania	International Upstream	Italy	Total
Donations in cash	HUF million	2,875.4	113.4	102.0	82.1	54.3	2.2	3,229.5
In-kind giving (product/ services)	HUF million	10.9	5.2	3.0	0	29.5	0	48.6
Employee volunteering	hours	2,104	380	864	0	0	0	3,348

Some well-recognized examples of the social investments of MOL Group are described below:

MOL, Slovnaft and MOL Romania

New Europe Foundation

One of the most significant institutions connected to MOL’s social responsibility programme celebrated a jubilee year in 2011; this is namely the New Europe Foundation which was established five years ago. The Foundation’s activities focus on providing support for talented youngsters and health care and medical services for children. Using this as an example, MOL Group member companies established a Central European Foundation in Slovakia and a Foundation for Communities in Romania.

Green Belt Program

The Green Belt program has been supporting local civil initiatives for six years in their efforts to make the local environment cleaner, more beautiful and ‘greener’. It involves local communities and people joining together to work on common environmental preservation activities. MOL and the Eco-partnership Foundation won first prize from the Hungarian Donors Forum Social Investment Program in 2011 in the category of 'The Largest Social Impact'

The program also functions with great success in Slovakia and Romania, and we plan to launch a similar initiative in Croatia as well.

INA

Culture

Due to the donations from INA to the Hungarian-Syrian Archaeological Mission, the Al-Marqab project was enabled to continue work on the restoration of the Al-Marqab fort. This is an outstanding professional success due to the result of the excavation works; the archaeologists have discovered the largest crusader mural of the Holy Land. The Budapest Sham Cultural Foundation is performing the restoration work.

Croatia without mines

After the Homeland War, Croatia has many areas which are still mined. INA, according to its social responsibility, gives significant support to de-mining operations.

Humanitarian aid

INA supported three initiatives in order to help the ‘SOS Children Villages’ organisation in Croatia. It supported vacations for children, a 'back to school' project and it financed the total annual budgets of three families.

INA Volunteers Club

The INA Volunteers Club was founded in autumn of 2011 to make voluntary work performed in the interest of local communities more popular to INA’s employees.

International Upstream

In its operating areas, MOL always strives to understand local community needs and then create tailor-made social investment action plans for each area. Community development projects undertaken in the Siberian or Middle-East Region are diversified and focus on priority needs and the immediate requirement to bring respite to the lives of the poor and under-privileged.

Some examples:

- Russia (Baitex): Donations for medical treatment and the reconstruction of medical institutions.
- Russia (MOL Matjushkinski Vertical): Summer camp for poverty-stricken children and donations to a competition for young geologists.
- Russia (MOL Western Siberia): Renovation of a local school and related technical buildings.
- Pakistan (MOL Pakistan): A mobile clinic and a medical ward were established to provide basic health services to the Teri State Boys School. Furthermore, natural forests and greenery were planted in cooperation with the Pakistan Ministry of Forestry.
- Oman (Hawasina LLC Oman Branch): Campaign for safe driving to reduce the number of severe road accidents.
- Iraq-Kurdistan Region (Kalegran): Renovation of local schools and giving satchels and writing materials to children.

IES (Italy)

During the first half of 2011 IES supported a clean-up program of the embankments of the Mantua Lakes as part of the so-called 'The Earth Day' program.

Community Relationships

With the involvement of local communities we managed to continue many of our previously successful programs:

- To maintain the quality of our relationships with local stakeholders the public and employee’ families had the opportunity to visit Danube Refinery four times in 2011. For pupils and students from local elementary schools and from universities, MOL’s Danube Refinery provided 13 guided educational tours. A Green Forum was also held at the Danube Refinery with participation of environmental authorities where sustainable development and environmental protection efforts were introduced and promoted.
- Bratislava Refinery participated in the volunteer programme “Our Town”; activities focused on improving the environmental conditions of the city.
- In 2011 the first IES Open Day was organized at Mantova Refinery and was attended by almost 700 people, giving IES the chance to show Mantova citizens how the refinery works and let them satisfy their curiosity.
- In 2011, INA and Primorsko-goranska County signed a Letter of Understanding. The parties are both aware of the refinery’s economic role and contribution to the quality of local community life. They assured each other of their mutual cooperation and willingness to communicate about efforts to achieve meeting goals for air quality, emission control system improvements, reallocating people from the refinery vicinity and continuous investment in the region. Negotiations with families to develop a green belt around the site are under way. Representatives of the INA Rijeka Refinery participate regularly in an environmental protection Committee in Kostrena to stay informed about events that might concern them.

TVK, our petrochemicals company in Hungary, specified the target of reducing the ecological footprint of its employees by 5% by 2015. As a first step in 2011, the personal ecological footprint of employees was measured: almost 40% of all employees completed the internal online survey.

Employees in our Retail division joined several local ‘cleanup’ projects across Hungary, Romania and Slovenia. During the three summer months Retail offered local farmers the opportunity to sell their fresh vegetables and fruit at 9 Hungarian filling stations. The project was supported by marketing tools, social media (e.g. Facebook) and advertisements. In cooperation with the ‘Lámpás 92’ foundation Retail started a joint project in which we invited disabled people to 2 filling stations in Hungary to showcase their handcrafted articles. According to the foundation, this enabled new relationships with customers to be built and also proved beneficial due to income from the sales of handmade products. The initiative commenced with a two day Advent fair organized at Budapest’s MOL headquarters, which according to reports was very positive and pioneering. In addition to this, in the Slovnaft Retail network 13 filling stations have been upgraded to barrier free status, making them accessible to disabled people. MOL Romania has installed Baby corners in each filling station. Diaper changing tables and articles for the care of babies are now available across the entire network, making travelling a bit smoother for families travelling with small kids. The installation of diaper changing tables has become one of our technical standards: wherever Retail builds a new filling station this furniture element is now installed.

In Upstream, to establish trust from the community towards our activities and ensure effective participation of affected people, public hearings and forums are held prior to starting work and an allocated officer is permanently available to inform the stakeholders of things which may affect them. In Hungary, in connection with the Vízvár-S-2 drilling project, we held a Technical Day followed by a public hearing and forum. MMBF Plc. is in possession of a Social Action Plan relating to the operation of the Szőreg Gas Storage unit. It describes social activities (e.g. training, operational grievance mechanisms, details about the creation and improvement of the website, press monitoring etc.) which were undertaken in 2011. In Pakistan, stakeholder consultation exercises were conducted in operational areas to improve the social and environmental design of projects. For social welfare schemes, local communities and government departments were involved right from the planning stages through to the completion phase and a total of 181 consultation sessions were held in 2011. In Western Kazakhstan Oblast, two local public hearings were held about the planned gas processing and condensate stabilization plant.

In addition to these stakeholder related activities, MOL is a pioneer in the CEE region with its other initiatives. It has launched a 'bikePoint program' to make cycling more popular. It’s used cooking oil collection activities won first prize in European Excellence Awards (EEA) in the Ecology and the Environment category in 2011 – the most prestigious communications-related competition in the region. For more information about [MOL bikePoints](#) and about [used cooking oil](#) collecting activities, please click on the links.

Human Rights

MOL Group respects the fundamental human rights which are prescribed in the Group Code of Ethics. Furthermore, we hereby state that MOL Group is not engaged in activities which affect indigenous people. Nevertheless, our modus operandi ensures the safeguarding of the rights of tribal populations.

ECONOMIC SUSTAINABILITY

This focus area – as part of the sustainability framework – covers those topics which are considered to be important factors for the long-term economic success of the company. Other ‘Business-as-usual’ economic performance is detailed in different chapters of this annual report.

HIGHLIGHTS

New version of Code of Ethics issued with practical explanatory examples

High level of customer satisfaction maintained

Ethics and Compliance

In 2011, through the ethics management system, we laid special emphasis on communicating the modified Code of Ethics: A new, more user-friendly design was employed; Every employee of the MOL Group received the modified Code of Ethics electronically and was provided with information about the main modifications of the Code; Several articles were written explaining the key modifications to the code in MOL’s internal magazine ‘Panorama’; The Code was uploaded and made accessible through the intranet and on the website of the MOL Group; Furthermore, the updating of the suppliers’ version of the code and the drawing up of a risk assessment methodology commenced.

Ethical cases

The ethical cases reported to the Ethics Council of MOL Group and INA are summarized below. The task of the Council is to ensure that all MOL Group employees comply with the Code. Among its other work, therefore, the Council replies to questions that are raised and conducts investigations. In 2011 the main topic of the questions were ethical notification opportunities and job contracts. In 2011 the Ethics Council received 38 notifications altogether. The Ethics Council performed investigations in 20 cases out of the 38. In five cases (out of the 20) MOL’s Corporate Security department was asked to conduct investigations. Ethical misconduct was proven in two out of the 20 cases. Besides this, we strive to make Code of Ethics a component of all contracts. In 2011 3 contractual relationships were discontinued due to the unethical behaviour of the supplier and 1 company was ejected from a tendering process. The increase in the number of notifications shows that the ethical awareness of our employees has risen across the MOL Group. The same tendency can be recognized with our external stakeholders.

Ethical notifications received and investigations conducted by stakeholder group (2011):

Stakeholders	Topic of notification	Type of investigation	Ethical misconduct
Customers	-	-	-
Shareholders	Fuel theft (2)	Security investigation (2)	No (2)
	Unfair market behaviour	-*	-
	Shareholder interest	-*	-
Employees	Preparation of derogatory document	Ethical investigation	Yes
	Discrimination (9)	Ethical investigation (4)	No (4)
	Intimidating behaviour (5)	Ethical investigation (4)	No (3) Ongoing (1)
	Harassment (3)	Ethical investigation (3)	No (3)
	Un-ethical recruitment process (3)	Ethical investigation (3)	Ongoing (2), No
	Sexual harassment	Ethical investigation	Ongoing
	Un-ethical business decisions	Ethical investigation	No


Stakeholders	Topic of notification	Type of investigation	Ethical misconduct
	Fear of being dismissed from the workplace	-*	
	Utilization of employees’ knowledge and skills	-*	
	Information about potential innovative solutions	-*	
	Dissemination of personal data	-*	
	Offering a new work contract as a re-sult of planned organizational changes	-*	
	Improper communication (2)	-*	
	Protection of dignity	-*	
	Possibility of retaliation	-*	
Health, safety and the environment	Alcohol problems	Security investigation	No
	Drug abuse	Security investigation	No
	Non-compliance with smoking regula-tions (2)	-*	
	Safety	-*	-
Government af-fairs and involve-ment in politics	-	-	-
Local communities and the general public	-	-	-
Suppliers, business partners	Conflicts of interest	Security investigation	Yes
Competitors	-	-	-
Sum	38**	20	2

* The Ethics Council considered the referral unfounded or was incompetent in the case, therefore did not further investigate.
** Several notifications and investigations concerned more than one stakeholder.

In order to promote ethical awareness the Ethics Council made public some cases where ethical misconduct was proven in 2011. The published cases are as follows:

Preparation of a derogatory document - One of the managers from MOL Group prepared some educational material which contained humorous pictures and text in order to raise awareness. However, the document was found insulting by many. The investigation found evidence to substantiate the following breach of the Code of Ethics: 'It is a requirement imposed on MOL Group employees not to publish or disseminate materials or jokes which might offend people.' The Ethics Council did not propose a penalty for breaching the Code of Ethics, but reminded all the parties concerned that they should be more careful when using humorous statements as they may be considered insulting to others.

Conflict of interest - One of the managers from the MOL Group, as a private person, started to use the services of a company with whom he had previously established a relationship as part of his job at the company. The investigation found evidence to substantiate the following breach of the Code of Ethics: “As a MOL Group employee you must obtain written authorisation from the relevant manager exercising employer's rights in advance regarding any relationships established with competitors, customers or suppliers where conflicts of interest can be assumed to exist”. As a consequence of the case, the manager concerned received a verbal warning, and ceased the use of the service as a private person. The manager was then excluded from the tendering process for the service. The Ethics Council regularly report all ethical issues to the Executive Board and take measures to raise employee awareness of issues of concern.

Click [here](#)  to read a relevant article from the MOL Scientific Magazine.

Compliance Team

MOL Group is dedicated to fair marketing behaviour and the improvement of the culture of competition and awareness of the need for regulatory compliance. In 2010 MOL started a Compliance Programme and established a Compliance Team (CT) which is responsible for the execution of the programme at a group level.

In 2011, CT conducted several competition law compliance inspections. The inspections involved a review of 104 employees. As a result, awareness about specific topics increased and suitable recommendations were made.

More than 4,800 employees were trained at a basic level via e-Learning tools and almost 1,000 employees at an advanced level through personal presentations. These training events strongly support the improvement of awareness of the need for compliance and promote a culture of competition throughout the MOL Group.

In 2011, MOL Romania was fined EUR 18.5 Million because of alleged violations of anti-trust regulations. For more information, please go to page 151.

Transparency

Following our commitment to transparency and accountability and as a complement to our financial flash report, in 2011 MOL Group published its '2011 Half Year Report' informing our stakeholders about the steps we have taken in environmental and social areas. In addition to the MOL Group integrated annual report and half year flash reports, all major companies of MOL group have also made disclosures about their sustainability performance in annual or sustainability reports or on the company website (Slovnaft, TVK, INA, and MOL Pakistan). Moreover, INA's and TVK's reports meet the requirements of the GRI (Global Reporting Initiative) reporting guideline at the highest ('A') level.

In order to systematically receive feedback from our stakeholders, we continued our stakeholder dialogue program about our SD performance in 2011. Namely:

- the executive management of the European Workers' Council (EWC) – together with MOL experts – analysed workforce-related information published in the MOL Group Annual Report and web page;
- a roundtable discussion on the topic of the environment with relevant stakeholders (e.g. environmental authorities, national parks and green NGOs) was organised;
- Sustainability professionals who represent external stakeholders (such as universities, NGOs, businesses and consultancies) had the chance to analyze and provide feedback on MOL Group’s sustainability performance and reporting practices.

MOL Group also responded to questions from the Carbon Disclosure Project which aims to make transparent to investors efforts made to manage the risks and opportunities related to climate change.

Economic sustainability

Data presented here have been collected from financial reports and notes about the MOL Group annual report and are presented according to GRI definitions concerning economic sustainability.

	Unit	2008	2009	2010	2011	2011/ 2010 (%)	GRI code
Revenues	bn HUF	3,669.5	3,383.1	4,349.3	5,448.3	25.3 %	EC1
Financial assistance received from government	bn HUF	0.4	0.5	1.0	0.8	(20.0%)	EC4
Operating costs	bn HUF	2,881.7	2,592.8	3,290.3	4,288.2	30.3%	EC1
Cash added value (comapny cash)	bn HUF	787.8	790.3	1,059.0	1,160.1	9.5%	EC1
Employee wages and benefits	bn HUF	139.8	200.9	272.0	255.9	(5.9%)	EC1
Capital investors (bn HUF)	bn HUF	164.2	31.8	80.7	58.8	(27.1%)	EC1
Payments to governments	bn HUF	249.3	197.8	281.0	289.8	3.1%	EC1
Economic value retained	bn HUF	234.5	359.8	425.3	555.6	30.6%	EC1

MOL Group revenues increased by 25.3% in 2011 compared to revenues in 2010, primarily reflecting higher commodity prices, resulting in higher average sales prices. Operating costs increased by 30%, mainly as a result of increasing raw material costs due to a higher crude oil purchase price. Company cash added value increased by 9.5%, mainly as a result of the increase in economic value retained (i.e. an increase in profit and depreciation). Employee wages and benefits decreased by almost 6% in spite of a salary increase due to the lower average headcount (MOL Group average headcount was 31,638 employees in 2011 vs. 33,414 in 2010) and a change in managerial incentives. Capital investors: dividends to non-controlling interests and interest on borrowings increased by HUF 20 Bn while the foreign exchange losses on borrowings decreased by HUF 42 Bn due to the fact that from Q3 2011 foreign exchange losses have been recognized as equity due to the implementation of net investment hedge accounting methods. Payments to governments exceeded the base level due to an increase in the group-level corporate tax and crisis tax imposed by the Hungarian state on the domestic energy sector.

Sustainability data (Performance table)

Indicator	Unit	2007	2008	2009*	2010 without INA***	2011 without INA	2010 MOL Group	2011 MOL Group	Change at a group level 2011/2010 (%)	GRI code
Climate Change										
Greenhouse Gas Emissions										
Carbon Dioxide (CO ₂)	mn t	5.65	6.56	5.29	5.01	4.91	7.14	6.93	(3)	EN16
Carbon Dioxide based on equity share approach (CO ₂) **	mn t	n.a.	n.a.	n.a.	n.a.	5.35	n.a.	6.34	n.a.	
Carbon Dioxide (CO ₂) under ETS	mn t	4.09	6.40	5.13	4.87	4.73	4.87	4.73	(3)	EN16
Methane (CH ₄)	t	n.a.	279.0	437.0	951.7	1,181.8	951.7	1,181.8	24	EN16
Total Direct GHG	mn t CO ₂ eq	n.a.	6.56	5.30	5.09	5.22	7.17	7.23	1	EN16
Total Indirect GHG	mn t CO ₂ eq	n.a.	n.a.	1.19	1.25	1.43	1.47	1.54	5	EN17
Total Indirect GHG from product use	mn t CO ₂ eq	n.a.	43.33	42.27	42.48	n.a.	55.44	57.14	3	EN17
Energy Consumption										
Natural Gas	GJ	n.a.	n.a.	20,556,116	20,511,218	17,948,575	26,855,282	24,424,417	(9)	EN3
Other hydrocarbon (fuel, gas, etc.)	GJ	n.a.	n.a.	54,311,663	52,273,334	58,224,203	76,982,160	76,435,496	(1)	EN3
Total primary energy consumption	GJ	n.a.	n.a.	74,867,779	72,784,552	76,172,778	103,837,442	100,859,914	(3)	EN3
Electricity	GJ	n.a.	n.a.	7,476,690	8,080,860	9,229,405	9,301,736	10,343,611	11	EN4
Other indirect energy (steam, heat, etc.)	GJ	n.a.	n.a.	9,204,196	8,604,808	9,721,029	9,924,985	9,875,730	0	EN4
Total indirect energy consumption	GJ	n.a.	n.a.	16,680,887	16,685,668	18,950,434	19,226,722	20,219,340	5	EN4
Total energy consumption	GJ	n.a.	n.a.	91,548,666	89,470,220	95,123,213	123,064,164	121,079,254	(2)	
Environment										
Air Emissions										
Sulphur Dioxide (SO ₂)	t	10,059.0	8,804.7	4,389.4	2,939.6	2,690.1	13,142.2	10,624.7	(19)	EN20
Nitrogen Oxides (NO _x)	t	5,378.8	5,054.2	3,937.0	3,442.1	3,196.7	7,874.2	7,531.4	(4)	EN20
Volatile Organic Compounds (VOC)	t	4,325.2	5,626.8	3,683.2	4,133.5	4,833.6	4,210.9	4,901.0	16	EN20
Carbon Monoxide (CO)	t	869.0	824.5	879.5	863.8	2,413.4	1,599.0	3,294.9	106	EN20
Particulate Matter (PM)	t	336.0	298.2	204.8	184.4	358.8	360.7	492.3	36	EN20

'n.a.' indicates where no data is available

Data was calculated according to GRI definitions.

*Total MOL Group without INA group except "Total Indirect GHG from product use" which covers Total MOL Group

**GHG emissions according to the share of equity in the operation but upstream Joint Ventures (INA offshore, Syria, Egypt, Angola and ZMB in Russia) are excluded

***To have an appropriate basis for comparison, IES was excluded from "2010 without INA" data

Indicator	Unit	2007	2008	2009*	2010 without INA**	2011 without INA	2010 MOL Group	2011 MOL Group	Change at a group level 2011/2010 (%)	GRI code
Water										
Total Water Withdrawals	th m ³	n.a.	86,045.8	68,417.5	56,130.4	56,699.4	91,967.7	95,930.1	4	EN8
Total Water Discharge	th m ³	n.a.	90,120.6	84,710.0	76,186.3	65,946.1	106,784.1	100,060.2	(6)	EN21
Total Petroleum Hydrocarbons (TPH)	t	36.0	29.8	44.1	46.2	39.9	74.8	57.1	(24)	EN21
Chemical Oxygen Demand (COD)	t	1,945.0	1,802.0	1,807.0	1,773.4	1,649.1	2,376.5	2,094.7	(12)	EN21
Biological Oxygen Demand (BOD)	t	490.0	378.0	387.4	433.7	424.6	582.7	568.0	(3)	EN21
Solid Substances (SS)	t	703.0	978.0	909.3	948.3	921.1	1,055.5	1,038.4	(2)	EN21
Waste										
Hazardous Waste	t	85,171.5	98,791.0	66,782.0	88,083.2	84,700.3	92,918.4	89,894.8	(3)	EN22
Non-hazardous Waste	t	n.a.	57,619.1	66,872.5	69,246.2	59,725.5	77,603.7	68,783.4	(11)	EN22
Waste Disposed / Landfilled	t	74,959.0	92,175.0	68,198.4	68,974.5	63,449.0	80,201.8	74,655.7	(7)	EN22
Waste Reused / Recycled	t	86,180.0	64,235.0	65,456.5	88,354.9	80,976.8	90,320.4	84,022.6	(7)	EN22
Reused/recycled ratio	%	n.a.	41%	49%	56%	56%	53%	53%	0	
Spills and Discharges										
Number of Spills	pcs	3	12	17	15	18	26	28	8	EN23
Volume of Spills	m ³	n.a.	912.2	244.7	144.4	391.9	186.2	525.2	182	EN23
Other										
HSE Related Penalties	mn HUF	95.4	92.23	14.68	8.43	47.29	11.06	53.35	382	EN30
Environmental investments	mn HUF	n.a.	16,558.91	6,996.70	6,815.10	9,362.30	n.a.	n.a.	n.a.	EN30
Environmental operating costs	mn HUF	n.a.	9,223.80	11,149.10	12,347.70	12,973.80	24,362.70	19,156.71	(21)	EN30
ISO 14001 certifications in proportion to revenue	%	n.a.	n.a.	n.a.	40	46	62	66	6	

‘n.a.’ indicates where no data is available
 Data was calculated according to GRI definitions.
 *Total MOL Group without INA Group
 **To have an appropriate basis for comparison, IES was excluded from “2010 without INA” data

Indicator	Unit	2007	2008	2009*	2010 without INA	2011 without INA	2010 MOL Group**	2011 MOL Group***	Change at a group level 2011/2010 (%)	GRI code
Health and Safety										
Lost Time Injury (LTI)	pcs	37	24	28	40	47	104	120	15	LA7
Lost Time Injury Frequency (LTIF)		1.52	0.99	1.13	1.50	1.66	2.25	2.15	(4)	LA7
Total Reportable Occupational Illnesses Frequency (TROIF)		0	0.04	0	0	0	0	0	0	LA7
Lost day rate (LDR)	%	n.a.	n.a.	0.05	0.05	0.11	0.27	0.18	(33)	LA7
Absentee Rate (AR)	%	n.a.	2.65	2.17	2.08	2.80	2.97	3.50	18	LA7
Number of fatalities – employees	pcs	0	0	1	1	1	1	1	0	LA7
Number of fatalities – contractors	pcs	0	2	1	2	5	2	5	150	LA7
Number of fatalities – 3 rd parties	pcs	2	2	0	0	5	1	5	400	LA7
Lost Time Injury (LTI) for contractors	pcs	n.a.	n.a.	n.a.	23	24	n.a.	50	n.a.	
Number of fires	pcs	9	14	12	23	27	29	40	38	
Fire damage	mn HUF	26.7	49.4	55.8	863.6	221.4	975.4	3,177.2	226	
Human Capital										
Employees										
Total workforce	pple	15,058	17,338	17,963	17,882	17,946	32,601	31,732	(3)	LA1
Number of part-time employees	pple	92	125	114	143	193	191	261	37	LA1
Leavers	pple	1,540	1,136	988	1,480	1,252	3,243	2,338	(28)	LA2
Employee turnover rate	%	10.2	6.6	5.5	8.3	7.0	9.9	7.4	(25)	LA2
Employees represented by trade unions	%	85.5	93.3	91.4	92.8	91.2	94.5	94.8	0	LA4
Employees covered by collective bargaining agreement	%	n.a.	94.5	93.4	92.7	91.6	94.5	95.0	1	LA4
Diversity										
Ratio of women in total workforce	%	24.6	24.8	22.6	22.7	23.7	23.1	21.6	(6)	LA13
Ratio of women in non-managerial position	%	n.a.	25.1	22.9	22.9	24.0	23.3	21.8	(6)	LA13
Ratio of women in managerial position	%	18.5	19.4	12.3	14.6	14.8	18.2	16.3	(10)	LA13
Communities										
Average hours of training per employee	hours	n.a.	n.a.	21	25	26	18	22	22	LA10
Donations	mn HUF	540.2	752.0	1,116.2	1,834.8	3,127.5	1,861.1	3,229.5	74	EC8
In-kind giving (products and services)	mn HUF	n.a.	n.a.	23.1	42.5	45.6	47.1	48.6	3	EC8
Corporate volunteering	hours	n.a.	n.a.	3,508.0	2,143.5	2,484.0	2,303.5	3,348.0	45	EC8

‘n.a.’ indicates where no data is available Data was calculated according to GRI definitions.

*Total MOL Group without INA Group

**Total MOL Group 2010 including INA d.d. (without its subsidiaries), except Employees data (LA1, LA2) which covers total MOL Group

***Total MOL Group 2011 including INA Group

Indicator	Unit	2007	2008	2009*	2010 without INA	2011 without INA	2010 MOL Group**	2011 MOL Group	Change at a group level 2011/2010 (%)	GRI code
Economic Sustainability										
Economic Data***										
Revenues	bn HUF	2,691.1	3,669.5	3,383.1	n.a.	n.a.	4,349.3	5,448.3	25	EC1
Financial assistance re- ceived from government	bn HUF	0.8	0.4	0.5	n.a.	n.a.	1.0	0.8	(20)	EC4
Operating costs	bn HUF	1,906.8	2,881.7	2,592.8	n.a.	n.a.	3,290.3	4,288.2	30	EC1
Company cash	bn HUF	784.3	787.8	790.3	n.a.	n.a.	1,059.0	1,160.1	10	EC1
Employee wages and benefits	bn HUF	117.3	139.8	200.9	n.a.	n.a.	272.0	255.9	(6)	EC1
Capital investors	bn HUF	69.8	164.2	31.8	n.a.	n.a.	80.7	58.8	(27)	EC1
Payments to govern- ments	bn HUF	227.8	249.3	197.8	n.a.	n.a.	281.0	289.8	3	EC1
Economic value re- tained	bn HUF	369.4	234.5	359.8	n.a.	n.a.	425.3	555.6	31	EC1
Research & Development spendings	mn HUF	n.a.	1,895.0	2,120.3	1,839.8	1,907.0	1,842.7	1,909.9	4	
Customer Satisfaction****										
Wholesale customer satisfaction (MOL)	%	88	88	86	88	86	n.a.	n.a.	(2)	PR6
Wholesale customer satisfaction level (Slovnaft)	%	83	88	90	90	90	n.a.	n.a.	0	PR6
Average Retail customer satisfaction level	%	39	38	44	43	43	n.a.	n.a.	0	PR6
Petrochemicals customer loyalty index	%	13.3	14.4	19.5	15.5	16.6	n.a.	n.a.	7	PR6
Ethics										
Ethical notifications	pcs	3	13	8	10	18	11	38	245	
Ethical investigations	pcs	0	7	6	7	11	7	20	186	
Ethical misconducts	pcs	0	1	4	4	2	4	2	(50)	


'n.a.' indicates where no data is available
Data was calculated according to GRI definitions.
*MOL Group 2009 without INA Group except financial data (EC1, EC4) which covers MOL Group including INA Group 2009 H2
**Total MOL Group 2010 including INA d.d. (without its subsidiaries), except financial data (EC1, EC4) which covers MOL Group including INA Group 2010
***Data is calculated according to GRI definition, see in details on [MOL's website](#)
****Methodologies are different, see details on [MOL's website](#). The Retail survey covers HU, SK, RO and HR.



Notes on non-financial reporting

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 concerning the most relevant topics for MOL in the area of sustainability. Beyond this report, one can 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 of our stakeholders.

The sustainability performance data contained within this report were 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, meet the requirements of the A+ rating of the GRI G3 Sustainability Guidelines in accordance with the GRI (see the assurance statement on p. 224). To see the GRI Compliance table please click [here](#).

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
- www.iesitaliana.it/sd



REPORT CONTENT AND MATERIALITY

All of the topics that reflect MOL’s significant economic, environmental and social impacts and those which might have an impact on our stakeholders are treated as material concerns. When identifying 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 relevant; for example, compliance with certain pieces of legislation. Priority is given to areas 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 no oil and gas sector-specific supplement was available from GRI while this report was being prepared, we strived to follow the IPIECA-API “Oil and Gas Industry Guidance on Voluntary Sustainability Reporting” protocol 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.

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. Noteworthy changes compared to 2010 include the fact that the subsidiaries of INA d.d., the MOL operated Russian Upstream companies BaiTex LLC and Matjushkinskaya Vertical LLC, and Kalegran Ltd., our Upstream company in Iraq are now accounted for in 2011 data. HSE and energy data coverage is 99% in proportion to revenues. In the performance table we use also an equity share based approach to reporting data on GHG emissions from MOL Group related joint venture companies as well.

Our human resources organisation uses an IT application called BI (Business Intelligence) Data Port (SDHR module) to collect – amongst other data – sustainability-related HR data from MOL Group companies. In 2011 the scope covered 37 companies including the INA mother company and Crosco and Maziva from our subsidiaries. Thus the coverage for the whole MOL Group is 93%, (those companies whose headcounts do not exceed 20 employees are not, and probably will not be integrated, even in the future, into reports). In 2010 only 29 companies were covered. This change in coverage may be liable for significant decreases or increases in certain data indicators.

GRI Indicator	Global Compact Principle	IPIECA Indicator	Subject (hyperlink)	Page
Strategy and Profile				
1.1			Chief executive statement	8-9, 174-175
1.2			Description of key risks and opportunities	10-43, 242-243
2.1–2.10			Organizational profile, structures, markets	4, 10
3.1, 3.3			Reporting period and cycle	1, 220
3.4–3.13			Report scope, assurance	220, 224-226
4.1–4.7			Corporate governance	230-241
4.8–4.13			Guidelines and policies	82, 208, 220
4.14–4.17		SE1	Stakeholder engagement	196
Economic performance indicators				
Management approach	1, 4, 6, 7		Detailed reference in GRI compliance table (web)	
EC1		SE4, SE13	Economic value generated and distributed	218-219
EC2	7, 8, 9		Financial implications due to climate change	
EC3			Coverage of benefit plan obligations	218-219
EC4			Significant financial assistance from government	218-219
EC5			Standard entry level wage/local minimum wage	196
EC6		SE5, SE7	Locally-based suppliers at significant locations of operation	
EC7	6	SE5, SE6	Local hiring	
EC8		SE4	Investments for public benefit	205
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	181-182
EN8–EN10	8, 9	E6	Water	185-186
EN11-EN15	8	E5	Biodiversity	189
EN16–EN20	7, 8, 9	E1, E4, E7	Emissions	184-185
EN21	8	E9	Wastewater	187
EN22	8	E10	Waste	187-188
EN23	8	E8	Spills	188
EN26	7, 8, 9		Products and services	14-43
EN27	8, 9	HS4	Packaging materials reclaimed	188
EN29, EN30	7, 8, 9		Environmental expenditures	189, 214-215
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	196
LA7, LA8	1	HS2, HS3	Occupational health and safety	193
LA10, LA11	1	SE17	Vocational and further training	200
LA13	1, 6	SE15	Composition of governance bodies	244-249
LA14	1, 6	SE15	Equal employment	203

GRI Indicator	Global Compact Principle	IPIECA Indicator	Subject (hyperlink)	Page
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	205
HR2	1, 2, 3, 4, 5, 6	SE9	Screening of suppliers	192
HR4	1, 2, 6	SE18	Non-discrimination	208-209
HR5	1, 2, 3		Freedom of association, collective bargaining	208-209
HR6, HR7	1, 2, 4, 5		Child labor, forced labor, compulsory labor	208-209
Society				
Management approach			Detailed reference in GRI compliance table (web)	
SO1		SE1, SE2, SE3, SE4, SO5	Community	
SO2–SO4	10	SE11, SE12	Corruption	208-209
SO5, SO6	1-10	SE14	Political contributions	208-209
SO8			Monetary value of significant fines	149
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	218-219
PR 6		HS4	Advertising, promotion and sponsorship	
PR 9			Monetary value of significant fines	149

NOTES ON SUSTAINABILITY DATA

MOL Group 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 biologically based (but extend to chemical treatment steps where needed). We do not believe that breaking down data by destination and treatment method is material, therefore we do not report on it.

According to information provided by our contractors, waste disposal methods have been classified using European Union guidelines.

Employee engagement level: the first 9 questions of the survey are related to the general engagement of employees, rated on a 1-4 scale. Three groups can be distinguished by using the following clusters: 2,5 >= disengaged; 3,2 >= partly engaged >= 2,56; 3,22 <= engaged. In order to make the data more informative, we use percentages.

Assurance statements

INDEPENDENT ASSURANCE STATEMENT TO MOL

Ernst & Young Advisory Ltd was commissioned to provide limited assurance over sustainability performance data relating to 2011 contained within the 'Sustainability: Non-Financial Performance' chapter of MOL Group's Annual Report 2011 (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 ISAE3000¹. 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.

Consistency

- Whether the corporate level guidance and tools provided to reporting units have provided a basis for consistent reporting of sustainability data across the reporting units.

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:
 - Slovnaft Bratislava Refinery, Slovakia/Bratislava (HSE² and HR indicators)
 - INA Rijeka Refinery, Croatia/Rijeka (HSE indicators)
 - Molve Upstream site, Croatia/Molve (HSE indicators)
 - INA headquarter, Croatia/Zagreb (HR indicators)
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 2011, 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 2012

1. International Federation of Accountants' International Standard for Assurance Engagements Other Than Audits or Reviews of Historical Financial Information
2. Health, Safety & Environment



Statement GRI Application Level Check

GRI hereby states that **MOL Group** has presented its report "MOL Group Annual Report 2011" 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, 17 April 2012



Nelmara Arbex
Deputy Chief Executive
Global Reporting Initiative



The "+" has been added to this Application Level because MOL Group has submitted (part of) 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 12 April 2012. GRI explicitly excludes the statement being applied to any later changes to such material.



Corporate Governance

Corporate Governance report



MOL Headquarters in Hungary

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.

As continuity to our previous year's success, MOL Group, uniquely in CEE region, has been included into the Dow Jones Sustainability World Index in 2011, according to the evaluation of the leading company specialized in global corporate sustainability analysis, the Sustainable Asset Management (SAM). The 2500 largest global companies, selected from Dow Jones Global Stock Market Index, are evaluated, and then the top 10% is selected into the group of the best sustainability performers. This year 118 companies in

the oil and gas producers sector were included into the evaluation process, and MOL Group was recognized as one of the top 10%. The independent assessment focuses on the three dimensions of sustainability: the long-term economic, environmental and social performance. Other criteria of the evaluation inter alia include stakeholder management, environmental efficiency and customer relationship management.

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
– Dr. László Parragh	independent
– Iain Paterson	independent
– Dr. Martin Roman	independent
– Oszkár Világi*	non-independent

*Before Oszkár Világi until 30 April 2011 György Mosonyi was the member 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 2011 activities

In 2011, the Board of Directors held 6 meetings with an average attendance rate of 85%. 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 follow-up of the industry macro trends, the treatment of the challenges driven by the 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. Besides maintaining its strong financial position, MOL 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 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
- Zolt Hernádi, 8 September 2000
- Dr. Gábor Horváth, 8 September 2000
- Dr. Martin Roman, 29 April 2010
- Mulham Al-Jarf, 23 April 2008

Responsibilities:

- analysis and evaluation of the activities of the Board of Directors,
- issues related to Board/ Supervisory Board membership,
- promoting the relationship between shareholders and the Board,
- procedural and regulatory 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

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):

- Dr. László Parragh, 29 April 2010
- Iain Paterson, 29 June 2006 *

The Chairman and the Deputy Chairman of the Supervisory Board are permanent invitees to the Sustainable Development Committee meetings.

* Chairman of the Committee as from 20 October, 2011.

Responsibilities:

- regularly review, evaluate and comment for the Board of Directors all proposals related to SD.
- monitor the development and implementation of all SD related policies (e.g. HSE, Code of Ethics, etc.) and discuss ethical issues
- supervise the progress on the strategic focus areas of SD in MOL Group
- request and discuss reports from business divisions and subsidiaries about their SD performance
- review sustainability related data and information of the external reports

Report of the Corporate Governance and Remuneration Committee on its 2011 activities

In 2011, the Corporate Governance and Remuneration Committee held 5 meetings with a 75% 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 2011 activities

In 2011, 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.

Report of the Sustainable Development Committee on its 2011 activities

In 2011, the Sustainable Development Committee held 4 meetings with a 100% attendance rate. The Committee evaluated the accomplishment of the actions in 2011, formed opinion on Sustainable Development Report and decided on 2012 directions and targets. The Committee considered with highlighted attention the achieved results of the Dow Jones Sustainability Evaluation and reports of business units.

RELATIONSHIP BETWEEN THE BOARD AND THE EXECUTIVE MANAGEMENT

The 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 on certain proposals submitted to the 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)
- József Molnár Group Chief Executive Officer (GCEO)
- Zoltán Áldott President of the Management Board, INA d.d.
- Sándor Fasimon* Executive Vice President, Exploration and Production
- Ferenc Horváth Executive Vice President, Downstream
- József Simola Group Chief Financial Officer (GCFO)
- Oszkár Világi Chief Executive Officer, Slovnaft a.s.

* From 1st June, 2011.

In 2011, the Executive Board held 45 meetings and discussed 10 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 incentive scheme for directors was approved by the Annual General Meeting (AGM) on 23rd April 2008 and effective from year 2009.

Elements of the incentive scheme:

• Profit sharing incentive system (based on value added methodology)

From January 2009, a value added, profit sharing incentive system provides the long term incentive system of the Board of Directors. 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.

According the resolution of the General Meeting held on 28 April 2011, the gross amount of the incentive calculated for each Board member should be determined considering that it shall result the same net amount for all Board members in compliance with the relevant Hungarian tax and social insurance regulations and the treaties on the avoidance of double taxation and on social insurance.

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 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, the Board of Directors are provided with the following fixed net remuneration, following each AGM:

Directors	EUR 25,000 / year
Chairmen of the Committees	EUR 31,250 / 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.

Other non-financial benefits include travel- and liability insurance.

INCENTIVE SYSTEM FOR THE TOP MANAGEMENT

The incentive system for the top management in 2011 included the following elements:
1. Incentive (bonus)

The maximum bonus amount is 60-100% 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 (EBITDA) and division level key financial indicators (e.g. EBIT, EBITDA, ROACE, lost time injury frequency, CAPEX efficiency, operating cost, etc.).
b) Particular individual targets related to the responsibilities of the particular manager in the given year.

2. 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 gross 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 (General Meeting). In accordance with MOL’s Articles of Association, the maximum number of members is nine (present membership is nine). In accordance with Company Act, 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:

– György Mosonyi, Chairman*	non-independent
– 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)
– Dr. Sándor Puskás*	non-independent (employee representative)
– István Töröcskei	independent

* Before György Mosonyi until 30 April 2011 Dr. Mihály Kupa was the Chairman of the Supervisory Board. Before Dr. Sándor Puskás until 30 April 2011 Lajos Benedek 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 and besides it is informed and is kept updated on other relevant issues, topics as well. In addition, the Supervisory Board reviews the proposals for the Annual General Meeting. The Supervisory Board reviews its annual activity during the year.

In 2011 the Supervisory Board held 5 meetings with an 89% attendance rate.

Remuneration of the members of the Supervisory Board

The General Meeting held on April 27, 2005 approved the remuneration scheme for the Supervisory Board. Under this 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 gross EUR 1,500 for participation in each Board of Directors or Board Committee meeting, up to 15 times per annum. Besides the monthly remuneration the Chairman of the Supervisory Board as well as all members are entitled to receive further EUR 1,500 for each extraordinary meeting that is held in addition to the ordinary annual meetings that are in the schedule. This remuneration is given maximum two times a year.

The members of the Supervisory Board are entitled to receive further non-financial benefits, including travel- and liability insurance.

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
– István Töröcskei	1 May, 2011*

and in case of long-term incapacitation of any of the permanent members, Sándor Lámfalussy Prof.

* Before István Töröcskei until 30 April 2011 Dr. Mihály Kupa was the member of the Audit Committee

Report of the Audit Committee on its 2011 activities

In 2011, the Audit Committee held 5 meetings with an 90% 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 2011 and 2010, excluding INA Group and Energopetrol (audited by Deloitte in both years) and the operating company of the Fedorovsky Block (audited by PricewaterhouseCoopers, in 2010). Within the framework of the audit contract, Ernst & Young performs an audit of statutory financial statements, including interim financial statements of MOL Plc. prepared in accordance with Law C of 2000 on Accounting and the consolidated annual financial statements prepared in accordance with International Financial Reporting Standards (IFRS). Audits of the above mentioned financial statements are carried out in accordance with the Hungarian National Standards on Auditing, the International Standards on Auditing (ISA), the provisions of Accounting Law and other relevant regulations. The auditors ensure the continuity of the audit by scheduling regular on-site reviews during the year, participating in the meetings of MOL’s governing bodies and through other forms of consultation. The auditors also review the stock exchange reports issued quarterly; however they do not perform an audit of or issue any opinion on such reports.

Ernst & Young also provided other services to MOL Plc. Summary of the fees paid to them in 2011 and 2010 are as follows (HUF mn):

	2010	2011
Audit fee for MOL plc (including audit fee for interim financial statements)	156	156
Audit fee for subsidiaries	427	427
Other non-audit services	22	73
Tax advisory services	112	90
Total	717	746

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, PROHIBITION OF 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 2011 MOL participated in 13 roadshows and investor conferences (5 US and 8 European) having over 220 meetings with potential and existing shareholders.

MOL has an Investor Relations Department which is responsible for the organisation of the above activities as well as for the day-to-day management of MOL’s relationship with its shareholders (contact details are provided in the “Shareholder Information” section at the end of 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. The Investor Relations Department of MOL renewed its website at the beginning of 2011 (ir.mol.hu). MOL has always given special care to provide a considerably wide range of information to the capital markets, in line with international best practice. The aim of the development was to make the website even more user-friendly, in accordance with the intention to continuously improve our services, in order to meet the requirements of our shareholders, analysts and other capital market participants.

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.

In line with the laws and MOL’s insider trading regulation:

- it is prohibited to conclude a transaction, directly or indirectly, using inside information involving financial instruments to which the inside information pertains, or to commission the services of others to transact such deals, to convey inside information to others, to make a suggestion to another person to engage in dealing with any financial instrument to which the inside information pertains.
- in case the inside information concerns another listed company, belonging to MOL Group, the trading prohibition shall be also applied to the related financial instruments of that company.

EXERCISING THE 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.

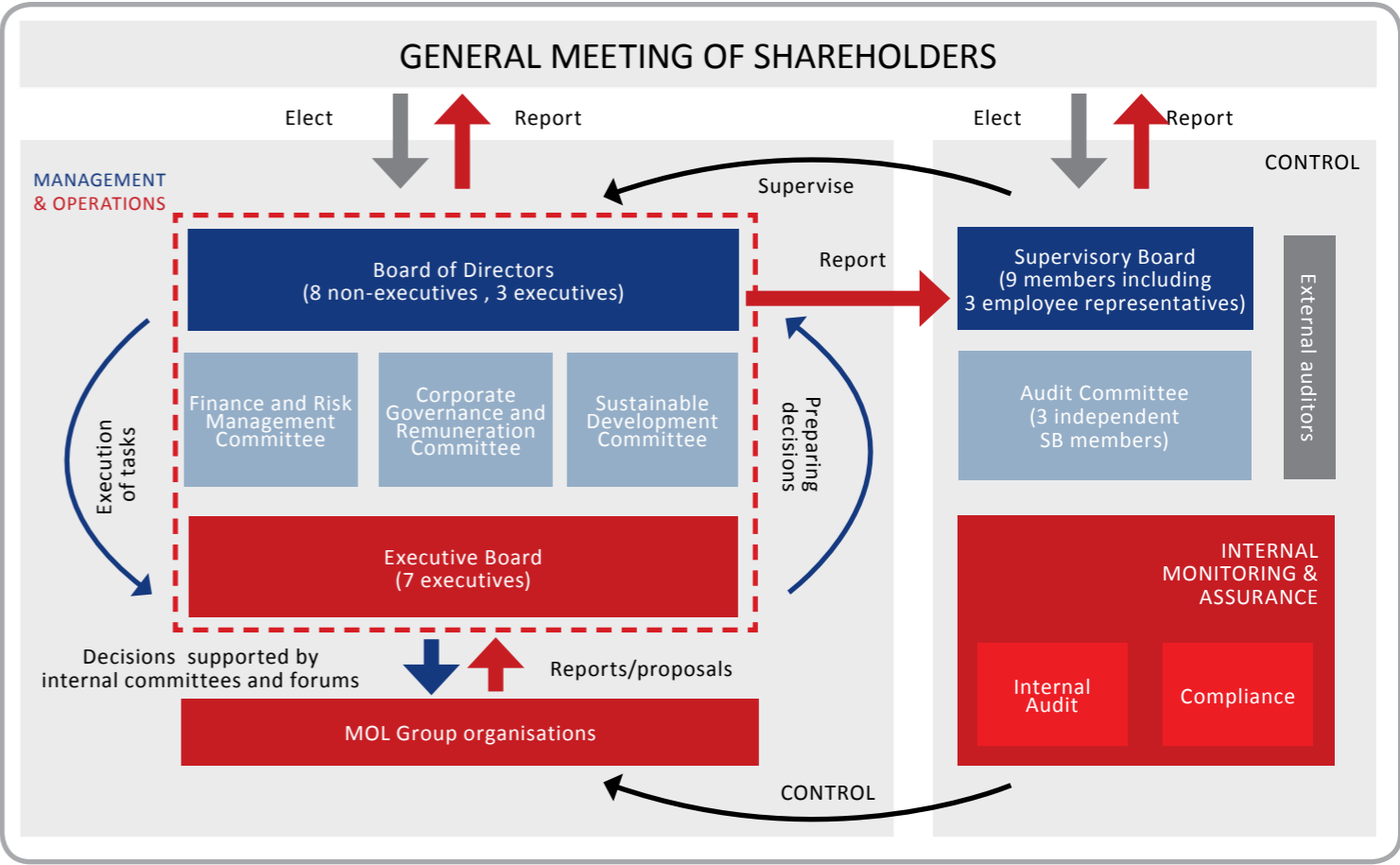
According to Article 10.1.1 of Articles of Associations: “No shareholder or shareholder group (as defined below) may exercise more than 10% of the voting rights with the exception of the organization(s) acting at the Company’s request as depository or custodian for the Company’s shares or securities 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 regulations.

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.

MOL GROUP GOVERNANCE FRAMEWORK



Integrated corporate risk management

It is an accentuated aim for Risk Management to deal with all of the external challenges 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 repeatedly confirmed by SAM Research AG in its 2011 benchmarking report for Dow Jones Sustainability Index that ranked MOL's risk management as one of the best in class with 94% performance, 30 percentage points above the sector's average. This underlines 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 compliance risks and also takes into account the potential reputation effects of events. 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. The main risk drivers of the Group are the following:

- **Commodity price risk:** MOL 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. Investors buying oil companies' share are generally willing to take the risk of oil business so commodity price risk should not be fully eliminated from the cash flow. However, commodity hedge deals might need to be considered to eliminate risks other than 'business as usual' risks or general market price volatility.
- **Foreign Exchange (FX) risk:** Business operation is economically driven mainly by USD. The overall operating cash flow exposure of the Group is net long USD, EUR, RON, and net short HUF, HRK, RUB from economic point of view. According to MOL's current FX risk management policy the long FX exposures of the operating cash flow are decreased by the short financing cash flow exposures.
- **Regulatory risk:** Due to the economic crisis the risk of potential government actions increased as well as potential impact of such decisions.
- **Country risk:** The internationally extending portfolio requires the proper management of country risk exposures. Country exposures are monitored on a regular basis in order to enhance the diversification effect in the investment portfolio.
- **Drilling risks:** The uncertainty related to drilling success is a typical business risk in the exploration activity.
- **Equipment breakdown:** Due to the high asset concentration in Downstream business it is a significant risk driver. The potential negative effects are mitigated by the insurance management program.
- **Market demand uncertainties:** External factors like drop in market demand can affect MOL's results negatively.
- **Reputation risk:** Reputation of energy industry players has been in the focus of media for the past years due to extreme negative events (e.g. BP oil spill, Fukushima nuclear accident). MOL as a major market player in the region operates under special attention from stakeholders.

Generally, the risks are aggregated, measured and mitigated at group level in order to take into consideration the portfolio effects and to optimize the Group's financial performance. 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.

Main risk management tools

To ensure the profitability and the financial stability of the Group **Financial Risk Management (FRM)** as part of the ERM is in place in order 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. Crisis Management (CM) processes, Incident Management, Disaster Recovery, Business Continuity Plans (BCP) 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 result in decreasing insurance premiums. The Business Continuity Management covers the whole operation of the company, and ensures the proper management of crisis events with multi-divisional cooperation.

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 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 financing headroom. Potential effects on the risk profile of the Group are analysed whether the acquisition/divestment ensures the attainability of the target risk-return profile while keeping the riskiness of the Group in line with its risk-appetite.

Board of Directors



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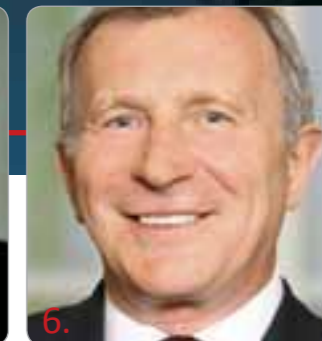
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1. MR. ZSOLT HERNÁDI (51)

Chairman of the Board of Directors since 7 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 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 (58)

Member of the Board of Directors since 20 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, later becoming licensed pricing specialist and a chartered accountant. 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 29 April, 2011, the annual shareholders meeting re-elected him for another 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). 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' Études Bancaires. Mr. Csányi has been the President of the Hungarian Football Federation since July 2010. In January 2012, Sándor Csányi was elected the Co-Chairman of the Chinese-Hungarian Business Council.

Other members of the Board of Directors

3. MR. MULHAM AL-JARF (41)

Member of the Board of Directors since 24 April 2008.

Member of the Corporate Governance and Remuneration Committee.

He is a graduate of International Business and Finance from the USA and he is also a Barrister-at-Law of the Bar of England & Wales and a member of Grays Inn. He is the deputy CEO of Oman Oil Company since 2004. He is member of the Board of Directors in the following companies: Sohar Aluminium Co LLC (Chairman), Oman Arab Bank SAOC, Oman Oil Marketing Co SAOG (Vice Chairman), Takamul Investments SAOC (Chairman), China Gas Holdings Ltd, and Gulf Energy Maritime PSC (Vice Chairman). He has work experience at Oman Gas Company SAOC, Ministry of Oil and Gas, and General Telecommunications Company (now Omantel) in Oman. He is a citizen of Oman.

4. DR. MIKLÓS DOBÁK (56)

Member of the Board of Directors since 29 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 Chairman of the Supervisory Board of IFUA Horváth & Partners Consulting Company.

5. DR. GÁBOR HORVÁTH (55)

Member of the Board of Directors since 24 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 of OTP Bank Plc.

6. MR. ZSIGMOND JÁRAI (60)

Member of the Board of Directors from 29 April 2010.

Member of the Finance and Risk management Committee.

He occupied various managerial positions in the State Development Bank between 1976-1986. In the meantime, he was consultant in the Ministry of Water Supply of Mongolia in 1977-78. Director, then Deputy General Manager in Budapest Bank Plc. between 1987 and 1989. He was appointed as Deputy minister in the Ministry of Finance and Director of State Bank Supervision (1989-90). In 1990-92, he became Director of East-Europe in James Capel & Co., London. Between 1993 and 1995 he was the Managing Director of Samuel Montagu Financial Consultant and Securities Company. Between 1995 and 1998, he was the Chief Executive Officer, then Chairman & CEO of ABN AMRO Bank Rt. (formerly Hungarian Credit Bank Ltd.). Meanwhile, he was serving as Chairman of Budapest Stock Exchange in 1996-1998. Between 1998 and 2000 he held the position of the Minister of Finance, then he was Chairman of the National Bank of Hungary from 2001 until 2007. As the founder of CIG Pannonia Life Insurance Ltd in 2007, he has been also the Chairman of Supervisory Board since its inception.. Since 2010 he has been the chairman of the Supervisory Board of the National Bank of Hungary.



7. MR. JÓZSEF MOLNÁR (56)

Group Chief Executive Officer since 1 May 2011, and member of the Board of Directors since 12 October 2007.

Member of the Supervisory Board of INA d.d. since April 2010, and member of the Supervisory Board of FGSZ Zrt. since May 2011

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 creating the company's vision, and fulfilling its subsequent privatisation. He played a key role in the stock exchange listing of BorsodChem shares. He was CEO of TVK between 2001 and 2003, MOL Group Planning & Controlling Director from 2003, and from 2004 until his appointment as Group CEO in May 2011, he was Group CFO of MOL. Between 2004 and 2008 he was a Board member of SLOVNAFT a. s., between 2001 and 2011 he was a Board member of TVK. Since April 2010 he has been a member of INA Supervisory Board and since May 2011 he has also been a member of FGSZ Zrt. Supervisory Board.

8. DR. LÁSZLÓ PARRAGH (49)

Member of the Board of Directors from 29 April, 2010.

Member of the Sustainable Development Committee.

Since 1989 he has been Chairman of the Parragh Trade and Holding Ltd. Since 1993, he has been a member of the Presidium of the Confederation of Hungarian Employers and Industrialists (MGYOSZ), and was Vice President between 1994 and 2000. He was Member of the Advisory Committee for Economic Affairs of the Prime Minister between 1998 and 2002. Since 2000 he has been President of the Hungarian Chamber of Commerce and Industry. Between 2003-2010 he was Vice President of GYSEV Plc. Since 2009 he has been Chairman of KAVOSZ Garantiqa Plc. Between 2003-2011, he was Chairman of the Economic and Social Council, since 2011 he has been occupying the position of Chairman of the National Economic and Social Council. Between 2002-2010 he was member of Board of Directors' at MEHIB Ltd, at EXIM Bank Plc, at GYSEV Plc. Between 2010-2011 he became member of the Board of Directors of MALEV. Since 2003 he has been Chairman of the Supervisory Board of KA-VOSZ Financial Services Trading Close Co. Since 2009 he is Honorary Professor of the Budapest Business School and the University of West Hungary.

9. MR. IAIN PATERSON (64)

Member of the Board of Directors since 24 February 1999.

Chairman of the Sustainable Development Committee and Member of the Finance and Risk management 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 and Chairman of AnTech Limited. Mr. Paterson is a British citizen.

10. DR. MARTIN ROMAN (42)

Member of the Board of Directors from 29 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. From February 2004 till half of September 2011, Mr. Roman was the Chairman of the Board and CEO of ČEZ, a. s. From the mid-September 2011 on Mr. Roman is Chairman of the Supervisory Board 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.; (he served as Member of the Supervisory Board of Czech Railways in 2007-2009 an as Vice President of the Confederation of Industry and Transport of the Czech Republic 2007-2011) 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.

11. MR. OSZKÁR VILÁGI (48)

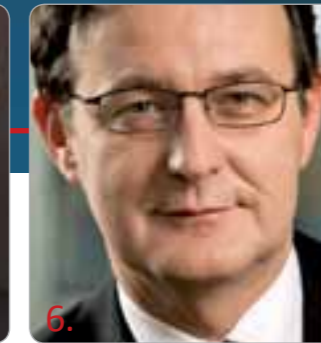
Member of the Board of Director since 1 May 2011.

Chairman of the Board of Directors and CEO of SLOVNAFT.

Member of the Supervisory Board of INA d.d.

Mr. Világi graduated from the Faculty of Law at the Comenius University of Bratislava in 1985 and achieved the academic title of D.C.L.. During 1990-1992 he was member of the Czechoslovak Parliament in Prague. From 1996 he participated in governing bodies of several 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 has been member of the strategic partnership and integration team of SLOVNAFT and MOL. Before becoming a member of the Board of Directors in SLOVNAFT a.s. in 2005 he was member of its Supervisory Board. In March 2006, Mr. Világi was appointed as CEO of SLOVNAFT a.s.. In April 2010, he became the Member of the Executive Board of MOL Group.

Executive Board



1. MR. ZSOLT HERNÁDI (51)

Chairman of the Board of Directors since 7 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 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. JÓZSEF MOLNÁR (56)

Group Chief Executive Officer since 1 May 2011, and member of the Board of Directors since 12 October 2007.

Member of the Supervisory Board of INA d.d. since April 2010, and member of the Supervisory Board of FGSZ Zrt. since May 2011

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 creating the company's vision, and fulfilling its subsequent privatisation. He played a key role in the stock exchange listing of BorsodChem shares. He was CEO of TVK between 2001 and 2003, MOL Group Planning & Controlling Director from 2003, and from 2004 until his appointment as Group CEO in May 2011, he was Group CFO of MOL. Between 2004 and 2008 he was a Board member of SLOVNAFT a. s., between 2001 and 2011 he was a Board member of TVK. Since April 2010 he has been a member of INA Supervisory Board and since May 2011 he has also been a member of FGSZ Zrt. Supervisory Board.

3. MR. JÓZSEF SIMOLA (45)

Group Chief Financial Officer since 1 May 2011.

Member of the Supervisory Board of INA d.d. until April 2012.

Member of the Board of Directors of IES S.p.A.

From 1991 to 1992 he was employed as an SAP expert at General Electric – Tungsum. He subsequently joined Arthur Andersen as an auditor and consultant. In 1996 he continued his carrier at 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. He served as Chairman of the Supervisory Board of SLOVNAFT a. s. until 2011. He was also appointed as Corporate Centre Executive Vice President of MOL Plc. between 2006 and 2011.

4. MR. ZOLTÁN ÁLDOTT (43)

President of the Management Board of INA d.d. since 1 April 2010.

Between 1990 and 1991, he was an associate at Creditum Financial Consulting Ltd. Afterwards, between 1992 and 1995, he held various positions at Eurocorp Financial Consulting Ltd. From 1995 to 1997, he was the Manager of MOL's Privatization Department and from 1997 until 1999 he was Director of Capital Markets. In 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. He was the Executive Vice President of MOL Exploration & Production Division between September 2004 and June 2011.

5. MR. SÁNDOR FASIMON (45)

Executive Vice President of Exploration and Production since 1 June, 2011.

Member of the Board of Hungarian Hydrocarbon Stockpiling Association.

From 1991 Mr. Fasimon held various management positions at Mineralimpex Hungarian Foreign Trade Company for Oil & Mining Products. Between 1996 and 1997 Counsellor, he served as Head of the Tripoli (Libya) Hungarian Commercial Section. From 1999 to 2003 Mr. Fasimon worked for MOL as Supply Director in the field of crude oil and crude oil products and from 2002 he acted as Managing Director of Moltrade-Mineralimpex Co. Ltd. Between 2003 and 2006 he was the Managing Director of Natural Gas Division of MOL Plc. From 2006 until 2009 he acted as General Director of MOL-Russ LLC. Between 2009 and 2011 he worked as Senior Vice President of Supply & Trading Division.

6. MR. FERENC HORVÁTH (51)

Executive Vice President of MOL Refining & Marketing Division since November 2003. From 1th of May, 2011 Executive Vice President of MOL Downstream.

Member of the Board of Directors of TVK since 1 May 2011.

He is the Chairman of the Board of Directors of IES Mantua since November, 2007 and he has been a member of the Board of Directors of SLOVNAFT since 2003.

Member of the Board of Directors of TVK since May 2011.

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). Between 2002 and 2003 he was Commercial Director and his activities have broadened with the purchase of crude oil and raw materials necessary for the refining of crude oil.

7. MR. OSZKÁR VILÁGI (48)

Member of the Board of Director since 1 May 2011.

Chairman of the Board of Directors and CEO of SLOVNAFT.

Member of the Supervisory Board of INA d.d.

Mr. Világi graduated from the Faculty of Law at the Comenius University of Bratislava in 1985 and achieved the academic title of D.C.L. During 1990-1992 he was member of the Czechoslovak Parliament in Prague. From 1996 he participated in governing bodies of several 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 has been member of the strategic partnership and integration team of SLOVNAFT and MOL. Before becoming a member of the Board of Directors in SLOVNAFT a.s. in 2005 he was member of its Supervisory Board. In March 2006, Mr. Világi was appointed as CEO of SLOVNAFT a.s.. In April 2010, he became the Member of the Executive Board of MOL Group.

Supervisory Board

1. MR. GYÖRGY MOSONYI (62)

Member of MOL Supervisory Board since 1 May 2011 and Chairman since 8 June 2011.

Regular attendee of the Sustainable Development Committee.

Chairman of the Board of Directors of TVK Plc.

Chairman of the Supervisory Board of SLOVNAFT a. s.

Vice President of the Supervisory Board of INA d.d.

From 1974 onwards, he worked for the Hungarian Agency of Shell International Petroleum Co. and from 1986 he held the position of commercial director. In 1991 he worked at Shell headquarters, London. Between 1992-1993 he was managing director of Shell-Interag Ltd and between 1994-1999 Chairman and Chief Executive Officer of Shell Hungary Rt. Meanwhile, in 1997 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, member of the Joint Venture Association's Presidium, President of the World Petroleum Council Hungarian National Committee.

He held the positions of MOL Group CEO and member of the Board of Directors of MOL Plc. between 1999 and 2011. He was Chairman of the Sustainable Development Committee between 2006-2011.

2. DR. ATTILA CHIKÁN (67)

Member of the Supervisory Board since 30 April 2004, Deputy Chairman of the Supervisory Board since 5 December 2005.

Chairman of the Audit Committee since 8 June 2011.

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 held the office of Minister of Economic Affairs. Between 2000 and 2003 he was Rector of Budapest University of Economic Sciences. 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. JOHN I. CHARODY (84)

Member of the Supervisory Board since 11 October 2002.

Member of the Audit Committee.

He worked in the Geophysical Institute of the Oil Exploration and Development Company between 1953 and 1956. Following this, he held leading positions in various companies operating in Australia including Bridge Oil Ltd., Aurora Minerals, Project Mining. He was also CEO of Winton Enterprises Pty. Ltd. and Galina Investment international consulting company. He has been a fellow of the Institute of Australian Directors since 1971, the Australian Institute of Management since 1967, Justice of Peace since 1972. In 1973 he was awarded the M.B.E. by H.M. the Queen for his services to Australia. 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 in fostering Australian-Hungarian financial and commercial relationship. Currently he is Board Member of Pick Rt. and Csányi Foundation as well as being a consultant of MFB Invest Zrt.

4. MR. SLAVOMÍR HATINA (64)

Member of the Supervisory Board since 11 October 2002.

Mr. Hatina joined Slovnaft in 1970, working in various positions after joining. 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.

5. MR. ATTILA JUHÁSZ (48)

Member of the Supervisory Board since 12 October 2007 as a delegate of the employees.

He joined the Company in 1986. During his employment he held various positions in the Exploration and Production Division. He has been Vice Chairman of MOL Trade Union of Production Workers, and member of the Workers Council since its foundation. Currently he is acting as an observer in the Workers Council.

6. MR. JÓZSEF KOHÁN (60)

Member of the Supervisory Board since 1 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.

7. DR. SÁNDOR LÁMFALUSSY (82)

Member of the Supervisory Board since 24 February 1999.

Between 1955 and 1975 he worked at the Banque de Bruxelles, first as an economist, then as member, during the second part of this period. Later he held Chairman position of the Management Board as well. While taking a year of professional absence leave from the bank he became a 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 predecessor of the European Central Bank (ECB). In 2000-2001 he was Chairman of the Committee of Wise Men on the Regulation of European Securities Markets whose recommendations were accepted by the European Council, and is now being implemented. Throughout his professional career he was teaching at the Catholic University of Louvain (Belgium), of which he is now a Professor Emeritus. He is a Belgian citizen.

8. DR. SÁNDOR PUSKÁS (50)

Member of the Supervisory Board since 28 April, 2011, delegated by the employees.

He has been employed by MOL as a Petroleum Engineer M.Sc. since 1985. Currently he is a Petroleum Engineer and holds R&D Senior Expert position at the New Technologies and R&D Department at the Exploration and Production Division of MOL, in Szeged-Algyő, Hungary. He has 26 years of experience as a field, research and development engineer in crude oil production. Dr. Puskás holds a Dipl. Eng. degree in petroleum engineering from Moscow State Gubkin Oil and Gas University and a Dr. Univ. degree in colloid chemistry from József Attila University Szeged, Hungary. He holds a postgraduate degree in R&D management and Human management from Budapest University of Economic Sciences and State Administration, Management Development Centre. Dr. Puskás is the author and co-author of several technical papers. He is member of the MOL Trade Union of Production Workers.

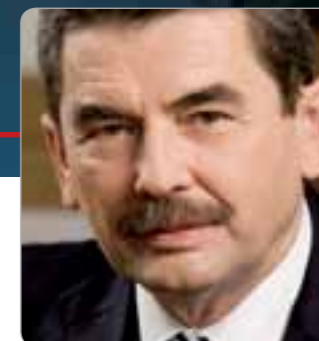
9. MR. ISTVÁN TÖRÖCSKEI (62)

Member of the Supervisory Board since 29 April 2010.

Member of the Audit Committee since 1 May 2011.

He held senior positions in the following banks between 1973 and 1989: National Bank of Hungary, HIB London Magyar Hitelbank Zrt., Kultúrbank Zrt., and Interbanka Prague. 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 and the Audit Committee



REPORT ON THE 2011 FINANCIAL STATEMENTS AND THE PROPOSAL FOR THE DISTRIBUTION OF PROFIT AFTER TAXATION

The Supervisory Board and the Audit Committee 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. On its meetings during 2011, 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, with its USD 7.5 billion market capitalisation, is a leading integrated, upstream-driven company in the region and the largest company in Hungary. In 2010, the weighted average stock exchange price of MOL shares was HUF 19,505 while in 2011 it increased to HUF 19,735. On the other hand the year end closing price decreased. At the end of 2010 the share price closed at HUF 20,790, while in 2011 HUF 17,350 was the closing price.

The Company's 2011 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.

A total of 129 companies were fully, and a further 13 companies were partially consolidated in MOL Group, using the equity method. Last year the ownership structure changed: at the end of 2011, compared to the end of last year the shareholding of foreign institutional investors decreased from 26.1% to 25.5%, while the ownership of domestic institutional and private investors decreased from 8.3% to 7.8%. 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 2011. Our largest shareholder is the Hungarian State holding 24.6% of MOL shares. The Company held 5.5% treasury shares at the end of December 2011.

Despite mixed business environment MOL closed another successful year in 2011. High crude oil prices supported Upstream results, however external conditions were unexpectedly tough for Downstream operation. Despite the developments in Syria and the further tightening regulatory environment, we were able to grow further in 2011. More than 70% of Group EBITDA was generated by Upstream segment, while half of the operating result came outside Hungary as the share of international operations increased year by year.

The Upstream division as the main profit contributor of the Group achieved record high EBITDA in 2011. An important achievement is the more than 200% reserve replacement ratio which boosted SPE 2P reserves to 682 MMboe as a result of earlier exploration successes in Kazakhstan and extensive field development in Russia. The elevated reserves level will provide good basis for mid-term production growth.

In 2011, Downstream suffered from extraordinarily unfavourable developments in the external environment and some unplanned refinery stoppages in Croatia which together put unusually heavy pressure on Downstream profitability. However, the two largest

refineries performed relatively well, which emphasizes the strength of these complex assets.

During the year MOL further strengthened its financial position as evidenced by lower gearing and net debt to EBITDA level. The investment grade credit rating was reinforced by Fitch, which also underlined MOL's strong financial position. In a tough environment, MOL remained disciplined and financed its capital expenditure requirements from operating cash flow. MOL is highly committed to maintaining this strong financial position in the coming years.

In the field of sustainable development, MOL reached exceptional results as well. In 2011, MOL Group was included into Dow Jones Sustainability World Index for the second time as the first and sole company from the region.

2012 will be a challenging year (i.e. force majeure notice in Syria, depressed refinery environment year-to-date), however MOL Group is targeting to deliver outstanding growth in mid-term.

The Supervisory Board endorses the recommendation of the Board of Directors to pay out HUF 45 billion dividend in 2012 connected to the year ended 31 December 2011.

The Supervisory Board proposes that the General Meeting approves the audited financial statements of MOL Plc for 2011, with a balance-sheet total of HUF 3,168 billion, net income of HUF 150 billion, and tie-up reserve of HUF 104 billion and the audited consolidated financial statements of the MOL Group for 2011, with a balance sheet total of HUF 4,993 billion and profit attributable to equity holders of HUF 154 billion.

Budapest, 29th March, 2012

For and on behalf of the Supervisory Board and Audit Committee of MOL Plc:

György Mosonyi
Chairman of the
Supervisory Board

dr. Attila Chikán
Chairman of
the Audit Committee

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 28 April, 2011. 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 2011: 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:

	31.12.2010		31.12.2011	
	Par value of shares	%	Par value of shares	%
Foreign investors	27,268,101	26.1	26,674,429	25.5
Hungarian State	44	0.0	25,717,982	24.6
Surgutneftegas OJSC	22,179,488	21.2	0	0.0
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.	6,446,999	6.2	5,617,866	5.4
Hungarian institutional and private investors	8,645,826	8.3	8,171,602	7.8
MOL Plc. (treasury shares)	7,435,316	7.1	5,793,895	5.5
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 2011.

Period	BSE volume (no. of shares)	BSE closing price (HUF/share)
1 st quarter	9,500,135	23,980
2 nd quarter	8,386,344	21,000
3 rd quarter	12,954,844	14,900
4 th quarter	9,706,475	17,350

Treasury shares

During 2011 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 2010	7,434,737	578
Share purchase and share option agreement with UniCredit Bank A.G.	-2,914.692	
MOL shares that had been lent to MFB Invest were transferred back	1,273,271	
Number of Treasury shares on 31 December 2011	5,793,316	578

Changes in organisation and senior management

- **György Mosonyi** resigned as of 30 April 2011 as MOL Plc’s Group Chief Executive Officer and member of the Board of Directors and not participate in the operative governance of the Company in the future. The Board of Directors acknowledged the decision of György Mosonyi, and highly appreciated his outstanding work made in the past 12 years, that significantly supported MOL to develop into a leading international oil company. The Board of Directors asked him to support the Group with his experience and industrial knowledge in his non-executive positions in the future as well.
 - From 1 May the new Group Chief Executive Officer of MOL Plc. was **József Molnár**, the former Group Chief Financial Officer. József Molnár was the Group Chief Financial Officer of MOL since 2004, and gained more than two-decade executive, financial and industrial experience in different executive positions in MOL Group, TVK and Borsodchem.
 - **Dr. Mihály Kupa** resigned as member of the Supervisory Board as of 30 April 2011. The Board of Directors expressed its appreciation for the high quality work of Dr. Mihály Kupa as Chairman of the body since 2002.
 - The Board of Directors reviewed the organizational structure and work-split of the Executive Board of MOL, and as a result continues its work in the following structure from 1 May 2011:
 - o The new Group Chief Financial Officer is **József Simola** who is member of MOL’s Executive Board since 2006.
 - o Executive Vice President of Downstream division which includes Refining & Marketing, Retail and Petrochemicals businesses is **Ferenc Horváth**.
 - o Executive Vice President of Exploration and Production division remains **Zoltán Áldott** who is the non-executive Chairman of INA’s Board at the same time.
 - o Strategy division is integrated with Corporate Business Development division and is headed by **Ábel Galács** Vice President
 - **The Annual General Meeting on 28 April 2011 elected**
 - o **Mr. Oszkár Világi** to be member of the Board of Directors from 1 May 2011 to 30 April 2016.
 - o **Mr. György Mosonyi** as member of the Supervisory Board from 1 May 2011 to 30 April 2016. and **Mr. István Töröcskei** as independent member of the Supervisory Board to be member of the Audit Committee effective as from 1 May 2011.
 - o and **dr. Sándor Puskás**, as employee representative in the Supervisory Board of MOL Plc. from the date of the Annual General Meeting until 11 October 2012.
 - **The following organizational changes took place with the effect of June 2011:**
 - o Within the **Upstream division**; with effect of 1 June 2011, **Zoltán Áldott**, Executive Vice President of Exploration and Production Division concentrate in his full capacity for the position of the President of the Management Board of INA, further strengthening INA’s position within MOL Group. **Sándor Fasimon** took over his position as Executive Vice President of Exploration and Production Division, who had been formerly the Senior Vice President of Supply and Trading – this organisation became part of Downstream as of 1 June 2011. Sándor Fasimon become also a member of MOL Executive Board (EB), as the Executive Vice President of Exploration and Production Division. Zoltán Áldott also retained his membership in MOL EB.
 - o Within the new **Downstream division**, as of 1st June 2011 **dr. Béla Kelemen**, who joined our company in 1997, become the new Senior Vice President of Refining & Marketing. Dr. Béla Kelemen has held several managerial positions in R&M Commercial, SCM and Refining. He had been head of MOL Group R&M Refining since September 2007.
- As of 1st June 2011 **Zsolt Pethő** become the new Senior Vice President of Petrochemicals and the new CEO of TVK Plc. Zsolt Pethő joined MOL in 1998 and he had been the head of R&M Commercial since July 2006.

Ábel Galács the former Vice President of Strategy has been appointed as the new head of R&M Commercial, his responsibilities include crude oil and feedstock supply and trading as well.

o The **Strategy and Business Development** organisation split into two units from 1 June 2011: **Dr. György Bacsá** lead the Corporate Business Development unit, and **András Péntek** was appointed as the head of Strategy unit, which includes the Strategic Analysis and Planning unit.

o In connection with the organisational change the following persons considered as executive employee according to the Capital Market Act. beside the members of the Board of Directors and the members of the Supervisory Board with the effect of 1 June 2011:

Zsolt Hernádi (at the same time Chairman of the Board of Directors)
József Molnár (at the same time member of the Board of Directors)
Oszkár Világi (at the same time member of the Board of Directors)
Zoltán Áldott
Sándor Fasimon
Ferenc Horváth
József Simola

- On 8 June 2011 the Members of the Supervisory Board elected **Mr. György Mosonyi** as Chairman of the Supervisory Board. The Audit Committee of the Supervisory Board elected **Dr. Attila Chikán** as Chairman of the Audit Committee.

MOL securities held by Directors and Officers of the company as of 31 December, 2011

Name	Current position	Number of MOL shares	Number of Magnolia bond
Zsolt Hernádi	Chairman of the Board of Directors, Chief Executive Officer	178,951	19
Dr. Sándor Csányi	member of the Board of Directors, Vice-Chairman	5,000	
József Molnár	member of the Board of Director, Group Chief Executive Officer	18,201	3
Dr. Miklós Dobák	member of the Board of Directors	18,000	
Dr. Gábor Horváth	member of the Board of Directors	12,927	
Zsigmond Járai	member of the Board of Directors	0	
Mulham Basheer Abdullah Al Jarf	member of the Board of Directors	495	
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	
Oszkár Világi	member of the Board of Directors Chairman and CEO of SLOVNAFT a.s.	0	5
György Mosonyi	Chairman of the Supervisory Board	62,920	
Dr. Attila Chikán	Deputy-Chairman of the Supervisory Board	0	
John I. Charody	member of the Supervisory Board	0	
Slavomir Hatina	member of the Supervisory Board	0	
Attila Juhász	member of the Supervisory Board, representative of the employees	0	
János Kohán	member of the Supervisory Board, representative of the employees	0	
Dr. Sándor Lámfalussy	member of the Supervisory Board	380	
Dr. Sándor Puskás	member of the Supervisory Board, representative of the employees	0	
István Töröcskei	member of the Supervisory Board	0	
Zoltán Áldott	President of the Management Board of INA d.d.	65,000	2
Sándor Fasimon	Executive Vice President, Exploration and Production	10,000	2
Ferenc Horváth	Executive Vice President, Exploration and Production	28,198	1
József Simola	Executive Vice President, Finance	16,310	1

* Perpetual exchangeable capital security, issued by Magnolia Finance Ltd, exchangeable into “A” Series MOL Ordinary Shares with nominal value EUR 100,000

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 (bbl)

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.) One cubic meter oil is equal to 6.29 barrel.

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, Retail and Petrochemicals

Dry well

An investigated borehole, which does not confirm the existence of a hydrocarbon accumulation 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 ester

Biocomponent blended in dieselgasoil

FCC- Fluid Catalytic Cracking plant

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."

Liquefied 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 standard 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 Hungary)

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.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 other non-combustible gases or separated non-combustible gases) 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 proved 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 by using known recovery methods from already known accummulation with a high degree of certainty (over 90%) under the prevailing economic and operating conditions.

Proved undeveloped reserve

Proved 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 ratio of their capacity to distillation capacity.

Refining cover

Total refining capacity divided by total volumes of product sold

Reserve

Estimated volume of crude oil, condensate, natural gas and other components that can commercially be extracted by using known recovery methods from a known accumulation under the prevailing economic and operating conditions.

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.

Upstream

Exploration and Production Segment.

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 Depositary Receipt, depositary certificates issued by a foreign depositary 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.

GHG (Greenhouse gases)

Gases that contribute to the formation of an undesirable insulating blanket around the Earth by trapping heat from infrared radiation (CO2, CH4, N2O, 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

HSE indicators

For the exact definitions of the HSE indicators please visit our Sustainable Development website.

www.mol.hu/sd

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Announcements

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ir.mol.hu and in Budapest Stock Exchange's website:

<http://www.bse.hu/>

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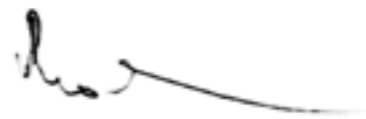
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Statement of responsibility

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 2011, 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 March 2012



József MOLNÁR
Group CEO



József SIMOLA
Executive Vice
President for
Finance