MOL GROUP

# ANNUAL REPORT 2013

Economic, Social and Environmental Performance

(EXCERPT)

MOLGROUP

# CONTENT

## MOL GROUP ANNUAL REPORTING

MOL Group is committed to transparency and this Annual Report aims to present business performance and operations in a comprehensive way. Six years ago, the company decided that the most efficient way of doing this would be to present an integrated annual report. Integrated reporting in MOL Group means presenting the economic, social and environmental aspects of our value creation process all in one report.

Financial information is disclosed in this report according to International Financial Reporting Standards (IFRS).

The scope and content of our non-financial reporting are primarily driven by:

- The Global Reporting Initiative (GRI) G3.1 sustainability reporting guidelines (level A+) (including the Oil & Gas Sector Supplement)
- The UN Global Compact, Communication on Progress
- IPIECA Oil & Gas Voluntary Guidance on Sustainability Reporting
- Our materiality assessment matrix (see below)

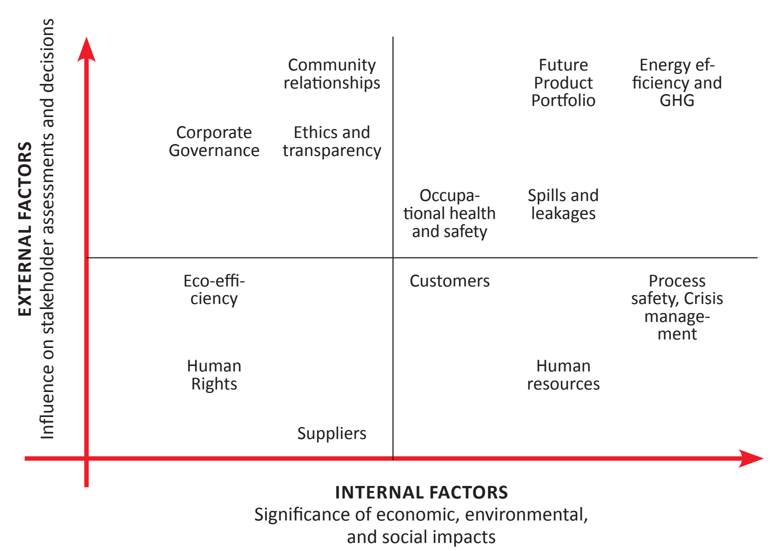
In the materiality assessment we rank and classify relevant topics of our industry and operations according to how important they are to our external and internal stakeholders (see details on our www.mol.hu/en).

This Annual Report presents MOL Group's performance for the period 1st January – 31st December, 2013. Historical information is presented to the extent necessary to put our current performance into context.

In addition, financial reports, regulated stock exchange announcements, corporate governance-related information, investor presentations and other documents are also available at the MOL Investor Relations microsite: ir.mol.hu/en.

Disclosure about our policies, management approaches and an overview of our ongoing and historical activities can be found at www.mol.hu/en, the official website of the MOL Group.

### MATERIALITY OF RELEVANT TOPICS



# REVIEW OF THE YEAR ›

# MOL GROUP AT A GLANCE

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

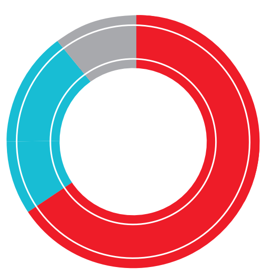
Market capitalisation was over USD 6.8bn at the end of 2013 and our shares are listed on the Budapest, Luxembourg and Warsaw Stock Exchanges. Depositary Receipts (DRs) are listed on the Luxembourg Stock Exchange and are traded on London's International Order Book and Over The Counter (OTC) market in the USA.

MOL is committed to maintaining and further improving efficiency, exploiting potential in its captive and new markets, active portfolio management and to excellence in its social and environmental performance.

## OUR CORE ACTIVITIES IN A SNAPSHOT

The **Upstream segment** consists of a diverse portfolio of oil and gas exploration activities in 13* countries and valuable producing assets in 8* countries. MOL Group's traditional core area is the CEE region with more than 75 years' continuous oil and gas industry presence and accumulated experience. At the same time, increasing focus is now being placed on our international assets where we have over 2 decades of presence. Our diversified portfolio delivers presence in the world's key oil and gas regions such as the Kurdistan Region of Iraq, the CIS countries, Pakistan and the North Sea.
MOL Group hydrocarbon production amounted to 104 mboepd while SPE 2P reserves reached 576 MMboe, as of 31st December 2013. During the year, our active portfolio management approach continued with the divestment of some Russian assets, while taking advantage of our regional and local experience and operational know-how, we have acquired a new asset in Pakistan where we already had strong presence. As a key inorganic step, the Group has entered the North Sea where a recent acquisition has great strategic value since MOL Group intends to enhance its offshore experience and achieve further growth in that region. After successful long-term tests in our Bakrman discovery, we have declared the commerciality of our Akri-Bijeel asset in Kurdistan Region of Iraq, which could deliver a sizeable reserve addition and production growth in the mid-term. Our current portfolio could deliver 30% organic growth by 2018, while to expand its E & P portfolio internationally, MOL Group is determined to take inorganic steps as well, to achieve a real step change.

EBITDA contribution of the main MOL Group segments in 2013



- Upstream 69%
- Downstream 20%
- Gas Midstream 11%

The **Downstream segment** operates 4** refineries, 2 petrochemicals units and a state-of-the-art retail filling station network supplied by a region-wide logistics system, all optimised by very effective supply chain management. In response to the highly unfavourable Downstream industrial landscape of recent years - characterised by high crude prices, volatile refinery and petrochemicals margins, low demand levels and increasing operating costs - a new comprehensive Downstream-level program was launched for the 2012-14 period aimed at eliminating obsolete practises and increasing MOL Group Downstream profitability by USD 500-550mn in EBITDA improvements. In line with the original plan, we were able to further improve our internal performance compared to 2011 by reaching a total of USD 400mn in CCS EBITDA improvements in 2013. The Group's two most complex refineries, in Slovakia and Hungary, continue to enjoy the advantages of their strong, complex asset structure and, as a result of significant efforts, INA Downstream performance improved, as well. To maintain our efficient and profitable operations in Italy, in October 2013 MOL Group announced the conversion of its Mantova refinery into a logistics hub, from January 2014.

**Gas Midstream:** FGSZ Ltd is currently the only company in Hungary that holds a natural gas transmission system operator's license. The Company owns the entire domestic high-pressure pipeline system, and is at once also responsible for its operation. Aside from domestic natural gas transmission activity, FGSZ also performs transit activities for Serbia, Bosnia-Herzegovina, as well as cross border deliveries towards Romania and Croatia and the Ukraine if required so.

* Including recently acquired UK North Sea assets, a deal which was closed in Q1 2014

** The progressive transformation of the fifth, the Mantova refinery, into a products logistics hub started in January 2014.

## 2013 AWARDS

**Best Investor Relations by a Hungarian company**
(for the 2nd year in a row)
**IR Magazine Europe Awards**

House of the Hungarian Quality
Award for MOL rubber-bitumen process
Hungarian Society for Quality

**MOL received Hungarian Innovation Grand Prix Special recognition for innovative**
natural gas' content measurement
**Hungarian Innovation Association**

**Highest score for MOL and TVK in "Transparency in corporate reporting" survey in categories "Transparency of anti-corruption programs" and "Organizational transparency"**
**Transparency International Hungary**

**MOL's STEP program - best practice for prevention of chronicle diseases**
European Network for Workplace
**Health Promotion**

**MOL is one of the most desirable workplace in Hungary**
**FGSZ is the Best Employer of Central-Eastern Europe**
**(for the 4th year in a row)**
**Aon Hewitt research**

**TOP youth company award for Slovnaft**
**AIESEC**

**Best Sustainability Report in Central Europe for MOL Group**
**(Green Frog Award)**
**Deloitte Hungary**

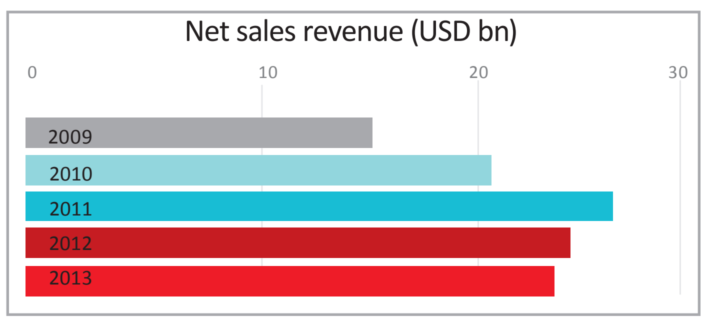
**Excellence in Human Resources award for INA**
(for the 2nd year in a row)
**Employer Partner Certificate**

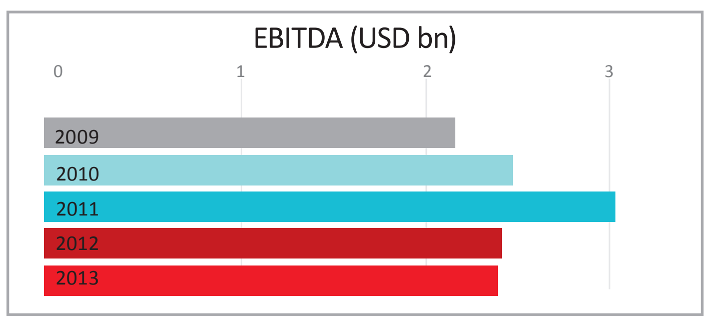
**MOL is a Bicyclist Friendly Workplace**
(for the 2nd year in a row)
**Ministry of National Development**

# KEY FINANCIAL AND OPERATING DATA ›

| Key Upstream data* | 2012 | 2013 | 13/12 (%) |
|---|---|---|---|
| Gross crude oil reserves, SPE 2P (MM bbl) | 319.3 | 270.7 | (15.2) |
| Gross natural gas and condensate reserves, SPE 2P (MM boe) | 327.7 | 305.0 | (6.9) |
| Total gross hydrocarbon reserves, SPE 2P (MM boe) | 647.0 | 575.7 | (11.0) |
| Average crude oil production (mboepd) | 51.8 | 45.8 | (11.5) |
| Average natural gas production (mboepd) | 66.7 | 57.8 | (13.3) |
| Total hydrocarbon production (mboepd) | 118.5 | 103.7 | (12.5) |
| **Key Downstream data*** | **2012** | **2013** | **13/12 (%)** |
| Total refinery throughput (kt) | 20,237 | 20,507 | 1.3 |
| White products yield (%, change in percentage point) | 79.5 | 79.2 | (0.4) |
| Total crude oil product sales (kt) | 19,169 | 19,373 | 1.1 |
| Motor fuel sales (kt) | 13,101 | 13,365 | 2.0 |
| Total retail fuel sales (m litre) | 4,174 | 4,292.4 | 2.8 |
| Total retail sales (kt) | 3,375 | 3,479.3 | 3.1 |
| Olefin sales (kt) | 318 | 306 | (3.8) |
| Polymer sales (kt) | 912 | 996 | 9.2 |
| **Key Gas Midstream data*** | **2012** | **2013** | **13/12 (%)** |
| Hungarian natural gas transmission (m cm) | 11,904 | 10,916 | (8.3) |
| Transit natural gas transmission (m cm) | 2,837 | 3,531 | 24.5 |
| **Environmental and social performance data*** | **2012** | **2013** | **13/12 (%)** |
| Carbon Dioxide (CO2) emissions (Mt) | 6.3 | 6.1 | (3) |
| Lost time injury frequency (LTIF) | 1.6 | 1.5 | (6.3) |
| Total score in the Dow Jones Sustainability Index assessment | 69 | 66 | (4.3) |

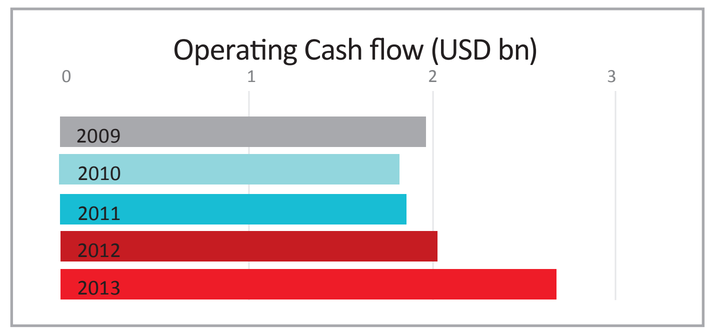
* Detailed data analysis are in the Management Discussion and Analysis and in the Sustainability. Non-financial chapters.

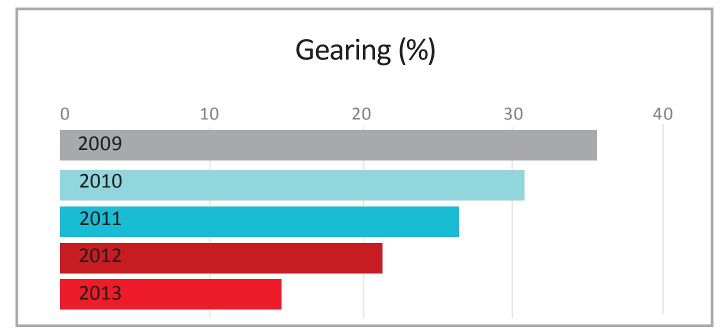


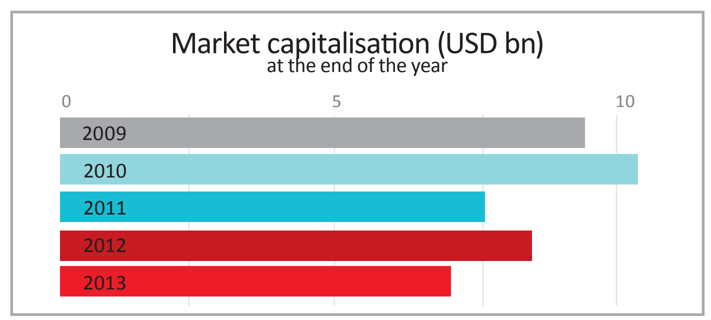



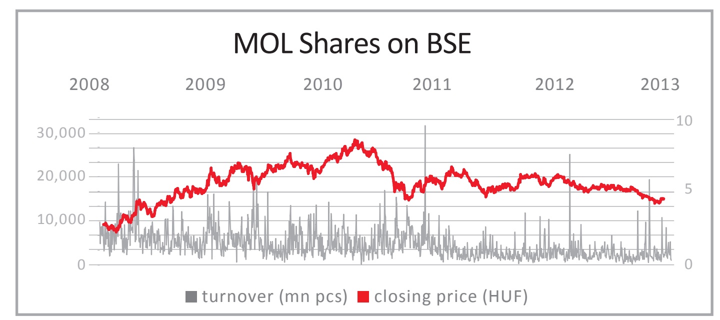

| Key financial data IFRS (HUF bn)* | 2012 | 2013 | 13/12 (%) | 2013 (USD mn)*** |
|---|---|---|---|---|
| Net revenue | 5,521.3 | 5,400.4 | (2.2) | 24,141 |
| EBITDA | 524.7 | 521.1 | (0.7) | 2,329 |
| EBITDA excluding special items | 571.9 | 494.2 | (13.6) | 2,209 |
| o/w Upstream | 417.9 | 360.1 | (13.8) | 1,610 |
| o/w Downstream | 153.6 | 134.6 | (12.4) | 602 |
| o/w Gas Midstream | 58.1 | 58.8 | 1.2 | 263 |
| Operating profit | 205.3 | (18.6) | n.a | (83) |
| Operating profit excluding special items* | 270.0 | 148.5 | (45.0) | 664 |
| Profit before tax | 205.7 | (56.9) | n.a | (254) |
| Profit for the year attributable to equity holders of the parent | 151.5 | 21.4 | (85.8) | 96 |
| Profit for the year attributable to equity holders of the parent excluding special item* | 183.4 | 134.9 | (26.4) | 603 |
| Operating cash flow | 454.0 | 614.7 | 35.4 | 2,748 |
| Capital expenditures and investments | 288.8 | 269.8 | (6.6) | 1,206 |
| o/w Upstream | 138.0 | 155.2 | 12.5 | 694 |
| o/w Downstream | 132.4 | 93.8 | (29.2) | 419 |
| o/w Gas Midstream | 9.9 | 8 | (19.2) | 36 |
| Basic EPS | 1,643.0 | 160 | (90.3) | 1 |
| Return On Capital Employed (ROACE) %** | 5.2 | (3.7) | n.a | n.a |
| Clean ROACE %*, ** | 6.9 | 2.9 | (58.0) | 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=225,4 HUF).



# LETTER FROM THE CHAIRMAN CEO AND GROUP CEO



**As expected, 2013 turned out to be a challenging year. However, we succeeded in maintaining MOL Group's excellent cash-flow generating ability thus expanding our financial headroom even further, a solid basis for future MOL's organic and inorganic growth projects.**

MOL operated in a challenging environment when one considers the decreasing natural gas prices in CEE in Upstream or the shrinking motor fuel crack spreads and Brent-Ural differential in Downstream. This was mitigated, to a large extent, by the strong cash-flow generating capability of our diversified international asset base, our outstanding achievements in efficiency improvement programmes, especially in Downstream, as well as our disciplined capital expenditure policy. In addition, we profitably monetized some of our assets in Russia and Hungary.

**The Upstream Division remained the main profit contributor, as in previous years, with a close to 70% EBITDA contribution to MOL Group profitability.**

The Upstream Division delivered satisfactory figures despite lower hydrocarbon production levels, partly attributable to asset divestitures in Russia, and despite unfavourable changes in the regulatory environment which resulted in further decreasing natural gas prices in CEE. We continued our intensive exploration programme and closed another successful year with an over 50% exploration success ratio. We would highlight that MOL announced the commerciality of its key project in the Akri-Bijeel block, in the Kurdistan Region of Iraq.

**2013 was indeed a very important year in Upstream in some other respects as well.** Firstly, we established a new senior management team while more and more international experts joined the Company at different levels bringing valuable know-how with them. Secondly, MOL entered a new core region, the UK North Sea area, which should serve as a new hub for further growth in the mid-term.

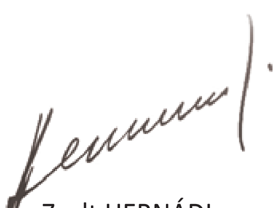
**In Downstream, we kept our promise and delivered better results despite worsening external conditions.** MOL continued its New Downstream Program which was launched in 2012 with an ultimate target of USD 500-550mn in cost savings and revenue increases by 2014. We are proud to say that this programme has already contributed USD 400mn on a like-on-like basis, compared to 2011 base figures, of which USD 250mn were delivered in 2013. With this outstanding achievement, our Downstream Division was able to deliver better clean EBITDA figures despite a considerably worsening external environment.

**In 2013, MOL further strengthened its financial position and reported a six year low net gearing** at year end which is a clear sign of the strong cash-flow generating capability of our diversified asset base as well as our conservative financial policy. Furthermore, we profitably monetized some of our assets in Upstream and Gas Midstream in Russia and Hungary, respectively. MOL Group is firmly committed to maintain its strong financial position, hence, as a general rule, any organic capital expenditures should be financed from operating cash-flow also in the future. Encouragingly, recent years' achievements have established the financial headroom for possible inorganic growth opportunities.

**If we look forward in 2014 we see similarly tough conditions,** a further tightening regulatory environment, permanently challenging Downstream macro conditions and still relatively slow CEE economic recovery. However, we will strive to overcome these challenges and capitalise on the strong foundations of MOL Group, built up over the years. **In Upstream,** we have to stop the decline of hydrocarbon production of our existing portfolio and turn back to a growth path by the end of 2014. Secondly, **we intend to continue the renewal of our asset base** through possible acquistions based on strict principles and clear goals. We aim to **create new major hubs and obtain know-how outside CEE** as well as to fill the gap in our producing portfolio. **In Downstream,** our **New Downstream Program should deliver an additional USD 100mn** plus in improvements on the top of the already achieved USD 400mn. Furthermore, we intend to **strengthen our captive markets** through further extension and rationalisation of our Retail portfolio through organic and inorganic steps.

MOL Group understands the growing importance of sustainability in the oil and gas industry. We recognize that long-term financial success is only achievable with safe operations and genuine partnerships with our stakeholders. **Our goal is to be in the top 20% of the industry, based on our sustainability performance and we are continuously improving this performance and implementing standards,** including the principles of the UN Global Compact, to achieve this.

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 2013, 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

# OVERVIEW OF THE MACROECONOMIC AND INDUSTRY ENVIRONMENT ›



## THE WORLD ECONOMY

The global financial crisis has ended, but the world economy's growth rate remains lower than its pre-crisis level. Over the past few months, even large emerging economies such as Brazil, Russia, India, South Africa and, to some extent, China have showed signs of a slowdown. Meanwhile, the OECD's economic outlook has somewhat improved although fundamental problems such as the credit overhang still limit growth potential. The United States, in particular, is in a very competitive position, thanks to an abundance of cheap energy and a flexible labour market. Overall, the medium-term prospects of global growth are more promising than they were in 2008 since major imbalances have been mitigated.

The Eurozone has also come out of its recession but the recovery is far from robust. The European credit and currency crisis has not been resolved over the past year, although the immediate risk of market turbulence has eased significantly. Nevertheless, the necessary political will to realise grandiose plans such as the fiscal union is still lacking, while the legacy of bad loans may hinder future growth. Unemployment has stabilised at a high level, reaching an average of around 11% for the EU as a whole. It remains the most pressing issue in southern periphery countries. By comparison, Central and East European (CEE) countries rank somewhere in the middle. The Eurozone's outlook is therefore clouded by uncertainty, sluggish growth and persisting internal political tensions.

## GLOBAL ENERGY MARKETS & UPSTREAM

The global energy map is changing fast. Its focal points are increasingly shifting towards emerging economies such as China and India, whereas countries once dependent on energy imports such as the United States may soon become self-sufficient. Meanwhile, the spread of the unconventional revolution from natural gas to crude oil is boosting oil supplies.

Relatively slow global economic growth and high oil prices depressed energy demand growth in 2013. Oil demand increased by 1.3% in total, reaching 91.2 MMbpd. The International Energy Agency (IEA) forecasts a slight acceleration in 2014 as the global economy picks up. US oil demand grew particularly strongly in 2013, surpassing even that of China, with healthy growth rates in Latin America and the Middle East. On the other hand, oil demand continued to decline in Europe and Japan.

Despite sluggish global demand growth, an ample supply of unconventional hydrocarbons as well as the ramping up of non-OPEC production, oil prices remained high throughout the year. Brent crude has averaged USD 110 per barrel in real terms since 2011, primarily as a result of supply disruptions i.e. in Libya and Iran. Over the long run, rising unconventional output will exert downward pressure on oil prices, but short-run market volatility may persist and a return to the cheap-oil era seems unlikely.

## DOWNSTREAM

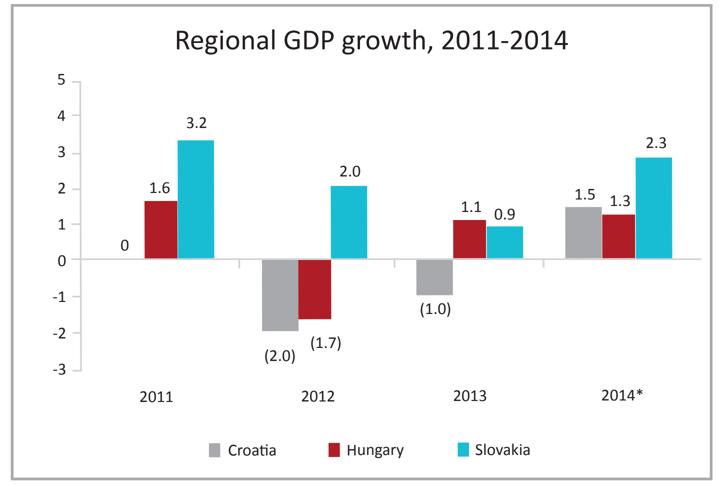
The Downstream segment is also undergoing a profound transformation. More and more unprocessed liquid hydrocarbons are bypassing refineries while the refinery overhang is still massive, especially in the OECD. European Downstream is in an especially difficult position. It has neither the fast-growing local markets of Asia nor the cheap hydrocarbons the United States enjoys. In addition, Europe has an increasing gasoline surplus while its traditional customer, the USA, scarcely needs gasoline imports anymore, meaning Europe must search for new export outlets.

The uptick in refinery margins in 2012 proved temporary, due to brief outages and decreasing oil prices, and 2013 saw a return to depressed levels. Refinery shutdowns continued throughout the year despite the fact that around 10% of European capacity had already shut down between 2008-2012. According to the IEA, roughly a further quarter of European refining capacity may be at risk of closure by 2035.

## CENTRAL AND EAST EUROPE

Most Central and East European (CEE) countries came out of recession in 2013. However, there are distinct regional differences between dynamic markets (such as Poland) and relatively weak economies (such as Croatia). The problems of the European banking sector have hindered economic activity throughout the Eurozone. In the CEE region, this has been compounded by a high level of non-performing loans.

Weak growth continues to weigh down regional motor fuel demand, which further declined in 2013. This may experience a slight pick-up on the back of somewhat stronger economic performance projected for 2014.




Source: International Monetary Fund, World Economic Outlook, October 2013
*Note: Figures for 2014 are IMF estimates.

## HUNGARY

Hungary is out of recession and its GDP started to grow in 2013. Nevertheless, GDP is still lower than its 2008 peak and recovery is partly based on volatile sectors such as agriculture. Other problems include a high level of public debt, still lacklustre bank lending as well as a low level of investment in a regional comparison. Diesel demand grew markedly in 2013, possibly thanks to the construction sector and infrastructural developments, while gasoline consumption stagnated.

## CROATIA

Croatia's economy remained weak in 2013, the fifth consecutive year without growth. Given weak industrial production, lagging export growth and lacklustre investment activity, a short-term rebound seems unlikely. Croatia was formally placed under the EU's Excessive Deficit Procedure in January 2014. It must now undertake wide-ranging reforms and public spending cuts to bring its budget deficit below 3% of GDP by 2016. Unemployment remains persistently high at around 18-20%, whereas falling inflation signals weak domestic demand with no recovery in sight for household credit. The country accordingly experienced a 4% gasoline demand drop in 2013, while diesel consumption remained at roughly the same level. On a more optimistic note, the current account is positive and tourism revenues could boost GDP growth.

## SLOVAKIA

The Slovakian economy experienced a slowdown in 2012/2013 on the back of major reforms and austerity measures as well as the drag from Eurozone demand. However, this is likely to ease ahead of the presidential election this year. This may also result in a moderate economic strengthening in 2014 with an upswing in external demand i.e. from Germany. In the long term, more fiscal consolidation measures are set to come. Thanks to its export-driven economic model, Slovakia's foreign trade balance was at an all-time surplus in 2013. On the flipside, unemployment is still relatively high at around 14% and domestic demand remains weak. Slovakia also witnessed a strong drop of 7% in gasoline consumption in 2013, whereas diesel volumes fell by 1%.

| Change in regional motor fuel demand | Market* | | | MOL Group** | | |
|---|---|---|---|---|---|---|
| **FY 2013 vs. FY 2012 in %** | **GASOLINE** | **DIESEL** | **MOTOR FUELS** | **GASOLINE** | **DIESEL** | **MOTOR FUELS** |
| Hungary | 0 | 4 | 3 | (2) | 4 | 2 |
| Slovakia | (7) | (1) | (3) | (6) | 0 | (2) |
| Croatia | (4) | 0 | (1) | 10 | 3 | 5 |
| Other | (5) | (2) | (3) | 29 | 3 | 10 |
| **CEE 10 countries** | **(5)** | **(1)** | **(2)** | **10** | **3** | **5** |

* Company estimates
**Sales from own refinery production and purchased from external sources

# OUR BUSINESSES

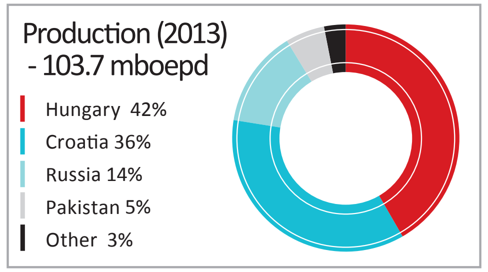
# UPSTREAM

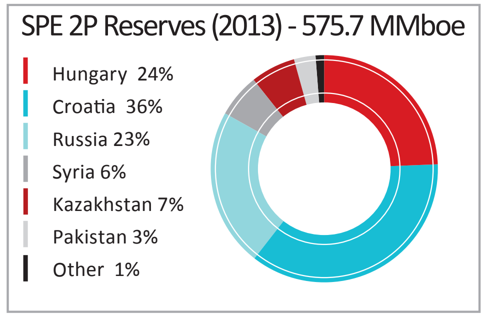
Kurdistan region of Iraq, Bijell-1 exploration well

## HIGHLIGHTS

- Positioned as a key strong growth pillar of MOL Group, 100% growth target in the next few years coming from both organic and inorganic segments.
- Strong presence in the CEE region with excellent cash-flow generation.
- Diversified portfolio delivers presence in the world's key oil and gas regions such as the Kurdistan Region of Iraq, CIS countries, Pakistan, and North Sea.
- A 2nd commercial discovery in the Akri-Bijeel Block in the Kurdistan Region of Iraq
- A strategic entry into the North Sea region
- Personnel change in senior management - Alexander Dodds joins as MOL Group E & P as Executive Vice President, Carl Grenz joins as MOL Group Upstream COO.
- Comprehensive program launched to improve internal efficiency and increase production in the shortest manageable time.

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




As a result of MOL Group's long-term strategic efforts, our company has established a diversified, Upstream-driven portfolio consisting of oil and gas exploration and production assets in 13* countries and valuable production activity in 8* countries. To expand its E & P portfolio internationally, MOL Group is determined to continue organic and inorganic growth through acquisition.

Active portfolio management approach continued with the divestment of some Russian assets, while taking advantage of our regional and local experience and operational know-how, we have acquired a new asset in Pakistan where we already had strong presence. As a key inorganic step the Group entered into the North Sea. The acquisition has strategic value since MOL Group intends to enhance its offshore experience and achieve further growth in that region. After the successful long-term tests in our Bakrman discovery we declared the commerciality of our Akri-Bijeel asset in Kurdistan Region of Iraq, which could deliver sizeable reserve addition and production growth on the mid-term. Nevertheless, Central and Eastern Europe, including Hungary and Croatia, are still the core MOL Group strategic regions where majority of our result is generated. Therefore we aim to exploit all the available hydrocarbon resource potential in the region broadly focusing on Efficiency Improvement (EIP) actions to increase production of matured fields and to reduce production unit operating costs. In addition to the above-mentioned highlights, in the past year significant organisational improvements were put in place and still on-going.

Mr Alexander Dodds, Executive Vice President – Group Exploration & Production, joined MOL Group in June 2013 after holding top posts at different energy majors including TNK-BP and ExxonMobil. Besides his broad experience in exploration, development and production after over 30 years in the business, his profound understanding of the international upstream oil and gas arena, his multinational perspective serves to place MOL Group among the leading oil companies.

* Including recently acquired UK North Sea assets, a deal which was closed in Q1 2014

## COMPETITIVE ADVANTAGES

As an integrated oil and gas company, MOL Group represents more than 75 years of mainly onshore production experience, while actively working on expanding its portfolio to include more offshore activities. In addition to the North Sea acquisition, we are exploring new onshore opportunities in key countries such as the Kurdistan Region of Iraq, Kazakhstan, Russia and Pakistan.

MOL Group has a well-established presence and thriving partnerships in the CIS region, the Middle East and Africa. We have production activities in 8 countries which complemented with the exploration and appraisal portfolio ensure 30% organic production growth for years to come.

The Kurdistan Region of Iraq offers several very promising projects already in the early development phase while Pakistan also offers great opportunities from exploration to field development. In Kazakhstan, we have a large gas condensate discovery under appraisal. There is also significant potential for us in Russia. In addition, MOL Group is now capable of producing further results on the international level, building further, based on deep experience gained in Hungary and Croatia. The CEE region remains MOL Group's core area and will continue to be the predominant part of our Upstream strategy in the forthcoming 5-10 years as it generates significant cash flow for future growth. In addition, MOL Group was the first of the Central European players to move into unconventional exploration, evaluation and production and today is proud of its 6 years' valuable experience gained in this field. Through INA, moreover, we have a track record of more than 15 years' shallow offshore experience.

MOL Group's fruitful relationships in the industry and with local communities, governments and business partners have not only led to lucrative cooperation in the oil and gas business but have also ensured the fulfilment of MOL Group's mission.

UPSTREAM

# KEY ACHIEVEMENTS

## THE MIDDLE EAST, ASIA AND AFRICA

MOL Group has strengthened its presence in these regions by expanding its portfolio and carrying out accelerated work programmes. In the Kurdistan Region of Iraq the field development already started in one of our blocks, while a major commercial discovery has been announced on the operated Akri-Bijeel Block.

MOL Group continues to focus on the Kurdistan Region of Iraq, one of the Group's most promising assets.
In 2013, the Bakrman-1 extended well test confirmed a light oil and gas discovery. The Exploration Period was successfully finished in the Akri-Bijeel Block and on 31st October, 2013, MOL Kalegran submitted a Declaration of Commerciality for the block. The major part of 3D seismic acquisition and processing was completed. Construction and commissioning of an EWT (Extended Well Test) surface facility was finished. The main goals in 2014 are to start early oil production and reach full capacity at the EWT surface facility by the end of 2014.
In the Shaikan Block, appraisal activity finished in 2013 and the Field Development Plan has been approved by the Ministry of Natural Resources (MNR). Export sales already started and reserve booking is also scheduled in 2014. The aim for Shaikan block is to increase production significantly in multiple phases. The partners firm goal is to connect Shaikan Block to the existing export pipeline with the support of the MNR as soon as possible.

In the Pakistani TAL Block six, independent discoveries have subsequently been made since 1999. The construction of the new Makori Gas Processing Facility was successfully finished, with start-up due in Q1 2014 whilst production continues through existing Processing Facilities. Furthermore, a new exploration well is being drilled and a 3D seismic survey has been finished in this area as well. In the Karak Block, the first well continues to produce oil and there is also a gas-processing facility in operation in the same area. MOL Group is committed to exploit further potentials in the region, thus we farmed-into the Ghauri Block in Pakistan in August, 2013 with a 30% share. Drilling of the first exploration well started in November and is planned to finish by mid-2014. In the Margala and Margala North Blocks, MOL Group acquired and reprocessed a 2D seismic survey to confirm the existence of drillable prospects. A new well is due in Q2 2014.

In Oman the preparation of the forthcoming seismic work in the Oman66 exploration Block was started in Q4, 2013, while the Oman 43B Block was relinquished.

## THE CIS REGION

MOL Group's Upstream portfolio in the CIS region consists of three assets in Russia and two attractive exploration assets in Kazakhstan. An intensive field development programme is under way in the Russian Blocks which will serve as the basis of mid-term production growth. The successful appraisal programme of 2013 could significantly increase the reserve base in the Fedorovsky Block, Kazakhstan.

MOL Group has a diversified Russian portfolio with sizable reserves which is expected to gradually increase production in the mid to long term. In the short term, the key challenge will be to replace missing production after the full divestment of ZMB and Surgut-7 Blocks and 49% sale of BaiTex LLC.
On the Baitugan field the accelerated field development programme will continue with 45-50 new production wells per year in order to maintain the growing trend of production. In the meantime by conducting an intensive exploration and appraisal programme in the Matyushkinsky and Yerilkinsky Blocks we are aiming to exploit the identified potential of the areas.
Although MOL sold 49% share of BaiTex LLC ("BaiTex") to the Turkish Petroleum Corporation ("TPAO"), it remains very committed to continue its operations in Russia and has the financial flexibility to re-invest in promising new upstream assets to provide future growth. This step was fully in line with MOL's portfolio modernization and partnership strategy as both companies have a definite intention to establish a long lasting strong and active partnership in Russia and other areas as well.

In the Fedorovsky Block in Kazakhstan, the appraisal programme of the Rozhkovsky field has been finished. Following successful testing, significant production potential was confirmed. As a result the application for a Production Licence was submitted to the Kazakh Authorities. Proving MOL Group's commitment to its exploration-driven strategy, the drilling of the first exploration well in the North-Karpovsky Block was completed in 2013, while the drilling of a second exploration well is still on-going. Well testing and seismic acquisition will be completed in 2014

## THE CENTRAL & EAST EUROPEAN REGION

The CEE region, with MOL Group's more than 75 years of E & P experience, successfully preserved its stable and core role in contributing with above 80% to Group production and business performance. Strategic focus was placed on maximising recoveries from matured fields and mitigating the natural decline rate to 5% through accelerated field development, efficiency initiatives and pilot R & D projects. In addition, MOL Group is pursuing exploration and development activities onshore and offshore on one hand while it also applies EOR/IOR methods on the other.

As part of the conventional exploration programme in Hungary three new discoveries were reached, which altogether added 1.5 MMboe to our existing reserves base. MOL Group also continued its Derecske Basin unconventional exploration project by performing an extensive pilot production test. Additional drilling and further well tests and formation stimulations are also in the plan. We have completed 15 field development projects and have 10 more in the pipeline, including development accelerations with targeted 5.5 MMboe undeveloped reserves. In light of the changing business environment, efficiency improvement actions (EIP) have been planned along with production increases and unit cost savings for the 2013-2015 action implementation period.
The Ministry of National Development announced 7 concession areas (4 hydrocarbon and 3 geothermal) for bidding. To expand its license portfolio, MOL Group participated in the tender and applied for 2 hydrocarbon and 1 geothermal concessions. The announcement of the results is expected by H1 2014.

In Croatia during 2013, focus was placed on exploration of smaller satellite fields around or in existing mining plots. The major EOR project on Ivanić and Žutica fields (targeting 30 MMboe reserves) continued with completion of numerous production and injection wells. In 2014 the project will be finalized with full effect on production from 2015. Exploration activities comprised the continuous drilling of four exploration wells and start-up of a hydraulic fracturing campaign.
Successful offshore development drilling activities resulted in a new producing well. Drilling continued at Ika SW while production on Izabela field starts by the end of Q2 2014. All these activities could help to stabilize the offshore production in the coming years.

In Romania, in 2013 MOL Group increased its interest to 100% in the EX-6 (Curtici) exploration block. Pursuant to the Concession Agreement a 3D seismic acquisition and 4 exploratory well drillings are planned and have been approved by the Romanian National Agency for Mineral Resources (ANRM). Ratification of two other concession blocks (Ex-1 and Ex-5) is expected by Q2 2014. Based on our experience in the Pannonian Basin and taking into account possible synergies, MOL Group seeks to maintain its onshore and to hold off-shore presence and discover future conventional hydrocarbon potential. Therefore, MOL Group is proceeding with preparation for the XI. Bid Round.

## THE NORTH SEA

MOL Group has extended its upstream portfolio by entering the North Sea region. The non-operated offshore assets with 14 licences are acquired from the German BASF Group member Wintershall and are located in the UK North Sea basin.

The acquisition provide MOL Group with the strategic opportunity to increase its reserves, enhance its offshore experience and acquire a foothold in the attractive North Sea area. The assets which are mainly in the development phase are expected to increase MOL Group's 2P Reserves by 28 MMboe and 2C Contingent Resources by 9 MMboe according to company estimates, while they could contribute to Group production with 16-18 mboepd on the peak, in 2018.

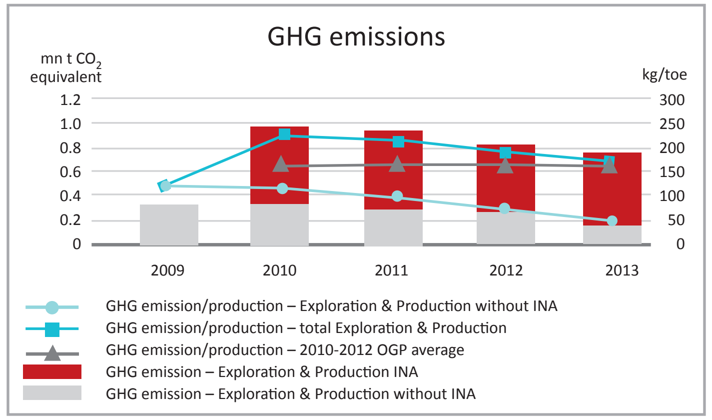
The company moved to a strategically attractive region, where the extensive infrastructure in place enable new discoveries to be developed rapidly via existing facilities and also help make smaller accumulations more attractive for development. In addition, MOL Group will have access to participate in upcoming future Exploration Bid Rounds in the United Kingdom, while parallel the transaction facilitates for entering into close cooperation with reputable off-shore operators.

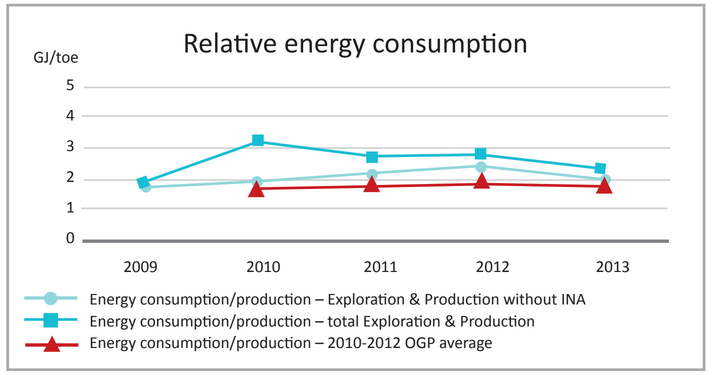
# UPSTREAM

## 2013 SUSTAINABILITY HIGHLIGHTS

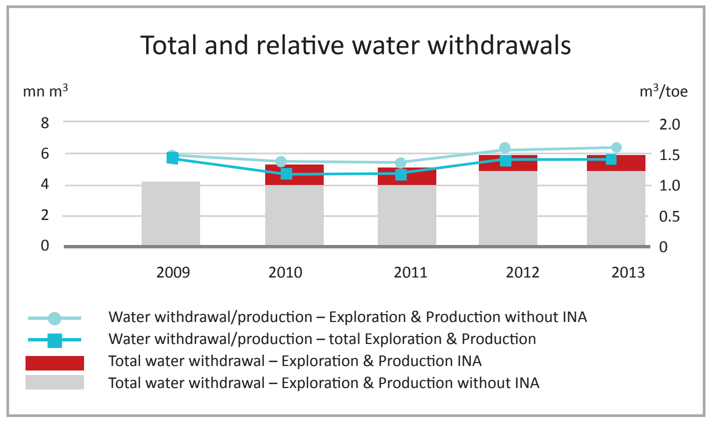
- Energy efficiency has been and still is a key issue during our Hungarian and Croatian E&P operations. As a result of 6 important improvement projects we have reduced our $CO_2$ emissions by almost 40 thousand tonnes, resulting in an estimated financial savings of more than HUF 350mn per year. Our total GHG footprint is of course affected by other factors such as changes in production and portfolio.
- Comprehensive research into water-related studies in areas identified as water stressed were initiated. These areas include Pakistan (TAL block) and the Kurdistan Region of Iraq (Akri-Bijell K10 Block). In Oman, a comprehensive risk assessment site restoration study was conducted about the restoration of the abandoned well site Hawasina 43B. The well site was successfully decommissioned and all environmental issues were successfully resolved.
- During 2013, seven NATURA 2000 datasheets were drawn up for our E&P activities in Hungary. The datasheets will be used for internal training to ensure that biodiversity is preserved. Impacts deriving from our operations on flora and fauna, as well as control measures to reduce those impacts are detailed in datasheet materials. Furthermore, in Pakistan comprehensive conservation research was undertaken for Tal block. This study highlighted the two most important activities that will take place in 2014 (they include habitat restoration and the conservation of game birds).
- The safety performance of our International E&P activities proved satisfactory. In the Kurdistan Region of Iraq, Kalegran Ltd.'s own operations have been running for over 600 days without any LTIs or road accidents, while contracted operations completed more than 2.5 million man-hours without any work-related LTIs in 2013. Meanwhile, in Pakistan 6 million LTI-free man-hours were completed on the Makori GPF project.
- MOL Pakistan made a giant leap forward in addressing gender diversity at the workforce by hiring seven new female field Trainee Engineers through its Growww Program at the Central Processing Facility.
- MOL Group continued implementing its social investment program which is aimed at promoting and protecting the health of local communities. In Pakistan, 2 Free Eye Camps were held at Mianji Khel in District Hangu and Malgin village in District Kohat. 920 patients were treated and referred (when required) to Al-Shifa Trust Eye Hospital in Kohat for surgical procedures. In the Kurdistan region of Iraq we purchased a medical container which can be used to isolate patients suffering from tuberculosis.
- Kalegran Ltd. started implementing its donation projects for 2013. The focal points are education, health and social initiatives. The donations will enhance and consolidate the relations with stakeholders, as well as covering some of the basic needs of local community in aforementioned areas.

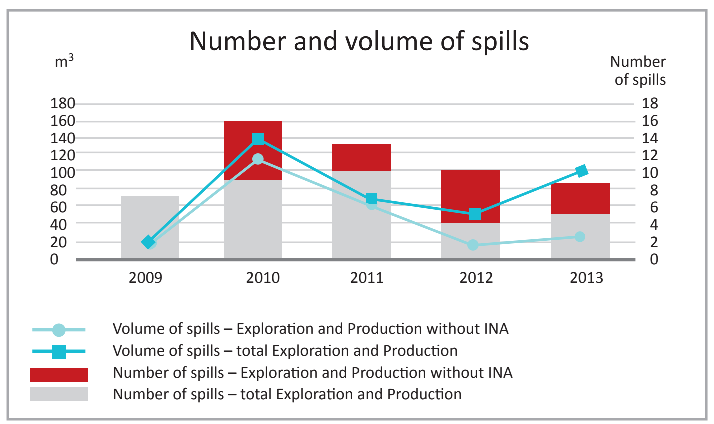
## CLIMATE CHANGE




## ENVIRONMENT




## ENVIRONMENT

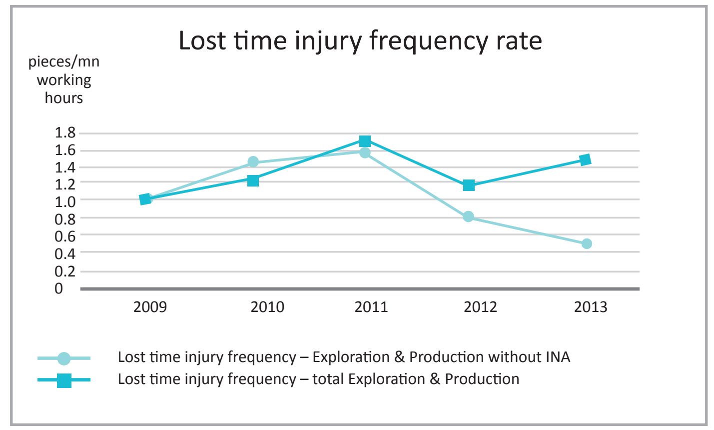
| | 2009* | 2010 | 2011 | 2012 | 2013 |
|---|---|---|---|---|---|
| Hazardous waste (t) | 28,758 | 22,587 | 25,240 | 21,281 | 9,974 |
| Hazardous waste/production (kg/toe) | 10 | 5 | 6 | 5 | 2 |
| Non-hazardous waste (t) | 38,780 | 37,092 | 27,761 | 43,079 | 68,640 |
| Non-hazardous waste/production (kg/toe) | 13 | 8 | 6 | 10 | 16 |
| Waste resused/recycled (t) | 26,792 | 33,501 | 24,339 | 28,451 | 34,669 |
| Reuse/recycle ratio (%) | 40% | 56% | 46% | 44% | 44% |

*Without INA in 2009.

## HEALTH AND SAFETY

| | 2009* | 2010 | 2011 | 2012 | 2013 |
|---|---|---|---|---|---|
| Fatalities – own staff | 0 | 0 | 0 | 1 | 0 |
| Fatalities – contractors | 1 | 1 | 5** | 0 | 2 |
| Fatalities – 3rd party | 0 | 0 | 3 | 2 | 1 |
| Road accident rate (RAR) (accidents/mn km driven) | 1.0 | 1.4 | 1.6 | 1.6 | 1.1 |

*Without INA in 2009.
** Five contractors and a third party fatalities due to non-HSE related event (fire fight in Pakistan)




## HUMAN CAPITAL

| | 2009* | 2010 | 2011 | 2012 | 2013 |
|---|---|---|---|---|---|
| Headcount | 2,676 | 2,091 | 6,760 | 6,946 | 6,432 |
| Female (%) | 12.1 | 12.3 | 13.6 | 13.4 | 13.6 |
| Turnover rate (%) | 7.2 | 8.0 | 9.7 | 10.6 | 5.3 |
| Training cost per capita HUF '000') | 73 | 87 | 78 | 72 | 84 |
| Training hours per capita (hours) | 21 | 33 | 28 | 20 | 28 |

*Without INA in 2009.

## COMMUNITIES

| | 2009 | 2010 | 2011 | 2012 | 2013 |
|---|---|---|---|---|---|
| Community investments in E&P (HUF mn) (Total MOL Group without INA Group) | 62 | 92 | 163 | 191 | 354 |

## ECONOMIC SUSTAINABILITY

| | 2009 | 2010 | 2011 | 2012 | 2013 |
|---|---|---|---|---|---|
| Reserve Life Index (years)* | 16 | 11 | 13 | 15 | 15 |
| Organic Reserve Replacement Rate (%)* | (96) | 15 | 217 | 19 | 18 |
| Research & Development expenditure (HUF mn) | 750.6 | 596.9 | 715.1 | 729.7 | 485.9 |

* Contains INA total reserves. Production figures contain Total MOL Group including INA, except Y2009 which contains MOL Group and INA production Y2009 H2.

Data refer to total MOL Group but only operationally controlled companies, therefore Joint Ventures (INA offshore, Syria, Egypt, Angola and ZMB in Russia) excluded; data covers 82% of production.

# INTERVIEW WITH MR. ALEXANDER DODDS

Mr. Alexander Dodds – Executive Vice President, Exploration & Production

**How do you plan to replace declining CEE production?**

In the CEE region, MOL Group successfully uses its technical experience and know-how to counterbalance declining mature production. Meanwhile since future growth will come from outside the CEE region, we should intensify our efforts to expand internationally, appraising and developing our recent discoveries. Our entry into the North Sea was a vital step in replacing CEE production. The deal was a strategic measure since MOL Group intends to enhance its offshore experience and achieve further growth in that region. In addition to the strategic importance of the deal, the new portfolio elements mainly comprise a development and production phase, thus short-term reserve addition and sizeable mid-term production growth will be achieved.

We have organic growth plans for all of the countries in which we operate and we also have a number of inorganic options that we are looking at in the North Sea and, potentially, in CIS countries as well as Pakistan.

**In the current MOL Group portfolio, where do you see the most significant potential?**

MOL Group's Exploration & Production portfolio is fairly well-balanced with regard to risk and geographic diversification. The most important issue, however, remains employee safety. This is our primary concern and, as such, is supported by high-level onsite security measures. Economic risks are mitigated by setting up a diversified portfolio and by entering E & P projects in partnership with solid companies. Our good relationships with local administrations and national oil companies enable MOL Group to reaffirm its position in these countries. Companies that operate in politically unstable environments should always keep this in mind and pursue their activities in close cooperation with local governments and authorities to support the achievement of identifiable targets. This is the kind of strategy that will lead us to great success.

The Kurdistan Region of Iraq (KRI) is indeed one of MOL Group's core strategic areas. Our strategy in Kurdistan has, so far, been quite successful with the three significant discoveries we have made there - Bijell, Shaikan and the most recent one, Bakrman. All three offer high potential. In Shaikan, a commercial discovery was announced in August 2012 and production for the international market began in December, 2013. We expect to commission further production facilities later this year. In the Akri-Bijell Block, a fast-track development programme is planned after the Commercial Discovery Declaration in October 2013. In addition, a four-rig campaign was started at the beginning of this year as part of an intensive work programme to develop the block's potential. We also commissioned a 10,000 boepd capacity early well test facility in March, 2014, while production starts at the Bijell-1B well.

**What are the major improvement areas and key projects for MOL Group E & P in the coming years?**

On the road towards building a world class Exploration & Production business with standardised processes, increased transparency and enhanced team-work, MOL Group E & P still needs to improve its organisational structure, day-to-day business operations and, last but not least, its production results. We have identified specific improvement areas upon which we intend to focus in the coming months.

The new Exploration & Production mission is to reach a real step change in production by continuously improving profitability in the shortest practical timeframe. We must therefore improve efficiency in the way we work, in our business processes and, in parallel, in the engagement and motivation of our colleagues and drive changes in the way MOL Group E & P operates. This will ensure the optimisation of E & P Business Development, Exploration, Production and Operations as we move forward.

Moreover, we need to focus on new technologies, research and development as well as on improving CAPEX and project management performance. Inorganic growth is an option for us but requires significant investment. This is a continuously evolving, dynamic business and the challenge is to remain flexible so as to better understand our environment and organisational changes, in particular, need to follow this pattern, too.

We also aim to bring in internationally-recognised names to our team such as Carl D. Grenz, who has recently joined MOL Group E & P as Chief Operating Officer. With more than 33 years' experience in the oil and gas industry – at Shell, BHP Billiton, Endeavour - Mr. Grenz has spent a significant portion of his career in the North Sea region, which is actually one of our new focus areas. I am confident that our current experienced and expert human workforce along with fresh names will build a stable basis upon which to achieve the goals set us by the Company.

**You give a strong impression of being fully committed to SD & HSE excellence, especially in light of your extensive experience in the oil & gas business over the past few decades. How will your previous experience in working in the most remote E & P areas contribute to improving the overall SD & HSE performance here at MOL Group?**

As I always repeat and emphasise at every meeting held here at MOL Group, every business challenge needs to start and end with SD & HSE at the top of our minds! Awareness and commitment to SD & HSE performance shouldn't only be the role of the SD & HSE department but an integral part of our day-to-day business and our employees' day-to-day work, be they leaders or subordinates. This is the main reason we developed a 3 year SD & HSE Strategy which will be our main tool in achieving our goal of zero personal injuries and incidents, in line with our best business performance. Furthermore, this year we are proudly introducing the EVP E & P SD & HSE award which will reward the best E & P company, team or individual for providing valuable ideas and solutions and achieving excellent SD & HSE performance. Of course, our primary consideration is to make safe work a priority; in some countries in which we operate, our business activities impact local communities. To address these impacts we need to manage them in a responsible way and aim to create added value not only to a local community but society as a whole.

**What are Group E & P's short-term goals for this year?**

One of the most important focal points will be to get started in the North Sea and also look for further opportunities in that area. Last year, the Bakrman-1 extended well test confirmed a light oil and gas discovery which was followed by a Declaration of Commerciality for the Akri-Bijeel Block. In 2014, we will prepare a field development plan to submit to the authorities. After that, Akri-Bijeel is expected to start production from 2015 onwards.

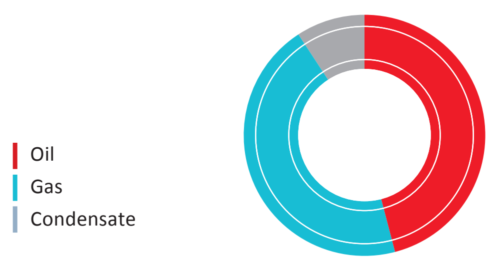
In Hungary, the homework is to minimize the natural decline to 5% and we have initiated a cost revision programme to keep unit costs flat even as production declines. Production and costs in Croatia should be about flat but still with EOR projects and new production start-ups we have a good chance to increase production from 2015.

Overall, having done the groundwork in 2013, MOL Group is ready to increase production significantly and to become a sizeable and reputable international player. 2014 will be a year of challenges and opportunities and I'm pleased to say that MOL is ready to face both and take the next steps to become a sizeable and reputable international player.

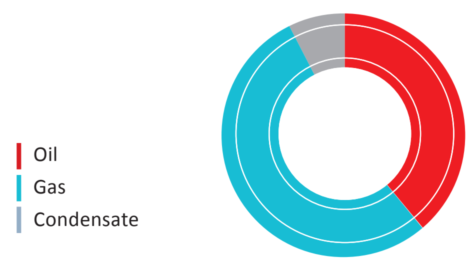
# UPSTREAM PORTFOLIO ELEMENTS ›

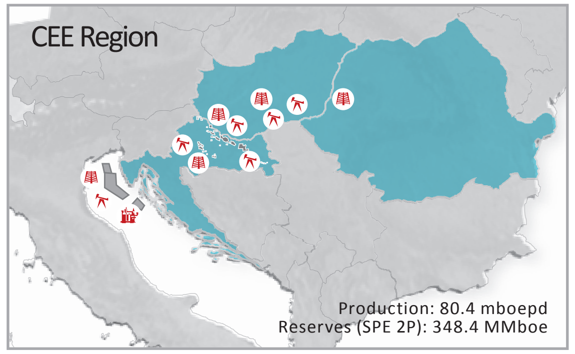


SPE 2P Reserves (2013) - 575.7 MMboe

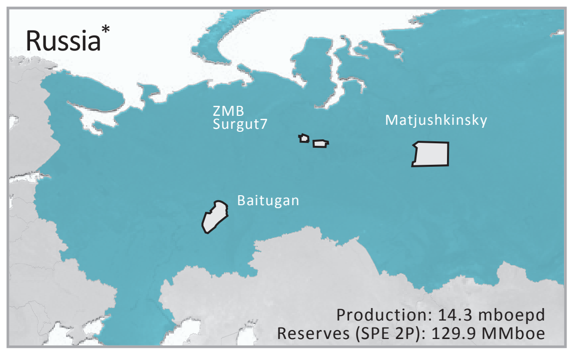



Production (2013) - 103.7 mboepd

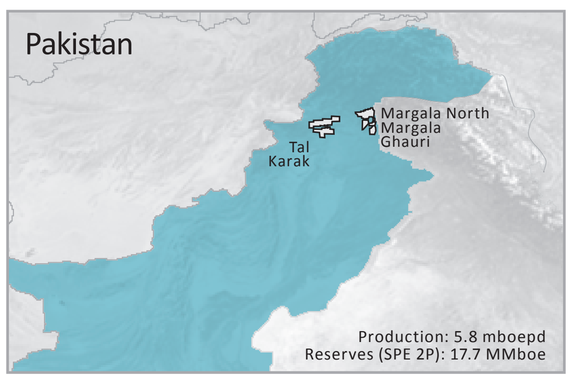


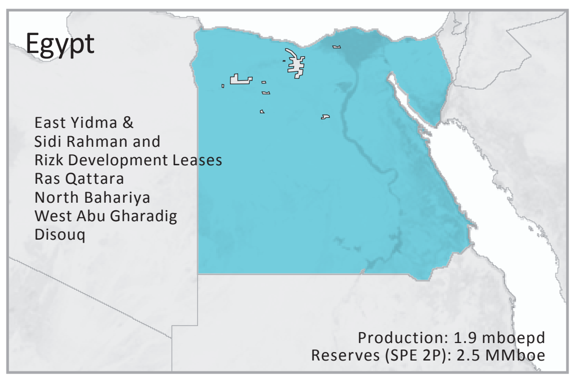





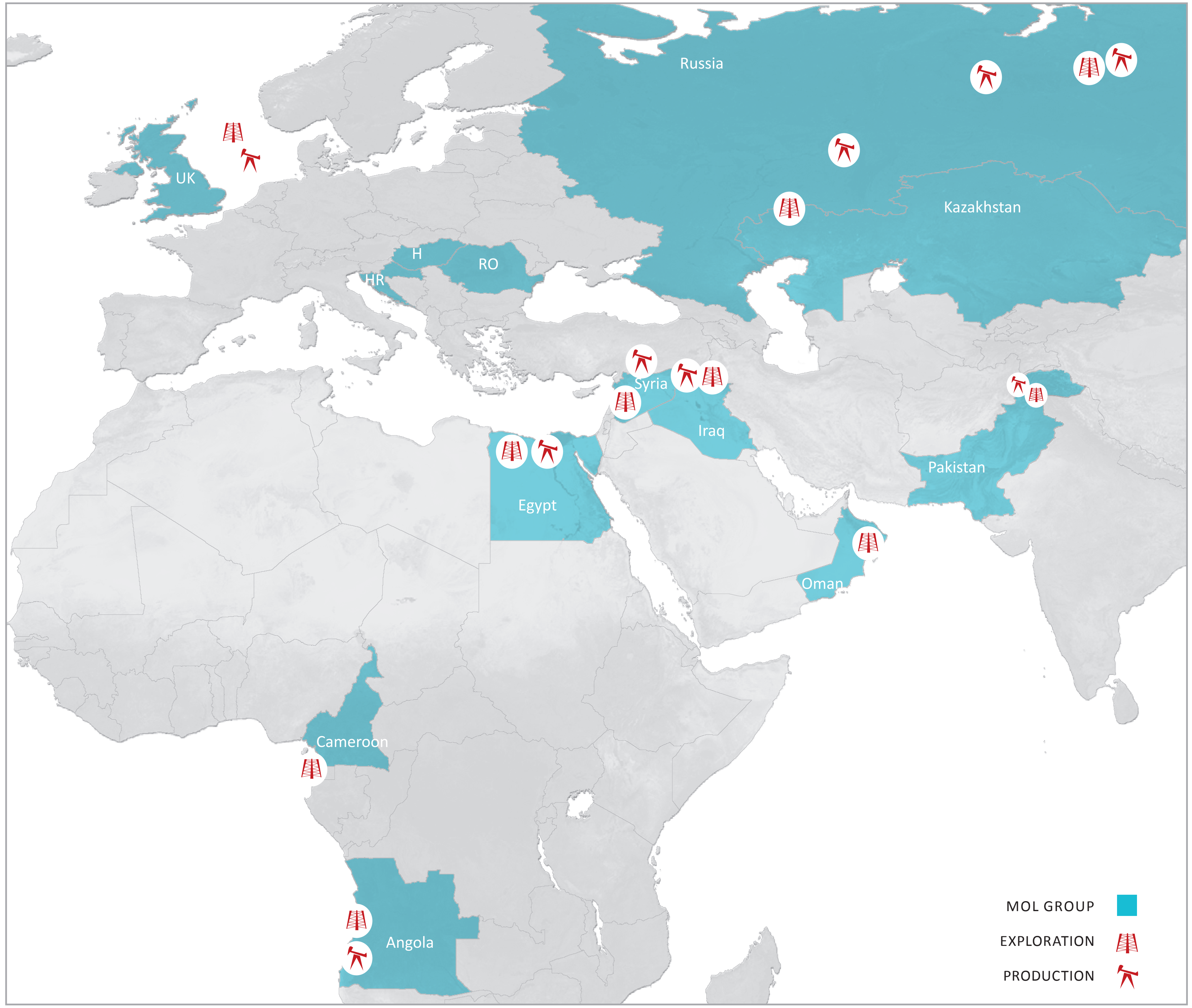







* MOL divested 50% stake in OOO Zapadno-Malobalykskoye (holder of ZMB hydrocarbon license) and 100% stake in OOO MOL Western Siberia (owning Surgut-7 block) in August and September 2013. MOL has also finalized the deal of selling 49% share of BaiTex LLC (holder of the hydrocarbon licenses for Baituganskoye field) in early 2014.



# DOWNSTREAM

Bratislava refinery, Slovakia

## HIGHLIGHTS

- Integrated operations comprising feedstock supply through refining and petrochemicals production to wholesale and retail activities including logistics and supply chain optimisation.
- 6 production units* with a total capacity of 20.9 mtpa refining and 2.1 mtpa petrochemicals, annually.
- Sales of 18 mtpa refined products and 1.3 mtpa petrochemicals to our wholesale customers worldwide.
- Retail presence with more than 1,700 filling stations in 11 countries.
- The New Downstream Program: USD 500-550mn efficiency improvements up to 2014, our performance is on track: USD 400mn was already achieved in 2013.
- Efficiency actions resulted improved and strong performance in 2013, despite the deteriorated external environment.

*Mantova Refinery to be converted to logistics hub from January 2014, thus excluded from the figures above

http://ir.mol.hu/en/about-mol/our-businesses/downstream

In response to the highly unfavourable Downstream industrial landscape in recent years - characterised by high crude prices, volatile refinery and petrochemicals margins, low demand levels and increasing operational costs - a new comprehensive Downstream-level programme was launched for the 2012-14 period aimed at eliminating obsolete practises and increasing MOL Group Downstream profitability by USD 500-550mn in EBITDA improvement. In line with original plans, we were able to further improve our performance compared to 2011 by reaching a total of USD 400mn in CCS EBITDA improvements in 2013 with additional USD 40mn CAPEX savings in maintenance management and USD 328mn inventory working capital decrease.

Besides the positive effect these efficiency improvement efforts had on our operations, our Bratislava and Danube refineries continued to benefit from their strong, complex asset structures and, as a result of significant efforts, INA Downstream performance improved, as well. To maintain our efficient and profitable operations in Italy, in October 2013, MOL Group announced the conversion of its Mantova refinery to a logistics hub from January 2014 onwards.

Aiming at stronger captive markets and a broader value chain, significant investments such as the LDPE and butadiene projects continued in our petrochemicals business. To further extend our value chain in petrochemicals by utilising butadiene as a feedstock, preparation and planning of a synthetic rubber (S-SBR) plant was started. The project will be implemented in a JV with Japanese market leader, Japan Synthetic Rubber Co. Ltd.

Sales increased as MOL Group Retail managed to exploit upturning demand trends through successful marketing actions and timely investments in its filling station network. Developments will continue aimed at strengthening its domestic competitive position and further expansion in its most promising CEE growth markets.

## COMPETITIVE ADVANTAGES

Our "6 production unit model", optimised by Supply Chain Management, utilises benefits from the synergistic operations of our complex asset base. Our high net cash margin-producing refineries in Hungary and Slovakia make the most their geographical locations as well as their well-balanced product and customer portfolios extremely efficiently. MOL Group Petrochemicals brings distinct advantages to our refineries whilst delivering high quality products to our customers.

Feedstock optimisation ensures selection of the most appropriate raw materials for our seaborne refineries from a wide slate of crude oil types. Based on actual crude oil market trends and as a result of supply chain optimisation, in 2013 our attention primarily focused on available medium sour crude oil grades.
Crude and raw materials supplies and low-cost product distribution are delivered by our extensive pipeline system and increased storage depot coverage. Our diverse logistics network, bonded with well-positioned commercial activities to reach end-customers, remains a key advantage in capturing sales margin revenues. Retail sales of our Refined and Petrochemicals products to end-users ensured about 50% of our refineries' captive markets.

# KEY ACHIEVEMENTS

## NEW DOWNSTREAM PROGRAM 2012–2014

Despite the continuing depressed external environment, MOL Group Downstream is successfully pursuing its New Downstream Program, launched for the 2012-2014 period, with the clear objective of achieving significant efficiency improvements across the entire area of our operations. To reach this desired paradigm shift, radical changes were made in all elements of the integrated Downstream value chain, from crude selection through Refining and Petrochemicals to Wholesale and Retail.

The New Downstream Program aims to achieve USD 500-550mn in EBITDA improvement by the end of 2014, based on 2011 premises. Approximately 60% of the planned EBITDA increase is expected to derive from cost reduction and 40% from revenue increases. In addition, the programme targets decreasing working capital through enhanced feedstock and product inventory optimisation.

The New Downstream Program focuses on improved efficiency, more flexible operations, rigorous cost management and integrated, revised sales strategies. With hundreds of individually tracked projects, the complex programme features continuous delivery over time, with proportional contributions from MOL Group's Downstream companies. In line with original plans, USD 150mn, almost 30% of the total target, was delivered during 2012. In 2013, which was the second year of the program, USD 400mn CCS EBITDA improvements was achieved compared to 2011, which is USD 250mn additional internal efficiency improvement compared to achievements in 2012. The more than 300 implemented efficiency actions have a major role in the improvement of financial results of MOL Group Downstream in 2013, despite the much worse external environment of the refining business.

## REINFORCING AND OPTIMISING OUR STRONG PRODUCTION ASSETS

In response to the unfavourable industrial landscape, our refineries and petrochemicals plants have implemented flexible, on-demand operating modes which provide rapid response to market changes. The LEAN operation started successfully in our Bratislava and Danube refineries in the area of yields and energy and already delivered very tangible, slightly over EUR 10mn benefits in 2013. Expenditure on maintenance was especially in focus, with emphasis on value-added operations and cost-reduction achievements while strengthening safe and reliable operations. Our streamlined CAPEX spending not only sustained the operations of our assets but ensured that attractive efficiency improvement projects could be implemented.

In Croatia, INA's performance improved by HUF 10bn in terms of 'clean' CCS-based figures, due to more stable operations of the MHC unit at the Rijeka refinery, diversified feedstock selection, extended crude basket and a better marketing contribution.

On the 4th October, 2013, as a consequence of the negative economic environment that the refining business faces in Italy, MOL Group announced its decision to convert its Mantova refinery into a products logistics hub. Progressive transformation of the refinery started in January 2014.

While 2012 CAPEX spending was mainly on sustained operations-type projects, 2013 focus was on growth projects. As part of our Petrochemicals business strategy to strengthen competitiveness with a broader and higher-quality product portfolio so as to increase our captive market shares, the construction of the new 220 kt/year capacity LDPE unit continued in Bratislava with a total investment of more than EUR 300mn, aiming to further exploit synergies by increasing production flexibility and ensuring higher naphtha offtake from the refinery, from the end of 2015 onwards. At TVK (our petrochemical company in Hungary), the construction of a 130 kt/year capacity butadiene extraction unit for a total investment of EUR 120mn is expected to be completed by the end of 2014. As a significant step forward, MOL Group also decided to enter the attractive synthetic rubber market by constructing a 60 kt/year capacity synthetic rubber plant, also in Tiszaújváros. By forming a joint venture with the Japanese technology and market leader, Japan Synthetic Rubber Co. Ltd, to achieve this, market entry risks will be minimised.

## UTILISING OUR DOMINANT REGIONAL SALES AND LOGISTICS NETWORK

MOL Group sales and marketing strategy focuses on increasing sales in the CEE region, where great advantages derive from the Company's central position in landlocked markets and its expert understanding of customer requirements.

In spite of the unfavourable macroeconomic environment characterised by consecutive market demand drops, domestic motor fuel sales in the Croatian market increased notably during 2013. This outstanding result was due to annual sales contracts concluded with major players in the domestic refined product market and resulted in a strongly improved balance between own production and import coverage, combined with significant domestic market share growth. MOL Group maintained its favourable market position in the lucrative Hungarian market, growing its sales volume in parallel with market trends.

In line with the conversion of the Mantova refinery into a logistics hub, MOL Group is fully committed to continuing its wholesale activities in the Italian market and working hard on improving its market position. The complex logistics system linking discharging facilities in Porto Marghera and the Mantova refinery will be utilised to transport finished products.

In accordance with MOL Group's growth strategy in the Southern region, we are continuing to optimise our logistics network in Romania. Tileagd depot storage capacity was upgraded and cross-country deliveries from Hungary were started. The first construction phase of a new fuel terminal in Giurgiu, at riverside of Danube, with a 60 kt/year capacity was completed in May 2013. In the next stage, additional storage tanks will be set up to increase the capacity by additional 140 kt/year by 2015.

After years of unfavourable demand trends, our Retail performance exceeded its base in terms of annual fuel sales, margin revenues and earnings. Besides spectacular marketing promotions such as the introduction of MOL Mobile, and revitalisation of our co-branded Multipont loyalty programme, implementation of retail strategies tailored to each country progressed further during the year.

- Romanian expansion continued with the opening of over 10 stations, including the first two franchised ones.
- Successful integration of the PAP Oil network increased MOL Group market share in the Czech Republic to nearly 5%, an ideal basis for further expansion.
- At INA, the INA Retail network modernisation programme continued in Croatia. Almost 50% of the network is already modernised, while reconstruction programme in Bosnia Herzegovina also continued. All this was aimed at improving the customer value proposition to achieve leadership in quality in these countries.
- Recently started restructuring of Austrian retail operations in favour of an unmanned operating model will result in major efficiency improvements that will be perceptible from 2014 onwards.

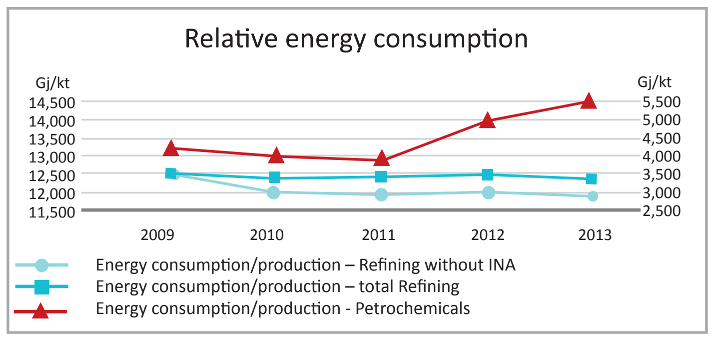

Százhalombatta refinery, Hungary

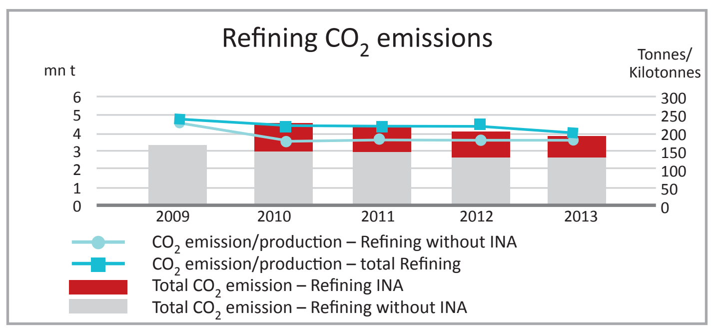
# DOWNSTREAM

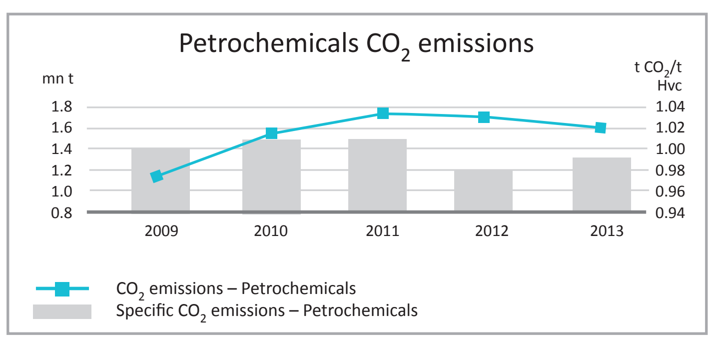
## 2013 SUSTAINABILITY HIGHLIGHTS

- Important research projects have been finished and successfully transformed into new products in 2013. Such new products include 'rubber bitumen' and 'MOL truck diesel'. Rubber bitumen is produced through recycling waste tyres. Roads built with this product, according to a life-cycle-assessment made by the Institute for Transport Sciences Non-profit Ltd. (Hungary), are 29-32% more economical than roads built with traditional bitumen. Using MOL Truck diesel reduces $CO_2$ emissions by up to 3%.
- As a result of the energy efficiency improvements of our New Downstream Program, significant achievements have been made. The most significant 27 projects resulted in estimated $CO_2$ reductions of 140 thousand tons while at the same time the financial savings generated only by those projects was amounted to more than HUF 8.5bn. Our total GHG footprint is of course affected by other factors such as changes in production and portfolio.
- MOL Plc. launched its 'We get the oil, you get the party!' campaign which is aimed at increasing the amount of used cooking oil that is collected. By taking used cooking oil to designated MOL filling stations, people can dispose of their used cooking oil in an environmentally-friendly manner. Currently, cooking oil is collected at 230 filling stations. Since the initial launch of the program 228 tonnes of cooking oil have been collected.
- The safety performance of our downstream sites gives reason for optimism. In 2013 MOL Group had no on-site fatalities, while TVK (Hungarian petrochemical plant) operated without a staff lost time injury (LTI) for 389 days (nearly 2 million work hours). MOL-LUB (Hungarian Lubricant subsidiary) had operated for 691 days (more than 0.5 million work hours) without an LTI by the end of 2013.
- A 1.5-year Leadership Succession program was launched at MOL's Downstream division in 2013 to prepare 20 young talents for future leadership roles. Their competence is increased through their involvement in managing downstream efficiency development projects, being trained in leadership competencies and the support given by internal mentors. The program involves more than 150 people from the organization through project work.
- The scope of the Technical Capability Development (Petroskills) program was further extended across MOL Group to Logistics, HSE (Health, Safety and Environment) and Petrochemicals. The competency-based development process results in targeted training and development investments. The ultimate objective is to enhance operational excellence and safe operations.
- As part of our commitment to operational transparency, in June 2013 the first ever Sustainability Report from MOL Group's Hungarian Refining division was published. This document presents details about the performance and achievements of the refineries.

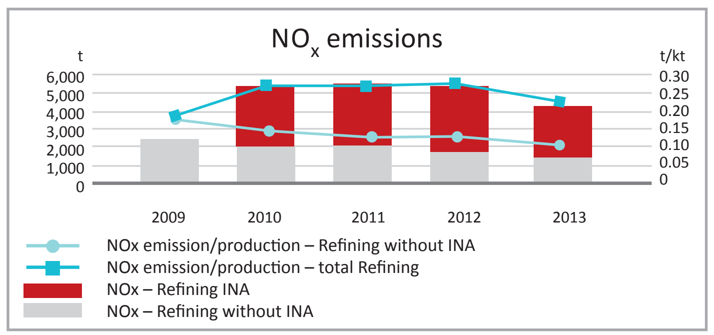
### CLIMATE CHANGE

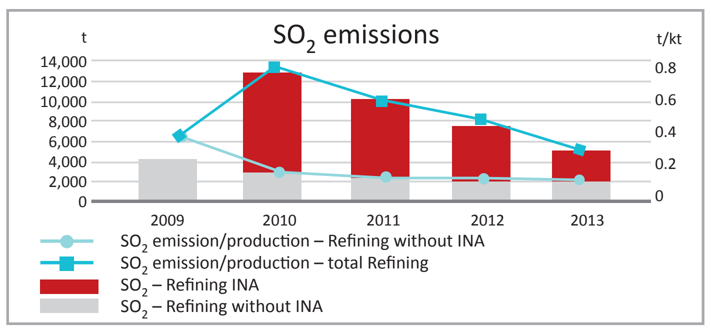


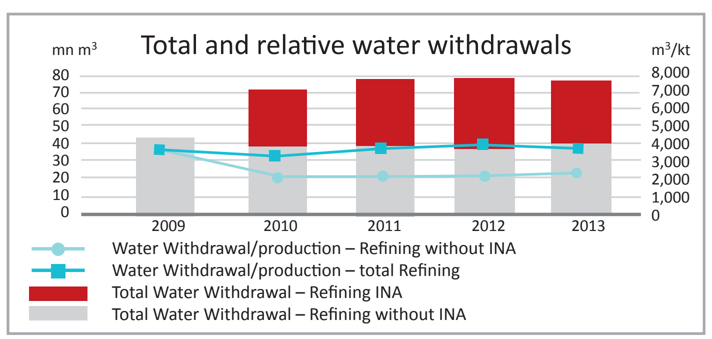



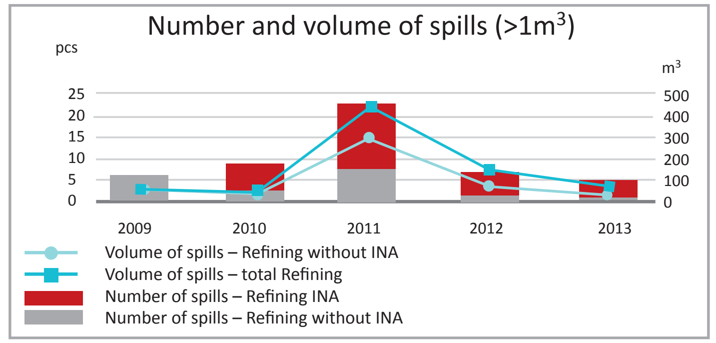

### ENVIRONMENT



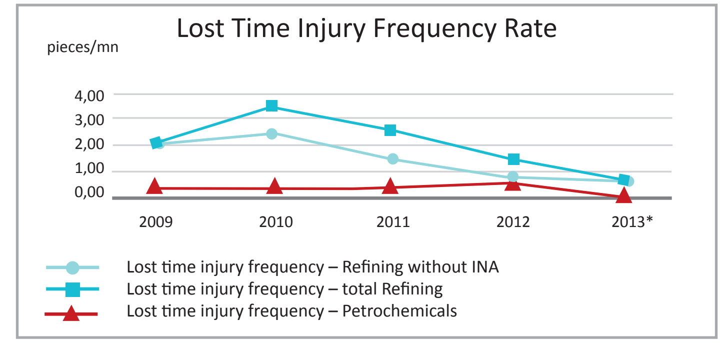




### ENVIRONMENT




### HEALTH AND SAFETY




*values for Refining in 2013 include Petrochemicals as well.

### ENVIRONMENT

| Refining | 2009* | 2010 | 2011 | 2012 | 2013 |
|---|---|---|---|---|---|
| Hazardous waste (t) | 28,063 | 42,142 | 43,163 | 45,036 | 42,215 |
| *Hazardous waste/production (t/kt)* | 2.1 | 1.9 | 2.0 | 2.2 | 2.1 |
| Non-hazardous waste (t) | 12,987 | 25,862 | 27,184 | 19,547 | 92,636** |
| *Non-hazardous waste/production (t/kt)* | 1.0 | 1.2 | 1.2 | 1.0 | 4.5 |
| Waste re-used/recycled (t) | 26,481 | 41,846 | 45,730 | 42,222 | 114,403** |
| *Re-use/recycle ratio (%)* | 65% | 62% | 65% | 65% | 85% |

*Without INA in 2009.
**In 2013 the amount of construction waste increased significantly due to newly started investments.

### HEALTH AND SAFETY

| Refining | 2009* | 2010 | 2011 | 2012 | 2013 |
|---|---|---|---|---|---|
| Fatalities - own staff | 0 | 1 | 0 | 0 | 0 |
| Fatalities – contractors | 0 | 0 | 0 | 0 | 0 |
| Fatalities – 3rd party | 0 | 0 | 1 | 0 | 0 |
| Road accident rate (RAR) (accidents/mn km driven) | 2.25 | 1.42 | 1.01 | 1.47 | 1.20 |

*Without INA in 2009.

### HUMAN CAPITAL

| Total Downstream (including Petchem and Retail) | 2010* | 2011 | 2012 | 2013 |
|---|---|---|---|---|
| Headcount | 9,055 | 15,785 | 15,398 | 15,027 |
| Female (%) | 23.4% | 20.8% | 20.3% | 20.4% |
| Turnover rate (%) | 7.3% | 6.0% | 8.8% | 7.0% |

| | Petchem | Refining | Petchem | Refining | Petchem | Refining | Petchem+ Refining*** |
|---|---|---|---|---|---|---|---|
| Training cost per capita (HUF '000') | n. a. | 68 | 56 | 54 | 44 | 63 | 44 |
| Training hours per capita (hours) | n. a. | 25 | 36 | 22 | 40 | 26 | 21 |

*Without INA in 2010. **Training data without Energopetrol ***Data for Petchem and Refining together in 2013.

### ECONOMIC SUSTAINABILITY

| Customer satisfaction | 2010 | 2011 | 2012 | 2013 |
|---|---|---|---|---|
| Wholesale customer satisfaction - MOL Plc. (%) | 88 | 86 | 88 | 86 |
| Wholesale customer satisfaction level - INA (%) | 84 | 84 | 83 | 88 |
| Wholesale customer satisfaction - Slovnaft (%) | 90 | 90 | 82 | 82 |

| Research and Development expenditures | 2009 | 2010 | 2011 | 2012 | 2013 |
|---|---|---|---|---|---|
| Total Downstream R & D (HUF mn) | 1,626.2 | 1,467.7 | 1,380.0 | 1,604.5 | 1,243.7 |
| R&D on renewables (HUF mn) | 572.5 | 622.8 | 515,.4 | 656.7 | 603.3 |

# INTERVIEW WITH MR. FERENC HORVÁTH ›

Mr. Ferenc Horváth
Executive Vice President, Downstream

**What new trends do you see in the current international Downstream industrial landscape?**

In the global refining industry, major changes are taking place in the USA, Latin America and Asia, all of which are having serious effects on Europe where the refining business and sale of derivatives are at a crossroads.

The demand for refined products in Asia shows strong growth and still has impressive growth potential, so we now observe major investments in high-tech complex refineries in India, China and other developing countries. Asian governments are actively supporting their oil industries, helping them grow with special loans, planning permissions and partial tax breaks and favourably negotiated resource deals. In the Middle East, huge refining and petrochemical complexes have been built with the explicit goal of becoming global leaders and exporters of refined products, again with governmental support. Shale oil extraction makes the USA independent thus increasing global supply. USA consumption is characterised by a non-decreasing trend. Gasoline prices are very low as there is no tax on derivatives, so the U.S. market is showing stagnation or even a slight growth in consumption. In Central and South America, governments are actively building up their petroleum sectors, in most cases with favourable legislation for nationalised companies. In general, the refining sector outside Europe is characterised by no or significantly lower taxes imposed on derivatives compared to the European average, lower prices and huge amounts of state subsidies to encourage companies to invest. In addition, environmental regulations are not as rigorous as they are in Europe where very strict legal restrictions are imposed. For the European refining business, the only way to survive is to focus on efficiency improvements in all elements of the value chain to achieve as efficient operations as possible.

**What are the impacts of these trends from the European perspective?**

The 2000-2008 period was the 'golden-age' of European refining because feedstock prices and production operating costs were favourable and global and European crude oil consumption and the demand for oil products increased continuously which improved the utilisation of European refineries. Starting in 2009, things drastically changed compared to the 'golden age'. Not only did all profitability vanish but in 2011, almost all European refineries found themselves on the negative side; they were simply losing money. In 2013, due to an increase in refining efficiency, some refineries managed to stop generating losses. But today, we can't really say that the European refining industry is maximising profits, it is merely minimising its losses. The European downstream business is still kept under pressure by the worldwide trends I mentioned just now and is still not supported by local governments and regulations. We here in Europe are struggling more and more to adapt to all this increasing international competition. In the meantime, we are faced with ever more layers of costly regulations in Europe and significantly distorted energy markets.

**How can MOL Group react to this continuously changing Downstream external environment?**

We have to admit the fact that these new trends are fundamentally changing the rules of the game. We cannot go against the flow so we have to pay even more attention to efficiency improvements and further necessary investments, since MOL Group Downstream is committed to returning to the top quartile in profitability and efficiency in the CEE region. This motivated us to launch our New Downstream Program 2012-2014, an efficiency improvement programme which affects all elements of the integrated Downstream value chain from crude selection through refining and petrochemicals to wholesale and retail. The first two years' completion of the programme went according to plan resulting in a USD 400 million Downstream CCS EBITDA improvement.

**What were the key elements of the New Downstream Program in 2013?**

In 2013, we extended our crude basket through more diversified feedstock selection, aiming for a market-driven product slate. These initiatives in production flexibility enabled us to maintain a competitive refinery yield with a high ratio of white products and to react quicker to market changes. This was achieved at lower operational cost due to increased energy efficiency, improved maintenance management, lower working capital employed and also due to the implementation of LEAN as part of the New Downstream Program. Through sales actions, we were able to capture additional margins by placing MOL Group products in the most attractive retail and wholesale markets such as growth countries like Serbia and Romania and in the way of the most profitable customer segments. Furthermore, the steps taken in Petrochemicals led to improved margins and a higher contribution from this line of business.

On the cost side, the most significant reductions in 2013 were achieved in energy management. On-going energy-relevant projects comprise volumetric reduction of consumption, optimisation of energy sources and procedures and improved energy supply conditions.

**What other initiatives and investments are in place to improve Downstream efficiency?**

We are continuously searching for new and profitable business opportunities and we are ready to start newly investing to strengthen our captive markets further, tighten the integration of our business and broaden our product portfolio. The most important of these are some new investments and asset portfolio optimisations. MOL Group has decided to build a new LDPE unit at Slovnaft's Bratislava refinery to underpin its competitiveness with a larger higher-quality petrochemicals product portfolio. The 220 kt/year capacity unit is planned to start operations from the end of 2015 thus enabling a higher naphtha off-take from our refineries. In addition our Petrochemicals division in Hungary is further improving its business by constructing a brand new 130 kt/year butadiene unit at TVK to be ready by the end of 2014. This unit will enable us to enter the promising synthetic rubber market by providing raw material for a synthetic rubber plant also under preparation and planning at Tiszaújváros through a joint venture with Japanese technology and market leader, Japan Synthetic Rubber Co. Ltd. With regard to asset portfolio optimisation, we have announced the conversion of our Mantova refinery into logistics hub, a process started in January, 2014.

**What were the main reasons for converting Mantova refinery?**

We purchased Mantova in 2007 when the external environment for refining was favourable and we still enjoyed the 'golden-age' of refining. After 2008, the situation completely reversed itself, in Italy too, especially for refineries with lower economies of scale and disadvantageous yield structures. Although new investments and efficiency improvement initiatives have been carried out in recent years, the Mantova refinery, with its current scale and asset base, could not be operated profitably due to the negative effects of the macroeconomic environment and market trends. We therefore carried out a profound analysis of the long-term sustainability of the Mantova operations of IES. We also considered the fact that the long-term agreement on Mantova refinery crude oil logistics had expired. Finally, we reached agreement with ENI to connect our transformation project with their green refinery initiative thus enabling us to use the complex logistics network connecting Porto Marghera and Mantova for the supply of end-products instead of crude oil. In this way, we can progressively transform our refinery into a product logistics hub, meaning that MOL Group will remain in business with a commercially sound Mantova-based operation. This transformation means we will be able to operate in a profitable way and retain a reasonable portion of our employees who will now operate the new business model on our Mantova site.

**Regarding the future, what does all this mean for MOL Group Downstream in general?**

We always strive for excellence in our core business by optimising operations to maximise the profitability of current production assets. In addition, we concentrate on customer orientation and efficiency improvement in all areas of Downstream operations and so we are planning to launch the next generation of the efficiency improvement programme from 2015 onwards that will bring us the desired result: increased competitiveness in the coming years. Regarding our investments, our new petrochemicals units, the Slovnaft LDPE unit and the TVK butadiene unit, are expected to improve our profitability in the short term as well. In the sales area, we will maintain and increase our regional market presence, expand our core markets in the CEE region whilst developing and expanding our retail network. Regarding MOL Group Downstream business we are continuously looking for new M & A opportunities in the region as well in order to deepen our value chain. There are many options open to us and MOL Group will choose the ones that will serve us best in achieving our long-term objectives.

# DOWNSTREAM PORTFOLIO ELEMENTS

## REFINING

| | Capacity in mtpa | 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 mtpa |
|---|---|
| Friendship (Slovakian part, owned by Transpetrol) | 22.0 |
| Friendship I. (bidirectional – total 129 km) | 3.5 |
| 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) | 36 |
| **Product Pipeline system:** | |
| MOL – 1,356 km | 8.2 |
| SN – 484 km | 2.5 |

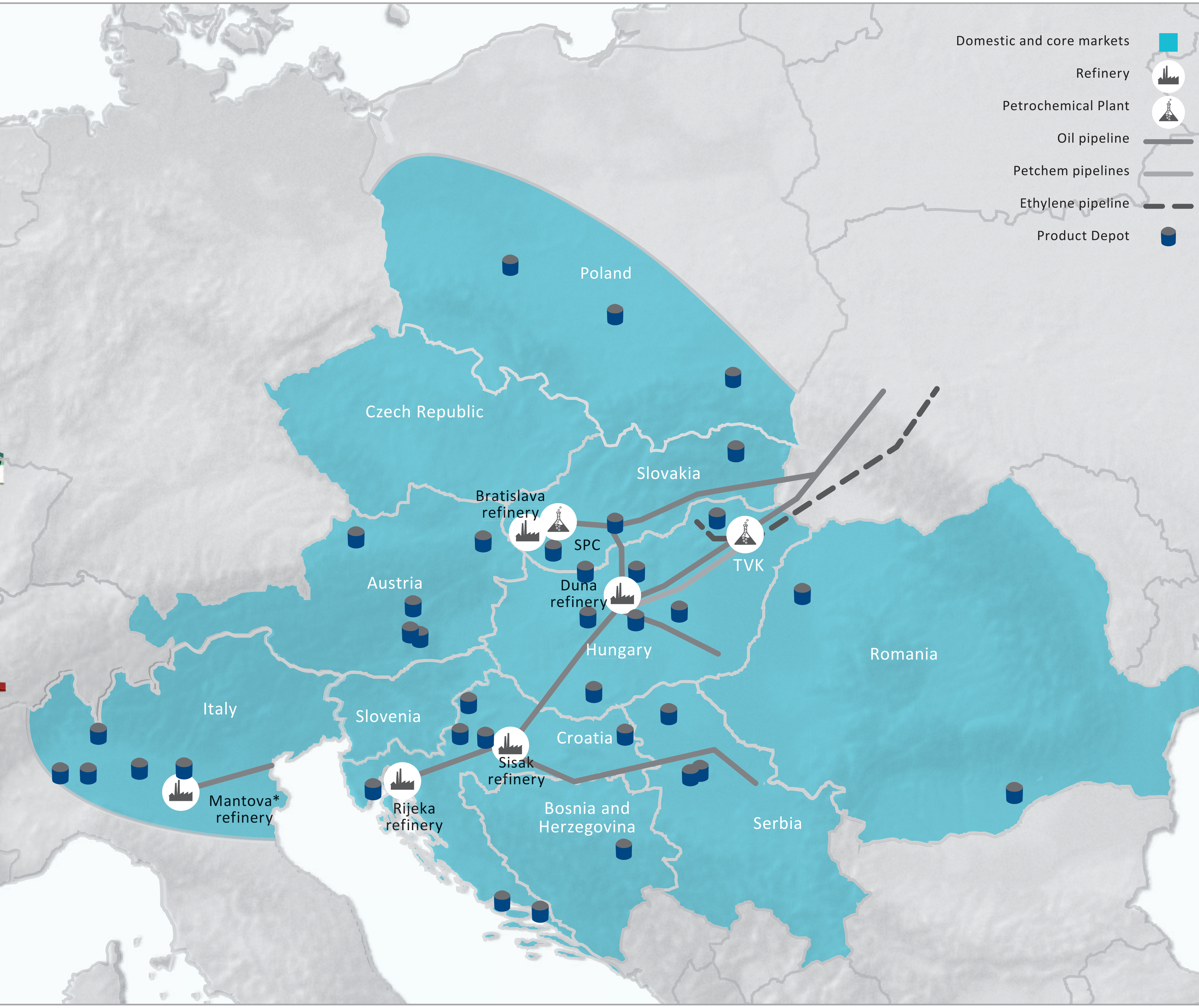
## RETAIL

| | Number of filling stations |
|---|---|
| MOL | 602 |
| INA | 444 |
| Slovnaft | 236 |
| IES | 196 |
| Tifon | 43 |
| Roth | 37 |
| Energopetrol | 59 |
| PAP Oil | 125 |
| **Total** | **1,742** |

## PETROCHEMICALS

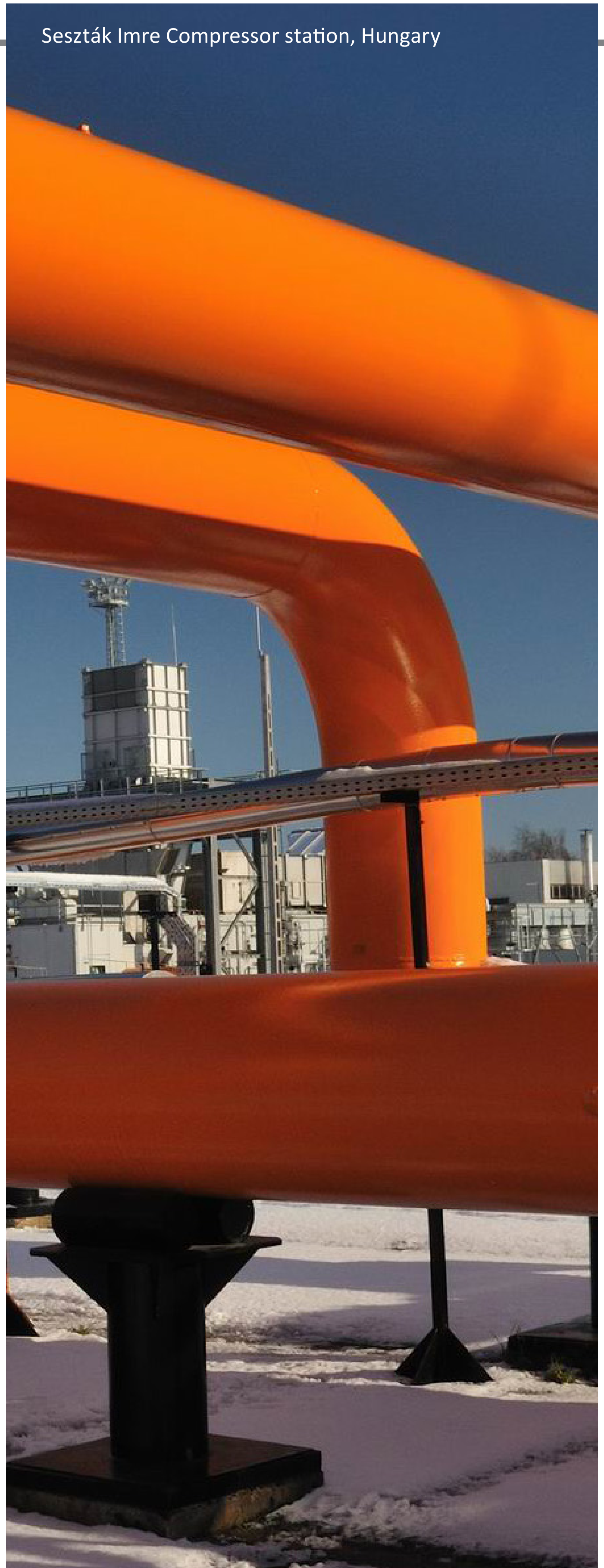
| Production | capacity in ktpa |
|---|---|
| TVK - Ethylene | 660 |
| TVK - Polyolefin | 765 |
| SPC- Ethylene | 220 |
| SPC - Polyolefin | 435 |
| **Pipelines** | **capacity in ktpa** |
| Feedstock and product pipelines | 2,700 |
| Ethylene (Kazincbarcika) | 160 |
| Ethylene (Kalush) | 100 |

* The progressive transformation of its Mantova refinery into a products logistics hub starts in January 2014.




DOWNSTREAM

# GAS MIDSTREAM – NATURAL GAS TRANSMISSION


Seszták Imre Compressor station, Hungary

## HIGHLIGHTS

- 5,784 km long pipeline system.
- 18 domestic, 4 import entry points, nearly 400 exit points.
- 6 regional centers, 6 compressor stations.
- World-class system operator center in Siófok.

http://ir.mol.hu/en/about-mol/our-businesses/gas-transmission/

In Hungary, FGSZ Földgázszállító Zrt. (FGSZ Natural Gas Transmission Private Company Limited by Shares, in short form FGSZ Ltd, referred to as FGSZ) is currently the only company to hold a transmission system operator license. Its activity is carried out under market conditions regulated by law. The Company owns and operates the high-pressure natural gas transmission system that covers the entire territory of Hungary. Aside from domestic natural gas transmission, FGSZ also performs transit activities for Serbia, Bosnia-Herzegovina, as well as cross border deliveries towards Romania and Croatia and the Ukraine if required so. 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 transmission system operators.

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. We are prepared to 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.

As an innovation in the Year 2013, FGSZ developed a capacity allocation IT application with the working title Regional Booking Platform (RBP) that complies with the requirements of the European CAM Network Code in the scope of an EU pilot project. This application is suitable for running capacity auctions that comply with the procedure under the CAM NC, and for processing nominations received for awarded capacities not only at the cross-border points of FGSZ's grid, but also at any other point in the network, even those independent of the cooperating domestic natural gas transmission system.

## COMPETITIVE ADVANTAGES

- **Geographic location:** FGSZ also plays a key role in terms of regional transit transmission.
- **Quality assurance:** An ISO 9001:2008 standard requirements compliant quality assurance system, audited by a certification body, has been in operation at FGSZ since 1997. The Company implemented an IT security governance system under the ISO/IEC 27001:2005 standard in 2013, which was certified by SGS Hungaria Kft. SGS reviews the operation of these systems every six months. In 2013, FGSZ commissioned the repeated certification of its welding activity by ÉMI-TÜV-SÜD Kft. against the MSZ EN ISO 3834-2:2006 standard in the interest of the continued high quality of maintenance and troubleshooting.
- **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 non-discriminatory sale of its capacities and supplementary services provide a stable cash-flow for the Group.

## KEY ACHIEVEMENTS

**Best Employer for the fifth time**

FGSZ won the honorable title of Best Employer for the fifth time in the 2013 Aon Hewitt Best Employer Survey, while in the regional competition it has been named Best Employer in Central and Eastern Europe on three occasions.

## 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 is allowing domestic consumers to access gas sources competing against each other in the region, and thus to optimize their supply portfolios in line with their possibilities.

As the first step of strategic investments, between 2006 and 2010 we significantly increased the Eastern import capacity, in line with the development of the strategic storage facility. We constructed the Hungarian-Croatian and Hungarian-Romanian interconnectors.

The second stage of strategic investments planned for the 2011-2020 period includes development in the north-west and north-east. FGSZ is planning to expand the existing import capacities from the West, along with internal improvements to guarantee security of supply for the Trans-Danubia region independently of the HAG pipeline.

In 2012, the Company concluded a cooperation agreement with UKRTRANSGAZ about natural gas transmission from Hungary to Ukraine, as the result of which it has provided the option of natural gas transmission to Ukraine since the spring of 2013.

FGSZ has set the goal of guaranteeing the possibility to import natural gas from every direction in the interest of security of supply, and of becoming an integral part of the region that surrounds it by making its existing cross-border connections bi-directional. Developing the option for gas supply from Romania was an important step in this regard. Although capacity opened in the first stage only allows for the delivery of a smaller amount, FGSZ and its Romanian partner are working together to expand this significantly. Hungary's gas supply will be set on a more secure footing by the connection of southern and south-eastern, then eastern, finally northern and western gas sources.

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 purpose of the North-South Gas Corridor is to establish the infrastructural criteria for gas-gas competition, and to develop a standard and transparent gas market in the Central and South-eastern European region. FGSZ continues to support this concept, however, it believes that opening the option of transmission to Ukraine has also created an obvious, simpler and cost-efficient solution. Instead of the originally envisaged Croatia – Hungary, Slovakia – Poland route, it is proposing another route, focusing on the interconnection of the largely existing pipeline systems in Croatia – Hungary – Ukraine – Poland.

# GAS TRANSMISSION PORTFOLIO ELEMENTS



## CAPACITY DATA
(AT 15 °C, CUBIC METRES)

### UKRAINIAN/HUNGARIAN INTERCONNECTOR
(Testvériség, Összefogás, Keleti szél)

| | |
|---|---|
| Entry point | (cubic meter) |
| Annual firm capacity | 20.5 billion |
| Daily firm peak capacity | 56.3 million |
| Annual interruptible capacity | 5.5 billion |
| Daily interruptible peak capacity | 15 million |
| Exit | (cubic meter) |
| Annual interruptible capacity | 6.1 billion |
| Daily interruptible peak capacity | 16.8 million |

### AUSTRIAN/HUNGARIAN INTERCONNECTOR
(from HAG pipeline direction)

| | |
|---|---|
| Entry point | (cubic meter) |
| 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 meter) |
| Annual firm capacity | 4.8 billion |
| Daily firm peak capacity | 13.2 million |

### HUNGARIAN/ROMANIAN INTERCONNECTOR

| | |
|---|---|
| Exit point | (cubic meter) |
| Annual firm capacity | 1.7 billion |
| Daily firm peak capacity | 4.8 million |
| Entry point | (cubic meter) |
| Annual firm capacity | 0.1 billion |
| Daily firm peak capacity | 0.2 million |
| Annual interruptible capacity | 1.7 billion |
| Daily interruptible peak capacity | 4.8 million |

### HUNGARIAN/CROATIAN INTERCONNECTOR

| | |
|---|---|
| Exit point | (cubic meter) |
| Annual firm capacity | 2.6 billion |
| Annual interruptible capacity | 4.4 billion |
| Daily firm peak capacity | 7.2 million |
| Daily interruptible peak capacity | 12 million |
| Entry | (cubic meter) |
| Annual firm capacity | 0 billion |
| Annual interruptible capacity | 7 billion |
| Daily firm peak capacity | 0 million |
| Daily interruptible peak capacity | 19.2 million |

### DOMESTIC PRODUCTION

| | |
|---|---|
| 12 entry points | (cubic meter) |
| Annual firm capacity | 1.8 billion |
| Daily firm peak capacity | 7.9 million |

### CAPACITY OF UNDERGROUND STORAGES OF COMMERCIAL PURPOSES

| | |
|---|---|
| 5 entry points | (cubic meter) |
| Annual firm capacity | 5 billion |
| Daily peak capacity | 59.6 million |
| of which interruptible | 7.1 million |

### CAPACITY OF UNDERGROUND STORAGES OF STRATEGIC PURPOSES

| | |
|---|---|
| 1 entry point | (cubic meter) |
| Annual firm capacity | 1.2 billion |
| Daily firm peak capacity | 20 million |


### DAILY ENTRY PEAK CAPACITY OF THE NATURAL GAS TRANSMISSION SYSTEM

| | (cubic meter) |
|---|---|
| Total | 172.4 million |
| of which interruptible | 43.6 million |
| Import | 93.6 million |
| of which interruptible | 36.5 million |
| Transit | 11.3 million |
| Storage for commercial purpose | 59.6 million |
| of which interruptible | 7.1 million |
| Storage for strategic purpose | 20 million |
| Domestic production | 7.9 million |

### TOTAL PERFORMANCE IN 2013 (DATA AT 15 °C)

| | (cubic meter) |
|---|---|
| Aggregate domestic quantity | |
| including gas withdrawn from uGS | 9.22 billion |
| Of which: withdrawn | 2.27 billion |
| Transit and export | 3.4 billion |
| Import quantities for domestic | |
| consumption at Beregszász point | 4.38 billion |
| Through HAG pipeline | 3.79 billion |
| From domestic production | 1.84 billion |

# FINANCIAL AND OPERATING PERFORMANCE

# MANAGEMENT DISCUSSION AND ANALYSIS OF 2013 BUSINESS OPERATIONS ›

## SUMMARY OF 2013 RESULTS

In 2013, operating cash flow exceeded last year's level by 35%. However in 2013, MOL delivered a clean CCS EBITDA of HUF 516bn which is 9% behind last year's performance. Reported operating profit was negatively influenced by Syrian and Croatian asset write-downs, the latter due to the loss- making INA Downstream operation and items associated with the conversion of the Mantova refinery.

The decline in the Upstream segment's performance was mainly attributable to significantly lower realised hydrocarbon prices (by 9% in 2013 versus 2012) and a 10% decrease in production, excluding Syria, compared with the base period, mainly due to the natural decline of matured fields impacted by Northern Adriatic off-shore gas production as well as the divesture of the Russian ZMB field.

In line with guidance given at the beginning of this year, the Downstream segment outperformed last year's clean CCS-based EBITDA. Amid strong macroeconomic headwinds, including a collapsing product margin environment and a tightening Brent-Ural spread, this outstanding result can be attributed to the efficiency improvement actions achieved as part of the New Downstream Program as well as higher refined product sales and improving petrochemicals margins.

Gas Midstream delivered similar results to those of last year as the negative effects of the tightening Hungarian gas transmission regulation were compensated for by a lower level of losses in the Croatian gas trading business due to lower sales volumes.

As a result of strong operating cash flow achieved, the Group's financial position improved further. The year-end gearing ratio of 16% is the lowest since 2008.

- **Upstream:** EBITDA excluding special items decreased to HUF 360bn in 2013, 14% lower versus 2012. On one hand, performance was negatively affected by a 9% drop in average hydrocarbon prices, mainly attributable to a decline in natural gas prices in Hungary and Croatia while, on the other hand, MOL Group faced shrinking production as well, mostly driven by gas production decreases in the CEE region. In addition, MOL divested its Russian ZMB production field in August. Excluding the contributions of ZMB and Syria, production amounted to 100 mboepd, a drop of 7% compared to 2012.

- **Downstream:** Clean CCS-based EBITDA amounted to HUF 157bn in 2013 representing a 4% improvement compared with the base period, despite being negatively impacted by several external factors such as tighter Brent-Ural spreads and worsening actual refining margins, partially compensated for by improvements in integrated petrochemicals margins. Moreover, we were able to fully offset the negative external environment through positive internal achievements: the efficiency improvement programme continued and the delivery of the announced USD 250mn (or HUF 55bn) versus 2012 took place. Modest refined product sales increase also had a positive effect.

- **Gas Midstream:** EBITDA, excluding special items, came in at the previous year's level of HUF 59bn in 2013. Such performance can be considered positive given that the Hungarian gas transmission business was adversely impacted by the cut in regulated returns. The Croatian gas trading business delivered heavy losses again in a challenging price environment. However, decreasing sales volumes made some positive impact on the business. Since the sale of MOL's majority shareholding in the gas storage business was closed at the end of 2013, MMBF's contribution is reported here for the last time.

- **Net financial expenses** were HUF 58bn in 2013, mainly representing a decrease in FX gains on receivables and payables.

- **CAPEX spending** stood at HUF 270bn in 2013. In line with our communicated strategy, CAPEX spending is now more focused on Upstream than it was a year ago. Upstream represents 58% or HUF 155bn of total Group CAPEX (versus 48% a year ago), while Downstream was responsible for 35% or HUF 94bn (versus 46% a year ago). The remaining 7% (HUF 21bn) of our capital expenditures targeted gas and corporate projects.

- **Operating cash flow** increased by 35% to HUF 615bn in 2013 partly due to favourable movements in working capital lines. Operating cash flow, before changes in working capital, decreased marginally (by 7%) to HUF 501bn.

- **Indebtedness hit the lowest level since 2008: simplified net debt to EBITDA stood at 0.79x** at the closing of the year and decreased from 1.42x in parallel with the gearing ratio, down from 24.9% to 16.0% YoY.

## KEY FINANCIAL DATA BY BUSINESS SEGMENTS

| Net sales revenues | FY 2012 | FY 2013 | FY 2012 | FY 2013 |
|---|---|---|---|---|
| | (HUF mn) | (HUF mn) | (USD mn)[5] | (USD mn)[5] |
| Upstream | 779,080 | 642,038 | 3,456 | 2,870 |
| Downstream | 4,810,232 | 4,847,969 | 21,341 | 21,672 |
| Gas Midstream | 462,924 | 385,522 | 2,054 | 1,723 |
| Corporate and other | 158,535 | 137,144 | 703 | 613 |
| **Total** | **6,210,771** | **6,012,673** | **27,554** | **26,878** |

| Net external sales revenues[1] | FY 2012 | FY 2013 | FY 2012 | FY 2013 |
|---|---|---|---|---|
| | (HUF mn) | (HUF mn) | (USD mn)[5] | (USD mn)[5] |
| Upstream | 270,104 | 209,998 | 1,198 | 939 |
| Downstream | 4,792,039 | 4,834,553 | 21,260 | 21,612 |
| Gas Midstream | 422,590 | 348,478 | 1,875 | 1,557 |
| Corporate and other | 36,591 | 7,388 | 163 | 33 |
| **Total** | **5,521,324** | **5,400,417** | **24,496** | **24,141** |

| EBITDA | FY 2012 | FY 2013 | FY 2012 | FY 2013 |
|---|---|---|---|---|
| | (HUF mn) | (HUF mn) | (USD mn)[5] | (USD mn)[5] |
| Upstream | 402,846 | 370,574 | 1,788 | 1,657 |
| Downstream | 124,655 | 108,492 | 553 | 485 |
| Gas Midstream | 57,806 | 55,930 | 256 | 250 |
| Corporate and other | (41,632) | (49,764) | (184) | (222) |
| Inter-segment transfers[2] | (19,005) | 35,826 | (85) | 159 |
| **Total** | **524,670** | **521,058** | **2,328** | **2,329** |

| EBITDA excl. special items[3] | FY 2012 | FY 2013 | FY 2012 | FY 2013 |
|---|---|---|---|---|
| | (HUF mn) | (HUF mn) | (USD mn)[5] | (USD mn)[5] |
| Upstream | 417,886 | 360,067 | 1,854 | 1,610 |
| Downstream | 153,584 | 134,579 | 681 | 602 |
| Clean CCS-based Downstream EBITDA[3,4] | 150,565 | 156,827 | 668 | 701 |
| Gas Midstream | 58,101 | 58,781 | 258 | 263 |
| Corporate and other | (38,675) | (49,764) | (172) | (222) |
| Inter-segment transfers[2] | (19,005) | (9,437) | (84) | (44) |
| **Total** | **571,891** | **494,226** | **2,537** | **2,209** |
| **Clean CCS-based EBITDA[3,4]** | **568,872** | **516,474** | **2,524** | **2,308** |

| Operating profits | FY 2012 | FY 2013 | FY 2012 | FY 2013 |
|---|---|---|---|---|
| | (HUF MN) | (HUF MN) | (USD mn)[5] | (USD mn)[5] |
| Upstream | 256,213 | 141,520 | 1,137 | 633 |
| Downstream | (12,858) | (169,659) | (57) | (758) |
| Gas Midstream | 35,494 | 34,009 | 157 | 152 |
| Corporate and other | (56,669) | (62,489) | (251) | (279) |
| Inter-segment transfers[2] | (16,885) | 37,991 | (75) | 169 |
| **Total** | **205,295** | **(18,628)** | **911** | **(83)** |

| Operating profits excl. special items[3] | FY 2012 | FY 2013 | FY 2012 | FY 2013 |
|---|---|---|---|---|
| | (HUF mn) | (HUF mn) | (USD mn)[5] | (USD mn)[5] |
| Upstream | 282,169 | 174,378 | 1,252 | 780 |
| Downstream | 22,682 | 6,986 | 101 | 31 |
| Gas Midstream | 35,789 | 36,860 | 159 | 165 |
| Corporate and other | (53,712) | (62,489) | (238) | (279) |
| Inter-segment transfers[2] | (16,885) | (7,272) | (76) | (33) |
| **Total** | **270,043** | **148,463** | **1,198** | **664** |

*Notes and special items listed in Appendix I and II.*



# OUTLOOK ON THE STRATEGIC HORIZON

In 2013, MOL Group maintained its excellent cash flow generating ability even though clean EBITDA decreased by 9%. Our intention is to maintain stable cash flow generation in the short term and increase it in the mid-term. With its roughly 70% contribution, the Upstream Division remained the strongest pillar of the Company. In light of existing organic growth opportunities and the Company's ambition to take attractive inorganic steps, we expect this situation to continue into the coming years. On the other hand, as was proven in 2013, despite a deteriorating refinery environment, we also expect continually improving Downstream results through successful on-going efficiency improvements.

From the current Upstream portfolio, we expect 91-96 mboepd in 2014, while, with gradual growth in the second half of the year, we expect to reach 105-110 mboepd in 2015. In the mid-term, by 2018, we target a 30% increase in Upstream production i.e 125-135 mboepd, with improving unit profitability. Key contributors of production will be the following portfolio elements:

- Significant additional production will come from the **Kurdistan Region of Iraq**. The Shaikan Block is already in production and block production capacity will shortly increase to 40 mboepd, gradually ramping-up production during 2014. In the Akri-Bijeel Block, the 10 mboepd early production facility will deliver its first oil in the first six months of 2014.
- The majority of the recently acquired **North Sea** assets are already in the early development phase. The start of production in the Cladhan field will already add 4-5 mboepd by 2015. Peak production from the total acquired asset portfolio is targeted to reach 16-18 mboepd by 2018.
- Even though contribution from our international portfolio will increase, the **CEE region** will still provide the backbone of our production in the coming years. We are continuing with our aim of keeping production decline within a moderate range i.e. below 5% for the region. Meanwhile, in Croatia, we are intent on increasing production in 2015 due to contributions from some major development projects.

As well as the organic development of its portfolio, MOL is also eyeing inorganic expansion opportunities. Last year was already characterised by a more active portfolio management approach which will continue over the coming years. Recently we locked-in created value in Russia (ZMB, Baitugan), while we announced our strategic entry into the North Sea region. We will continue to assess such growth opportunities and wish to remain active in portfolio development to create a balanced, sizable international one. MOL will make good use of its available financial headroom and look for targets in stable geopolitical environments in new countries as well as new invest¬ments in our core regions.
Moving forward, we wish to reach a reserve replacement ratio of over 100% which seems realistic since sizeable reserve bookings will take place in the foreseeable future from the Kurdistan Region of Iraq, Kazakhstan and the North Sea.

In our Downstream business, we expect to operate in a challenging external environment similar to that of 2013 so internal efficiency improvements are of paramount importance.

The goal for 2014 is to achieve a further minimum USD 100mn in improvements meaning that the ultimate target of USD 500-550mn in cost savings and revenue increases compared to 2011 will be reached.

In 2014, our CAPEX expenditure is expected to total USD 1.6-1.9bn, which will be fully covered by operating cash flow. In line with announced strategy, CAPEX spending will be skewed towards Upstream with above 50% being dedicated to that segment. MOL is expected to keep Group CAPEX within the indicated range over the next few years as our international Upstream projects approach the late appraisal and early development phases, particularly projects in the Kurdistani Region of Iraq. At the same time, in Downstream, our petrochemicals growth projects have advanced to the late construction phase. However, in the mid-term, the organic CAPEX needs of Downstream may shrink from the current level.

# UPSTREAM OVERVIEW

## HIGHLIGHTS

• EBITDA, excluding special items, reached HUF 360bn, a 14% drop, mainly attributable to decreased production as a result of natural field decline and the Russian divestment.
• The Group's total SPE 2P reserves stood at 576 MMboe at the end of 2013.
• In 2014, we expect production to bottom out at around 91-96 mboepd hydrocarbon production, before ca. 10% growth in 2015 to 105-110 mboepd.
• Current portfolio production may peak at 125 – 135 mboepd around 2018, while reserve replacement will exceed 100%.
• As in 2013, emphasis will be given to active portfolio management.

## OVERVIEW OF 2013

**Upstream remained the main driver of Group EBITDA**

**EBITDA, excluding special items, amounted to HUF 360bn in 2013, decreasing by HUF 58bn** compared to 2012. The main reasons behind the fall back are as follows:
• lower production, mainly due to natural decline in mature fields, lower entitlement of INA in Adriatic-offshore fields as well as the divesture of the Russian ZMB field, were only partially offset by a production increase in the Russian BaiTex field,
• lower average realised hydrocarbon prices, especially for natural gas,
• lower contributions from service companies.

**Daily production levels decreased by 10% (excluding the Syrian contribution) from the base period...**

**... due to natural decline**

**... and also the divesture of the Russian ZMB field.**

**Average daily hydrocarbon production amounted to 104 mboepd in 2013**, a 10% decrease compared to 2012 if we exclude the Syrian contribution from the base period (3 mboepd). **Hungarian and Croatian onshore production performed relatively well, with the YoY decline rate remaining at the moderate level of 6%.** Croatian offshore gas production decreased due to natural depletion of gas fields in the North Adriatic area. Moreover, INA's reduced share of total block production was due to higher investments by the partner in exploration and development projects and restitution of the Annamaria field. In Russia, crude oil production at Baitex increased as a result of intensive development but it could only partly compensate for lower ZMB production, a field divested in August, its contribution up to July 2013 being 6.5 mboepd.

**Average realised prices decreased,** mainly driven by lower gas prices in Hungary and Croatia.

| Hydrocarbon Production (mboepd) | FY 2012 | FY 2013 | Ch. % |
|---|---|---|---|
| **Crude oil production** | **42.8** | **38.2** | **(10.8)** |
| Hungary | 12.2 | 11.5 | (5.6) |
| Croatia | 8.8 | 8.6 | (2.1) |
| Russia | 17.5 | 14.3 | (18.7) |
| Syria | 0.1 | 0.0 | (100) |
| Other International | 4.2 | 3.8 | (8.8) |
| **Natural gas production** | **66.7** | **57.8** | **(13.3)** |
| Hungary | 29.0 | 27.2 | (6.2) |
| Croatia | 30.7 | 26.2 | (14.8) |
| ow. Croatia offshore | 15.8 | 11.9 | (24.5) |
| Syria | 2.3 | 0.0 | (100) |
| Other International | 4.7 | 4.4 | (5.3) |
| **Condensate** | **9.0** | **7.6** | **(15.0)** |
| Hungary | 5.1 | 4.5 | (11.5) |
| Croatia | 2.5 | 2.4 | (6.8) |
| Syria | 0.7 | 0.0 | (100) |
| Other International | 0.7 | 0.8 | 15.2 |
| **Average daily hydrocarbon production** | **118.5** | **103.7** | **(12.5)** |

## MAIN REASONS BEHIND PRODUCTION CHANGES

• **Hungarian hydrocarbon production decreased** by 7% as a consequence of natural depletion. MOL put several wells into production in the mature Algyő field and accelerated field development projects in 2013 to compensate for production decline. The company is committed to taking further measures to keep the production decrease at 5% in 2014 and 2015 and expects positive impacts from newly-awarded exploration concessions over the longer term.

• **In 2013, total Croatian production decreased** by 4.9 mboepd or 12% versus the prior year mainly caused by a decrease in offshore gas of 3.9 mboepd or 24.5% as a result of natural decline, water cut and the lower INA share due to higher investments, Annamaria restitution and downtime at the Ika field due to drilling activities in the North Adriatic Contract Area (INAgip). Onshore gas and condensate production decreased by 5%, again due to natural decline. In general the Bilogora gas and Ika B3R HOR production start-up at the end of the year partly compensated for the postponement to Q2 2014 of the start-up of the Izabela field (EdINA). A slight decrease was also experienced in onshore oil, due to natural decline.

• In **Russia**, in the **Zapadno-Malobalik (ZMB)** field, MOL Group's share of production amounted to 6.5 mboepd until the divestment which happened in August, 2013. **In the Matjushkinsky Block**, production decreased to 3.9 mboepd, 7% lower than 2012. This was mainly a consequence of lower than expected flow rates of new wells set up in 2012, stronger than expected natural depletion of existing wells and the number of producing wells being changed from 59 to 55 by the year end, as 4 new wells were drilled and 8 wells transformed to water injection wells. In the **Baitugan field**, production reached 6.6 mboepd, an increase of 21% compared to 2012. In 2013, 45 wells were drilled in total of which 41 produce oil, the remaining 4 being injection wells. Various surface facility construction work took place during 2013, including extension of the electrical network and a gathering and water injection system.

• In **Pakistan**, production slightly increased to 5.8 mboepd due to the combined effects of new well production versus the natural depletion of the Manzalai and Makori fields. In the **TAL Block**, the drilling and testing of Manzalai-10, started in 2012, has now finished. The well was completed and tied to a processing facility in June 2013. Drilling at the Makori East-3 Block started in January 2013 and was finished by August 2013. The well was completed in October 2013. Tie-in works of Maramzai-2 and Mamikhel-2 were finished in May 2013 and started producing by means of a central processing facility (CPF).

• **Syria**: on 26th February, 2012, INA delivered the 'force majeure' notice to the General Petroleum Company of Syria in relation to the Production Sharing Agreement for the Hayan Block signed in 1998 and the Production Sharing Agreement for the Aphamia Block signed in 2004. Thus, after 26th February, 2012, no further production was accounted for. INA still maintains its economic interest and the 'force majeure' does not mean that the project has been terminated.

## EXPENDITURES

Upstream expenditures, including DD & A, but without special items, decreased by HUF 22bn to HUF 478bn compared to 2012. Royalties from Upstream production, including export duties connected to Russian sales, amounted to HUF 118bn, a decrease of HUF 45bn due to the impact of lower Hungarian regulated gas prices, the ZMB divestiture and lower production. Unit opex, excluding DD & A, amounted to 8.3 USD/boe in 2013, an increase determined by lower production volumes and slightly increasing costs. DD & A increased by HUF 50bn mainly due to the following reasons:
• 2013 results was adversely impacted by HUF 18bn write-downs related to unsuccessful exploration wells in the Kurdistan Region of Iraq and in Oman.
• In Syria, there has been no way to account for production-driven depreciation since the announcement of 'force majeure'. To fairly reflect equipment depreciation, the methodology was changed in 2013 and had a full-year effect on 2013, whereby the net book value of surface assets was reduced by HUF 25bn.
• EBIT was decreased by a HUF 43bn impairment related to Syrian assets accounted for in Q4 2013 and treated as a special item. (See Appendix I)

## EXPLORATION ACTIVITIES IN 2013

**A drilling success rate of 55% in 2013**

**During 2013, 20 exploration and appraisal wells were tested of which 11 were successful.** An additional 9 wells were under or waiting for testing, while 9 wells were under drilling at the end of the period.

## DETAILED STATUS AND RESULT OF ONGOING EXPLORATION AND APPRAISAL WELLS:

| Exploration and appraisal wells | Q1 2013 | Q2 2013 | Q3 2013 | Q4 2013 | Progress | Comment / Test result |
|---|---|---|---|---|---|---|
| **KURDISTAN REGION OF IRAQ** | | | | | | |
| Bijell-1B | | | | | under drilling | Well was spud on 16th November, kick-off point is 2000 m, current depth: 3684 m. |
| Bakrman-1 | | | | | tested, successful | Bakrman-1 well was spudded on 7th May, 2012. Final depth reached in December was 4,100 m. Ongoing test. Light oil was discovered in Triassic, but a further test to be performed on Triassic to confirm long-term reservoir deliverability. |
| Gulak-1 | | | | | tested, unsuccessful | Gulak-1 well was spudded on 15th July. Final depth reached was 3,640m in November, 2012. Well was written off in September, 2013. |
| Bijell-7 (Sharfuna-1) | | | | | tested, suspended | Well was spudded on 19th December, 2012. B-7 final depth reached was 5,050m in Q4. The Triassic Kurra Chine was found wet and Jurassic Sargelu reservoir tight. The well was tested and suspended. |
| Bijell-4 | | | | | under drilling | Spudded on 1st December, 2013. Current depth is 1,898m. |
| Bijell-2 | | | | | under drilling | Well was spudded on 13th March, 2013. B-2 depth reached was 3,903m at end 2013. Planned TD is 5,330m. |
| Shaikan-7 | | | | | under drilling | Spudded on 16th June, 2013. Well test expected in 2014. |

| Exploration and appraisal wells | Q1 2013 | Q2 2013 | Q3 2013 | Q4 2013 | Progress | Comment / Test result |
|---|---|---|---|---|---|---|
| **RUSSIA** | | | | | | |
| Prikoltogorskaye-127 | | | | | waiting for test | Preparation for well test is in progress. Well test is planned to be carried out in 2014 H1 period, with test of Achimov layers. |
| Kedrovskoye-105 | | | | | test suspended | Well test is suspended as the priority of the field got lower. |
| Verkhne Laryoganskoye-201 | | | | | waiting for test | Well test was postponed to 2014 H1 because of unexpectedly early melting. Construction of winter road and drilling site is in progress. |
| **KAZAKHSTAN** | | | | | | |
| Rhozkovsky U-21 | | | | | tested, successful | Well test finished in Q3 2013. Result: 343,060m³/day of gas and 390 m³/day of condensate on 11 mm choke. (4,407 boepd) |
| Rhozkovsky U-22 | | | | | tested, successful | Tournasian: Gas: 189,610m³/day Condensate: 171.6m³/day (2,168 boepd); Bobrykovskiy: light oil: 97,887 m³/day (1,490 boepd) |
| Rhozkovsky U-24 | | | | | waiting for test | Spudded on 25th June, 2013. Planned TD is 5,200m. Drilling is ongoing. Actual depth is 4,223m. To be tested in HI 2014. Testing rig mobilisation is ongoing. |
| Rhozkovsky U-26 | | | | | tested, successful | Spudded on 20th October, 2012; planned TD was 5,200m. Drilling finished on 24th March, 2013 at 5,300m due to lower Devon layer; well test started on 25th March, 2013. Test results: Tournasian: Gas: 240,508m³/day: Condensate: 249m³/day (2,943 boepd) |
| Rhozkovsky U-11 | | | | | tested, successful | Drilling started on 23rd January, 2013. Final depth reached in June was 4,503m. Test results are as follows: Bobrikovsky reservoir: Gas: 55.354m³/d. Condensate: 61m³/d (699 boepd).Tournasian reservoir: gas: 5,727m³/d. Condensate: 149m³/d (1,832 boepd) |
| SK-1 | | | | | under testing | Drilling of SK-1 well started on 21st September and MOL acquired a 49% share in the North Karpovsky block on 15th November, 2012. Final depth reached was 5,723m on 23rd September 2013. Well test started on 25th December. |
| SK-2 | | | | | under drilling | Spudded on 1st July, 2013. Planned TD is 5,250m. Actual depth at end of December was 4,383m. Expected finish of drilling is 2014. |
| **PAKISTAN** | | | | | | |
| Ghauri X-1 | | | | | under drilling | Drilling of first exploration well (Ghauri X-1) started on 5th November . Planned TD is 4,250m. Actual drilling depth is 2,950m within Murree Formation. Target reservoirs expected at about 4,000 m. |
| Kot-1 | | | | | under testing | Drilling of Kot-1 exploration well started on 26th May, 2013. Planned TD is 5,488m. Drilling finished on 22nd November reaching a final depth of 5,648m within Datta Formation. The lower intervals, testing of most promising Lockhart limestone has commenced |
| **OMAN** | | | | | | |
| Hawasina-1 | | | | | tested / unsuccessful | Drilling started on 4th December, 2012 with a planned TD of 4,100m. 43B block: The drilling of Hawasina-1 well was finished, plugged and abandoned as a dry well. TD is 4,382m. Rig release was on August 31st, 2013. |
| **HUNGARY** | | | | | | |
| Nagykáta-Ny-1 | | | | | tested, successful | Discovery. Well test completed 9th January, 2013. Test result: 1,206 boepd oil via 6 mm choke |
| Csévharaszt-2 | | | | | tested, unsuccessful | Well test completed 10th January, 2013. Dry. |
| Páhi-2 | | | | | tested, successful | Discovery. Test result: 59,300m³/day gas via 8 mm choke |
| Ráckeve-Ny-1 | | | | | tested, unsuccessful | Drilling started 30th January, 2013. Completed in Q2. Dry. |
| Tófej–Ny–1 | | | | | tested, successful | Discovery. Well test completed 20th June, 2013. Test result: 25,000m³ gas/day via 6 mm choke |
| Belezna–K–1 | | | | | tested, unsuccessful | Drilling started 29th June, 2013. Completed in Q3. Gas showed dry. |
| Heresznye-D-1 | | | | | tested, unsuccessful | Her-D-1 drilling reached target depth. Well status is dry, must be preserved. |

| Exploration and appraisal wells | Q1 2013 | Q2 2013 | Q3 2013 | Q4 2013 | Progress | Comment / Test result |
|---|---|---|---|---|---|---|
| Vízvár-D-1 | | | | drilling | under drilling | Drilling in progress. |
| Hbag-K-1 | | | | drilling | waiting for test | Waiting for test. |
| Tompu-1 | | | | drilling and test in the same Q | under testing | First test result: 4,500m³ gas/day via 6 mm choke, further testing expected. |
| Beru-4 / unconventional | drilling | | | | under testing | Drilled, fracturing programme completed, under testing, long pilot production test. Gas production rate has stabilised at the level of 15,000m³/d. |
| Beru-6 / unconventional | drilling | | | | waiting for test | Drilling completed, conventional test completed, waiting for hydraulic fracturing. |
| **CROATIA** | | | | | | |
| Bunjani-1 South | | drilling | tested | tested | Successful but waiting for development solution | Well is drilled (spudded on 2nd April, drilling finished on 8th May). Well testing finished on 14th November and showed well is successful. Well is temporarily abandoned - conserved. Waiting for development solution. |
| Krunoslavlje-2 | | drilling | | | Unsuccessful | Spudded on 15th April. drilling finished on 3rd June. The well is declared unsuccessful without test. Well has been liquidated. |
| Caginec-1 | | drilling | drilling | tested | Successful but waiting for development solution | Spudded on 20th June. Drilling finished on 9th July. Well testing finished on 21st November. Well is temporarily abandoned - conserved. Waiting for development solution. |
| Iva -2 Du | | | drilling | drilling | Waiting for well test | Well is drilled (spudded on 10th August. Drilling finished on 30th October, 2013). Total depth was 2,883m. Waiting for well test. |
| Ilena -1 Dir | | | drilling and test in the same Q | | Successful but waiting for development solution | Spudded on 4th.July. Drilling finished on 24th July. Well test performed and showed well is successful. Production casing installed, but well is temporarily abandoned until development solution is defined based on reservoir study to be prepared. |
| Ivna -1Dir | | | drilling | | Unsuccessful | Spudded on 22nd August. Drilling finished on 6th September. Four cement plugs were set. Well is abandoned as a dry hole, without testing. |
| Hrastilnica - 4 | | | drilling | drilling | Under drilling | Spudded on 27th November 27th. Drilling is in progress. |
| **EGYPT** | | | | | | |
| Helal-1 | drilling | drilling | drilling | | Unsuccessful | Helal-1 exploratory well was spudded on 3rd March, 2013. Drilling finished on 27th September, 2013. The well was declared unsuccessful without a test. |

— drilling — tested — drilling and test in the same Q

## KEY EXPLORATION AND APPRAISAL RESULTS

**• In the Kurdistan Region of Iraq:**
In the **Akri-Bijeel Block**, after successful tests of the Bakrman-1 exploration well - maximum flow rates of 3,192 bbl light density oil with 40° API gravity and 10.19 MMscfd gas inflow - commerciality of the Akri-Bijeel block was declared in Q4 2013. Two appraisal wells, Bijell-2 and Bijell-4 are currently under drilling in the Bijell Appraisal area. After side-tracking, Bijell-7 has been temporarily suspended. A surface facility for early production with a liquid capacity of 10,000 boepd is ready and hydrocarbons will be introduced immediately after completion of Bijell-1B. In the **Shaikan Block**, its Field Development Plan of the block was approved in June, 2013. Daily oil production from PF-1 reached 10,000 boepd and export of Shaikan crude, produced through PF-1, commenced in January, 2014. Shaikhan-4 has been connected to PF-1 and the contribution from this well is scheduled to commence soon. PF-2 is scheduled to be commissioned by April, 2014.

**• In Russia:**
In the **Matjushkinsky Block**, 1,000 km² of 2D seismic acquisition commenced in December, 2013 in the eastern part of the Block. Preparation for drilling new wells at Zapadno-Kedrovoye and Verkhne-Koltogorskoye is in progress. 3D seismic work in the **Yerilkinsky field** began in September and were completed in Q4 Processing of seismic data began at the end of the year.

**• In Pakistan:**
In the **TAL Block**, drilling of the Kot-1 exploration well, which started in May, 2013, finished by mid-December, followed by testing at year's end and continuing into early 2014. A new exploration well, Malgin-1, is planned to be drilled in 2014. In the **Ghauri Block**, drilling of one exploration well, Ghauri X-1, started on 5th November and is to continue in 2014.

**• In Kazakhstan:**
In the ***Fedorovskoye Block***, appraisal of the Rozhkovsky area and preparation of field development continued. 4 appraisal wells were tested successfully during 2013 with an average flow rate of ca. 3,400 boepd. A well test of the U-24 appraisal well is expected to take place in H1 2014. In the **North Karpovsky Block**, testing of the SK-1 exploration well is expected to finish in Q1 2014 and the drilling of the SK-2 exploration well is expected to finish in Q2 2014.

**• In the CEE region:**
**Hungarian exploration:** seven drilled and tested wells resulted in 3 discoveries of which Nagykáta-Ny-1 was the most successful. The well was completed for oil production. **Croatian exploration** activities: out of 3+2 (onshore, offshore respectively) exploration wells, 2+1 wells were successful (onshore: Bunjani-1 Jug and Caginec-1; offshore: Ilena -1Dir).

## LICENCES ACQUIRED IN 2013

Since 2010, the total territory of **Hungary** has been closed area for hydrocarbon exploration. Exploration licenses are not extendable and exploration rights may only be acquired through a concession process. The first tender for 7 concession areas, 4 hydrocarbon and 3 geothermal, was announced on 3rd August, 2013. MOL applied, in the public bidding round, for 3 concession areas (Szeged-basin West oil block, Battonya-Pusztaföldvár-North gas block and Jászberény geothermal energy exploitation block). An official notification announcement for all three concession areas arrived in Q1 2014 and they were awarded to MOL. Negotiations about Concession Agreements (CAs) with the Hungarian State have started.

Despite the revocation of licences for exploration in the continental part of **Croatia** in 2012, INA remains dedicated to its Croatian exploration activities. 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.

INA licences and permit procedures are governed by new regulations which came into force in 2013:
• mining Act (in force since May 2013),
• act on exploration and exploitation of hydrocarbons (in force since July 2013).
Production start-up depends on solving property right and issuing concession for the Žutica field (Hrsatilnica, Selec) and the Privlaka field (Đeletovci zapad).

In **Russia**, during July 2013, Baitex LLC, a subsidiary of MOL Group, acquired a licence to explore the Devonian horizon within the Baitugan licence boundaries. The 2014 work programme will consist of 3D seismic reprocessing and reinterpretation to define drillable prospects.
In **Pakistan**, MOL has acquired a 30% share in Ghauri block, to extend MOL's current portfolio. This is a well-known strategic area in which MOL already has a proven track record. Drilling of an exploration well started there in November 2013.

MOL expanded its exploration and production activities to build a broader portfolio in the CEE region when the **Romanian** Ex-6 Block was awarded to the company in a consortium in 2012. In January, 2013, MOL increased its stake in the Ex-6 Block to 100%. Exploration activities will start with 3D seismic acquisition in 2014. The ratification process for a further 2 blocks (Ex-1 and Ex-5) is in progress.

MOL Group's 2013 annual production and divestiture of ZMB and Surgut-7 reduced SPE proved-plus-probable figures of 575.7 MMboe by year-end.

| SPE 2P reserves, MMboe | FY 2013 |
|---|---|
| Hungary | 140.3 |
| Croatia | 208.1 |
| Russia | 129.9 |
| Syria | 35.8 |
| Kazakhstan | 36.7 |
| Other | 24.8 |
| **Total** | **575.7** |

## CHANGES IN THE UPSTREAM REGULATORY ENVIRONMENT

**Changes in the mining royalty framework in Hungary**

Legislative changes concerning mining royalty in Hungary in 2013:
• from 1st April, 2013, the own consumption, needed to produce the quantity sold at regulated price, also counts as mining royalty for regulated price, both in royalty rate and in unit price.
• from 1st August, 2013, the mining royalty for regulated prices also depends on the price of Brent. In case the Brent is above 80 USD/bbl, the mining royalty increases by 3%, if the Brent is above 90USD/bbl, the mining royalty increases by an additional 3% to a total 6%.
• from 1st August, 2013, the royalty rate for fields put into production between 1st January, 1998 and 1st January, 2008 increases from 12% to 16% both for crude oil and for natural gas as well.
MOL paid 25.3% of its crude oil and natural gas revenues as a mining royalty to the Hungarian State based on 2013 Hungarian production. The average mining royalty rate of natural gas for fields put into production between 1st January, 1998 and 1st January. 2008 accounted for 20.1%, excluding inert fields. The average royalty rate for natural gas for fields put into production after 1st January, 2008, amounted to 18%. The average royalty rate for crude oil production was 20%. Fields using the EOR technique are subject to a zero royalty rate in Hungary.

Extraction tax and export duty in Russia is dependent upon average Urals blend listed prices (Rotterdam and Mediterranean markets) and the Russian Ruble/US Dollar exchange rate and are calculated by formulae set out in tax legislation. The tax authorities inform the public of the extraction tax rate through official announcements on a monthly basis. The extraction tax rate as of 31st December, 2013 was 24.2 USD/bbl with an annual average extraction tax rate of 21.5%, based on the annual average Urals blend price in 2013. The export duty rate as of 31st December 2013 was 53.0 USD/bbl with an annual average export duty rate of 51.0%, based on the annual average Urals blend price in 2013. The Mineral Extraction Tax rate increased by 5.4% compared to the previous year, which was RUB 446 per ton for 2012 versus RUB 470 per ton for 2013.

The Croatian royalty rate increased to 5.0% from April 2011. In 2013, no further amendments occurred.

## UPSTREAM OUTLOOK

**Return production growth by end 2014 and deliver 30% organic increase by 2018**

MOL's existing Upstream portfolio offers great growth potential. In general, current early phase projects will counterbalance the mildly shrinking production decline in the CEE region. The new barrels are expected to drive unit profitability of the overall portfolio upwards on an EBITDA basis. Our key strategic targets are:
• Maximize cash-flow generation in the CEE region, which will also remain the key profit contributor in the coming years,
• Increase production of the international portfolio and deliver minimum 125-135 mboepd at Group level from existing assets by 2018 with improving overall group profitability on the EBITDA level,
• Return production to a growth trend by the end of 2014 in relation to the existing portfolio and deliver a 10% increase in 2015 (105-110 mboepd) compared to targeted 2014 91-96 mboepd production,
• Achieve above 100% reserve replacement ratio to guarantee the long-term viability of the Upstream portfolio,
• Conduct active M & A efforts to step up into a new league with special focus on the North Sea, CIS countries and Pakistan.

**Ongoing development and gradual production growth from both KRI blocks**

Our work programme in the Kurdistan Region of Iraq ensures that production will ramp up from both blocks.
After commerciality was declared in the Akri-Bijeel Block, the Field Development Plan will be submitted to the Regional Government in the first half of 2014. Early production from the Bijell area will have already commenced since the 10 mboepd capacity production facility is already in place. We will continue appraisal activities around the Bijell and Bakrman discoveries by drilling at least two and testing at least three wells.
In Shaikan, subsequent to Shaikan Production Facility-1, Shaikan Production Facility-2 is expected to be commissioned in Q2 2014. As a result, combined production capacity will reach 40 mboepd. We also expect to book a significant amount of reserves from the Block, which could support the elevation of the Group's reserve replacement ratio above the targeted 100% in 2014.
The Kurdistan Region of Iraq could well contribute to Group production with 20-25 mboepd at its peak, around 2018.

**Maximising cash generation in the CEE region and increasing production in Croatia in 2015**

As in previous years, we will aim at maximising recovery rates and mitigating decline rates from matured fields in the CEE region. In Croatia, our aim is to stop natural decline in the mid-term with the continuation of the EOR and Medimurje projects and with a major contribu¬tion from 2015 onwards as well as an extensive onshore exploration drilling campaign. In Hungary, besides several new field developments, the work programme includes 9 new exploratory drillings targeting a maximum 5% natural decline rate in 2014. So as to ease the pressure of declining production on unit production costs, an extensive cost optimisation programme has been launched.

**Recently acquired North Sea assets offer significant production upside**

Following the purchase of the new North Sea assets, the backbone of the work programme will be the continuation of Cladhan development drilling so as to start production by the middle of 2015. Sanctioning of the Catcher field development projects will take place in 2014 since the floating production, storage and offloading unit (FPSO) tender has already reached an advanced stage. Our ultimate aim is to be able to commence oil production during the summer of 2017. The peak of the portfolio is expected to be between 16-18 mboepd by 2018.

Following the sale of 49% of Baitex, MOL will remain the operator of the Russian Baitugan block. To maintain the increasing trend of production at Block level, drilling 50 producing and injection wells will take place so that production will be close to 9 mboepd by the end of 2014.

In Kazakhstan's Fedorovskoye Block, the appraisal programme nears completion as the remaining appraisal well will be tested during the first half of the year. As a result, reserve booking may take place before the end of 2014. Commercial production will be due from H2 2016. The confirmation of the North-Karpovsky Block potential is on-going, two exploration wells being tested during the year. In Pakistan's Tal Block, an additional processing facility will be commissioned in Q1 2014 to cater increasing oil and gas production, as well as the start of LPG production. The continuation of the Halini-1 extended well test will take place targeting increased oil production in the Karak Block.

**M & A to play an active role in renewing the asset base**

MOL is well positioned from the financial perspective to strengthen its Upstream asset base through inorganic steps. Due to the company's strong balance sheet, it has the financial headroom to accommodate M & A deals even in excess of USD 1bn. Our primary targets are shallow offshore areas in stable geopolitical environments in new areas, like the North Sea, as well as new investments in our core regions - for instance in CIS countries and Pakistan.
In addition, partnerships will become increasingly important since jointly-pursued opportunities are beneficial to risk sharing and knowledge transfer. MOL has recently concluded such partnerships with German Wintershall and Turkish TPAO.

**30% growth is expected in the mid-term**

Overall group production is expected to return to growth in 2014. As a result of our project development efforts, organic production growth will reach 30%, meaning that Group production will be between 125 and 135 mboepd by 2018. In parallel, the reserve to product replacement ratio is targeted to reach an average 100% in the next three years.

# DOWNSTREAM OVERVIEW

## HIGHLIGHTS

In a seriously deteriorating external environment...

- MOL Group increased its clean CCS EBITDA by 4%.
- The implementation of the New Downstream Program is on track; its efficiency improvements worth USD 400mn have already been delivered...
- ...with over USD 100mn still to come in 2014.
- Butadiene and LDPE investments are on-going; further diversification into synthetic rubber was announced; this will ensure organic growth in Petrochemicals.

## OVERVIEW OF 2013

**2013 marked with toughest refining environment**

The Downstream macroeconomic environment was characterised by depressed conditions in 2013.
High global refinery utilisation – led by U.S., China and Russia – contributed to abundant product supply, which weighed down crack levels. In Europe, on the other hand, refinery capacity utilisation was close to a historic low during the summer. High import volumes consequently caused significant deterioration of product cracks. The Ural was traded with slight premium over Brent for a short period around the middle of the year but later eased somewhat as the availability of substitute Ural grades grew in the marketplace. As a result, on a yearly average, the Brent-Ural spread dipped well below 1 USD/bbl.
While high crude prices persisted, motor fuel demand dropped further in the CEE region. The integrated petrochemicals margin improved slightly, mainly due to a decrease in quoted naphtha prices.



| | FY 2012 | FY 2013 | Ch. % |
|---|---|---|---|
| Brent dated (USD/bbl) | 111.7 | 108.7 | (3) |
| Ural Blend (USD/bbl) | 110.5 | 108.0 | (2) |
| Brent Ural spread (USD/bbl) | 1.09 | 0.69 | (37) |
| Crack spread – premium unleaded (USD/t) | 192 | 165 | (14) |
| Crack spread – gasoil 10ppm (USD/t) | 135 | 117 | (13) |
| Crack spread – naphtha (USD/t) | 65 | 53 | (18) |
| Crack spread – fuel oil 3.5 (USD/t) | (220) | (234) | (6) |
| Crack spread – premium unleaded (USD/bbl) | 12.8 | 9.9 | (23) |
| Crack spread – gasoil 10ppm (USD/bbl) | 19.9 | 17.3 | (13) |
| Crack spread – naphtha (USD/bbl) | (9.5) | (10.3) | (8) |
| Crack spread – fuel oil 3.5 (USD/bbl) | (13.0) | (15.8) | (22) |
| Integrated petrochemicals margin (EUR/t) | 242 | 295 | 22 |

**Most of the New Downstream Program target was already achieved in 2013**

Amid macroeconomic headwinds, the success of internal efficiency improvement efforts are clearly visible as Downstream's clean CCS EBITDA rose by 4% in a year-on-year comparison. The **MOL Group-level New Downstream Program** was launched in 2012 to improve profitability throughout the whole value chain and to reach USD 500-550mn EBITDA growth by 2014 on a like-for-like basis, compared with 2011. In 2013, the programme delivered USD 250mn in savings versus 2012 in addition to the USD 150mn already delivered in 2012. Efficiency improvements targeted the implementation of over 300 individual projects and actions across MOL Group's Refining & Marketing, Petrochemicals and Retail operations in 2013.

As a result of depressed macro conditions, MOL Group had no option but to reassess the long-term sustainability of the Mantova operations of IES. MOL Group decided to convert the refinery into a product logistics hub during 2014. The conversion enables us to progressively transform our refinery, which means that MOL Group will remain in business with Mantova based wholesale commercial activities.

**Group Downstream results improved amid a collapsing external environment**

**In light of the severely deteriorating market conditions compared to 2012, Group Downstream results improved exceptionally and the segment delivered a 4% increase to hit HUF 157bn on a clean CCS-based EBITDA basis.** The improvement versus 2012 was mainly as a result of:

- The positive effects of:
  - The successful delivery of announced USD 250mn incremental yearly improvements within the New Downstream Program's framework,
  - 2% higher Group-level sales volumes,
  - A higher Petrochemicals contribution supported by margin improvements.
- which were partly offset by:
  - A significant reduction of crack spreads - by 14% in case of gasoline and 13% in case of gasoil - in a further contracting market environment in the CEE region,
  - A narrowing of the Brent-Ural spread by 0.4 USD/bbl or 37%.

| CCS-based DS EBITDA[3,4] | FY 2012 | FY 2013 | Ch. % |
|---|---|---|---|
| MOL Group | 150.6 | 156.8 | 4 |
| MOL excl. INA | 175.7 | 171.8 | (2) |
| INA | (25.1) | (15.0) | 40 |

| CCS-based DS operating profits[3,4] | FY 2012 | FY 2013 | Ch. % |
|---|---|---|---|
| MOL Group | 19.7 | 29.2 | 48 |
| MOL excl. INA | 72.8 | 73.3 | 1 |
| INA | (53.2) | (44.0) | 17 |

**Group performance, excluding INA, slightly decreased while INA, on a standalone basis, improved by HUF 10bn in terms of 'clean' CCS-based figures.** The former was driven by the above mentioned macro factors, the latter additionally profited from more stable operations of the MHC unit at the Rijeka refinery, diversified feedstock selection, an extended crude basket and a better marketing contribution.

| Refinery processing (kt) | FY 2012 | FY 2013 | Ch. % |
|---|---|---|---|
| Own produced crude oil | 1,117 | 1,015 | (9) |
| Imported crude oil | 15,597 | 15,863 | 2 |
| **Condensates** | **275** | **228** | **(17)** |
| Other feedstock | 3,248 | 3,401 | 5 |
| **Total refinery throughput** | **20,237** | **20,507** | **1** |
| Purchased and sold products | 955 | 1,049 | 10 |

**Petrochemicals turned into the positive**

In 2013, the **Petrochemicals segment's results improved considerably. 'Clean' CCS-based EBITDA amounted to HUF 13bn**, a complete reversal compared to the HUF 12bn loss of 2012. The key driver behind this encouraging development was significant improvement in the integrated petrochemicals margin which increased by 22% to 295 EUR/t, compared to the prior year.

**Sales volumes increased slightly...**

| External refined and petrochemicals product sales by product (kt) | FY 2012 | FY 2013 | Ch. % |
|---|---|---|---|
| **Total refined products** | **17,781** | **18,106** | **2** |
| o/w Motor gasoline | 4,036 | 4,001 | (1) |
| o/w Diesel | 9,065 | 9,363 | 3 |
| o/w Fuel oil | 624 | 677 | 8 |
| o/w Bitumen | 1,015 | 1,026 | 1 |
| **o/w Retail segment sales** | **3,375** | **3,479** | **3** |
| o/w Motor gasoline | 1,099 | 1,105 | 1 |
| o/w Gas and heating oils | 2,186 | 2,289 | 5 |
| **Total Petrochemicals product sales** | **1,229** | **1,302** | **6** |
| o/w Olefin products | 318 | 306 | (4) |
| o/w Polymer products | 911 | 996 | 9 |
| **Total refined and petrochemicals product sales** | **19,010** | **19,408** | **2** |

**Demand still decreased in the CEE region on a yearly comparison but this shrinking continued at a lower pace and there were clear signs of demand recovery in H2 2013.**

| Changes in regional motor fuel demand FY 2013 vs. FY 2012 in % | Market* | | | MOL Group sales** | | |
|---|---|---|---|---|---|---|
| | GASO-LINE | DIESEL | MOTOR FUELS | GASO-LINE | DIESEL | MOTOR |
| Hungary | 0 | 4 | 3 | (2) | 4 | 2 |
| Slovakia | (7) | (1) | (3) | (6) | 0 | (2) |
| Croatia | (4) | 0 | (1) | 10 | 3 | 5 |
| Other | (5) | (2) | (3) | 29 | 3 | 10 |
| **CEE 10 countries** | **(5)** | **(1)** | **(2)** | **10** | **3** | **5** |

* Company estimates
**Sales from own refinery production and purchased from external sources

**...as Group motor fuel sales performed better than the market average**

**MOL Group's total refined product and petrochemicals sales increased by 2%**, while motor fuel sales increased by 5%, mostly driven by non-domestic countries' growing market shares.
**Total retail sales volume** including LPG and lubricants, **was 3% above last year's level** as the positive contribution of Q3 and Q4 2013 sales offset the weaker results of the first months of the year, with a stronger contribution from gasoil volumes.

**Retail sales increased slightly**

| Total retail sales (kt) | FY 2012 | FY 2013 | YoY % |
|---|---|---|---|
| Hungary | 767 | 789 | 3 |
| Slovakia | 424 | 422 | 0 |
| Croatia | 1,134 | 1,106 | (2) |
| Romania | 469 | 503 | 7 |
| Other | 581 | 659 | 13 |
| **Total retail sales** | **3,375** | **3,479** | **3** |

• In Hungary, Romania and Bosnia, greater volumes were generated by a higher number of filling stations and the positive effects of the modernisation programme.
• Slovakian and Croatian retail fuel sales volumes decreased as a result of the economic slowdown and challenging market conditions.
• Higher sales in Other Countries was mainly due to the contribution of PAP OIL volumes in the actual whole-year period.



## DOWNSTREAM OUTLOOK

**No improvement in the fundamentals**

Refining overcapacity is expected to remain in the next few years globally but specifically in Europe. Forecasted incremental demand therefore cannot lift cracks substantially over the coming years. Global demand growth of refined products continues, but total supply potential is increasing at an even higher rate. The situation is even stiffer in Europe because the Continent faces stagnating to decreasing product demand and strong competition from other refining centres such as the Middle East, Russia and India. Consequently European cracks are expected to remain under pressure especially in the case of gasoline.

Following years of decline, motor fuel demand is expected to stabilise or even slightly grow in the CEE region. On the back of economic growth, increases in motor fuel demand will mainly be driven by diesel, meaning that the gasoline/diesel spread in supply and demand will grow further.

**The New Downstream Program: still USD 100mn+ due in 2014**

In such a challenging environment continuing the already initiated Group-level New Downstream efficiency improvement program is a priority for the Downstream division. The majority of improvements have already been delivered but, nevertheless, an additional USD 100-150mn in improvements will be due in 2014 on a like-for-like basis versus 2013. As in previous years, the primary focus of the programme is on cost reduction including actions targeting key cost elements, such as energy, maintenance, organisational costs and hydrocarbon losses, margin and market share increase which is in line with the strategic growth directions of the Group Downstream business.

**Petchem investments ongoing**

The implementation of a 130,000 tons per annum capacity butadiene extraction unit continues. In related investments, as C4/C5 fraction separation unit was built and planned commercial operations will start by May, 2015.

In 2013, MOL announced the creation of a joint-venture with a Japanese partner, JSR. A new plant with a capacity of 60,000 tons per annum will produce synthetic rubber and also provide an off-take possibility to the butadiene unit. Commissioning is scheduled for 2017 and further capacity expansion is also under investigation. The partnership with JSR provides MOL Group with the opportunity to further diversify its petrochemicals product line along the value chain by entering the Solution Styrene-Butadiene Rubber (S-SBR) market and thereby increasing petrochemicals business margins.In Slovnaft, the LDPE 4 unit will replace all 3 old-fashioned production units currently in operation. The completion of this project is scheduled for the end of 2015. Besides delivering higher production efficiency, this investment will guarantee reliable and safe operations thereby increasing Slovnaft Group's total competitiveness.

**Selective investments to strengthen captive markets**

MOL remains committed to improving its retail network in the CEE region. In previous years, we achieved significant growth in Romania and Serbia, while inorganic expansion took place in the Czech Republic. We are ready to continue expanding further not only organically, but also inorganically within the supply radius of our refineries.

# GAS MIDSTREAM SEGMENT OVERVIEW

Gas Midstream delivered similar results to those of last year as the negative effects of the tightening in the Hungarian gas transmission regulation were compensated for by a lower level of losses in the Croatian gas trading business due to lower sales volumes.

## FGSZ LTD.

**Decreasing operating profit contribution (based on IFRS figures)**

Operating profit for FGSZ Ltd. in 2013 (based on IFRS figures) was lower compared to previous year in line with the unfavourable changes of economical environment. Strict control of operating costs could not compensate completely the negative effect of decreased operating revenues.

**Significantly lower operating revenues of domestic transmission**

Revenue from domestic transmission (based on IFRS figures) was HUF 68.2 bn, 15% lower than the base period mainly due to the unfavourable effect of changes in regulatory environment: the lower public utility charges (as a result of shrinking eligible return of house-hold supply) which are valid from 1st January 2013 has significant negative effect. Further to the above, FGSZ Ltd. paid a total of HUF 16.6 bn in refunds in 2013 based on the system usage fees of universal customers.

Despite of lower tariffs of household customers and due to the decreased industrial demands domestic natural gas consumption was behind the previous year figures which has also negative effect on domestic transmission revenues.

**Lower transit transmission revenues in line with lower transmission volumes**

Serbian and Bosnian natural gas transit transmission volumes shows 5% decrease compared to the base period, this decrease has a negative effect on revenues of traditional transit transmission. Operating revenues of southward transit transmission in 2013 were lower by almost 6% compared to the base period figures. However total transit transmission volumes are higher compared to prior years as a result of the new transit deliveries to Ukraine.

**Lower natural gas consumption of transmission system, strict control of operating costss**

Operating cost figures are lower than the base period figures mainly due to the lower natural gas consumption of transmission system and lower pressure increase fees in line with lower transmission volumes. To compensate the unfavourable changes of regulatory environment and the negative effect of decreased transmission volumes FGSZ Ltd. had strict control on operating costs in 2013. Despite of the further savings in operating costs compared to prior year FGSZ Ltd. could not compensate completely the negative effect of decreased operating revenues in 2013.

## MMBF LTD.

**Strategic and commercial gas storage**

MMBF Zrt. EBITDA amounted to HUF 20.8bn in 2013 versus last year's HUF 22.4bn. The company accounted for capacity booking fees on its 1.2bn $m^3$ strategic gas storage and on its 0.7bn $m^3$ commercial gas storage volumes. In addition to storage activities, MMBF sold Szőreg-1 field oil and condensate production which contributed ca. HUF 4.5bn to the EBITDA in 2013 versus around HUF 6bn in 2012.

**Divestment contract closed with MFB & MSZKSZ**

MOL divested its stake in MMBF Zrt. after closing a transaction with the Hungarian Development Bank Zrt. (MFB) and the Hungarian Hydrocarbon Stockpiling Association (MSZKSZ). According to the sale and purchase agreement which was signed on 7th October, 2013, MFB acquired a 51% shareholding in MMBF from MOL. The remaining 21.46% stake of MOL has been acquired by MSZKSZ. The asset sale transaction itself resulted in a HUF 3bn adjustment of Midstream results i.e. the difference between the equity value and the proceeds from the sale. However, the inter-segment line was boosted by HUF 45bn relating to the release of the gain from the conversion of the Szőreg field to a gas storage facility implemented by MOL. Both the above items were eliminated as one-offs.

## PRIRODNI PLIN D.O.O.

Prirodni Plin, INA's gas trading company, reported a HUF 30.3bn loss in 2013 as a consequence of a negative gap between sales and purchase prices. The main reasons are the fixed maximum price level for household customers and the price pressure after the liberalisation of the market for industrial customers.

A package of resolutions related to INA's obligation on delivering the gas produced in Croatia under regulated price, put forward by the Ministry of Economy, has been adopted on 27th February, 2014. This decision obliges INA to sell the portion of its natural gas production for household supplies to state-owned company HEP as the wholesale market supplier, also introducing distributors' purchase obligation from HEP. So far INA (through Prirodni Plin) received 2.2000 HRK/m3 for sales in the household segment while now INA shall receive 1.7058 HRK/m3 for the respective volumes.

**The acquisition of Croplin**

In September, 2013, INA acquired ownership of the remaining 50% stake in the Croplin d.o.o. company from E.ON Hungaria Zrt. Thus INA is now the 100% owner of a company which is engaged in gas distribution and infrastructure operations.

# CAPITAL EXPENDITURE PROGRAMME

| Capital expenditures (HUF billion) | FY 2012 | FY 2013 |
|---|---|---|
| Upstream | 138.0 | 155.2 |
| of which inorganic: | 13.5 | 0.0 |
| Downstream | 132.4 | 93.8 |
| of which inorganic: | 22.8 | 0.0 |
| Gas Midstream | 9.9 | 8.1 |
| Corporate | 9.3 | 12.7 |
| Intersegment | (0.8) | 0.0 |
| **Total** | **288.8** | **269.8** |
| **of which inorganic:** | **36.3** | **0.0** |

MANAGEMENT DISCUSSION AND ANALYSIS

**CAPEX spending was focused on Upstream (58%)**

Total CAPEX decreased by 7% in 2013 compared to the previous year, however, 7% more was spent on organic investment projects. In line with announced strategy, CAPEX spending is more focused on Upstream than a year ago. Upstream represents 58% of total Group CAPEX vs. 48% of the total a year ago, while Downstream was responsible for 35% vs. 46% of the total a year ago. The remaining 7% or HUF 21bn of our capital expenditures targeted gas and corporate projects.

### UPSTREAM CAPEX

| FY 2013 (HUF billion) | Hungary | Russia | The Kurdistan | Croatia | Pakistan | Other | Total |
|---|---|---|---|---|---|---|---|
| Exploration | 9.6 | 1.8 | 29.3 | 9.5 | 3.8 | 21.9 | 75.9 |
| Development | 16.3 | 13.5 | 7.6 | 28.9 | 3.5 | 7.2 | 77.0 |
| Service companies, consolidation & other | 0.6 | 0.0 | 0.0 | 5.5 | 0.0 | -3.8 | 2.3 |
| Total | 26.5 | 15.3 | 36.9 | 43.9 | 7.3 | 25.3 | 155.2 |

In 2013, Upstream CAPEX amounted to HUF 155bn, with major investments in Croatia (28%), the Kurdistan Region of Iraq (24%), Hungary (17%) and Russia (10%).

### DOWNSTREAM CAPEX

| CAPEX (in bn HUF) | FY 2012 restated | FY 2013 | YoY % | Main projects in FY 2013 |
|---|---|---|---|---|
| R & M CAPEX and investments excluding Retail | 56.4 | 43.1 | (24) | • On the MOL and SN side, maintenance and sustaining of operations (T/A, Catalyst etc) type projects are scheduled for different periods. For IES, only vital sustaining and HSE type projects were implemented. CAPEX performance at INA was at last year's level. |
| Retail CAPEX and investments | 45.6* | 20.1 | (56) | • INA Retail network modernisation,<br>• MOL Romania Retail network expansion. |
| Petrochemicals CAPEX | 19.8 | 29.1 | 47 | • While last year's CAPEX spending was mainly sustaining of operations type projects, this year we are focusing on Growth projects (LDPE4, Butadiene – 1st year of implementation). |
| Power and other | 10.6 | 1.5 | (86) | • SN TPP revamp was completed last year. |
| **Total** | **132.4** | **93.8** | **(29)** | |

*(2012 data include the PAPoil acquisition).

Downstream CAPEX decreased by 29% year-on-year. Spending mainly focused on maintenance-type projects in Refining & Marketing and Retail network modernisation, while in Petrochemicals, Growth projects dominated (e.g. LDPE4 and Butadiene – the 1st year of implementation).

### GAS MIDSTREAM CAPEX

| HUF billion | FY 2012 | FY 2013 | YoY % | Main projects in 2013 |
|---|---|---|---|---|
| FGSZ | 9.2 | 7.1 | (23) | • Reconstruction projects. |
| MMBF | 0.7 | 1.0 | 43 | • Replenishment of cushion gas, maintenance. |
| Prirodni Plin | 0.0 | 0.0 | 0 | |
| **Total** | **9.9** | **8.1** | **(18)** | |

Total Gas Midstream Segment CAPEX decreased by 18% with maintenance-type projects predominant.

Capital expenditures of Corporate and Other Segments totalled HUF 12.7bn in 2013 versus HUF 9.3bn in 2012.

# FINANCING OVERVIEW

**MOL further improved its strong financial position**

Corporate financial positions and the ability to generate operational cash flow are key priorities due to the turbulent financial environment and economic slowdown.

During 2013, MOL further improved its financial position and enjoyed EUR 4.4bn available liquidity at year end. Indebtedness hit its lowest level since 2008. Simplified net debt to EBITDA stood at 0.79x at the closing of the year and decreased from 1.42x in parallel with the gearing ratio, down from 24.9% to 16.0% YoY.

**Sufficient external financing**

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

**Enhancing the maturity profile**

To further diversify the Group's funding portfolio, in March MOL Plc. concluded a USD 480mn revolving credit facility which was increased to USD 545mn during July. The tenor of the facility is 3 years with an extension option of 2 additional years. We also enhanced our portfolio through financing transactions at INA and Slovnaft which, concluded revolving credit facilities of USD 400mn for 3+1+1 years and EUR 200mn for 3 years, respectively. MOL Plc. extended EUR 452mn by 1 additional year, up to 10th of June, 2018, out of its EUR 1bn revolving credit facility agreement, signed in 2011, originally with 5 years' tenor.

**6-year low gearing ratio**

### INDEBTEDNESS

| | 2012 | 2013 |
|---|---|---|
| Simplified Net debt/EBITDA | 1.42 | 0.79 |
| Net gearing | 24.9% | 16.0% |

**65% EURO-denominated debt**

### PROPORTION AND AMOUNT OF TOTAL DEBT DENOMINATED IN THE FOLLOWING CURRENCIES

| 31 Dec 2012 (billion own currency) | 31 Dec 2012 | Proportion % | Currency | 31 Dec 2013 (billion own currency) | 31 Dec 2013 (billion HUF) | Proportion % |
|---|---|---|---|---|---|---|
| 1.29 | 284 | 26.1 | **USD** | 1.32 | 284 | 28.9 |
| 2.62 | 762 | 69.9 | **EUR** | 2.17 | 644 | 65.6 |
| n.a. | 44 | 4.0 | **OTHER*** | n.a. | 54 | 5.5 |
| **n.a.** | **1,090** | **100** | **TOTAL** | **n.a.** | **982** | **100** |

* Includes mainly HUF, as well as HRK- and PLN-denominated debt

# NOTES TO THE PROFIT & LOSS STATEMENT

## SALES, OPERATING EXPENSES AND OPERATING PROFITS

**Decrease in Sales revenues**

Group net sales revenues decreased by 2% to HUF 5,400bn since revenue decreases in Upstream and Gas Midstream, -17% in both cases, could not be offset by the 1% increase in Downstream. The Sales revenues in 2013 included a non-recurring HUF 3.4bn revenue realised on the sale of the accumulated obligatory state reserves of Slovnaft Polska.

**Significant increase in Other operating incomes**

Other operating income increased by 383% to HUF 75.7bn mainly as the result of the one-off gains realised on divestiture of Russian entities (HUF 10.5bn) and MMBF Zrt. (HUF 42.4bn).

**Decrease in Other operating expenses**

Other operating expenses decreased by HUF 76.6bn to HUF 293.7bn in 2013, mainly as the combined effect of a decrease in mining royalty expenses (HUF 53.9bn) and the cancellation of the crisis tax imposed by the Hungarian State as of 1st January, 2013, which had increased Other operating expenses by HUF 30.4bn in the prior period. The decrease in mining royalty expenses was primarily due to the impact of capped mining royalty payable per unit with legislative regulation in Hungary, the divestiture of ZMB, release of royalty payables (HUF 11.1bn) and lower production. In 2013 Other operating expenses also included a one-off tax penalty due to a lost appeal by INA in the amount of HUF 5.0bn.

**Operating expenses due to termination of refining activities at IES**

In 2013, non-recurring expenses related to the termination of refining activities at IES increased operating expenses by HUF 22.8bn from which HUF 9.3bn related to the provision made for redundancies, recognised as Personnel expenses.

**Increase in Depreciation expenses due to one-off items**

In 2013, depreciation expenses increased significantly by 69% to reach HUF 539.7bn mainly as a result of the one-off impairment charges on the refining assets of IES and INA in the amounts of HUF 123.8bn and HUF 26.7bn, respectively. In the Upstream segment, the one-off effect related to the impairment on INA's Syrian assets amounted to HUF 43.4bn in 2013. Furthermore, in 2013 unsuccessful exploration wells were written down in the Kurdistan Region of Iraq, Egypt, Oman and Hungary in the amount of HUF 27.3bn.

## FINANCIAL RESULTS

**Higher net financial expenses in 2013**

A net financial expense of HUF 58.3bn was recorded in 2013, compared with HUF 33.2bn in 2012. In 2013, interest payable slightly increased to HUF 47.5bn vs. HUF 46.5bn in 2012, while interest received increased significantly to reach HUF 15.1bn in 2013 compared to HUF 6.8bn in 2012, mainly as a result of interest income received from securities. In 2013, a foreign exchange loss of HUF 8.2bn was booked on borrowings after recognising in equity a HUF 4.4bn foreign exchange gain on bank loans designated as net investment hedging instruments. In 2012, a HUF 43.4bn foreign exchange gain on bank loans was accounted for in equity. A fair valuation loss on the conversion option embedded in the capital security issued by Magnolia Finance Ltd. amounted to HUF 0.3bn versus the unrealised gain of HUF 11.8bn in 2012.

## INCOME FROM ASSOCIATES

Income from associates amounted to HUF 20.1bn in 2013 mainly as the result of the contribution from MET Zrt., (HUF 9.7bn) and from MOL's 10% share in the operations of the Pearl Petroleum Company (HUF 10.9bn).

## PROFIT BEFORE TAXATION

As a result of the above-mentioned items, the Group's loss before taxation in 2013 was HUF 56.9bn, compared to a profit of HUF 205.7bn in 2012.

## TAXATION

**Income tax benefit due to an increase in deferred tax assets**

Income tax benefits amounted to HUF 37.5bn in 2013 compared to income tax expenses of HUF 49.7bn in 2012. Despite the significant increase in the Robin Hood tax rate from 8% to 31 % as of 1st January, 2013, implying an effective tax rate increase from around 5.5% to around 21%, changes in income taxes were overwhelmed by large one-off impairment expenses recognised in Q3 and Q4 2013.

## CASH FLOW

| Consolidated Cash flow (HUF million) | FY 2012 restated | FY 2013 |
|---|---|---|
| Net cash provided by operating activities | 454,033 | 614,685 |
| of which: movements in working capital | (21,090) | 175,575 |
| Net cash used in investing activities | (298,509) | (124,994) |
| Net cash provided by/(used in) financing activities | (148,992) | (239,251) |
| Net increase/(decrease) in cash and cash equivalents | 6,532 | 250,440 |

**Operating cash flow increased by 35%**

Operating cash inflow in 2013 amounted to HUF 614.7bn, compared to HUF 454.0bn in 2012. Operating cash flow, before movements in working capital, decreased by 7% to HUF 500.7bn. Income taxes paid amounted to HUF 61.6bn.

Net cash used in investment activities decreased to HUF 125.0bn in 2013 mainly as a result of cash-inflows relating to the divestitures of Russian entities and MMBF.

Net financing cash outflow totalled HUF 239.3bn, primarily as a result of the net repayment of long-term debt and the dividend payment.

# SUSTAINABILITY

**Turning research and development projects into new products**

MOL Group has launched and continues to work on a series of R & D projects designed to reduce the life-cycle emissions of its products. Besides optimising our standard product portfolio, special emphasis is placed on developing technologies that can utilise non-food feedstock to produce advanced renewable fuels and refinery components.

MOL Group developed some important innovations and transformed them into products in 2013. Such new products include 'rubber bitumen' and 'MOL truck diesel'.

Rubber bitumen is produced through recycling waste tyres. Roads constructed using this product, according to a life-cycle assessment made by the Institute for Transport Sciences Non-profit Ltd. (Hungary), are 29-32% more economical than roads built using traditional bitumen. In addition, using MOL Truck diesel reduces CO2 emissions by up to 3%.

MOL, moreover, continuously monitors developments in various emerging technologies which may have significant potential to reduce the carbon footprints of its products.

**Reinforcement of safety awareness among staff**

MOL Group safety performance has shown continuous improvement over the last few years in terms of injury frequency. However, since 2009 there have been own employee or contractor fatalities each year. To address this serious issue, a safety initiative called "Life Saving Rules" was launched across the entire MOL Group organisation.

The programme is built around ten rules, with zero tolerance for rule breaking. Selection of the rules was based on an assessment of the causes of serious accidents at the Company over the past five years. Moreover, the experiences of our peers were also taken into consideration.

The new programme was designed to significantly increase compliance through intensive communication and consistent application of disciplinary action against rule-breakers. The campaign was rolled out by the end of 2013 and is in force from 2014. Additional programmes that focus on supplementing compliance with each individual Life Saving Rule (e.g. Energy Control, Fall Protection etc.) are scheduled for launch in the coming years.

As a first positive sign of further improvements in safety performance, the group-level aggregated lost time injury frequency rate (LTIF) for our own employees decreased from 1.6 in 2012 to 1.5 in 2013. At our sites there were no staff or contractor fatalities in 2013, however unfortunately, 2 off-site road accident-related fatalities did occur among our contractors.

**Developing the leadership competencies of managers**

In 2013, the emphasis of human resources management was on the development and retention of employees with outstanding potential, and so there was a special focus on leadership competency development.

MOL Group launched several programmes at various levels and in various Divisions. The goal is to educate the next generation of leaders and to confirm MOL Group's strong commitment towards the development of its employees.

In 2013, MOL Group launched a global leadership development programme called LEAD. The programme is organised around three levels of leadership talent pools, starting with experts set for their first leadership assignment through to already experienced leaders ready to take on more senior global roles. This initiative is not a one-off programme but a key component of our changing HR toolset designed to ensure a steady supply of talent for MOL Group's future.

A 1.5-year Leadership Succession programme was launched in MOL's Downstream division in 2013 to prepare 20 young talented people for future leadership roles. Their competence is being increased through their involvement in managing Downstream efficiency development projects and the development of their leadership competencies. The programme involves more than 150 people from the organisation through project work.

In MOL's Upstream division, in order to safeguard Exploration & Production talents, the Key Position Programme was launched in 2013. This programme is designed to help meet the increasing demand for skilled employees in key positions through the provision of a competitive compensation programme. MOL Pakistan is the first Subsidiary to have implemented the KPP.

Strong emphasis on leadership development has not stopped focus on many other areas as well. Attracting talent is always on the agenda, as is working hard in new and pre-existing projects in the field. A good indicator of these efforts is the fact that the MOL young talent programme 'Growww' continued with an unprecedented number of participants, 221 'Growwwers' in 2013, from a record number (11) of countries.

# INTEGRATED RISK MANAGEMENT

**MOL's integrated risk management is one of the best, according to Dow Jones Sustainability Management**

The aim of MOL Group Risk Management is to deal with challenges of the business environment to support a stable and sustainable operation and future growth of the company. MOL Group has developed risk management function as an integral part of its corporate governance structure.

**Enterprise Risk Management**

Incorporation of the broadest variety of risks into one long-term, comprehensive and dynamic system is arranged by Enterprise Risk Management (ERM) on group level. ERM integrates financial and operational risks along with a wide range of strategic risks, also taking into consideration compliance issues and potential reputation effects. The ERM process identifies the most significant risks to the performance of the company. Risks are assessed based on a unified methodology and collected into risk maps at different levels. Risk responses and controls are reviewed and mitigation actions set and reviewed for completion regularly by top management.

Enterprise Risk Management is a framework covering Business Units and Functional Units, which ensures incorporation of risks faced by the company into Risk Maps.

Risk analysis activity supports stable and efficient operation by identifying key risks that threaten achievement of company objectives and require specific attention by Top Management through strengthened controls or execution of mitigation actions. The Risk Map is a heat map used to graphically present major risks on a matrix using probability and impact ratings as a result of detailed risk assessment processes. The Risk Maps integrate Strategic, Operational and Financial risks, which are identified and reassessed on a quarterly basis, providing regular updates to Top Management on evolution of risks and status of mitigation actions.

**Main risk management tools**

To ensure the profitability and the financial stability of the Group, **Financial Risk Management** is in place 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, and are managed – if necessary - with risk mitigation tools (such as swaps, forwards and options).

**Business Continuity Management** is the process of preparing for unexpected disruptions that have low probability but high impact. Emergency Response plans, Crisis Management procedures, Disaster Recovery 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.

Transferring of excess operational risks is done by **Insurance Management**. Purchase of insurances represents 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, set around a yearly cycle (i.e. annual renewal of most insurance programs). Insurance is managed through a joint program for the whole MOL Group to exploit considerable synergy effects.

**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 input sources of modelling 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 (including business continuity management) can give a better direction to insurance management by highlighting 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.

**Decision making support of capital allocation**

Besides providing information on the most imperative risks that MOL Group faces, Risk Management also supports top management and the Board of Directors to take more educated decisions on investments, taking into consideration the risk profile of each project as well. To serve this purpose, Group Risk Management is involved in evaluation of major projects through the utilization of its ERM capabilities by providing opinion on capital allocation and financing headroom.

# APPENDIX

## APPENDIX I

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

| | FY 2012 | FY 2013 |
|---|---|---|
| **MOL GROUP** | | |
| **Total impact of special items on operating profit; loss(+) / gain (-)** | **64,748** | **167,091** |
| **Total impact of special items on EBITDA; loss(+) / gain (-)** | **47,221** | **(26,832)** |
| **UPSTREAM** | **25,956** | **32,858** |
| Crisis tax imposed by the Hungarian state on domestic energy sector | 2,544 | |
| Provision for redundancy at INA | 300 | |
| Impairment on receivables | 1,830 | |
| Recognition of expenses and provision for penalty in Angola | 10,061 | |
| Provision for contract termination in Iran | 7,673 | |
| Revision of Hungarian field abandonment provision | (7,368) | |
| Write-off of unsuccessful Bijell-3 well | 6,607 | |
| Impairment on Ferdinandovac field | 4,309 | |
| Gain on divestiture of Russian companies | | (10,507) |
| Impairment on INA's Syrian assets | | 43,365 |
| **DOWNSTREAM** | **35,540** | **176,645** |
| Crisis tax imposed by the Hungarian state on domestic energy sector | 27,055 | |
| Provision for redundancy at INA | 445 | |
| Impairment on receivables | | |
| Provision made for redundancy relating to New DS Program | 1,429 | |
| Impairment on INA's refinery assets | 6,611 | 26,745 |
| Gain on sale of surplus state reserves of Slovnaft Polska | | (3,420) |
| Slovnaft maintenance cost correction | | 1,665 |
| Scrapping of spare parts in Mantova refinery | | 3,324 |
| Provision for operational expenses in Mantova refinery | | 10,255 |
| Provision for redundancy of IES | | 9,258 |
| Write- off of IES | | 123,813 |
| Tax penalty of INA | | 5,005 |
| **GAS MIDSTREAM** | **295** | **2,851** |
| Crisis tax imposed by the Hungarian state on domestic energy sector | 295 | |
| Loss on divestiture of MMBF | | 2,851 |
| **CORPORATE and OTHER** | **2,957** | **-** |
| Crisis tax imposed by the Hungarian state on domestic energy sector | 496 | |
| Provision for redundancy at INA | 2,461 | |
| **INTERSEGMENT** | **-** | **(45,263)** |
| Gain on divestiture of MMBF | | (45,263) |

# APPENDIX II

## NOTES

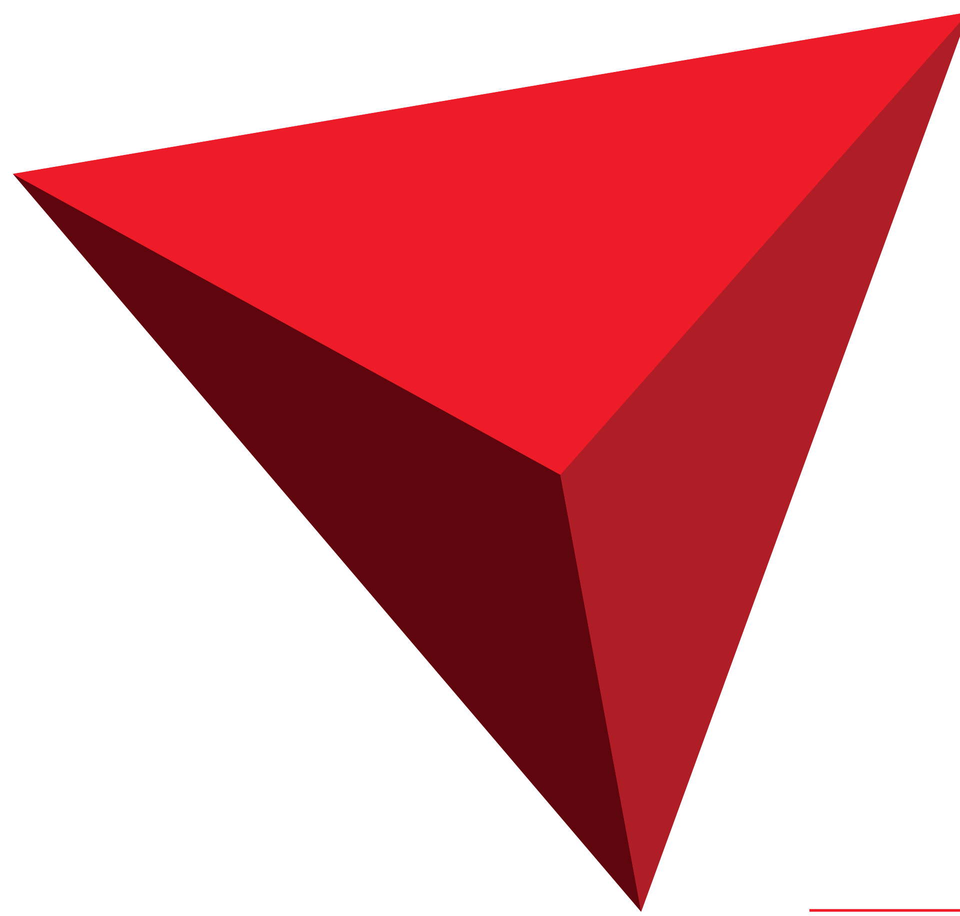
[1] Net external sales revenues and operating profits include profits arising both from sales to third parties and transfers to the other Business Units. Upstream transfers domestically-produced crude oil, condensates and LPG to Downstream and natural gas to Gas Midstream. Internal transfer prices are based on prevailing market prices. Gas transfer prices equal average import prices. Segmental figures include the results of fully-consolidated subsidiaries engaged in their respective segments.

[2] This line shows the effect on operating profits 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 but only in a subsequent quarter. For segmental reporting purposes, the transferor segment records a profit immediately at point of transfer. However, at the Company level, profits are only reported when a 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.

[3] Special items affected operating profits and EBITDA is detailed in Appendix I.

[4] Estimated Current Cost of Supply-based EBITDA and operating profit/(loss) excluding special items, and impairment on inventories in Refining & Marketing.

[5] In converting HUF financial data into USD, the following average NBH rates were used: for FY 2012: 225.4 HUF/USD, for FY 2013: 223.7 HUF/USD.



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

## 31 DECEMBER 2013

This is a translation of the Hungarian Report

### INDEPENDENT AUDITORS' REPORT

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

### REPORT ON FINANCIAL STATEMENTS

1.) We have audited the accompanying 2013 consolidated annual financial statements of MOL Hungarian Oil and Gas Plc. ("the Company"), which comprise the consolidated balance sheet as at 31 December 2013 - showing a balance sheet total of HUF 4,640,888 million and a loss for the year of HUF 19,410 million -, the related consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated cash flow statement 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.). 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 2013 and of the results of its operations for the year then ended in accordance with the International Financial Reporting Standards as adopted by EU.

### OTHER REPORTING REQUIREMENT – REPORT ON THE CONSOLIDATED BUSINESS REPORT

7.) We have reviewed the consolidated business report of MOL Hungarian Oil and Gas Plc. for 2013. 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 2013 corresponds to the disclosures in the 2013 consolidated annual financial statements of MOL Hungarian Oil and Gas Plc.

Budapest, 20 March 2014

| **István Havas** | **Zsuzsanna Bartha** |
|---|---|
| Ernst & Young Kft. | Registered Auditor |
| Registration No.: 001165 | Chamber membership No.: 005268 |

# MOL HUNGARIAN OIL AND GAS PLC. AND SUBSIDIARIES ›

## CONSOLIDATED FINANCIAL STATEMENTS PREPARED IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS

## 31 DECEMBER 2013

Budapest, 20 March 2014

Zsolt HERNÁDI
Chairman of the Board of Directors
Chief Executive Officer

József SIMOLA
Group Chief
Financial Officer



### CONSOLIDATED BALANCE SHEET — 31 DECEMBER 2013

| | Notes | 2013 | 2012 Restated |
|---|---|---|---|
| **ASSETS** | | HUF million | HUF million |
| Non-current assets | | | |
| Intangible assets | 4 | 323,646 | 345,950 |
| Property, plant and equipment, net | 5 | 2,252,927 | 2,608,375 |
| Investments in associated companies and joint ventures | 10 | 128,220 | 123,974 |
| Available-for-sale investments | 11 | 14,636 | 20,571 |
| Deferred tax assets | 30 | 46,314 | 34,750 |
| Other non-current assets | 12 | 36,899 | 36,658 |
| Total non-current assets | | 2,802,642 | 3,170,278 |
| Current assets | | | |
| Inventories | 13 | 494,407 | 507,151 |
| Trade receivables, net | 14 | 512,584 | 570,994 |
| Securities | | 6,604 | 29,202 |
| Other current assets | 15 | 221,034 | 156,186 |
| Prepaid taxes | | 39,447 | 14,742 |
| Cash and cash equivalents | 16, 36 | 564,170 | 317,654 |
| Total current assets | | 1,838,246 | 1,595,929 |
| **TOTAL ASSETS** | | **4,640,888** | **4,766,207** |
| **EQUITY AND LIABILITIES** | | | |
| Equity attributable to equity holders of the parent | | | |
| Share capital | 17 | 79,215 | 79,202 |
| Reserves | | 1,587,082 | 1,468,430 |
| Profit for the year attributable to equity holders of the parent | | 21,442 | 151,484 |
| Equity attributable to equity holders of the parent | | 1,687,739 | 1,699,116 |
| Non-controlling interests | | 473,517 | 547,205 |
| Total equity | | 2,161,256 | 2,246,321 |
| Non-current liabilities | | | |
| Long-term debt, net of current portion | 19 | 673,248 | 674,046 |
| Provisions | 20 | 303,553 | 290,860 |
| Deferred tax liabilities | 29 | 74,877 | 123,762 |
| Other non-current liabilities | 21 | 27,247 | 57,646 |
| Total non-current liabilities | | 1,078,925 | 1,146,314 |
| Current liabilities | | | |
| Trade and other payables | 22 | 1,038,797 | 913,014 |
| Current tax payable | | 2,537 | 2,138 |
| Provisions | 20 | 49,976 | 42,452 |
| Short-term debt | 23 | 211,223 | 145,838 |
| Current portion of long-term debt | 19 | 98,174 | 270,130 |
| Total current liabilities | | 1,400,707 | 1,373,572 |
| **TOTAL EQUITY AND LIABILITIES** | | **4,640,888** | **4,766,207** |

| | Notes | 2013 | 2012 Restated |
|---|---|---|---|
| | | HUF million | HUF million |
| Net revenue | 3, 24 | 5,400,417 | 5,521,324 |
| Other operating income | 25 | 75,696 | 15,662 |
| **Total operating income** | | **5,476,113** | **5,536,986** |
| Raw materials and consumables used | | 4,418,408 | 4,424,275 |
| Personnel expenses | 26 | 259,747 | 264,741 |
| Depreciation, depletion, amortisation and impairment | | 539,686 | 319,375 |
| Other operating expenses | 27 | 293,727 | 370,314 |
| Change in inventories of finished goods and work in progress | | 24,748 | (981) |
| Work performed by the enterprise and capitalized | | (41,575) | (46,033) |
| **Total operating expenses** | | **5,494,741** | **5,331,691** |
| **Operating profit** | | **(18,628)** | **205,295** |
| Financial income | 28 | 29,385 | 51,336 |
| Of which: Fair valuation difference of conversion option | 28 | - | 11,764 |
| Financial expense | 28 | 87,729 | 84,493 |
| Of which: Fair valuation difference of conversion option | | 271 | - |
| **Financial expense, net** | **28** | **58,344** | **33,157** |
| Income from associates | | 20,062 | 33,608 |
| **Profit before tax** | | **(56,910)** | **205,746** |
| Income tax expense | 30 | (37,500) | 49,721 |
| **Profit for the year** | | **(19,410)** | **156,025** |
| Attributable to: | | | |
| Equity holders of the parent | | 21,442 | 151,484 |
| Non-controlling interests | | (40,852) | 4,541 |
| **Basic earnings per share attributable to ordinary equity holders of the parent (HUF)** | **31** | **160** | **1,643** |
| **Basic earnings per share attributable to ordinary equity holders of the parent (HUF)** | **31** | **160** | **1,488** |



| | Notes | 2013 | 2012 Restated |
|---|---|---|---|
| | | HUF million | HUF million |
| **Profit for the year** | | **(19,410)** | **156,025** |
| Other comprehensive income | | | |
| *Other comprehensive income to be reclassified to profit or loss in subsequent periods:* | | | |
| Exchange differences on translating foreign operations including net investment hedge, net of tax | 29 | 4,128 | (131,731) |
| Net investment hedge, net of tax | 29 | 4,646 | 39,335 |
| Available-for-sale financial assets, net of deferred tax | 29 | (284) | 646 |
| Cash-flow hedges, net of deferred tax | 29 | (3,071) | 246 |
| Share of other comprehensive income for associates | 29 | (2,321) | (10,327) |
| **Net other comprehensive income to be reclassified to profit or loss in subsequent periods** | | **3,098** | **(101,831)** |
| *Other comprehensive income not to be reclassified to profit or loss in subsequent periods:* | | | |
| Equity recorded for actuarial gain/loss on provision for retirement benefit obligation | 29 | 213 | 238 |
| **Net other comprehensive income not to be reclassified to profit or loss in subsequent periods** | | **213** | **238** |
| **Other comprehensive income for the year, net of tax** | | **3,311** | **(101,593)** |
| **Total comprehensive income for the year** | | **(16,099)** | **54,432** |
| Attributable to: | | | |
| Equity holders of the parent | | 25,693 | 87,384 |
| Non-controlling interest | | (41,792) | (32,952) |

| | 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 ATTRIBUT-ABLE TO EQUITY HOLD-ERS 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 2011** | **79,202** | **(325,669)** | **5,256** | **213,525** | **8,074** | **1,534,273** | **1,419,311** | **153,925** | **1,652,438** | **591,203** | **2,243,641** |
| Restate effect | - | - | - | - | - | (447) | **(447)** | (253) | **(700)** | (214) | **(914)** |
| **31 December 2011 - Restated** | **79,202** | **(325,69)** | **5,256** | **213,525** | **8,074** | **1,533,826** | **1,418,864** | **153,672** | **1,651,738** | **590,989** | **2,242,727** |
| Retained profit for the year | - | - | - | - | - | - | **-** | 151,484 | **151,484** | 4,541 | **156,025** |
| Other comprehensive income for the year | - | - | 513 | (60,766) | - | (3,847) | **(64,100)** | - | **(64,100)** | (37,493) | **(101,593)** |
| Total comprehensive income for the year | - | - | 513 | (60,766) | - | (3,847) | **(64,100)** | 151,484 | **87,384** | (32,952) | **54,432** |
| Transfer to reserves of retained profit for the previous year | - | - | - | - | - | 153,672 | **153,672** | (153,672) | **-** | - | **-** |
| Dividends | - | - | - | - | - | (38,278) | **(38,278)** | - | **(38,278)** | - | **(38,278)** |
| Dividends to non-controlling interests | - | - | - | - | - | - | **-** | - | **-** | (10,936) | **(10,936)** |
| Equity recorded for share based payments | - | - | - | - | - | 238 | **238** | - | **238** | - | **238** |
| Net change in balance of treasury shares held, net of tax | - | - | - | - | - | (1,862) | **(1,862)** | - | **(1,862)** | - | **(1,862)** |
| Transactions with non-controlling interests | - | - | - | - | - | (104) | **(104)** | - | **(104)** | 104 | **-** |
| **Closing balance 31 December 2012** | **79,202** | **(325,669)** | **5,769** | **152,759** | **(8,074)** | **1,643,645** | **1,468,430** | **151,484** | **1,699,116** | **547,205** | **2,246,321** |
| Retained profit for the year | - | - | - | - | - | - | **-** | 21,442 | **21,442** | (40,852) | **(19,410)** |
| Other comprehensive income for the year | - | - | (3,206) | 6,965 | - | 492 | **4,251** | - | **4,251** | (940) | **3,311** |
| Total comprehensive income for the year | - | - | (3,206) | 6,965 | - | 492 | **4,251** | 21,442 | **25,693** | (41,792) | **(16,099)** |
| Transfer to reserves of retained profit for the previous year | - | - | - | - | - | 151,484 | **151,484** | (151,484) | **-** | - | **-** |
| Dividends | - | - | - | - | - | (38,925) | **(38,925)** | - | **(38,925)** | - | **(38,925)** |
| Dividends to non-controlling interests | - | - | - | - | - | - | **-** | - | **-** | (18,722) | **(18,722)** |
| Equity recorded for share based payments | 13 | - | - | - | - | 228 | **228** | - | **241** | - | **241** |
| Net change in balance of treasury shares held, net of tax | - | - | - | - | - | 1,287 | **1,287** | - | **1,287** | - | **1,287** |
| Disposal of subsidiaries | - | - | - | - | - | - | **-** | | **-** | (12,816) | **(12,816)** |
| Transactions with non-controlling interests | - | - | - | - | - | 327 | **327** | - | **327** | (358) | **(31)** |
| **Closing balance 31 December 2013** | **79,215** | **(325,669)** | **2,563** | **159,724** | **(8,074)** | **1,758,538** | **1,587,082** | **21,442** | **1,687,739** | **473,517** | **2,161,256** |

| | Notes | 2013 | 2012 Restated |
|---|---|---|---|
| | | HUF million | HUF million |
| **Profit before tax** | | **(56,910)** | **205,746** |
| Depreciation, depletion, amortisation and impairment | | 539,686 | 319,375 |
| Write-off of inventories, net | | 3,905 | 4,246 |
| Increase / (decrease) in provisions | | 20,744 | 3,103 |
| Net (gain) / loss on sale of property, plant and equipment | | (2,509) | (2,173) |
| Write-off / (reversal of write-off) of receivables | | 15,610 | 6,038 |
| Net loss on sale of subsidiaries | | (52,919) | 3,473 |
| Interest income | | (15,146) | (6,766) |
| Interest on borrowings | | 47,521 | 46,453 |
| Net foreign exchange (gain) / loss | | 11,295 | (9,280) |
| Fair valuation difference of conversion option (see Note 28) | | 271 | (11,764) |
| Other financial (gain) / loss, net | | 4,783 | 1,124 |
| Share of net profit of associate | | (20,062) | (33,608) |
| Other non-cash items | | 4,455 | 12,175 |
| Operating cash flow before changes in working capital | | 500,724 | 538,142 |
| Decrease / (increase) in inventories | | 14,104 | 3,680 |
| Decrease / (increase) in trade receivables | | 47,049 | 9,158 |
| Decrease / (increase) in other current assets | | (21,230) | (11,626) |
| (Decrease) / increase in trade payables | | 106,664 | (20,388) |
| (Decrease) / increase in other payables | | 28,988 | (1,914) |
| Total working capital adjustments | | 175,575 | (21,090) |
| Income taxes paid | | (61,614) | (63,019) |
| **Net cash provided by operating activities** | | **614,685** | **454,033** |
| Capital expenditures, exploration and development costs | | (252,389) | (267,978) |
| Proceeds from disposals of property, plant and equipment | | 4,182 | 3,439 |
| Acquisition of subsidiaries and non-controlling interests, net cash | 36 | (267) | (21,542) |
| Acquisition of joint ventures | | (7) | - |
| Acquisition of associated companies and other investments | | (9,656) | (969) |
| Net cash inflow / (outflow) on sale of subsidiary undertakings | 8 | 53,907 | (595) |
| Proceeds from disposal of associated companies and other investments | | 2,906 | 439 |
| Changes in loans given and long-term bank deposits | | 8,093 | 675 |
| Changes in short-term investments | | 26,862 | (28,980) |
| Interest received and other financial income | | 14,617 | 7,258 |
| Dividends received | | 26,758 | 9,744 |
| **Net cash used in investing activities** | | **(124,994)** | **(298,509)** |
| Repayment of long-term notes | | - | (5,051) |
| Issuance of long-term notes | | - | 109,280 |
| Long-term debt drawn down | 36 | 464,233 | 268,100 |
| Repayments of long-term debt | | (646,353) | (412,801) |
| Changes in other long-term liabilities | | 91 | (231) |
| Changes in short-term debt | | 59,655 | 15,289 |
| Interest paid and other financial costs | | (58,873) | (73,608) |



| | Notes | 2013 | 2012 Restated |
|---|---|---|---|
| | | HUF million | HUF million |
| Dividends paid to shareholders | | (38,992) | (38,311) |
| Dividends paid to non-controlling interest | | (19,012) | (11,659) |
| **Net cash provided by / (used in) financing activities** | | **(239,251)** | **(148,992)** |
| **(Decrease) / increase in cash and cash equivalents** | | **250,440** | **6,532** |
| Cash and cash equivalents at the beginning of the year | | 317,654 | 310,393 |
| Exchange differences of cash and cash equivalents of consolidated foreign subsidiaries | | (1,742) | 3,702 |
| Unrealised foreign exchange difference on cash and cash equivalents | | (2,182) | (2,973) |
| **Cash and cash equivalents at the end of the year** | 36 | **564,170** | **317,654** |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS PREPARED IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS ›

## 1. GENERAL

MOL Hungarian Oil and Gas Public Limited Company (hereinafter referred to as MOL Plc., MOL or the parent company) was incorporated on 1 October 1991 on the transformation of its legal predecessor, the Országos Kőolaj- és Gázipari Tröszt (OKGT). In accordance with the law on the transformation of unincorporated state-owned enterprises, the assets and liabilities of OKGT were revalued as at that date. MOL Plc. and its subsidiaries (hereinafter referred to as the Group or MOL Group) are involved in the exploration and production of crude oil, natural gas and other gas products, refining, transportation and storage of crude oil and wholesale and retail marketing of crude oil products, production and sale of olefins and polyolefins. The number of the employees in the Group as of 31 December 2013 and 2012 was 28,769 and 29,591, 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 traded on London's International Order Book and Over The Counter (OTC) market in the USA.

## 2.1 AUTHORIZATION, STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION

**i) Authorization and Statement of Compliance**

These consolidated financial statements have been approved and authorised for issue by the Board of Directors on 20 March 2014. 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 2013.
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. Control is evidenced when the Group is exposed, or has rights, to variable returns from its involvement with a company, and has the ability to affect those returns through its power over the company. Power over an entity means having existing rights to direct its relevant activities. The relevant activities of a company are those activities which significantly affects its returns.

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 settlement date. Non-controlling interest is stated at the non-controlling interest's proportion of the fair values of net assets. The income and expenses of companies acquired or disposed of during the year are included in the consolidated financial statements from the date of acquisition or up to the date of disposal.

Intercompany balances and transactions, including intercompany profits and unrealised profits and losses – unless the losses indicate impairment of the related assets – are eliminated. The consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances.

Non-controlling interests represent the profit or loss and net assets not held by the Group and are shown separately in the consolidated balance sheets 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 arrangements**

An arrangement is under joint control when the decisions about its relevant activities require the unanimous consent of the parties sharing the control of the arrangements. Joint arrangements are divided into two types: joint operation and joint venture. The type of the arrangement should be determined by considering the rights and obligations of the parties arising from the arrangement in the normal course of business.

If the Company has rights to the assets and obligations for the liabilities relating to the arrangement then the arrangement is qualified as a joint operation The Company's interest in a joint operation are accounted for by recognising its relative share of assets, liabilities, income and expenses of the arrangement, combining with similar items in the consolidated financial statements on a line-by-line basis.

When the Group contributes or sells assets to the joint operation, based on the substance of the transaction gain or loss from the transaction is recognized only to the extent of other parties' interest in the joint operation. When the Group purchases assets from the joint operation, the Group does not recognize its share of the profits of the joint operation from the transaction until it resells the assets to an independent party.

If the Company has rights to the net assets of the arrangement then the arrangement is qualified as a joint venture. The Group's investments in joint ventures are accounted for using the equity method of accounting. Investment in a joint venture is recognised initially at cost and it should be subsequently adjusted for the post-acquisition changes in the share of the joint venture's net asset. The Group's share from the profit or loss of the joint venture's operation is included as a single line item in the income statement. Profits and losses resulting from transactions between the Group and the joint venture are eliminated to the extent of the interest in the joint venture.

**Investments in associates**

The Group's investments in its associates are accounted for using the equity method of accounting. An associate is an entity over which the Group has significant influence and which is neither a subsidiary nor a joint venture. 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 recognised directly in the equity of the associate, the Group recognises its share of any changes and discloses this, when applicable, in the statement of changes in equity. Profits and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

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

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

## 2.2 CHANGES IN ACCOUNTING POLICIES

The accounting policies adopted are consistent with those applied in the previous financial years, apart from some minor modifications in the classification of certain items in the balance sheet or the income statement, none of which has resulted in a significant impact on the financial statements. While the comparative period has been restated, an opening balance sheet has not been included as the reclassifications made were not considered material.

*Reclassification of foreign exchange differences on trade debtors and creditors*

The Group elected to reclassify foreign exchange differences on trade debtors and creditors from operating results to financial results since the Group believes that with this amendment operating results more effectively demonstrate the core business performance. Comparative periods are restated, as a result of the amendment the operating results decreased by HUF 7,026 million and HUF 14,425 million in 2013 and 2012, respectively.
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 1 Financial Statement Presentation – Presentation of Items of Other Comprehensive Income*
- *IAS 12 Income Taxes (amendment) effective 1 January 2012*
- *IAS 19 Employee Benefits (Amendment)*
- *IAS 27 Separate Financial Statements (as revised in 2011)*
- *IAS 28 Investments in Associates and Joint Ventures (as revised in 2011)*
- *IFRS 7 Financial Instruments: Disclosures - Clarification on asset/liability offsetting*
- *IFRS 10 Consolidated Financial Statements*
- *IFRS 11 Joint Arrangements*
- *IFRS 12 Disclosure of Involvement with Other Entities*
- *IFRS 13 Fair Value Measurement*
- *IAS 34 Interim financial reporting*
- *Improvements to IFRSs*

The principal effects of these changes are as follows:

*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 had therefore no impact on the Group's financial position or performance. The amendment became 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 became effective for annual periods beginning on or after 1 January 2012 and had 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 amendments did not have significant effect on the financial statements of the Group. The amendment became effective for annual periods beginning on or after 1 January 2013. In the restated comparative period the total amount of unvested past service cost as of 1 January 2012 has been recognised in retained earnings together with the corresponding increase in Provision for long-term employee benefits in the amount of HUF 1,166 million. The past service cost occurred in 2013 and 2012 has been expensed immediately through the income statement according to the amendment, in the amount of HUF 18 million and HUF 149 million, respectively.

*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 became 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 became effective for annual periods beginning on or after 1 January 2013.

*IFRS 7 Financial Instruments: Disclosures - Clarification on asset/liability offsetting*

The 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. This standard became effective for annual periods beginning on or after 1 January 2013.

*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, which was superseded by IFRS 10. IFRS 10 established a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 required the 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. The amendment had no material impact on the Group. This standard became 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 had an impact on 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. This standard became effective for annual periods beginning on or after 1 January 2013. The comparative period has been restated; the application of the new standard decreased the operating results of the Group by HUF 523 million in 2012.

*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 became 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 standard did not affect the financial position and performance of the Group. This standard became effective for annual periods beginning on or after 1 January 2013.

*IAS 34 Interim financial reporting*

Clarify interim reporting of segment information for total assets in order to enhance consistency with the requirements in IFRS 8 Operating Segments. Effective for annual periods beginning on or after 1 January 2013.

*Improvements to IFRSs*

In May 2012, the IASB issued amendments to the following standards, primarily with a view to removing inconsistencies and clarifying wording. The amendments became effective for annual periods on or after 1 January 2013 and will have no impact on the financial position or performance of the Group.

*IAS 1 Presentation of Financial Statements*

This improvement clarifies the difference between voluntary additional comparative information and the minimum required comparative information.

*IAS 16 Property, Plant and Equipment*

This improvement clarifies that the major spare parts and servicing equipment that meet the definition of property, plant and equipment are not inventory.

*IAS 32 Financial Instruments, Presentation*

This improvement clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with IAS 12 Income Taxes.

## 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 2013 and 2012, 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 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 other comprehensive income are transferred to the income statement. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, amounts previously recognized in other comprehensive income remain in other comprehensive income until the forecast transaction occurs. If the related transaction is not expected to occur, the amount is taken to the income statement.

### Hedges of a net investment

Hedges of a net investment in a foreign operation, including a hedge of a monetary item that is accounted for as part of the net investment, are accounted for in a way similar to cash flow hedges. Gains or losses on the hedging instrument relating to the effective portion of the hedge are recognized as other comprehensive income while any gains or losses relating to the ineffective portion are recognized in the income statement. On disposal of the foreign operation, the cumulative value of any such gains or losses recognized as other comprehensive income is transferred to the income statement.

**vii) Impairment of Financial Assets**

The Group assesses at each balance sheet date whether a financial asset or group of financial assets is impaired. Impairment losses on a financial asset or group of financial assets are recognised only if there is an objective evidence of impairment due to a loss event and this loss event significantly impacts the estimated future cash flows of the financial asset or group of financial assets.

### Assets carried at amortised cost

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

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

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

**Available-for-sale financial investments**

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

**viii) Cash and Cash Equivalents**

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

**ix) Trade Receivables**

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

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

**x) Inventories**

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

**xi) Property, Plant and Equipment**

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

The initial cost of property, plant and equipment comprises its purchase price, including import duties and non-refundable purchase taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use, such as borrowing costs. Estimated decommissioning and site restoration costs are capitalized upon initial recognition or, if decision on decommissioning is made subsequently, at the time of the decision. Changes in estimates thereof adjust the carrying amount of assets. Expenditures incurred after the property, plant and equipment have been put into operation, such as repairs and maintenance and overhead costs (except from periodic maintenance costs), are normally charged to income 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 |
| Building | 10 – 50 years |
| Refineries and chemicals manufacturing plants | 4 – 20 years |
| Gas and oil storage and transmission equipment | 7 – 50 years |
| Petrol service stations | 5 – 30 years |
| Telecommunication and automatisation equipment | 3 – 10 years |

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

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

**xiv) Impairment of Assets**

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

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

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

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

**xv) Oil and natural gas exploration and development expenditures**

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

### Licence and property acquisition costs

Exploration and property acquisition costs are capitalized as intangible assets and amortized on a straight-line basis over the estimated period of exploration. Each property is reviewed on an annual basis to confirm that drilling activity is planned and it is not impaired. If no future activity is planned, the remaining balance of the licence and property acquisition costs is written off. Upon determination of economically recoverable reserves ('proved reserves' or 'commercial reserves'), amortization ceases and the remaining costs are aggregated with exploration expenditure and held on a field-by-field basis as proved properties awaiting approval within intangible assets. When development is approved internally, the relevant expenditure is transferred to property, plant and equipment, among land and buildings.

### Exploration expenditure

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

### Development expenditure

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

### xvi) Interest-bearing loans and borrowings

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

### xvii) Provisions

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

### Provision for Redundancy

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

### Provision for Environmental Expenditures

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

### Provision for Decommissioning

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

### Provision for Retirement Benefits

The Group operates three long term defined benefit employee 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 other comprehensive income immediately. Past service costs, resulting from the introduction of, or changes to the defined benefit scheme are recognized as an expense immediately.

### xviii) Greenhouse gas emissions

The Group receives free emission rights in Hungary, Croatia, Slovakia and Italy 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 consolidated balance sheet.

**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 both on trade receivables and payables and 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 of these items 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 and impairment of assets in Syria**

Consequent to the political turmoil started in 2011 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 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 were not met from early 2011. Therefore, beginning from this date, revenue was recognized only if cash has been received from GPC though until 26 February 2012 INA regularly issued invoices, the last invoice being issued for February 2012. August 2011 was the last month for which INA invoices were paid in full. INA's unrecorded revenues until February 2012 accumulate to approximately USD 372.5 million.

On 22 February 2012 Croatia adopted EU/UN sanctions towards Syrian Arab Republic, hence INA d.d. declared Force Majeure as from 26 February 2012. By declaring Force Majeure, INA d.d. suspended all its petroleum activities in Hayan and Aphamia blocks as per Production Sharing Agreement (Hayan/Aphamia) and recalled all its local and expatriate employees. Although the production in Hayan Block is still ongoing, the Group has not recognised production volumes since the announcement of Force Majeure. Due to inadequate operating condition and lack of regular maintenance the physical deterioration of surface facilities is reflected in depreciation charge calculated based on an average residual useful life of 3.5 years. Depreciation charge for 2013 was recognised in amount of HUF 21,465 million.

Since the announcement of Force Majeure no revenue has been accounted for. These circumstances also gave rise to an impairment indicator with respect to the Group's Syrian assets. The Group performed an impairment test on its Syrian non-current assets of Hayan Block, being a separate cash generating unit (see Note 5). Such impairment calculation requires an estimate of the recoverable amount of the 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 and of multiple scenarios with respect to return to normal production. The most significant variables in determining cash flows are discount rates, the period for which cash flow projections are made, probabilities relating to different scenarios 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), the incremental rebuilding costs, 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. The possible impacts of multiple probability weighted settlement scenarios on Group's operation in Syria representing:

I.) Havaria: the properties are subject to physical damage as a result of targeted or accidental attacks.

II.) Return to operation: after crisis settlements and full or partial removals of sanctions the Group expects to return to operations within 3 to 10 year time horizon.

III.) No return: the Group is disabled returning at all and the assets are lost.

For estimation of future production volumes the proved developed reserves derived from business plans prior to Force Majure were used. Asset-specific discount rates were derived from the USD-based weighted average cost of capital and are adjusted for project-specific risks, as applicable. The discount rate applied was 17.5% (see note 5). Based on multiple-scenario DCF calculations the Group has recorded impairment in amount of HUF 34,904 million on non-current assets and of HUF 1,968 million on current assets in Hayan Block.

On the basis of technical information available prior to Force Majure and of uncertainties over the possible date of return to operation the Group also recorded impairment on the Syrian Aphamia Block related to the prior years' drillings in amount of HUF 8,460 million.

**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. 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 71,533 million and HUF 73,349 million, while field abandonment provision amounts to HUF 198,140 million and HUF 200,076 million as of 31 December 2013 and 2012, 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 221,002 million and HUF 227,808 million as of 31 December 2013 and 2012, 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 of 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 33.

**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 nominal discount rates are expected to be 3.5% (2012: 4.0%). Consequently, the carrying amount of these obligations (in case of environmental liabilities HUF 71,533 million and HUF 73,349 million, in case of field abandonment provision HUF 198,372 million and HUF 200,076 million as of 31 December 2013 and 2012, 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 (8.1%). 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 237,708 million and HUF 31,954 million in 2013 and 2012, respectively. These charges include an impairment loss HUF 56,141 million on intangible assets, mainly for exploration and evaluation assets written-off (2012: HUF 17,865 million), an impairment loss of HUF 9,504 million on goodwill (2012: HUF 14 million), an impairment loss of HUF 182,538 million (2012: HUF 17,762 million) and a reversal of impairment of HUF 971 million (2012: HUF 3,673 million) on property, plant and equipment. Carrying amount of goodwill is HUF 36,382 million and HUF 45,741 million as of 31 December 2013 and 2012, 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 67,090 million and HUF 34,210 million as of 31 December 2013 and 2012, respectively (see Note 30).

**Actuarial estimates applied for calculation of retirement benefit obligations**

The cost of defined benefit plans is determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, future salary increases and mortality or fluctuation rates. Due to the long term nature of these plans, such estimates are subject to significant uncertainty. Provision for retirement benefit is HUF 17,664 million and HUF 16,637 million at 31 December 2013 and 2012, 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 18,713 million and HUF 18,058 million at 31 December 2013 and 2012, respectively (see Note 20 and 34).

## 2.5 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

*IFRS 9 Financial Instruments: Classification and Measurement*

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.

*Amendments to IFRS 10, IFRS 12 and IAS 27 Investment Entities*

These amendments are effective for annual periods beginning on or after 1 January 2014 provide an exception to consolidation requirement for entities that meet the definition of an investment entity under IFRS 10. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. It is not expected that this amendment would be relevant to the Group, since none of the entities in the Group would qualify to be an investment entity under IFRS 10.

*IAS 32 Offsetting Financial Assets and Financial Liabilities – Amendments to IAS 32*

These amendments clarify the meaning of "currently has a legally enforceable right to set-off" and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting. These are effective for annual periods beginning on or after 1 January 2014. These amendments are not expected to be relevant to the Group.

*IFRIC 21 Interpretation on Levies*

Provides guidance on when to recognise a liability for a levy imposed by a government, both for levies that are accounted for in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets and those where the timing and amount of the levy is certain. Issued 20 May 2013 and effective for annual periods beginning on or after 1 January 2014.

*IAS 39 Novation of Derivatives and Continuation of Hedge Accounting*

These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria.

## 3 SEGMENTAL INFORMATION

| 2013 | 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 | 209,998 | 4,834,553 | 348,478 | 7,388 | - | **5,400,417** |
| Inter-segment sales | 432,040 | 13,416 | 37,044 | 129,756 | (612,256) | **-** |
| **Total revenue** | **642,038** | **4,847,969** | **385,522** | **137,144** | **(612,256)** | 5,400,417 |
| **Results** | | | | | | |
| **Profit/(loss) from operations** | **141,520** | **(169,659)** | **34,009** | **(62,489)** | **37,991** | **(18,628)** |
| **Net finance costs** | | | | | | **58,344** |
| **Income from associates** | | | | **20,062** | | **20,062** |
| **Profit before tax** | | | | | | **(56,910)** |
| **Income tax expense/(benefit)** | | | | | | **(37,500)** |
| **Profit for the year** | | | | | | **(19,410)** |

| 2012 | 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 | 270,104 | 4,792,039 | 422,590 | 36,591 | - | **5,521,324** |
| Inter-segment sales | 508,976 | 18,193 | 40,334 | 121,944 | (689,447) | **-** |
| **Total revenue** | **779,080** | **4,810,232** | **462,924** | **158,535** | **(689,447)** | **5,521,324** |
| **Results** | | | | | | |
| **Profit/(loss) from operations** | **256,213** | **(12,858)** | **35,494** | **(56,669)** | **(16,885)** | **205,295** |
| **Net finance costs** | | | | | | **33,157** |
| **Income from associates** | | | | **33,608** | | **33,608** |
| **Profit before tax** | | | | | | **205,746** |
| **Income tax expense/(benefit)** | | | | | | **49,721** |
| **Profit for the year** | | | | | | **156,025** |

| 2013 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 | 889,501 | 1,039,541 | 243,855 | 83,006 | (2,976) | **2,252,927** |
| Intangible assets, net | 237,893 | 62,470 | 2,948 | 20,335 | - | **323,646** |
| Inventories | 26,983 | 455,725 | 39,586 | 9,168 | (37,055) | **494,407** |
| Trade receivables, net | 164,685 | 449,471 | 40,907 | 21,901 | (164,380) | **512,584** |
| Investments in associated companies and joint ventures | - | - | - | 128,220 | - | **128,220** |
| Not allocated assets | | | | | | **929,104** |
| **Total assets** | | | | | | **4,640,888** |
| Trade payables | 58,183 | 468,284 | 160,651 | 31,807 | (164,380) | **554,545** |
| Not allocated liabilities | | | | | | **1,925,087** |
| **Total liabilities** | | | | | | **2,479,632** |

| 2013 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:** | **140,727** | **93,778** | **7,988** | **11,868** | **-** | **254,361** |
| Property, plant and equipment | 85,139 | 92,375 | 6,720 | 5,164 | - | 189,398 |
| Intangible assets | 55,588 | 1,403 | 1,268 | 6,704 | - | 64,963 |
| **Depreciation and amortization** | **229,054** | **278,151** | **21,921** | **12,725** | **(2,165)** | **539,686** |
| From this: impairment losses recognized in income statement | 80,996 | 157,314 | 259 | 110 | - | 238,679 |
| From this: reversal of impairment recognized in income statement | (385) | (504) | - | (82) | - | (971) |

| 2012 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 | 996,082 | 1,194,235 | 391,373 | 91,308 | (64,623) | 2,608,375 |
| Intangible assets, net | 247,529 | 73,859 | 5,732 | 21,558 | (2,728) | 345,950 |
| Inventories | 29,293 | 444,361 | 50,170 | 10,475 | (27,148) | 507,151 |
| Trade receivables, net | 162,965 | 482,518 | 59,677 | 21,981 | (156,147) | 570,994 |
| Investments in associated companies and joint ventures | - | - | - | 123,974 | - | 123,974 |
| Not allocated assets | | | | | | 609,763 |
| **Total assets** | | | | | | **4,766,207** |
| Trade payables | 59,380 | 367,452 | 153,547 | 31,138 | (156,147) | 455,370 |
| Not allocated liabilities | | | | | | 2,064,516 |
| **Total liabilities** | | | | | | **2,519,886** |

| 2012 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:** | **128,270** | **111,745** | **9,480** | **8,375** | **-** | **257,870** |
| Property, plant and equipment | 72,430 | 109,927 | 7,932 | 3,686 | - | 193,975 |
| Intangible assets | 55,840 | 1,818 | 1,548 | 4,689 | - | 63,895 |
| **Depreciation and amortization** | **146,633** | **137,513** | **22,312** | **15,037** | **(2,120)** | **319,375** |
| From this: impairment losses recognized in income statement | 24,131 | 12,190 | 971 | 301 | - | 37,593 |
| From this: reversal of impairment recognized in income statement | (4,147) | (1,488) | - | (4) | - | (5,639) |

Impairment (net of reversal) recorded in the consolidated income statement amounts to HUF 237,708 million and HUF 31,954 million in 2013 and 2012, respectively. Impairments (including goodwill) recognised in 2013 decreased profit/(loss) from operation by HUF 80,611 million in Upstream, by HUF 156,810 million in Downstream, by HUF 259 million in Gas Midstream segment and by HUF 28 million in Corporate segment.

The operating profit of the segments includes the profit arising both from sales to third parties and transfers to the other business segments. 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, 2013 | Intangible assets | Property, plant and equipment | Investment in associated companies and joint ventures |
|---|---|---|---|
| | HUF million | HUF million | HUF million |
| Hungary | 56,023 | 699,847 | 21,451 |
| Croatia | 102,125 | 803,948 | - |
| Slovakia | 6,103 | 405,701 | 1,670 |
| Rest of European Union | 23,385 | 80,614 | 4,802 |
| Rest of Europe | 33,298 | 118,489 | - |
| Rest of world | 102,712 | 144,328 | 100,297 |
| **Total** | **323,646** | **2,252,927** | **128,220** |

| 31 December, 2012 | Intangible assets | Property, plant and equipment | Investment in associated companies and joint ventures |
|---|---|---|---|
| | HUF million | HUF million | HUF million |
| Hungary | 62,686 | 792,962 | 24,033 |
| Croatia | 100,093 | 877,859 | - |
| Slovakia | 5,887 | 406,142 | 1,697 |
| Rest of European Union | 34,339 | 210,596 | 6,262 |
| Rest of Europe | 39,615 | 145,778 | - |
| Rest of world | 103,330 | 175,038 | 91,982 |
| **Total** | **345,950** | **2,608,375** | **123,974** |

### Sales by geographical area

| | 2013 | 2012 |
|---|---|---|
| | HUF million | HUF million |
| Hungary | 1,457,589 | 1,481,403 |
| Croatia | 705,369 | 752,565 |
| Italy | 613,574 | 677,394 |
| Austria | 511,723 | 513,127 |
| Slovakia | 421,268 | 446,959 |
| Czech Republic | 329,536 | 335,285 |
| Romania | 313,261 | 288,985 |
| Rest of Europe | 395,942 | 370,713 |
| Rest of Central-Eastern Europe | 526,004 | 484,157 |
| Rest of the World | 126,151 | 170,736 |
| **Total** | **5,400,417** | **5,521,324** |

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 2013 and 2012.

## 4 INTANGIBLE ASSETS

| | Rights | Software | Exploration and evaluation assets | Goodwill | Total |
|---|---|---|---|---|---|
| | HUF million | HUF million | HUF million | HUF million | HUF million |
| At 31 December 2012 | | | | | |
| Gross book value | 135,420 | 51,239 | 239,266 | 85,407 | 511,332 |
| Accumulated amortization and impairment | (67,749) | (37,477) | (25,000) | (42,557) | (172,783) |
| Net book value | 67,671 | 13,762 | 214,266 | 42,850 | 338,549 |
| Year ended 31 December 2012 | | | | | |
| - additions | 29,880 | 5,065 | 54,932 | - | 89,877 |
| - acquisition of subsidiary | - | 22 | - | 6,711 | 6,733 |
| - amortization for the year | (9,377) | (4,198) | (577) | - | (14,152) |
| - impairment | (857) | (30) | (18,930) | (14) | (19,831) |
| - reversal of impairment | 1,966 | - | - | - | 1,966 |
| - disposals | (19,140) | - | - | - | (19,140) |
| - revaluation of emission quotas | (6,331) | - | - | - | (6,331) |
| - disposal of subsidiaries | (1,198) | (114) | (58) | (1,123) | (2,493) |
| - exchange adjustment | (2,924) | (414) | (18,751) | (2,683) | (24,772) |
| - transfers and other movements | 2,487 | (3,869) | (3,074) | - | (4,456) |
| Closing net book value | 62,177 | 10,224 | 227,808 | 45,741 | 345,950 |
| At 31 December, 2012 | | | | | |
| Gross book value | 136,347 | 48,773 | 264,270 | 86,769 | 536,159 |
| Accumulated amortization and impairment | (74,170) | (38,549) | (36,462) | (41,028) | (190,209) |
| Net book value | 62,177 | 10,224 | 227,808 | 45,741 | 345,950 |
| Year ended 31 December 2013 | | | | | |
| - additions | 18,194 | 6,053 | 52,066 | - | 76,313 |
| - amortization for the year | (8,157) | (3,108) | (1,469) | - | (12,734) |
| - impairment | (2,044) | (95) | (44,498) | (9,504) | (56,141) |
| - disposals | (10,979) | (21) | (28) | - | (11,028) |
| - revaluation of emission quotas | (481) | - | - | - | (481) |
| - disposal of subsidiaries | (2,921) | (58) | (725) | - | (3,704) |
| - exchange adjustment | (483) | 87 | (5,702) | 163 | (5,935) |
| - transfers and other movements | (1,754) | (372) | (6,450) | (18) | (8,594) |
| Closing net book value | 53,552 | 12,710 | 221,002 | 36,382 | 323,646 |
| At 31 December 2013 | | | | | |
| Gross book value | 129,762 | 54,173 | 274,930 | 86,243 | 545,108 |
| Accumulated amortization and impairment | (76,210) | (41,463) | (53,928) | (49,861) | (221,462) |
| **Net book value** | **53,552** | **12,710** | **221,002** | **36,382** | **323,646** |

### Exploration and evaluation assets

Impairment in 2013 mainly related to exploration activities qualified unsuccessful in Hungary (HUF 6,536 million), to the write-off of unsuccessful Gulak and Bekhme wells in Kurdistan (HUF 10,326 million), Haw-1 well in Oman (HUF 6,498 million), Hayan block in Syria (HUF 9,717 million), Aphamia block in Syria (HUF 8,460 million) and Disouq block in Egypt (HUF 3,922 million). Impairment in 2012 also related to exploration activities qualified unsuccessful in Hungary (HUF 7,235 million), to the write-off of unsuccessful Bijell-3 well in Kurdistan (HUF 6,607 million) and to the revision of reserves of Croatian field Ferdinandovac (HUF 4,309 million).
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 8,780 million and HUF 7,375 million exploration expenses were incurred in 2013 and 2012, 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:

| | 2013 | | | 2012 | | |
|---|---|---|---|---|---|---|
| | 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 | 42,772 | 9,504 | **33,268** | 42,669 | 14 | **42,655** |
| - Roth Group | 7,556 | - | **7,556** | 7,413 | - | **7,413** |
| - Romanian retail network | 4,353 | - | **4,353** | 4,315 | - | **4,315** |
| - IES Group | 9,439 | 9,439 | **-** | 9,156 | - | **9,156** |
| - Croatian retail network | 14,487 | - | **14,487** | 14,357 | - | **14,357** |
| - Czech retail network | 6,395 | - | **6,395** | 6,858 | - | **6,858** |
| - TVK | 477 | - | **477** | 477 | - | **477** |
| - TVK Polska* | 65 | 65 | **-** | 93 | 14 | **79** |
| Upstream | 3,114 | - | **3,114** | 3,086 | - | **3,086** |
| - Rotary (former DrillTrans) | 3,114 | - | **3,114** | 3,086 | - | **3,086** |
| **Total goodwill** | **45,886** | **9,504** | **36,382** | **45,755** | **14** | **45,741** |

* TVK Polska was closed in 2013

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 2013 goodwill of HUF 7,556 million (2012: 7,413 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 826 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. Even an increase of approximately 0.6 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 2013 goodwill of HUF 4,353 million (2012: 4,315 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 11% 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

As a consequence of the unfavourable economic environment that the refining business faces in Italy, after detailed assessment of the long term sustainability of the Mantova operations of IES the Group decided to convert the refinery into a products logistics hub. The Group performed an impairment test on its non-current assets including goodwill. As a result, the Group recognised full impairment charge of HUF 9,439 million against goodwill. For goodwill allocation purposes, the Mantova refinery and its wholesale activity (being a single cash generating unit) were considered.

### Croatian retail network

At 31 December 2013 goodwill of HUF 14,487 million (2012: 14,357 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 10% and 13% 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.

### Czech retail network

At 31 December 2013 goodwill of HUF 6,395 million (2012: 6,858 million) was allocated to the Czech retail network comprising of filling stations under PapOil and Slovnaft brands. For goodwill allocation purposes, the Czech filling stations' network as a whole (being a group of cash generating units including the PapOil and Slovnaft 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 11% and 12% in the years considered.

With regard to the assessment of value in use of the Czech 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 2013, no impairment has been recognized on the goodwill relating to the activities of Rotary, drilling subsidiary of INA d.d. Discounted cash flow was calculated using a pre-tax discount rate of 9.97% (2012: 10.39%).

### TVK Polska

The dissolution of TVK Polska finished at 28 February 2013 and the allocated goodwill was derecognised.

### 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 13,399 million as of 31 December 2013. 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 2012 | | | | | |
| Gross book value | 2,659,825 | 1,922,365 | 122,470 | 257,581 | 4,962,241 |
| Accumulated depreciation and impairment | (950,847) | (1,100,886) | (87,842) | (706) | (2,140,281) |
| Net book value | 1,708,978 | 821,479 | 34,628 | 256,875 | 2,821,960 |
| Year ended 31 December 2012 | | | | | |
| - additions and capitalizations | 88,617 | 119,145 | 7,194 | (25,745) | 189,211 |
| - acquisition of subsidiaries | 16,294 | 943 | - | - | 17,237 |
| - depreciation for the year | (146,106) | (117,145) | (10,018) | - | (273,269) |
| - impairment | (7,788) | (6,641) | (424) | (2,909) | (17,762) |
| - reversal of impairment | 3,197 | 368 | 86 | 22 | 3,673 |
| - disposals | (1,061) | (216) | (75) | (245) | (1,597) |
| - disposal of subsidiaries | (513) | (304) | (38) | (15) | (870) |
| - exchange adjustment | (76,397) | (45,201) | (2,044) | (6,716) | (130,358) |
| - transfers and other movements | 577 | (1,314) | (268) | 1,155 | 150 |
| Closing net book value | 1,585,798 | 771,114 | 29,041 | 222,422 | 2,608,375 |
| At 31 December 2012 | | | | | |
| Gross book value | 2,642,054 | 1,933,770 | 119,305 | 223,766 | 4,918,895 |
| Accumulated depreciation and impairment | (1,056,256) | (1,162,656) | (90,264) | (1,344) | (2,310,520) |
| Net book value | 1,585,798 | 771,114 | 29,041 | 222,422 | 2,608,375 |
| Year ended 31 December 2013 | | | | | |
| - additions and capitalizations | 70,996 | 68,901 | 8,869 | 42,323 | 191,089 |
| - acquisition of subsidiaries | 622 | 62 | 47 | - | 731 |
| - depreciation for the year | (153,577) | (127,104) | (8,563) | - | (289,244) |
| - impairment | (44,326) | (130,001) | (2,243) | (5,968) | (182,538) |
| - reversal of impairment | 865 | 53 | 37 | 16 | 971 |
| - disposals | (686) | (186) | (72) | (50) | (994) |
| - disposal of subsidiaries | (70,591) | (16,041) | (42) | (1,112) | (87,786) |
| - exchange adjustment | 2,245 | 3,090 | 242 | (1,084) | 4,493 |
| - transfers and other movements | 17,394 | (9,545) | 2,034 | (2,053) | 7,830 |
| Closing net book value | 1,408,740 | 560,343 | 29,350 | 254,494 | 2,252,927 |
| At 31 December 2013 | | | | | |
| Gross book value | 2,609,960 | 1,930,528 | 125,018 | 260,091 | 4,925,597 |
| Accumulated depreciation and impairment | (1,201,220) | (1,370,185) | (95,668) | (5,597) | (2,672,670) |
| **Net book value** | **1,408,740** | **560,343** | **29,350** | **254,494** | **2,252,927** |

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 2013 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 HUF 281 million positive effects 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 and of multiple scenarios with respect to return to normal production. The most significant variables in determining cash flows are discount rates, the period for which cash flow projections are made, probabilities relating to different scenarios 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), the incremental rebuilding costs, 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 and are adjusted for project-specific risks, as applicable. The discount rate applied was 17.5%. Based on multiple-scenario discounted cash-flow calculations the Group has recorded impairment in amount of HUF 43,365 million in Syria (of which HUF 25,188 million relates to PP&E). After recognizing impairment the book value of total Group assets in Syria as at 31 December 2013 was HUF 89,647 million (31 December 2012: HUF 160,319 million).

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

### Impairment test on refining and wholesale assets of IES

As a consequence of the unfavourable economic environment that the refining business faces in Italy, after detailed assessment of the long term sustainability of the Mantova operations of IES the Group decided to convert the refinery into a products logistics hub. The Group performed an impairment test on Italian refining and wholesale assets, qualifying as a cash generating unit. Since the refinery operation abandoned as of the end of 2013 all related assets were written off. For the wholesale activity cash flow forecasts are prepared which are derived from the most recent financial budgets approved by management. Based on the calculation, the Group recognised an impairment charge of HUF 114,393 million against Property, plant and equipment and Intangibles (excluding Goodwill). After recognizing impairment the book value of total Group refining and wholesale assets in Italy as at 31 December 2013 was HUF 6,015 million (31 December 2012: HUF 119,525 million).

### Impairment test on refining and wholesale assets of INA

As a consequence of the unfavourable economic environment, after detailed assessment of the long term sustainability of the Sisak and Rijeka refining operations of INA the Group performed an impairment test on Croatian refining and wholesale assets, qualifying as cash generating units. For the refining and wholesale activity, cash flow forecasts are prepared which are derived from the most recent financial budgets approved by management. Based on the calculation, the Group recognised an impairment expense of HUF 27,709 million against Property, plant and equipment (of which HUF 26,745 million relates to assets in operation) in 2013 (2012: HUF 6,611 million). After recognizing impairment the book value of total Group refining and wholesale non-current assets in Croatia as at 31 December 2013 was HUF 153,157 million (31 December 2012: HUF 187,952 million).

### Other impairment expenses

Impairment expense of HUF 3,325 million and HUF 1,121 million were recorded with respect to the revision of field abandonment provision of maturing and suspended oil and gas producing fields in Hungary in 2013 and 2012, respectively. Impairment expense of HUF 1,988 million and HUF 1,089 million was recognised related to Hungarian oil and gas producing fields in 2013 and 2012. Impairment expense of HUF 4,556 million was recorded with respect to filling stations and retail sites (2012: HUF 2,488 million, in addition to HUF 2,909 million charge to in progress construction works). Additional impairment expenses of HUF 259 million and of HUF 377 million were recorded for certain gas transmission assets of FGSZ Földgázszállító Zrt. in 2013 and 2012, respectively. Other individually non-material impairment loss of HUF 4,149 million and reversal of impairment of HUF 506 million have been recognized in 2013 and 2012, respectively.

### Leased assets

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

| | 2013 | 2012 |
|---|---|---|
| | HUF million | HUF million |
| Cost | 9,759 | 9,017 |
| Accumulated depreciation | (5,008) | (3,669) |
| **Net book value** | **4,751** | **5,348** |

### 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 4,196 million and HUF 1,085 million in 2013 and 2012, respectively. In 2013 and 2012 the applicable capitalisation rates (including the impact of foreign exchange differences) were 4.8% and 2.9% respectively.

### Government Grants

Property, plant and equipment include assets with a value of HUF 12,477 million financed from government grants (See Note 25). 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 22,954 million have been pledged by the Group of which HUF 9,630 million as collateral for loans utilized by TVK-Erőmű Kft. and Tisza WTP Kft. The remaining amount of HUF 13,324 million relates to the remaining assets of IES SpA. As of 31 December 2012 the net book value of pledged assets was HUF 118,180 million, the majority of which relating to the assets of IES SpA.

## 6 SUBSIDIARIES AND JOINTLY CONTROLLED ENTITIES

| Company name | Country Incorporation / Branch) | Range of activity | Ownership 2013 | Ownership 2012 |
|---|---|---|---|---|
| Integrated subsidiaries | | | | |
| INA-Industrija nafte d.d. | Croatia | Integrated oil and gas company | 49% | 49% |
| Upstream | | | | |
| Adriagas S.r.l. | Italy | Pipeline project company | 49% | 49% |
| 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. | Hungary | Geothermal energy production | 54% | 50% |
| Crosco Naftni Servisi d.o.o. | Croatia | Oilfield services | 49% | 49% |
| CorteCros d.o.o. | Croatia | Production of anticorrosion products | 29% | 29% |
| Crosco B.V. | Netherlands | Oilfield services | 49% | 49% |
| Nordic Shipping Ltd. | Marshall Islands | Platform ownership | 49% | 49% |
| Crosco International d.o.o. (Slovenia) | Slovenia | Oilfield services | 49% | 49% |
| Crosco International d.o.o. (Tuzla) | Bosnia and Herzegovina | Oilfield services | 49% | 49% |
| Crosco International Ltd. | United Kingdom | Oilfield services | 49% | 49% |
| Crosco S.A. DE C.V | Mexico | Maintaining services | 49% | 49% |
| Mideast Integrated Drilling & Well Services Company LLC | Oman | Integrated drilling and completion services | 24% | 24% |
| Rotary Zrt. | Hungary | Oilfield services | 49% | 49% |
| Sea Horse Shipping Inc. | Marshall Islands | Platform ownership | 49% | 49% |
| Geoinform Kft. | Hungary | Hydrocarbon exploration | 100% | 100% |
| GES Kft. (under liquidation) | Hungary | Geophysical surveying and data processing | 100% | 100% |
| Geophysical Services Middle-East LLC (under liquidation) | Oman | Geophysical surveying and data processing | 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% | 49% |
| Kalegran Ltd. | Cyprus / Iraq | Exploration investment management / Exploration and production activity | 100% | 100% |
| Ménrót Kft. | Hungary | Exploration investment management | 100% | 100% |
| Karpinvest Kft. | Hungary | Exploration investment management | 100% | 100% |
| KS EP Investment B.V. (joint operation) | Netherlands | Exploration investment management | 49% | 49% |
| Karpovskiy Severniy LLP | Kazakhstan | Exploration and production activity | 49%, h) | 49%, h) |
| MH Oil and Gas B.V. | Netherlands | Exploration investment management | 100%, h) | 100%, h) |
| MK Oil and Gas B.V. | Netherlands | Exploration investment management | 100%, h) | 100%, h) |
| BaiTex LLC | Russia | Exploration and production activity | 100% | 100% |
| MOL Caspian Oil and Gas Ltd. | Cyprus / Kazakhstan | Exploration investment management | 100% | 100% |

| Company name | Country Incorporation / Branch) | Range of activity | Ownership 2013 | Ownership 2012 |
|---|---|---|---|---|
| Ural Group Ltd. (joint operation) | British Virgin Island | Exploration and production activity | 28% | 28% |
| Ural Oil Group Ltd. (joint operation) | Kazakhstan | Exploration and production activity | 28% | 28% |
| MOL Central Asia Oil and Gas Co. B.V. | Netherlands / Syria / Kazakhstan | Exploration and production activity | 100% | 100% |
| MOL Oman Ltd. (former: Lamorak Enterprises Ltd.) | Cyprus / Oman | 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% | 100% |
| Platounko Investments Ltd. | Cyprus | Exploration financing | 100% | 100% |
| Silverdale 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% |
| Theatola Ltd. | Cyprus | Exploration investment management | 100% | 100% |
| 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 | b) | 100% |
| ZMB Ltd. (joint venture) | Russia | Exploration and production activity | b) | 50% |
| SHM Seven Investments Ltd. | Cyprus | Exploration investment management | b) | 100% |
| MOL Western Siberia LLC | Russia | Exploration and production activity | b) | 100% |
| USI Ltd. | Cyprus | Exploration investment management | 100% | 100% |
| UBA Services Ltd. | Cyprus / Russia | Exploration investment management | 100% | 100% |
| Gas Midstream | | | | |
| CROPLIN, d.o.o. | Croatia | Natural gas trading | 49%, h) | 24%, h) |
| FGSZ Földgázszállító Zrt. | Hungary | Natural gas transmission | 100% | 100% |
| MMBF Földgáztároló Zrt. | Hungary | Strategic natural gas storage | b) | 72% |
| Prirodni plin d.o.o. | Croatia | Natural gas trading | 49% | 49% |
| Downstream | | | | |
| Bohemia Realty Company s.r.o. | Czech Republic | Retail trade | c) | 100% |
| CM European Power International B.V. (joint venture) | Netherlands | Power plant investment management | f) | 50% |
| CM European Power International s.r.o. (joint venture) | Slovakia | Power plant investment management | f) | 50% |
| CM European Power Slovakia s.r.o. | Slovakia | Operation of thermo-power plant | 50%, a) | 50%, a) |
| MOL-CEZ European Power Hungary Kft. (joint venture) | Hungary | Steam and hot water supply, electricity production | f) | 50% |

| Company name | Country Incorporation / Branch) | Range of activity | Ownership 2013 | Ownership 2012 |
|---|---|---|---|---|
| Energopetrol d.d. | Bosnia and Herzegovina | Retail trade | 50% | 50% |
| Holdina (Guernsey) Ltd. | United Kingdom | Trading of oil products | 49% | 49% |
| Inter Ina (Guernsey) Ltd. | United Kingdom | Trading of oil products | g) | 49% |
| Holdina (Cyprus) Ltd. | Cyprus | Intermediate holding company | g) | 49% |
| Holdina d.o.o. | Bosnia and Herzegovina | Trading of oil products | 49% | 49% |
| IES SpA | Italy | Refinery and marketing of oil products | 100% | 100% |
| Batec S.r.l | Italy | Refinery and marketing of bitumen products | 100%, h) | 50%, h) |
| Greengas S.r.l. | Italy | Hydrogen plant operation | 49%, a) | 49%, a) |
| Nelsa S.r.l. | Italy | Trading of oil products | 74% | 74% |
| Panta Distribuzione S.r.l. | Italy | Trading of oil products | 100% | 100% |
| INA d.o.o. | Serbia | Trading of oil products | 49% | 49% |
| INA BH d.d. | Bosnia and Herzegovina | Trading of oil products | 49% | 49% |
| INA BL d.o.o. | Bosnia and Herzegovina | Trading of oil products | 49% | 49% |
| INA Crna Gora d.o.o. | Montenegro | Trading of oil products | 49% | 49% |
| INA Hungary Kft. (under liquidation) | Hungary | Trading of oil products | g) | 49% |
| INA Kosovo d.o.o. | Kosovo | Trading of oil products | 49% | 49% |
| INA-Osijek – Petrol d.d. | Croatia | Trading of oil products | 49% | 48% |
| Interina d.o.o. Ljubljana | Slovenia | Trading of oil products | 49% | 49% |
| Interina d.o.o. Skopje (under liquidation) | Macedonia | Trading of oil products | 49% | 49% |
| MOL Serbia d.o.o. (former: Intermol d.o.o.) | Serbia | Retail trade of fuels and lubricants | 100% | 100% |
| INA Maziva Ltd. (former: Maziva Zagreb d.o.o.) | Croatia | Lubricants production and trading | 49% | 49% |
| MOL Austria GmbH | Austria | Wholesale trade of lubricants and oil products | 100% | 100% |
| Roth Heizöle GmbH | Austria | Trading of oil products | 100% | 100% |
| Rumpold Festbrennstoffe GmbH | Austria | Trading of solid fuels and other products | 100% | 100% |
| MOL Commodity Trading Kft. | Hungary | Financial services | 100% | 100% |
| MCT Slovakia s.r.o. | Slovakia | Financial services | 100% | 100% |
| MOL Germany GmbH (former: MK Mineralkontor GmbH) | Germany | Trading 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% | 100% |
| MOL Romania PP s.r.l. | Romania | Retail and wholesale trade of fuels and lubricants | 100% | 100% |
| MOL Slovenija d.o.o. | Slovenia | Retail trade of fuels and lubricants | 100% | 100% |
| Moltrans Kft. | Hungary | Transportation services | 100% | 100% |



The notes are an integral part of these consolidated financial statements

| Company name | Country Incorporation / Branch) | Range of activity | Ownership 2013 | Ownership 2012 |
|---|---|---|---|---|
| MOLTRADE-Mineralimpex Zrt. | Hungary | Importing and exporting of energetical products | 100% | 100% |
| Slovnaft Ceska Republika s.r.o. | Czech Republic | Wholesale and retail trade | 100% | 100% |
| MOL Ukraine LLC (former: TVK Ukrajna t.o.v.) | Ukraine | Wholesale and retail trade | 100% | 100% |
| MULTIPONT Program Zrt. | Hungary | Marketing agent activity | 83% | 81% |
| Pap Oil s.r.o. (former: Pap Oil Cerpaci Stanice s.r.o.) | Czech Republic | Retail trade | 100% | 100% |
| Petrol d.d. | Croatia | Trading of oil products | 41% | 41% |
| Polybit d.o.o. (under liquidation) | Croatia | Production and trading | 49% | 49% |
| Rossi Biofuel Zrt. (joint venture) | Hungary | Biofuel component production | f) | 25% |
| SLOVNAFT a.s. | Slovakia | Refinery and marketing of oil and petrochemical products | 99% | 98% |
| Apollo Rafinéria s.r.o. | Slovakia | Wholesale and retail trade | 99% | 98% |
| MOL Slovensko spol s.r.o. | Slovakia | Wholesale and retail trade | 99% | 98% |
| Slovnaft Petrochemicals s.r.o. | Slovakia | Petrochemical production and trading | d) | 98% |
| Slovnaft Polska S.A. | Poland | Wholesale and retail trade | 99% | 98% |
| Slovnaft Trans a.s. | Slovakia | Transportation services | 99% | 98% |
| SWS s.r.o. | Slovakia | Transport support services | 50% | 50% |
| VÚRUP a.s. (former: Slovnaft VÚRUP a.s.) | Slovakia | Research & development | 99% | 98% |
| Zväz pre skladovanie zásob a.s. | Slovakia | Wholesale and retail trade, warehousing | 99% | 98% |
| 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 Polska Sp.Zoo. (under liquidation) | Poland | Wholesale and retail trade | g) | 95% |
| TVK UK Ltd. (under liquidation) | United Kindgom | Wholesale and retail trade | g) | 95% |
| TVK Italia S.r.l. | Italy | Wholesale and retail trade | 100% | 100% |
| Corporate and other | | | | |
| EMS Management Services Ltd. (under liquidation) | Cyprus | Management services | 100% | 100% |
| FER Tűzoltóság és Szolgáltató Kft. | Hungary | Fire service, ambulance service | 100% | 92% |
| Hostin d.o.o. | Croatia | Tourism | 49% | 49% |
| ITR d.o.o. | Croatia | Car rental | 49% | 49% |

| Company name | Country Incorporation / Branch) | Range of activity | Ownership 2013 | Ownership 2012 |
|---|---|---|---|---|
| Magnolia Finance Ltd. | Jersey | Financial services | 0%, a) | 0%, a) |
| MOL Group Finance S.A. | Luxemburg | Financial services | 100% | 100% |
| MOL Reinsurance Ltd. | Cyprus | Captive insurance | 100% | 100% |
| MOL Vagyonkezelő Kft. (former: Hermész Tanácsadó Kft.) | Hungary | Consultancy | 100% | 100% |
| Petrolszolg Kft. | Hungary | Repairs and maintenance services | 100% | 100% |
| Sinaco d.o.o. | Croatia | Security | e) | 49% |
| Slovnaft Montáže a opravy a.s. | Slovakia | Repairs and maintenance services | 99% | 98% |
| STSI integrirani tehnički servisi d.o.o. | Croatia | Repairs and maintenance services | 49% | 49% |
| Ticinum Kft. | Hungary | Asset management | 100%, h) | 100%, h) |
| Top Računovodstvo Servisi d.o.o. | Croatia | Accounting services | 49% | 49% |
| TVK Ingatlankezelő Kft. | Hungary | Real estate management | 95% | 95% |

a) Consolidated as required by "IFRS 10 - Consolidated Financial Statements"
b) Divested in 2013
c) Merged into Pap Oil s.r.o. in 2013
d) Merged into Slovnaft a.s. in 2013
e) Merged into INA d.d. in 2013
f) Form of the joint operation as required by "IFRS 11 Consolidation - Joint Arrangements" from 2013
g) Company was closed as a result of a liquidation process finalized in 2013
h) Fully consolidated from 2013

## 7 BUSINESS COMBINATIONS, TRANSACTIONS WITH NON-CONTROLLING INTERESTS

### Acquisition in 2013

### Croplin

Pursuant to the Purchase Agreement INA d.d. acquired 50% of equity in the entity Croplin d.o.o. from E.ON Hungaria Zrt. for HUF 371 million. At 3 September 2013 Commercial Court in Zagreb changes the ownership, and INA d.d. becomes the sole shareholder of Croplin d.o.o.

Following the acquisition of 100% ownership, a total investment amounting to HUF 1,817 million and impairment of investments in the amount of HUF 967 million is transferred from investments in associates to investments in subsidiaries.

| Croplin d.o.o. | Headquarters | Principal activity | Date of acquisition | Proportion of shares (%) | Consideration transferred |
|---|---|---|---|---|---|
| | Zagreb, Croatia | gas, distribution network of gas fuels | 3 September 2013 | 50% | 371 |

| | Carrying amount | Provisional fair value adjustment | Provisional fair value on acquisition |
|---|---|---|---|
| | HUF million | HUF million | HUF million |
| **Current assets** | | | |
| Cash and cash equivalents | 68 | - | 68 |
| Trade and other recivables | 132 | - | 132 |
| Other current assets | 269 | - | 269 |
| Prepaid expenses and accrued income | 31 | - | 31 |
| **Non-current assets** | | | |
| Property, plant and equipment | 1,064 | (333) | 731 |
| Investments in associates and joint ventures | 235 | (235) | - |
| Investments in other companies | 945 | (945) | - |
| **Current liabilities** | | | |
| Trade payables | (2) | - | (2) |
| Taxes and contributions | (13) | - | (13) |
| Other current liabilities | - | - | - |
| | 2,729 | (1,513) | 1,216 |
| **Goodwill arisen on acquisition** | | | |
| Fair value of consideration transferred | | | 371 |
| Fair value of the previously held interest | | | 845 |
| **Total consideration** | | | **1,216** |
| Less: fair value of identifiable net assets aquired | | | (1,216) |
| **Goodwill arrising on acquisition** | | | - |
| **Net cash outflow on acquisition of subsidiaries** | | | |
| Consideration paid in cash | | | 371 |
| Less: cash and cash equivalent balances acquired | | | -68 |
| | | | **303** |

### Acquisition in 2012

As of 1 October 2012, MOL completed the acquisition of 100% share of Bohemia Realty Company s.r.o. (hereinafter: BRC) and Pap Oil Cerpaci Stanice s.r.o. (hereinafter: Pap Oil) companies which owns and operates a filling station network under the brand Pap Oil in the Czech Republic. The acquisition of the 124 Pap Oil filling stations is in line with MOL Group's strategy to improve its presence and increase the retail market share in the supply radius of MOL Group refineries and increases further the synergies within the Downstream segment.

Determination of the fair value of the acquired filling stations has been completed in 2013; the provisional fair value of Property, plant and equipment of HUF 17,237 million has not changed in the measurement period. The amount of goodwill arisen on the transaction decreased by HUF 4 million due to the subsequent change in the final amount of consideration paid. The final fair values of the assets and liabilities are the following:

| | Carrying amounts | Fair value adjustment | Fair value on acquisition |
|---|---|---|---|
| | HUF million | HUF million | HUF million |
| Intangible assets | 22 | - | 22 |
| Property, plant and equipment | 8,791 | 8,446 | 17,237 |
| Inventories | 972 | - | 972 |
| Trade receivables | 1,969 | - | 1,969 |
| Other current assets | 390 | - | 390 |
| Deferred tax assets | 12 | - | 12 |
| Prepaid taxes | 76 | - | 76 |
| Cash and cash equivalents | 1,342 | - | 1,342 |
| Provisions | (1) | - | (1) |
| Other non-current liabilities | (164) | - | (164) |
| Deferred tax liabilities | - | (1,605) | (1,605) |
| Trade and other payables | (4,140) | - | (4,140) |
| **Provisional fair value of net assets of Pap Oil** | **9,269** | **6,841** | **16,110** |
| Goodwill arising on acquisition | | | 6,707 |
| **Total consideration** | | | **22,817** |

## 8 DISPOSALS

### Disposals in 2013

*Russian operations (ZMB and MOL Western Siberia)*

MOL has executed Share Purchase Agreements for the divestiture of MOL's 50% stake in OOO Zapadno-Malobalykskoye in line with the company's portfolio optimization. This company is the holder of the Zapadno-Malobalykskoye (ZMB) hydrocarbon license in Russia. The transaction was closed on 12 August 2013. MOL in line with the company's portfolio optimization has successfully divested its 100% stake in OOO MOL Western Siberia. The divested company owns the exploration license for the Surgut-7 block, which is strongly linked to the infrastructure of the Zapadno-Malobalykskoye field and thus it is part of a favourable package deal. The transaction was completed as of 3 September 2013.

The carrying amount of disposed assets and liabilities of ZMB and MOL Western Siberia as of 31 July 2013 and analysis of cash flows of the sale are the following:

| | ZMB | Western Siberia |
|---|---|---|
| | HUF million | HUF million |
| Intangible assets | - | 1,652 |
| Tangible assets | 11,209 | 33 |
| Deferred tax asset | 750 | 473 |
| Other non-current assets | 100 | - |
| Inventories | 681 | - |
| Trade receivables | 2,550 | - |
| Other current assets | 1,322 | 195 |
| Cash and cash equivalents | 772 | 16 |
| **Total assets** | **17,384** | **2,369** |
| Provisions and contingent liabilities | 2,401 | 32 |
| Trade and other payables | 2,522 | 249 |
| Current tax payable | 63 | 30 |
| **Total liabilities** | **4,986** | **311** |
| **Net assets sold** | **12,398** | **2,058** |
| Cash consideration received | 29,294 | 4,468 |
| Recycling of cumulative foreign exchange loss | (8,482) | (317) |
| **Gain on disposal (see Note 25)** | **8,414** | **2,093** |
| The analysis of cash inflow on sales | | |
| Net cash disposed of during the sale | (772) | (16) |
| Cash consideration received | 29,294 | 4,468 |
| **Net cash inflow** | **28,522** | **4,452** |

### MMBF

MOL has signed a Share Purchase Agreement on 7th of October 2013 with the Hungarian Hydrocarbon Stockpiling Association (MSZKSZ) and MFB Hungarian Development Bank Zrt. (MFB) on the divestment of its stake held in MMBF Zrt.

The parties have agreed that the Hungarian State acquires 51% shareholding in MMBF from MOL through MFB. After the transaction MFB has 51% shareholding in MMBF. The remaining 21.46% stake of MOL is purchased by MSZKSZ which company was already a minority shareholder of MMBF.

As agreed in the Letter of Intent on divesting MOL's stake in MMBF Zrt, signed in March 2013, the transaction price was based onto the asset valuation prepared by independent valuation experts, including the full settlement of loans between MOL and MMBF. The transaction is fully cash-based, cash consideration for the shares was split into two parts (end of December 2013 and beginning of January 2014), settlement of loans occurred after the Balance Sheet Date. The closing of the transaction was on 30 December 2013. The carrying amount of disposed assets and liabilities of MMBF as of 31 December 2013 and analysis of cash flows of the sale are the following:

| | HUF million |
|---|---|
| Intangible assets | 2,052 |
| Property plant & equipment | 76,544 |
| Deferred tax assets | 11,485 |
| Inventories | 113 |
| Trade receivables | 2,086 |
| Prepaid taxes | 48 |
| Other current assets | 412 |
| Cash and cash equivalents | 1,095 |
| **Total assets** | **93,835** |
| | |
| Long-term debt, net of current portion | 33,935 |
| Provisions | 1,236 |
| Other long-term liabilities | 117 |
| Trade and other payables | 8,431 |
| Short-term debt | - |
| Current portion of long-term debt | 46,007 |
| **Total liabilities** | **89,726** |
| Minority interest | 13,665 |
| **Net assets sold** | **(9,556)** |
| **Consideration received** | **32,772** |
| Recycling of cumulated exchange gain | 84 |
| **Gain on disposal (see Note 25)** | **42,412** |

### Disposals in 2012

Several minor disposals took place in 2012 which had no material impact on the financial position of the Group.

## 9 MATERIAL PARTLY-OWNED SUBSIDIARIES

### INA Group

Proportion of equity interest held by non-controlling interests:

| Name | Country of incorporation and operation | 2013 | 2012 |
|---|---|---|---|
| INA-Industrija nafte d.d. | CROATIA | 51% | 51% |
| Accumulated balances of material non-controlling interest | | 397,263 | 448,675 |
| Profit/(loss) allocated to material non-controlling interest | | (44,594) | (31,134) |

The summarised financial information of INA-Industrija nafte d.d. are provided below. This information is based on amounts before inter-company eliminations.

| Summarized Income statement | 2013 | 2012 |
|---|---|---|
| | HUF million | HUF million |
| Total operating income | 1,092,083 | 1,159,371 |
| Total operating expenses | (1,186,047) | (1,133,875) |
| Financial (expense) / income, net | (10,926) | (12,369) |
| **Profit before income tax** | **(104,890)** | **13,127** |
| Income tax expense | 18,824 | (9,467) |
| **Profit for the year** | **(86,066)** | **3,660** |
| **Total comprehensive income** | **(87,581)** | **(61,145)** |
| Attributable to non-controlling interests | (44,594) | (31,134) |
| Dividents paid to non-controlling interests | (6,818) | - |

| Summarized Balance Sheet | 2013 | 2012 |
|---|---|---|
| | HUF million | HUF million |
| Current assets | 285,880 | 281,692 |
| Non-current assets | 1,090,451 | 1,204,449 |
| | 1,376,331 | 1,486,141 |
| Current liabilities | (318,216) | (353,301) |
| Non-current liabilities | (277,914) | (251,668) |
| | (596,130) | (604,969) |
| **Total Equity** | **780,201** | **881,172** |
| Attributable to: | | |
| Equity holders of parent | 382,938 | 432,497 |
| Non-controlling interest | 397,263 | 448,675 |

| Summarized Balance Sheet | 2013 | 2012 |
|---|---|---|
| | HUF million | HUF million |
| Net cash provided by operating activities | 177,466 | 145,067 |
| Net cash used in investing activities | (84,524) | (42,511) |
| Net cash provided by / (used in) financing activities | (96,030) | (96,280) |
| **(Decrease) / increase in cash and cash equivalents** | **(3,088)** | **6,276** |

### Magnolia Finance Ltd.

Proportion of equity interest held by non-controlling interests:

| Name | Country of incorporation and operation | 2013 | 2012 |
|---|---|---|---|
| | | HUF million | HUF million |
| Magnolia Finance Limited | Jersey | 100% | 100% |
| Opening value of equity attributable to non-controlling interests | | 63,430 | 73,182 |
| Change (coupon and dividend payments) | | (10,060) | (9,752) |
| **Closing value of equity attributable to non-controlling interests** | | **53,370** | **63,430** |

## 10 INVESTMENTS IN ASSOCIATED COMPANIES AND JOINT VENTURES

| Company name | Country | Range of activity | Ownership 2013 | Ownership 2012 | Net book value of investment 2013 | Net book value of investment 2012 |
|---|---|---|---|---|---|---|
| | | | | | HUF million | HUF million |
| **Investment in associated companies** | | | | | | |
| Pearl Petroleum Ltd. | Iraq | Exploration of gas | 10% | 10% | 100,297 | 91,982 |
| MET Magyarország Energiakereskedő Zrt. (MET) | Hungary | Natural gas trading | 40% | 40% | 18,548 | 21,428 |
| Mazzola & Bignardi S.r.l. | Italy | Retail trade | 50% | 50% | 1,553 | 1,516 |
| Mazzola & Bignardi Commerciale S.r.l. | Italy | Marketing of oil products | 40% | 40% | 1,078 | 1,075 |
| Meroco a.s. | Slovakia | Production of bio-diesel component (FAME) | 25% | 25% | 1,011 | 980 |
| Messer Slovnaft s.r.o | Slovakia | Production of technical gases | 49% | 49% | 659 | 717 |
| Batec S.r.l. | Italy | Bitumen production | - | 50% | - | 544 |
| Other associated companies | | | | | 555 | 649 |
| **Investment in joint ventures** | | | | | | |
| CM European Power International B.V. | Netherlands | Power plant investment management | 50% | 50% | 2,012 | 3,127 |
| Rossi Biofuel Zrt. | Hungary | Biofuel component production | 25% | 25% | 2,507 | 1,956 |
| **Total** | | | | | **128,220** | **123,974** |

### Pearl Petroleum Company Limited

On 15 May 2009 MOL signed an agreement to acquire 10% stake in Pearl Petroleum Company Limited (Pearl) from Crescent Petroleum and Dana Gas PJSC. Pearl holds all of the companies' legal rights in Khor Mor and Chemchemal gas-condensate fields in the Kurdistan Region of Iraq. 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 2013 in Pearl was as follows:

| | 2013 | 2012 |
|---|---|---|
| | HUF million | HUF million |
| *The associate's balance sheet:* | | |
| Non-current assets | 154,322 | 162,257 |
| Current assets | 305,124 | 247,893 |
| Non-current liabilities | (54,538) | (108,340) |
| Current liabilities | (10,506) | (5,402) |
| **Net assets** | **394,402** | **296,408** |
| *Proportion of the Group's ownership at year end* | 10% | 10% |
| Group's share of assets | 39,440 | 29,641 |
| Fair value adjustment | 60,857 | 62,341 |
| Carrying amount of the investment | 100,297 | 91,982 |
| The associate's income statement: | | |
| Net revenue | 128,703 | 145,209 |
| Profit from operations | 105,083 | 126,978 |
| Net income attributable to equity-holders | 108,963 | 128,207 |
| **Group's share of profit for the year** | **10,896** | **12,821** |

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

The Group's interest (40%) as of 31 December 2013 in MET was as follows:

| | 2013 | 2012 |
|---|---|---|
| | HUF million | HUF million |
| *The associate's balance sheet:* | | |
| Non-current assets | 861 | 398 |
| Current assets | 204,853 | 159,231 |
| Non-current liabilities | 651 | 297 |
| Current liabilities | 155,982 | 103,057 |
| **Net assets** | **49,081** | **56,275** |
| Proportion of the Group's ownership at year end | 40% | 40% |
| Carrying amount of the investment | 18,548 | 21,428 |
| *The associate's income statement:* | | |
| Net Revenue | 879,064 | 559,042 |
| Profit from operations | 28,508 | 47,305 |
| Net income attributable to equity-holders | 24,313 | 41,647 |
| Group's share of profit for the year calculated by proportion % | 9,725 | 16,659 |
| **Group's net share of profit for the year recorded as income from associates*** | **9,722** | **19,693** |

* The difference between the calculated Group's share of the profit and the actual result recorded as income from associate are due to the change in Group's share in MET (50% till the end of October 2012, 40% subsequently) and to the foreign exchange difference arising in both years.

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

## 11 AVAILABLE-FOR-SALE INVESTMENTS

| | Net book value of investment 2013 | Net book value of investment 2012 |
|---|---|---|
| | HUF million | HUF million |
| Quoted - Jadranski Naftovod d.d. | 10,520 | 10,792 |
| Nabucco Gas Pipeline International GmbH | - | 5,147 |
| Other ordinary shares – unquoted | 4,116 | 4,632 |
| **Total** | **14,636** | **20,571** |

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 2013. 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.

MOL Group's investment in Nabucco Gas Pipeline GmbH was written off due to the present situation of the Nabucco project.

## 12 OTHER NON-CURRENT ASSETS

| | 2013 | 2012 |
|---|---|---|
| | HUF million | HUF million |
| Advance payments for assets under construction | 15,524 | 8,932 |
| Loans given (see Note 33) | 10,937 | 17,280 |
| Prepaid mining royalty | 4,164 | 5,327 |
| Prepaid fees of long-term rental | 2,722 | 27 |
| Advance payments for intangible assets | 2,503 | 2,404 |
| Net receivable from currency risk hedging derivatives as cash-flow hedge (see Note 33) | 864 | 2,434 |
| Net receivable from currency risk hedging derivatives as fair value hedge (see Note 33) | 114 | 183 |
| Other | 71 | 71 |
| **Total** | **36,899** | **36,658** |

Loans given primarily contain the HUF 5,454 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 2013 and 2012 was HUF 1,163 million and HUF 1,432 million, respectively, and is expected to maintain a similar pattern in the forthcoming years.

## 13 INVENTORIES

| | 2013 At cost | 2013 Lower of cost or net realisable value | 2012 At cost | 2012 Lower of cost or net realisable value |
|---|---|---|---|---|
| | HUF million | HUF million | HUF million | HUF million |
| Work in progress and finished goods | 315,591 | 310,301 | 338,889 | 333,077 |
| Other raw materials | 74,727 | 60,282 | 55,494 | 50,419 |
| Purchased crude oil | 86,170 | 82,418 | 76,132 | 73,549 |
| Other goods for resale | 36,125 | 34,967 | 37,906 | 37,504 |
| Purchased natural gas | 8,674 | 6,439 | 16,014 | 12,602 |
| **Total** | **521,287** | **494,407** | **524,435** | **507,151** |

Impairment of HUF 7,229 million was recorded in 2013, mainly on raw materials (HUF 5,450 million) and refinery products (HUF 1,855 million). In 2012 HUF 4,246 million was recorded as impairment of inventories.

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 55,924 million and HUF 40,564 million at 31 December 2013 and 2012.

Due to the national legislation, Slovnaft Polska, a Polish subsidiary is required to maintain a certain level of obligatory stocks of liquid fuels. This level is determined from the volumes imported during the preceding calendar year and was an equivalent of HUF 20,379 million and HUF 26,296 million at 31 December 2013 and 2012, respectively.

## 14 TRADE RECEIVABLES, NET

| | 2013 | 2012 |
|---|---|---|
| | HUF million | HUF million |
| Trade receivables | 548,787 | 597,590 |
| Provision for doubtful receivables | (36,203) | (26,596) |
| **Total** | **512,584** | **570,994** |

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

**Movements in the provision for doubtful receivables were as follows:**

| | 2013 | 2012 |
|---|---|---|
| | HUF million | HUF million |
| At 1 January | 26,596 | 24,714 |
| Additions | 19,935 | 12,051 |
| Reversal | (8,301) | (6,859) |
| Amounts written off | (2,398) | (631) |
| Currency differences | 371 | (2,679) |
| **At 31 December** | **36,203** | **26,596** |

As at 31 December 2013 and 2012 the analysis of the recoverable amount of trade receivables that were past due is as follows:

| | 2013 | 2012 |
|---|---|---|
| | HUF million | HUF million |
| Neither past due nor impaired | 469,507 | 508,772 |
| Past due but not impaired | 43,077 | 62,222 |
| Within 90 days | 29,719 | 46,659 |
| 91 - 180 days | 5,322 | 7,563 |
| Over 180 days | 8,036 | 8,000 |
| **Total** | **512,584** | **570,994** |

## 15 OTHER CURRENT ASSETS

| | 2013 | 2012 |
|---|---|---|
| | HUF million | HUF million |
| Current portion of loans given, net* (see Note 33) | 83,123 | 3,483 |
| Prepaid and recoverable taxes and duties (excluding income taxes) | 76,574 | 65,062 |
| Consideration receivable from disposal of MMBF | 10,514 | 1,458 |
| Interest receivable | 6,196 | 2,103 |
| Advances paid | 6,044 | 13,779 |
| Receivables from joint venture partners | 6,026 | 41,297 |
| Prepaid expenses | 4,727 | 5,975 |
| Receivables from commodity hedging derivatives as cash flow hedge (see Note 32 and 33) | 3,396 | 7,208 |
| Receivables from closed derivative transactions | 2,000 | 2,412 |
| Security deposits | 486 | 559 |
| Receivables from financial instruments at fair value through profit and loss (see note 33) | 437 | 726 |
| Margining receivables | - | 1,326 |
| Other | 21,511 | 10,798 |
| **Total** | **221,034** | **156,186** |

* Current portion of loans given includes HUF 79,940 million receivable from MMBF in 2013. The loan was fully repaid in January 2014 as part of the MMBF disposal.

### Analysis of loans given

| | 2013 | 2012 |
|---|---|---|
| | HUF million | HUF million |
| Current portion of loans given | 83,133 | 3,558 |
| Provision for doubtful loans receivable | (10) | (75) |
| **Total** | **83,123** | **3,483** |

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

| | 2013 | 2012 |
|---|---|---|
| | HUF million | HUF million |
| At 1 January | 75 | 331 |
| Additions | 3 | 68 |
| Reversal | (69) | (323) |
| Currency differences | 1 | (1) |
| **At 31 December** | **10** | **75** |

## 16 CASH AND CASH EQUIVALENTS

| | 2013 | 2012 |
|---|---|---|
| | HUF million | HUF million |
| Cash at bank – HUF | 77,961 | 14,068 |
| Cash at bank – EUR | 49,698 | 49,361 |
| Cash at bank – USD | 20,669 | 19,460 |
| Cash at bank - HRK | 10,743 | 11,691 |
| Cash at bank – CZK | 7,359 | 4,583 |
| Cash at bank – PLN | 3,127 | 736 |
| Cash at bank – RON | 2,185 | 5,774 |
| Cash at bank – RUB | 1,347 | 6,192 |
| Cash at bank – other currencies | 8,160 | 6,326 |
| Short-term bank deposits – EUR | 286,401 | 22,538 |
| Short-term bank deposits – USD | 41,862 | 94,362 |
| Short-term bank deposits – HUF | 28,272 | 70,269 |
| Short-term bank deposits – other currencies | 18,963 | 6,735 |
| Cash on hand – HUF | 1,393 | 1,832 |
| Cash on hand – other currencies | 5,632 | 3,219 |
| Cash equivalents | 398 | 508 |
| **Total** | **564,170** | **317,654** |

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:

| | 2013 | 2012 |
|---|---|---|
| Current accounts | | |
| EUR | 0.00% - 0.29% | 0.01% - 0.42% |
| USD | 0.01% - 0.07% | 0.04% - 0.07% |
| HUF | 1.57% - 6.30% | 4.42% - 7.51% |
| Short-term bank deposits | | |
| EUR | 0.01% - 1.82% | 0.01 % - 2.35 % |
| USD | 0.02% - 2.10% | 0.06 % - 2.30 % |
| HUF | 1.70% - 6.50% | 4.90 % - 8.00% |

## 17 SHARE CAPITAL

As of 31 December 2013, 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 2012, 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 2013 and 2012 is HUF 79,215 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 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, UniCredit Bank and CA-CIB

Based on the agreement between MOL and ING signed on 30 November 2011 regarding 5,220,000 MOL Series "A" Ordinary shares, options were exercised on 30 November 2012 with cash-settlement method, in respect of all shares. The strike price was EUR 57.93 per share.

Simultaneously, MOL and ING signed a share option agreement on 27 November 2012. 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 63.09 per share. Based on the agreement between MOL and ING the options were exercised on 22 November 2013 with cash settlement method. The settlement took place on 27 November 2013. The strike price for both, call and put options was EUR 61.51 per share.

Simultaneously, MOL and ING signed a share option agreement on 22 November 2013. 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 49.39 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.

Based on the agreement between MOL and UniCredit the option rights under the share option agreement in relation to the 2,914,692 MOL series "A" Ordinary shares concluded between UniCredit and MOL on 8 February 2011 was settled in cash in respect of all the shares on 13 February 2012. The strike price for both, call and put options was EUR 86.72 per share.

MOL and UniCredit concluded a share purchase agreement in respect of 646,361 shares and a share option agreement in respect of 3,561,053 shares on 7 February 2012. As a result of these transactions, MOL received an American call option and UniCredit received a European put option regarding the 3,561,053 shares. The maturity of both options is one year, such maturity being subject to yearly extensions of one year, up to a total tenor of three years. The strike price of both call and put options was EUR 70.2 per share, which has been later amended to EUR 70.36 per share. Based on the agreement between MOL and UniCredit the option rights under the share option agreement in relation to the 3,561,053 MOL series "A" Ordinary shares concluded between UniCredit and MOL on 7 February 2012 was settled in cash in respect of all the shares on 13 February 2013. The strike price for both, call and put options was EUR 70.36 per share.

MOL and UniCredit concluded a share purchase agreement in respect of 519,443 shares and a share option agreement in respect of 4,080,496 shares on 7 February 2013. As a result of these transactions, MOL received an American call option and UniCredit received a European put option regarding the 4,080,496 shares. The maturity of both options is one year, such maturity being subject to yearly extensions of one year, up to a total tenor of three years. The strike price of both call and put options was EUR 61.2671 per share which has been later amended to EUR 61.2656.

On 23 December 2013 MOL has agreed with UniCredit to an extension of the option agreements that it concluded with UniCredit on 7 February 2013 in respect of a total of 4,080,496 pieces of MOL Series "A" Ordinary shares by one year. The effective date of the extension shall be 10 February 2014.

MOL continues to hold American call options and UniCredit continues to hold European put options in respect of a total of 4,080,496 Shares. The expiration of both the call and the put options is one year from the previous expiration, such maturity being subject to an option for a further extension by one additional year. The strike price of both the call and put options remains unchanged at EUR 61.27 per share.

On 3 December 2013 MOL has entered into a share purchase and a share option agreement with Credit Agricole Corporate and Investment Bank (CA CIB). As a result of this transaction, CA CIB owns a total number of 2,129,666 MOL Series "A" ordinary shares. Under the share option agreement MOL has an American call option and CA CIB a European put option in relation to such shares. Both options mature in one year. The strike price for both the call and the put options is EUR 46.96 per share.

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

### Strategic Alliance with CEZ

On 20 December 2007 CEZ and MOL signed an agreement to create a joint venture. To strengthen the strategic alliance, CEZ purchased 7,677,285 pieces of "A" series MOL shares (7% stake) at HUF 30,000 which was financially closed and settled on 23 January 2008. MOL also purchased an American call option for the shares with a strike price of 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 2013 was nil (see Note 22 and 33), determined by applying the binomial valuation model. Spot market price (HUF 14,475 per share), implied volatility (21.7%) and no expected dividend have been used as input to the model.

Fair value of the option as of 31 December 2012 was HUF 6,093 million financial liability (see Note 22 and 33), determined by applying the binomial valuation model. Spot market price (HUF 17,755 per share), implied volatility (34%) and an expected dividend of EUR 2.61 have been used as input to the model.

CEZ option transaction expired in January 2014, without excercising the call option by MOL.

### 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 original expiration of the share-swap agreements was on 11 July 2012. During 2012 the expiration has been extended to 11 July 2017; until that date each party can initiate a cash or physical settlement of the deal.

Fair value of the share swap agreement amounted to HUF 979 million as at 31 December 2013 which has been recorded as derivative financial liability (see Note 22 and 33). As at 31 December 2012 the fair value of the swap was HUF 346 million which has been recorded as derivative financial asset (see Note 22 and 33).

### 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 20 March 2011 and 12 March 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 IFRS 10 – Consolidated Financial Statements.

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 7,284 million and HUF 7,021 million in 2013 and 2012, 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 2013 and 2012 was HUF 3,032 million and HUF 2,761 million (see Note 21 and Note 33).

The fair valuation impact of the option was HUF 271 million loss and HUF 11,764 million gain in 2013 and 2012, respectively, recorded as financial expense and financial income in the accompanying consolidated income statement.

*Changes in the number of ordinary, treasury and authorized shares*

| Series "A" and "B" shares | Number of shares issued | Number of treasury shares | Shares under repurchase obligation | Number of shares outstanding | Authorised number of shares |
|---|---|---|---|---|---|
| **31 December 2011** | **104,518,485** | **(5,793,316)** | **(19,523,973)** | **79,201,196** | **134,519,063** |
| Settlement of the option agreement with UniCredit Bank A.G. | - | (2,914,692) | 2,914,692 | - | - |
| New option agreement with UniCredit Bank A.G. | - | 3,561,053 | (3,561,053) | - | - |
| Treasury shares call back from OTP Bank Plc. | - | (371,301) | 371,301 | - | - |
| Treasury shares lent to OTP Bank Plc. | - | 371,301 | (371,301) | - | - |
| 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 2012** | **104,518,485** | **(5,146,955)** | **(20,170,334)** | **79,201,196** | **134,519,063** |
| Settlement of the option agreement with UniCredit Bank A.G. | - | (3,561,053) | 3,561,053 | - | - |
| New option agreement with UniCredit Bank A.G. | - | 4,080,496 | (4,080,496) | - | - |
| Treasury shares call back from OTP Bank Plc. | - | (371,301) | 371,301 | - | - |
| Treasury shares lent to OTP Bank Plc. | - | 371,301 | (371,301) | - | - |
| Share distribution for the members of the Board of Directors | - | 13,500 | - | 13,500 | - |
| 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) | - | - |
| New option agreement with Credit Agricole Corporate and Investment Bank | - | 2,129,666 | (2,129,666) | - | - |
| **31 December 2013** | **104,518,485** | **(2,484,346)** | **(22,819,443)** | **79,214,696** | **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 2013 approved to pay HUF 46,000 million dividend in respect of 2012. The total amount of reserves legally available for distribution based on the statutory company only financial statements of MOL Plc. is HUF 1,398,419 million and HUF 1,469,767 million as of 31 December 2013 and 2012, respectively.

## 19 LONG-TERM DEBT

| | Weighted average interest rate 2013 | Weighted average interest rate 2012 | Maturity | 2013 | 2012 |
|---|---|---|---|---|---|
| | % | % | | HUF million | HUF million |
| Unsecured bonds in EUR | | | 2015 - 2017 | 454,493 | 445,262 |
| Eurobond 1 | 3.96 | 3.96 | | 224,415 | 219,996 |
| Eurobond 2 | 6.15 | 6.15 | | 230,078 | 225,266 |
| Unsecured bonds in USD | 6.51 | 6.51 | 2019 | 108,064 | 110,464 |
| Unsecured bank loans in EUR | 2.70 | 1.71 | 2014 - 2022 | 83,157 | 207,988 |
| 825 MEUR syndicated | | | | - | 14,565 |
| 200 MEUR EBRD | | | | 33,933 | 41,613 |
| 1000 MUSD syndicated | | | | - | 114,696 |
| 400 MUSD syndicated | | | | 17,250 | - |
| 210 MEUR EBRD | | | | 17,845 | 21,839 |
| other unsecured loans in EUR | | | | 14,129 | 15,275 |
| Unsecured bank loans in USD | 3.78 | 2.31 | 2017 - 2021 | 81,262 | 144,912 |
| 150 MUSD EBRD | | | | 19,842 | 13,764 |
| 150 MEUR EIB | | | | 34,046 | 41,851 |
| 1000 MUSD syndicated | | | | - | 54,514 |
| 210 MEUR EBRD | | | | 23,267 | 29,746 |
| other unsecured loans in USD | | | | 4,107 | 5,037 |
| Unsecured bank loans in HUF | 7.02 | 9.78 | 2015 - 2016 | 16,924 | 2,644 |
| Unsecured bonds in HUF | 7.00 | 6.73 | 2014 | 11,542 | 11,542 |
| Secured bank loans in EUR | 1.41 | 1.83 | 2014 - 2018 | 8,522 | 11,254 |
| Financial lease payable | 7.03 | 7.15 | 2014 - 2027 | 3,860 | 4,488 |
| Other | 0.34 | 1.36 | 2015 - 2019 | 3,598 | 5,622 |
| **Total** | | | | **771,422** | **944,176** |
| Current portion of long-term debt | | | | 98,174 | 270,130 |
| **Total long-term debt net of current portion** | | | | **673,248** | **674,046** |
| Maturity one to five years | | | | 560,299 | 431,526 |
| Maturity over five years | | | | 112,949 | 242,520 |
| **Total** | | | | **673,248** | **674,046** |

### Unsecured bonds

| Issuer | Original currency | Volume (million) in original currency | Volume (in HUF million) | Tenor (years) | Issue date | Maturity date | Coupon |
|---|---|---|---|---|---|---|---|
| MOL Plc | HUF | 11,000 | 11,000 | 3 | 18 April, 2011 | 18 April, 2014 | 7.000% |
| MOL Plc | EUR | 750 | 222,683 | 10 | 5 October, 2005 | 5 October, 2015 | 3.875% |
| MOL Plc | EUR | 750 | 222,683 | 7 | 20 April, 2010 | 20 April, 2017 | 5.875% |
| MOL Group Finance S.A. | USD | 500 | 107,835 | 7 | 26 September, 2012 | 26 September, 2019 | 6.250% |

### EUR bonds

An EUR 750 million fixed rate bond was issued by MOL Plc. in 2005. The notes are due in October 2015; pay an annual coupon of 3.875%. In 2010 MOL also issued EUR 750 million fixed rate Eurobond notes. The notes are due in April 2017; pay an annual coupon of 5.875%.

### USD bonds

In 2012 MOL Group Finance S.A. (100% subsidiary of MOL Plc.) issued USD 500 million fixed rate bond guaranteed by MOL Plc. The notes have 7-year original maturity, are due in September 2019 and pay an annual coupon of 6.250%.
HUF bonds

### HUF bonds

In April 2011 MOL Plc issued a fixed rate bond in amount of HUF 11 billion under its domestic bond programme. The notes have 3-year original maturity, are due in April 2014 and pay an annual coupon of 7%.

### Unsecured bank loans

Further enhancement of the maturity profile of the Group happened through the loan transactions concluded this year by the largest Group members, MOL Plc., INA d.d., Slovnaft a.s. throughout 2013.

MOL Plc. smoothly accomplished the refinancing of its EUR 825 million revolving credit facility agreement that expired in July 2013. It happened through (i) the conclusion of a USD 480 million revolving multicurrency credit facility agreement on 27 March 2013, which has been increased thereafter, in June, to a total available facility amount of USD 545 million. The tenor of the facility is 3 years which can be extended by further 1+1 years and (ii) the total available facility amount under the EUR 1 billion multicurrency revolving credit facility has been automatically increased from EUR 600 million to EUR 1 billion with the expiry of the EUR 825 million facility.

Furthermore, MOL Plc. has again extended EUR 451.5 million amount by 1 additional year until 10 June 2018 under the EUR 1 billion revolving credit facility agreement signed on 10 June 2011 originally with 5+1+1 years tenor. With this the modified total tenor of this facility is 7 years.

INA d.d. has successfully signed a USD 400 million revolving multicurrency credit facility agreement on 4 April 2013. The tenor of the facility is 3 years which can be extended by further 1+1 years.

Slovnaft a.s. has signed a EUR 200 million revolving multicurrency credit facility agreement on 4 December 2013. The tenor of the facility is 3 years.

Consequently, the main elements of unsecured revolving bank loans are:

- EUR 1,000 million multicurrency revolving club facility of MOL,
- EUR 500 million revolving club facility of MOL (available amount is EUR 470 million),
- USD 545 million multicurrency revolving club facility of MOL,
- USD 400 million multicurrency revolving club facility of INA,
- EUR 200 million multicurrency revolving club facility of Slovnaft.

In terms of main loan agreements with multilateral institutions, MOL Plc. signed an 8.5 years, USD 150 million loan agreement with the European Bank for Reconstruction and Development (EBRD) on 2 July 2012. The loan will be used to finance capital expenditures of LDPE unit and upgrade the steam cracker of Slovnaft Group. MOL Plc. has another loan agreement with EBRD, signed on 17 June 2009 with a tenor of 8 years, in order to finance the strategic and commercial gas storage project, which was settled in the first quarter of 2014. INA also concluded a 7-year loan agreement with EBRD in the 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).

MOL Plc. also has a long term investment loan agreement with the European Investment Bank (EIB) signed on 29 November 2010 in the amount of EUR 150 million, to finance the construction of 205 km long natural gas transmission pipeline between Városföld and the Hungarian-Croatian border.

### 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 2013 and 2012, respectively are as follows:

| | 2013 Minimum lease payments | 2013 Present value of payments | 2012 Minimum lease payments | 2012 Present value of payments |
|---|---|---|---|---|
| | HUF million | HUF million | HUF million | HUF million |
| Maturity not later than 1 year | 995 | 791 | 1,018 | 804 |
| Maturity two to five years | 3,352 | 2,790 | 3,953 | 3,029 |
| Maturity over five years | 1,340 | 999 | 1,743 | 243 |
| **Total minimum lease payments** | **5,687** | | **6,714** | |
| Less amounts representing financial charges | (1,107) | | (2,638) | |
| **Present values of financial lease liabilities** | **4,580** | **4,580** | **4,076** | **4,076** |

## 20 PROVISIONS FOR LIABILITIES AND CHARGES

| | Environ-mental | Redun-dancy | Long term employee retirement benefits | Field abandon-ment | Legal claims | Other | Total |
|---|---|---|---|---|---|---|---|
| | HUF million | HUF million | HUF million | HUF million | HUF million | HUF million | HUF million |
| **Balance as of 31 December 2011** | **76,171** | **5,187** | **17,970** | **210,311** | **18,699** | **22,313** | **350,651** |
| Acquisition / (sale) of subsidiaries | - | - | - | - | - | (1,341) | (1,341) |
| Additions and revision of previous estimates | 2,388 | 3,690 | 827 | (13,250) | 911 | 10,698 | 5,264 |
| Unwinding of the discount | 2,545 | - | 713 | 10,152 | - | - | 13,410 |
| Currency differences | (4,106) | (358) | (623) | (6,717) | (617) | (1,387) | (13,808) |
| Provision used during the year | (3,649) | (2,564) | (2,250) | (420) | (935) | (11,046) | (20,864) |
| **Balance as of 31 December 2012** | **73,349** | **5,955** | **16,637** | **200,076** | **18,058** | **19,237** | **333,312** |
| Acquisition / (sale) of subsidiaries | - | - | - | (3,572) | - | (74) | (3,646) |
| Additions and revision of previous estimates | (1,289) | 12,588 | 1,463 | (5,143) | 3,621 | 20,894 | 32,134 |
| Unwinding of the discount | 2,107 | 83 | 633 | 6,799 | - | - | 9,622 |
| Currency differences | 846 | (83) | (295) | 334 | 107 | (124) | 785 |
| Provision used during the year | (3,480) | (3,283) | (774) | (122) | (3,073) | (7,946) | (18,678) |
| **Balance as of 31 December 2013** | **71,533** | **15,260** | **17,664** | **198,372** | **18,713** | **31,987** | **353,529** |
| Current portion 2012 | 4,822 | 3,108 | 1,696 | 1,863 | 14,923 | 16,040 | 42,452 |
| Non-current portion 2012 | 68,527 | 2,847 | 14,941 | 198,213 | 3,135 | 3,197 | 290,860 |
| Current portion 2013 | 3,999 | 1,986 | 1,880 | 607 | 13,960 | 27,544 | 49,976 |
| Non-current portion 2013 | 67,534 | 13,274 | 15,784 | 197,765 | 4,753 | 4,443 | 303,553 |

### Environmental Provision

As of 31 December 2013 provision of HUF 71,533 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 2013 also includes a contingent liability of HUF 19,682 million recognized upon acquiring INA Group, representing its present environmental obligations and a further HUF 14,999 million environmental contingent liability regarding the acquisition of IES (see Note 34).

### Provision for Redundancy

As part of a continuing efficiency improvement project, MOL Plc., SLOVNAFT a.s., INA d.d., IES SpA 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. Relating to the restructuring of activities in Mantova, a provision for redundancy of HUF 9,145 million was recognised at IES in 2013. The closing balance of provision for redundancy is HUF 15,260 million and HUF 5,955 million as of 31 December 2013 and 2012, respectively.

### Provision for Field Abandonment Liabilities

As of 31 December 2013 provision of HUF 198,372 million has been made for estimated total costs of plugging and abandoning wells upon termination of production. Approximately 7% of these costs are expected to be incurred between 2014 and 2018 and the remaining 93% between 2018 and 2065. 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 Benefits

As of 31 December 2013 the Group has recognized a provision of HUF 17,664 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 7 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.

| | 2013 | 2012 |
|---|---|---|
| | HUF million | HUF million |
| **Present value of total defined benefit obligation at the beginning of the year** | **16,637** | **17,970** |
| **Balance as of the beginning of the year** | **16,637** | **17,970** |
| Acquisitions / (disposals) | - | - |
| Past service cost | 18 | 149 |
| Current service cost | 1,846 | 1,067 |
| Interest costs | 633 | 713 |
| Provision used during the year | (774) | (2,250) |
| Net actuarial (gain)/loss | (401) | (390) |
| from which: | | |
| Retirement benefit (See Note 29) | (281) | (302) |
| Jubilee benefit | (120) | (88) |
| Exchange adjustment | (295) | (622) |
| **Balance as at year end** | **17,664** | **16,637** |
| Present value of total defined benefit obligation at year end | 17,664 | 16,637 |

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:

| | 2013 | 2012 |
|---|---|---|
| | HUF million | HUF million |
| Current service cost | 1,846 | 1,067 |
| Net actuarial (gain)/loss | (120) | (88) |
| Past service cost | 18 | 149 |
| Net benefit expense (See Note 26) | 1,744 | 1,128 |

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

| | 2013 | 2012 |
|---|---|---|
| Discount rate in % | 2.0-5.4 | 2.5-5.2 |
| Average wage increase in % | 0-2.0 | 0.5-3.2 |
| Mortality index (male) | 0.02-2.87 | 0.02-2.98 |
| Mortality index (female) | 0.01-1.30 | 0.01-1.25 |

### Legal and Other Provisions

Legal and other provisions include provision for emission quotas, for cost of unutilised holiday and for other future payment obligations. As of 31 December 2013, other provision of HUF 10,131 million was made for future operational costs of IES relating to conversion of Mantova refinery into a products logistics hub. As of 31 December 2013 provision of HUF 18,713 million has been made for estimated total costs of litigations. As of 2013 MOL Group has been granted 5,103,145 emission quotas by the Hungarian, Croatian, Slovakian and Italian authorities. The total use of emission quotas amounted to 6,473,230 in 2013. In 2013 the amount of provision for the shortage of emission quotas decreased to HUF 913 million (in 2012 provision was HUF 4,033 million).

## 21 OTHER NON-CURRENT LIABILITIES

| | 2013 | 2012 |
|---|---|---|
| | HUF million | HUF million |
| Trade payable to exploration partners | 127 | 29,294 |
| Government grants received (see Note 5 and 25) | 11,694 | 11,321 |
| Received and deferred other subsidies | 3,893 | 4,105 |
| Deferred compensation for property plant and equipments | 3,655 | 4,006 |
| Conversion option of exchangeable capital securities issued by Magnolia Finance Ltd (see Note 17 and 33) | 3,032 | 2,761 |
| Liabilities to government for sold apartments | 2,213 | 2,424 |
| Deferred income for apartments sold | 1,319 | 1,338 |
| Payable from currency risk hedging derivatives as fair value hedge (see Note 33) | 440 | 1,149 |
| Other | 874 | 1,248 |
| **Total** | **27,247** | **57,646** |

## 22 TRADE AND OTHER PAYABLES

| | 2013 | 2012 |
|---|---|---|
| | HUF million | HUF million |
| Trade payables | 554,545 | 455,370 |
| Transferred "A" shares sold with put and call options attached (see Note 32 and 33) | 177,512 | 166,188 |
| Taxes, contributions payable (excluding corporate tax) | 154,743 | 167,218 |
| Liability from reimbursed mining royalty | 35,226 | - |
| Amounts due to employees | 26,816 | 26,647 |
| Advances from customers | 22,079 | 16,449 |
| Custom fees payable | 8,956 | 9,664 |
| Fee payable for strategic inventory storage | 6,900 | 6,656 |
| Liabilities to joint venture partners | 4,304 | 2,717 |
| Discount payable to customers | 4,297 | 5,166 |
| Bank interest payable | 3,005 | 2,494 |
| Financial collateral and bail received | 2,584 | 1,905 |
| Margining liability | 2,221 | 5,254 |
| Payables from commodity hedging derivatives as cash flow hedge (see Note 32 and 33) | 2,057 | 4,070 |
| Payables from closed derivative transactions | 1,861 | 2,930 |
| Payables from financial liabilities at fair value through profit and loss (see Note 33) | 1,594 | 6,556 |
| Other accrued incomes (short term) | 877 | 316 |
| Strategic capacity booking fee | 808 | 7,084 |
| Government subsidies received and accrued (short term) (see Note 25) | 783 | 738 |
| Dividend payable | 396 | 446 |
| Purchase price difference payable on prior year acquisitions | 287 | 284 |
| Other subsidies received and accrued (short term) | 267 | 254 |
| Penalty payable | 22 | 2,638 |
| Other | 26,657 | 21,970 |
| **Total** | **1,038,797** | **913,014** |

Trade payables are non-interest bearing and are normally settled on 30-day terms. Taxes, contributions payable mainly include mining royalty, contributions to social security, value added tax and excise tax. The liability from reimbursed mining royalty in 2013 HUF 35,226 million relates to the amount reimbursed by Hungarian Government following the annulation of resolution of European Commission. This mining tax had been paid by MOL in 2010. As the European Commission appealed against the annulation made by General Court of the European Court of Justice, the amount reimbursed was presented as other payables (revenue is not recognised in income statement).

## 23 SHORT-TERM DEBT

| | 2013 | 2012 |
|---|---|---|
| | HUF million | HUF million |
| Unsecured bank loans in USD | 94,807 | 28,206 |
| Unsecured bank loans in EUR | 93,770 | 60,903 |
| Unsecured bank loans in PLN | 6,382 | 10,683 |
| Unsecured bank loans in HRK | 6,175 | 5,541 |
| Secured bank loans in EUR | 4,311 | 36,558 |
| Unsecured bank loans in other currencies | 5,778 | 3,947 |
| **Total** | **211,223** | **145,838** |

## 24 SALES BY PRODUCT TYPES

| | 2013 | 2012 |
|---|---|---|
| | HUF million | HUF million |
| Sales of oil products | 3,714,793 | 3,733,857 |
| Sales of petrochemicals | 769,769 | 751,303 |
| Sales of natural gas and gas products | 456,630 | 564,499 |
| Sales revenue of services | 230,922 | 271,356 |
| Sales of crude oil | 129,372 | 101,246 |
| Sales of other products | 98,931 | 99,063 |
| **Total** | **5,400,417** | **5,521,324** |

## 25 OTHER OPERATING INCOME

| | 2013 | 2012 |
|---|---|---|
| | HUF million | HUF million |
| Net gain realized on disposal of subsidiaries | 52,919 | - |
| Penalties, late payment interest, compensation received | 13,074 | 5,855 |
| Gain on sales of intangibles, property, plant and equipment | 2,509 | 2,173 |
| Government grants released | 968 | 802 |
| Allowances and subsidies received | 504 | 402 |
| Other | 5,722 | 6,430 |
| **Total** | **75,696** | **15,662** |

In 2013 HUF 52,919 million net gains were realised on disposal of subsidiaries of which HUF 42,412 million relating to MMBF, HUF 8,414 million to ZMB and HUF 2,093 million to MOL Western Siberia.

### Government grants

| | 2013 | 2012 |
|---|---|---|
| | HUF million | HUF million |
| At 1 January | 12,059 | 12,845 |
| Government grants received (see Note 5) | 1,302 | 336 |
| Release of deferred grants (see table above) | (968) | (802) |
| Exchange adjustment | 84 | (320) |
| **At 31 December (see Note 21 and 22)** | **12,477** | **12,059** |

## 26 PERSONNEL EXPENSES

| | 2013 | 2012 |
|---|---|---|
| | HUF million | HUF million |
| Wages and salaries | 179,088 | 183,176 |
| Social security | 43,343 | 46,668 |
| Other personnel expenses | 36,539 | 33,575 |
| Long term employment benefits (see Note 20) | 1,744 | 1,128 |
| Expense (reversal of expense) of share-based payments (See Note 38) | (967) | 194 |
| **Total** | **259,747** | **264,741** |

## 27 OTHER OPERATING EXPENSES

| | 2013 | 2012 |
|---|---|---|
| | HUF million | HUF million |
| Mining royalties | 90,032 | 143,891 |
| Taxes and contributions | 43,291 | 41,832 |
| Rental costs | 32,812 | 34,491 |
| Other services | 22,179 | 22,590 |
| Contribution to strategic inventory storage | 20,674 | 19,122 |
| Provision for legal and other claims | 19,153 | 10,028 |
| Provision for doubtful receivables | 15,610 | 6,038 |
| Consultancy fees | 8,991 | 5,452 |
| Insurance | 7,332 | 7,639 |
| Advertising expenses | 7,073 | 7,013 |
| Site security costs | 5,256 | 5,036 |
| Cleaning costs | 5,078 | 5,333 |
| Bank charges | 4,258 | 4,023 |
| Penalties, late payment interest, compensation (net of provision utilized) | 3,880 | 2,524 |
| Outsourced bookkeeping services | 2,957 | 3,396 |
| Environmental protection expenses, net | 1,389 | 1,775 |
| Environmental levy | 738 | 859 |
| Revaluation of emission quotas | 481 | 6,331 |
| Damages | 98 | 197 |
| Crisis tax for Hungarian energy suppliers and retail activities | - | 30,389 |
| Net loss realized on disposal of subsidiaries | - | 3,473 |
| Environmental provision made during the year | (1,289) | 2,388 |
| Provision for greenhouse gas emission over quota allocated free of charge | (3,108) | (4,423) |
| Provision for field abandonment | (6,647) | (8,792) |
| Other | 13,489 | 19,709 |
| **Total** | **293,727** | **370,314** |

The mining royalties decrease by 37% in 2013, primarily due to regulatory changes in Hungary, the divestition of ZMB, release of royalty payables (HUF 11,130 million) and lower production.

Provision for legal and other claims in 2013 include HUF 10,255 million provision made for future operational costs of IES relating to conversion of Mantova refinery into a products logistics hub. Provision for legal and other claims in 2012 included HUF 5,985 million penalty imposed on the Angolan operations of the Group by the local tax authorities.
In 2012, crisis tax of HUF 30,389 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 is cancelled from 2013.

## 28 FINANCIAL (INCOME) / EXPENSE

| | 2013 | 2012 |
|---|---|---|
| | HUF million | HUF million |
| Fair valuation gain on conversion option (see Note 17) | - | 11,764 |
| Interest received | 15,147 | 6,766 |
| Foreign exchange gain on receivables and payables, net | 4,098 | 24,651 |
| Net gain on derivative transactions | - | 3,698 |
| Dividends received | 3,629 | 3,159 |
| Other financial income, net | 6,511 | 1,298 |
| Total financial income | 29,385 | 51,336 |
| Interest on borrowings | 47,521 | 46,453 |
| Interest on provisions | 9,622 | 13,410 |
| Foreign exchange loss on cash and cash equivalents, net | 7,152 | 13,184 |
| Fair valuation difference of conversion option (see Note 17) | 271 | - |
| Other costs on borrowings | 8,393 | 6,267 |
| Net loss on sales of investments | - | 2,917 |
| Foreign exchange loss on borrowings | 8,240 | 2,180 |
| Net loss on derivative transactions | 649 | - |
| Impairment of investments | 5,105 | - |
| Other financial expenses, net | 776 | 82 |
| Total financial expenses | 87,729 | 84,493 |
| Total financial expense, net | 58,344 | 33,157 |

Net loss on derivative transactions in 2013 is mainly attributable to HUF 3,901 million gain on commodity price and foreign exchange transactions, HUF 508 million loss on the fair valuation of the share swap agreement with OTP (for details see Note 17) and HUF 4,689 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). Net gain on derivative transactions in 2012 is mainly attributable to HUF 5,848 million gain on commodity price transactions, HUF 4,932 million gain on the fair valuation of the share swap agreement with OTP (for details see Note 17) and HUF 6,588 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).

Impairment of investments consists mainly the write-off of FGSZ shareholding in Nabucco due to uncertain viability of the project.

## 29 COMPONENTS OF OTHER COMPREHENSIVE INCOME

| | 2013 | 2012 |
|---|---|---|
| | HUF million | HUF million |
| Exchange differences on translating foreign operations including net investment hedge, net of tax | | |
| Gains / (losses) arising during the year | 3,206 | (130,952) |
| Reclassification adjustments for gains and losses included in the income statement | 922 | (779) |
| Income tax effect | - | - |
| | 4,128 | (131,731) |
| Net investment hedge, net of tax | | |
| Gains / (losses) arising during the year | 4,430 | 43,420 |
| Reclassification adjustments for gains and losses included in the income statement | - | - |
| Income tax effect | 216 | (4,085) |
| | 4,646 | 39,335 |
| Available-for-sale financial assets | | |
| Gains / (losses) arising during the year | (355) | 743 |
| Reclassification adjustments for gains and losses included in the income statement | - | - |
| Income tax effect | 71 | (97) |
| | (284) | 646 |
| Cash-flow hedges | | |
| Gains / (losses) arising during the year | 1,383 | 1,517 |
| Reclassification adjustments for gains and losses included in the income statement | (3,243) | 12,902 |
| Reclassification adjustments to initial cost of hedged inventories | (1,509) | (14,272) |
| Income tax effect | 298 | 99 |
| | (3,071) | 246 |
| Equity recorded for actuarial gain/loss on provision for retirement benefit obligation | | |
| Gains / (losses) arising during the year (see Note 20) | 281 | 302 |
| Reclassification adjustments for gains and losses included in the income statement | - | - |
| Income tax effect | (68) | (64) |
| | 213 | 238 |
| Share of other comprehensive income for associates | | |
| Gains / (losses) arising during the year | (2,325) | (10,071) |
| Reclassification adjustments for gains and losses included in the income statement | 6 | (275) |
| Income tax effect | (2) | 19 |
| | (2,321) | (10,327) |

## 30 INCOME TAXES

Total applicable income taxes reported in the consolidated financial statements for the years ended 31 December 2013 and 2012 include the following components:

| | 2013 | 2012 |
|---|---|---|
| | HUF million | HUF million |
| Current corporate income taxes | 19,464 | 18,356 |
| Local trade tax and innovation fee | 13,919 | 14,941 |
| Deferred corporate income taxes | (70,883) | 16,424 |
| **Total income tax expense/(benefit)** | **(37,500)** | **49,721** |

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 2013 and in 2012 also. A further surplus tax of 8% is applicable for domestic energy supplier entities in 2012 and 31% from 1 January 2013. Slovakian and Croatian tax rates were 23% (2012: 19%) and 20% (2012: 20%), respectively. Slovakian tax rate was decreased to 22%, effective from 1st January 2014. Italian tax rate was increased temporary (for 3 years) following the crisis and government change (in 2011), total tax rate applicable for 2013 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 2012 the total tax rate was 41.9%). 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

| | 2013 | 2012 |
|---|---|---|
| | HUF million | HUF million |
| Deferred and current tax recognised in other comprehensive income: | | |
| Net gain/ (loss) on hedge of a net investment and foreign exchange differences of loans given | 216 | (4,085) |
| Revaluations of available-for-sale financial assets | 71 | (97) |
| Revaluations of financial instruments treated as cash flow hedges | 298 | 99 |
| Equity recorded for actuarial gain/loss on provision for retirement benefit obligation | (68) | (64) |
| Revaluations of financial instruments of associated companies | - | 2 |
| | **517** | **(4,145)** |
| Reclassifications from equity to profit or loss: | | |
| Relating to hedges of net investments | - | - |
| Relating to available-for-sale financial assets | - | - |
| Relating to cash flow hedges | - | - |
| Relating to actuarial gain/loss on provision for retirement benefit obligation | - | - |
| Relating to associated companies | (2) | 17 |
| | **(2)** | **(17)** |
| **Total income tax recognised in other comprehensive income** | **515** | **(4,128)** |

The deferred tax balances as of 31 December 2013 and 2012 in the consolidated balance sheet consist of the following items:

| | Balance sheet | | Recognized in income statement | |
|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 |
| | HUF million | HUF million | HUF million | HUF million |
| *Breakdown of net deferred tax assets* | | | | |
| Unrealized gains on intra-group transfers | 5,799 | 19,682 | (785) | 5,454 |
| Provisions | 6,690 | 9,779 | (2,544) | (724) |
| Depreciation, depletion and amortization | 2,230 | 1,729 | (644) | 2,172 |
| Differences in accounting for domestic oil and gas exploration and development | (17,127) | (18,848) | 1,720 | (10,039) |
| Capitalization of certain borrowing costs | (5,317) | (5,367) | (151) | (2,456) |
| Foreign exchange differences | 13,384 | 11,273 | 2,111 | 3,137 |
| Valuation of financial instruments | (1,923) | (1,782) | (140) | (650) |
| Capitalized periodic maintenance costs | (2,681) | (2,914) | 233 | (1,759) |
| Statutory tax losses carried forward | 41,603 | 19,545 | 19,283 | (2,255) |
| Receivables write off | (153) | (27) | (481) | (243) |
| Other | 3,809 | 1,680 | 2,362 | 854 |
| **Deferred tax assets** | **46,314** | **34,750** | | |
| *Breakdown of net deferred tax liabilities* | | | | |
| Fair valuation of assets on acquisitions | (84,152) | (106,535) | 22,183 | 7,462 |
| Depreciation, depletion and amortization | (46,622) | (64,634) | 18,997 | (8,754) |
| Provisions | 10,895 | 10,719 | 49 | 1,802 |
| Statutory losses carried forward | 25,487 | 14,665 | 11,509 | (1,438) |
| Elimination of inter-company transactions | 15,933 | 16,750 | (817) | (657) |
| Receivables write off | (82) | 1,303 | (1,107) | (8,362) |
| Capitalization of borrowing costs | (2,897) | (3,477) | 580 | 59 |
| Embedded derivatives | (164) | (462) | - | - |
| Foreign exchange differences | - | (62) | 63 | - |
| Inventory valuation difference | 1,304 | 5,955 | (4,785) | (151) |
| Valuation of financial instruments | 4,887 | 4,789 | 51 | 312 |
| Other | 534 | (2,773) | 3,196 | (188) |
| **Deferred tax liabilities** | **(74,877)** | **(123,762)** | | |
| **Net deferred tax asset / (liability)** | **(28,563)** | **(89,012)** | | |
| **Deferred tax (expense) / income** | | | **70,883** | **(16,424)** |

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

| | 2013 | 2012 |
|---|---|---|
| | HUF million | HUF million |
| **Net deferred tax asset / (liability) at 1 January** | **(89,012)** | **(77,217)** |
| Recognized in income statement | 70,883 | (16,424) |
| Recognized directly in equity (fair valuation reserve) | 2,497 | 2 |
| Sale of subsidiaries (see Note 8) | (12,708) | 722 |
| Acquisition of subsidiaries | 83 | (1,623) |
| Exchange difference | (306) | 5,528 |
| **Net deferred tax asset / (liability) at 31 December** | **(28,563)** | **(89,012)** |

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 2013 and 2011 at MOL Plc. Additional tax losses arose at INA, at TVK Plc. and some of TVK's subsidiaries (between 2009 and 2012). 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 67,090 million and HUF 34,210 million has been recognized as of 31 December 2013 and 2012, 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 incurred in 2013 and 2012 were HUF 75,472 million and HUF 15,531 million, respectively.

From the unused tax losses (for which deferred tax asset was recognised) at the end of the period, HUF 317,331 million has no expiry or can be utilised after 5 years, while HUF 4,846 million can be utilized between 2014 and 2018.

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

| | 2013 | 2012 |
|---|---|---|
| | HUF million | HUF million |
| Profit before tax per consolidated income statement | (56,910) | 205,746 |
| Tax at the applicable tax rate (19%, 2012: 19%) | (10,813) | 39,092 |
| Tax holiday available | (5,017) | (3,722) |
| Surplus taxes and local trade tax | 11,159 | 13,452 |
| Differences not expected to reverse | (41,286) | (8,776) |
| Effect of different tax rates | (58,665) | (12,525) |
| Adjustment to the period of realisation | - | (33) |
| Losses of subsidiaries not recognized as an asset | 75,472 | 15,531 |
| Non-taxable income | (7,455) | (5,982) |
| Revaluation of deferred tax assets and liabilities | (1,090) | 12,832 |
| Impact of changes in Hungarian tax legislation | - | - |
| Other | 195 | (148) |
| **Total income tax expense / (benefit) at the effective income tax rate of 66% (2012: 24%)** | **(37,500)** | **49,721** |

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 EARNINGS PER SHARE

Basic earnings per share are calculated by decreasing the net profit for the period attributable to ordinary shareholders with the coupon paid to the owners of Perpetual Exchangeable Capital Securities and divided by the weighted average number of ordinary shares outstanding during the period.
Diluted earnings per share is calculated considering 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.
In 2013 the diluted earnings per share equals with the basic earnings per share as there is no dilutive effect on the earnings.

| | Income (HUF million) | Weighted average number of shares | Earnings per share (HUF) |
|---|---|---|---|
| Basic Earnings Per Share 2012 | 144,463 | 87,906,310 | 1,643 |
| Diluted Earnings Per Share 2012 | 139,720 | 93,913,789 | 1,488 |
| Basic Earnings Per Share 2013 | 14,158 | 88,449,078 | 160 |
| Diluted Earnings Per Share 2013 | 14,158 | 88,449,078 | 160 |

| | 2013 | 2012 |
|---|---|---|
| | HUF million | HUF million |
| Net profit attributable to ordinary shareholders | 21,442 | 151,484 |
| Coupon payment to holders of capital securities of Magnolia (-) | (7,284) | (7,021) |
| **Net profit attributable to ordinary shareholders for basic earnings per share** | **14,158** | **144,463** |
| Coupon payment to holders of capital securities of Magnolia (+) | - | 7,021 |
| Fair value of conversion option | - | (11,764) |
| **Net profit attributable to ordinary shareholders for diluted earnings per share** | **14,158** | **139,720** |
| Weighted average number of ordinary shares for basic earnings per share | 88,449,078 | 87,906,310 |
| Effect of dilution – Weighted average number of conversion of perpetual exchangeable securities | - | 6,007,479 |
| **Adjusted weighted average number of ordinary shares for diluted earnings per share** | **88,449,078** | **93,913,789** |

## 32 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 quarterly 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. As of 31 December 2013 the Net Debt / EBIDTA was at 0.79 level while the Net Gearing was 16.0%.

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 and Hungarian law governed Dealing Master Agreement in the Hungarian Market.

MOL Commodity Trading Limited was established with the purpose to centralize and manage the Group's needs on oil and oil product derivatives, to optimize the Group-level $CO_2$ quota position and to manage the procurement of electricity. In order to improve control over the resulting market and credit risks, risk limits (VaR) are applied and monitored on a daily basis.

### 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 crude oil 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 2013 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. turnarounds/ shutdowns), and they are also related to crude oil procurement and other trading possibilities. As of 31 December 2013 the fair value of open commodity derivative transactions designated as fair value hedge was a net payable of HUF 334 million (see Note 33). 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 94 million (see Note 33).

At the end of 2012 and in 2013 MOL concluded swap deals on a significant volume of crude oil purchases and ultra low sulfur diesel sales forecasted for 2013 and 2014 with the economic purpose of capturing a favourable crack spread on this product. As of 31 December 2013 the fair value of open transactions designated as cash flow hedge was a receivable of HUF 3,396 million with respect to crude oil swap (see Note 15 and 33) and a payable of HUF 2,057 million with respect to diesel swap (see Note 22 and 33), with a corresponding adjustment of the fair valuation reserve in other comprehensive income. Deals will be settled subsequent to each month in the next years.

As of 31 December 2013 and 2012 the fair value of open commodity derivative transactions not designated as hedges were a net receivable of HUF 251 million and HUF 236 million (see Note 33), 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 that the currency mix of the debt portfolio should reflect the net operating cash flow position of the Group ('natural hedge').

The Group may use cross currency swaps to adjust the currency mix of the debt portfolio. As of 31 December 2013 and 2012 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 SDR price setting to be closely related to the underlying originally USD denominated contract. This derivative has been separated from the underlying contract and designated as a cash flow hedge to the underlying gas transit contract. The fair value of the embedded SDR derivative is a net receivable of HUF 864 million (HUF 700 million net of deferred tax) as of 31 December 2013 (see Note 12). The corresponding figure as of 31 December 2012 was HUF 2,434 million net receivable (HUF 1,972 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 underlying contracts and designated as fair value hedge to the underlying gas and crude oil contracts. The fair value of the embedded derivatives is a receivable of HUF 206 million and a payable of HUF 719 million as of 31 December 2013 (see Note 33). The corresponding figures as of 31 December 2012 were HUF 269 million receivable and HUF 1,534 million payable.

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 2013 and 2012 the fair value of open foreign exchange forward transactions was a net payable of HUF 2 million and HUF 19 million (see note 33), respectively.

### Hedge of net investments in foreign operations

Certain facilities of the Group's long-term debt (USD 870 million and EUR 1,703 million) has been designated 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 4,430 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, HUF 16 billion Hungarian retail bond transaction also in 2010-2011 and the 500M USD Bond transaction in 2012, the fixed portion of the total debt increased substantially. As of 31 December 2013 and 2012, 49.5% and 45.1 % 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 2013 and 2012, 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 | 2013 | 2012 |
|---|---|---|
| | HUF billion | HUF billion |
| Brent crude oil price (change by +/- 10 USD/bbl; with fixed crack spreads and petrochemical margin) | | |
| Downstream | + 11.7 / - 11.7 | + 11.5 / - 11.5 |
| Upstream | + 25.9 / - 25.2 | + 20.1 / - 20.0 |
| Gas Midstream | - 2.0 / + 1.8 | + 1.5 / - 1.5 |
| Crack spread (change by +/- 10 USD/t) | | |
| Downstream | + 41.8 / - 41.8 | + 42.3 / - 42.3 |
| Upstream | + 1.0 / - 1.0 | + 1.2 / - 1.2 |
| Integrated petrochemical margin (change by +/- 10 EUR/t) | | |
| Downstream | + 1.9 / - 1.9 | + 2.6 / - 2.6 |
| Brent - Ural Spread (+/- 1 USD/bbl) | | |
| Downstream | + 18.3 / - 18.3 | + 19.3 / - 19.3 |
| Upstream | + 0.2 / - 0.2 | - 0.7 / + 0.7 |
| Exchange rates (change by +/- 10 HUF/USD; with fixed crack spreads) | | |
| Downstream | + 15.9 / - 15.,9 | + 16.6 / -16.6 |
| Upstream | + 17.3 / - 17.3 | + 19.0 / - 19.0 |
| Gas Midstream | - 2.1 / + 1.9 | - 1.2 / + 1.2 |
| Exchange rates (change by +/- 10 HUF/EUR; with fixed crack spreads / targeted petrochemical margin) | | |
| Upstream | -0.4 / + 0.3 | + 0.2 / - 0.2 |
| Downstream | + 13.4 / - 13.4 | + 13.0 / - 13.0 |
| Gas Midstream | | + 0.4 / - 0.4 |



The notes are an integral part of these consolidated financial statements

## 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.

Customers are allocated to several 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. Deposit, bank guarantee, letter of credit and lien are the most preferred types of security.
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. In favour of diversified customer credit risk within the portfolio the Group is using credit insurance services.
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 aims to manage liquidity risk by covering liquidity needs from bank deposits, other cash equivalents and from adequate amount of committed credit facilities. Besides, on operational level various cash pools throughout the group help to optimise liquidity surplus and need on a daily basis.

The amount of undrawn major committed credit facilities as of 31 December 2013 consists of the following:

| | HUF million |
|---|---|
| Long - term loan facilities available (general corporate purpose) | 797,859 |
| Short - term facilities available | 256,937 |
| **Total loan facilities available** | **1,054,796** |

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 2013 and 2012 based on contractual undiscounted payments.

| 31 December 2013 | 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 | - | 52 | 943 | 3,352 | 1,340 | **5,687** |
| Floating rate long-term bank loans | - | 34,364 | 28,575 | 124,187 | 8,008 | **195,134** |
| Floating-rate other long-term loans | - | 17 | 186 | 7,193 | - | **7,396** |
| Floating-rate short-term bank loans | - | 91,708 | 119,980 | - | - | **211,688** |
| Floating-rate other short-term loans | - | - | - | - | - | **-** |
| Fixed rate bonds | - | - | 40,221 | 520,200 | 114,575 | **674,996** |
| Other | - | - | - | - | - | **-** |
| Non-interest bearing long-term liabilities | - | - | 33 | 1,121 | - | **1,154** |
| Transferred "A" shares with put and call options attached (see Note 22 and 33) | - | - | 177,512 | - | - | **177,512** |
| Maximum exposure under financial guarantees | 173 | - | - | - | - | **173** |
| Trade and other payables (excluding Transferred "A" shares with put and call options attached and taxes and contributions) | 76,066 | 345,936 | 275,562 | - | - | **697,564** |
| **Total** | **76,239** | **472,077** | **643,012** | **656,053** | **123,923** | **1,971,304** |

| 31 December 2012 | 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 | | 52 | 966 | 3,953 | 1,743 | **6,714** |
| Floating rate long-term bank loans | - | 4,749 | 216,740 | 145,376 | 5,431 | **372,296** |
| Floating-rate other long-term loans | - | 14 | 8,100 | 134 | - | **8,248** |
| Floating-rate short-term bank loans | - | 40,902 | 101,544 | - | - | **142,446** |
| Floating-rate other short-term loans | - | - | - | - | - | **-** |
| Fixed rate bonds | - | - | 28,975 | 544,592 | 124,273 | **697,840** |
| **Other** | **-** | **-** | **-** | **-** | **-** | **-** |
| Non-interest bearing long-term liabilities | - | - | 38 | 1,720 | 3,194 | **4,952** |
| Transferred "A" shares with put and call options attached (see Note 22 and 33) | - | - | 166,188 | - | - | **166,188** |
| Maximum exposure under financial guarantees | 6,574 | - | - | - | - | **6,574** |
| Trade and other payables (excluding Transferred "A" shares with put and call options attached and taxes and contributions) | 26,119 | 269,453 | 271,734 | - | - | **567,306** |
| **Total** | **32,693** | **315,170** | **794,285** | **695,775** | **134,641** | **1,972,564** |

## 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 2013 and 2012.

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

| | 2013 | 2012 |
|---|---|---|
| | HUF million | HUF million |
| Long-term debt, net of current portion | 673,248 | 674,046 |
| Current portion of long-term debt | 98,174 | 270,130 |
| Short-term debt | 211,223 | 145,838 |
| Less: Cash and cash equivalents and securities | 570,774 | 346,856 |
| **Net debt** | **411,871** | **743,158** |
| Equity attributable to equity holders of the parent | 1,687,739 | 1,699,116 |
| Non-controlling interest | 473,517 | 547,205 |
| **Total equity** | **2,161,256** | **2,246,321** |
| **Capital and net debt** | **2,573,127** | **2,989,479** |
| Gearing ratio (%) | 16.0% | 24.9% |

## 33 FINANCIAL INSTRUMENTS

Financial instruments in the balance sheet include investments, other non-current assets, trade receivables, other current assets, securities, 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.
Securities include EUR-denominated Hungarian sovereign bonds and EUR- denominated Romanian international bonds which are intended to held until their maturity (within 12 months).
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:

| | 2013 | 2012 |
|---|---|---|
| | HUF million | HUF million |
| Cash flow hedges | | |
| Net receivable from currency risk hedging derivatives as cash-flow hedge (see Note 12) | 864 | 2,434 |
| Receivables from commodity hedging derivatives as cash flow hedge (see Note 15) | 3,396 | 7,208 |
| **Total cash flow hedges** | **4,260** | **9,642** |
| Financial instruments at fair value through profit or loss | | |
| Derivatives designated as hedges | | |
| Receivable from currency risk hedging derivatives as fair-value hedge | 206 | 269 |
| Fair value of firm commitments as hedged item under commodity price transactions (see Note 32) | 94 | - |
| Net receivables from commodity price transactions designated as fair value hedge (see Note 32) | - | 59 |
| Derivatives not designated as hedges | | |
| Fair value of OTP-MOL share swap (see Note 17) | - | 346 |
| Net receivables from commodity price transactions (see Note 32) | 251 | 236 |
| Securities | 6,604 | 29,202 |
| **Total financial instruments at fair value through profit or loss** | **7,155** | **30,112** |
| Financial instruments at fair value through profit or loss, net of current portion (see Note 12) | 114 | 183 |
| Current portion of financial instruments at fair value through profit or loss (see Note 15) | 437 | 727 |
| Securities | 6,604 | 29,202 |
| Loans and receivables | | |
| Loans given, net of current portion (see Note 12) | 10,937 | 17,280 |
| Current portion of loans given (see Note 15) | 83,123 | 3,483 |
| **Total loans and receivables** | **94,060** | **20,763** |
| Available for sale investments (see Note 11) | | |
| Quoted equity shares – Jadranski Naftovod d.d. | 10,520 | 10,792 |
| Unquoted equity shares | 4,116 | 9,779 |
| **Total available for sale investments** | **14,636** | **20,571** |
| **Total financial assets** | **120,111** | **81,088** |
| **Total non-current** | **26,551** | **40,468** |
| **Total current** | **93,560** | **40,620** |

| | 2013 | 2012 |
|---|---|---|
| | HUF million | HUF million |
| Cash flow hedges | | |
| Payables from commodity hedging derivatives as cash flow hedge (see Note 22) | 2,057 | 4,070 |
| **Total cash flow hedges** | **2,057** | **4,070** |
| 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) | 3,032 | 2,761 |
| Derivatives designated as hedges | | |
| Fair value of firm commitments as hedged item under commodity price transactions (see Note 32) | - | 59 |
| Net payables from commodity price transactions designated as fair value hedge (see Note 32) | 334 | - |
| Payables from currency risk hedging derivatives as fair value hedge | 719 | 1,534 |
| Derivatives not designated as hedges | | |
| Fair value of the option on MOL shares transferred to CEZ (see Note 17) | - | 6,093 |
| Fair value of MOL-OTP share swap (see Note 17) | 979 | - |
| Payables from foreign exchange forward transactions (see Note 32) | 2 | 19 |
| **Total financial liabilities at fair value through profit or loss** | **5,066** | **10,466** |
| Financial liabilities at fair value through profit or loss, net of current portion (see note 21) | 3,472 | 3,910 |
| Current portion of financial liabilities at fair value through profit or loss (see note 22) | 1,594 | 6,556 |
| Financial liabilities at amortized cost | | |
| Non-current interest bearing loans and borrowings | 767,824 | 938,554 |
| Current interest bearing loans and borrowings | 211,223 | 145,838 |
| Transferred “A” shares with put and call options attached (see Note 22 and 32) | 177,512 | 166,188 |
| Non-interest bearing long-term liabilities | 3,598 | 5,622 |
| **Total financial liabilities at amortized cost** | **1,160,157** | **1,256,202** |
| **Total financial liabilities** | **1,167,280** | **1,270,738** |
| **Total non-current** | **774,894** | **948,086** |
| **Total current** | **392,386** | **322,652** |

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

| | Carrying amount 2013 | Carrying amount 2012 | Fair value 2013 | Fair value 2012 |
|---|---|---|---|---|
| | HUF million | HUF million | HUF million | HUF million |
| **Financial assets** | | | | |
| Net receivable from currency risk hedging derivatives (see Note 12) | 864 | 2,434 | 864 | 2,434 |
| Receivables from commodity hedging derivatives as cash flow hedge (see Note 32) | 3,396 | 7,208 | 3,396 | 7,208 |
| Available-for-sale investments (see Note 11) | 14,636 | 20,571 | 14,636 | 20,571 |
| Securities | 6,604 | 29,202 | 6,604 | 29,202 |
| Loans given (see Note 12 and 15) | 94,060 | 20,763 | 94,060 | 20,763 |
| Trade receivables (see Note 14) | 512,584 | 570,994 | 512,584 | 570,994 |
| Receivable from currency risk hedging derivatives as fair-value hedge (see Note 32) | 206 | 269 | 206 | 269 |
| Fair value of firm commitments as hedged item under commodity price transactions (see Note 32) | 94 | - | 94 | - |
| Net receivables from commodity price transactions designated as fair value hedge (see Note 32) | - | 59 | - | 59 |
| Net receivables from commodity price transactions (see Note 32) | 251 | 236 | 251 | 236 |
| Fair value of MOL-OTP share swap (see Note 17) | - | 346 | - | 346 |
| Other current assets (excluding derivatives, Loans given and prepaid and recoverable taxes, see Note 15) | 57,504 | 79,707 | 57,504 | 79,707 |
| Cash and cash equivalents (see Note 16) | 564,170 | 317,654 | 564,170 | 317,654 |
| **Financial liabilities** | | | | |
| Interest-bearing loans and borrowings: | | | | |
| Obligations under financial leases | 3,860 | 4,488 | 3,860 | 4,488 |
| Floating rate long-term bank loans | 189,865 | 366,798 | 189,865 | 366,798 |
| Floating rate other long-term loans | - | - | - | - |
| Floating rate short-term bank loans | 210,943 | 145,613 | 210,943 | 145,613 |
| Floating-rate other short-term loans | 280 | 225 | 280 | 225 |
| Fixed rate bonds | 574,099 | 567,268 | 586,731 | 580,114 |
| Non-interest bearing long-term liabilities | 3,598 | 5,622 | 3,598 | 5,622 |
| Payables from commodity hedging derivatives as cash flow hedge (see Note 22 and 32) | 2,057 | 4,070 | 2,057 | 4,070 |
| Conversion option of exchangeable capital securities by Magnolia Finance Ltd (see Note 17 and Note 21) | 3,032 | 2,761 | 3,032 | 2,761 |
| Transferred "A" shares with put and call options attached (see Note 17 and Note 22) | 177,512 | 166,188 | 177,512 | 166,188 |
| Fair value of the option on MOL shares transferred to CEZ (see Note 17) | - | 6,093 | - | 6,093 |
| Fair value of MOL-OTP share swap (see Note 17) | 979 | - | 979 | - |
| Payables from currency risk hedging derivatives as fair value hedge (see Note 32) | 719 | 1,534 | 719 | 1,534 |
| Fair value of firm commitments as hedged item under commodity price transactions (see Note 32) | - | 59 | - | 59 |
| Net payables from commodity price transactions designated as fair value hedge (see Note 32) | 334 | - | 334 | - |
| Payables from foreign exchange forward transactions (see Note 32) | 2 | 19 | 2 | 19 |
| Trade and other payables (excluding derivatives, Transferred "A" shares with put and call options attached and taxes and contributions, see Note 22) | 650,979 | 542,940 | 650,979 | 542,940 |





The fair value of the financial instruments is included at the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.
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. The value of the equity share in JANAF d.d. was determined by reference to the market value of the shares as quoted on the Zagreb Stock Exchange as of 31 December 2013
- Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly. The Group enters into derivative financial instruments with various counterparties, principally financial institutions. Derivatives valued using valuation techniques with market observable inputs are mainly commodity price transactions. For commodity derivative contracts the most frequently applied valuation techniques include forward pricing and swap- and option models and are based use on mark- to- market calculations. For valuing share option transactions and share swaps various option pricing techniques are used (binomial option pricing model, Monte Carlo simulation).
- Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

| | 31 Dec 2013 | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| | HUF million | HUF million | HUF million | HUF million |
| **Financial assets** | | | | |
| Securities | 6,604 | - | 6,604 | - |
| Available for sale investment in JANAF d.d. (see Note 11) | 10,520 | 10,520 | - | |
| Receivables from commodity hedging derivatives as cash flow hedge (see Note 15) | 3,396 | - | 3,396 | - |
| Net receivable from currency risk hedging derivatives as cash-flow hedge (see Note 12) | 864 | - | 864 | - |
| Receivables from currency risk hedging derivatives (see Note 32) | 206 | - | 206 | - |
| Net receivables from commodity price transactions (see Note 32) | 251 | - | 251 | - |
| Fair value of firm commitments as hedged item under commodity price transactions (see Note 32) | 94 | - | 94 | - |
| **Financial liabilities** | | | | |
| Fair value of MOL-OTP share swap (see Note 17) | 979 | - | - | - |
| Payables from commodity hedging derivatives as cash flow hedge (see Note 22) | 2,057 | - | 2,057 | - |
| Conversion option of exchangeable capital securities by Magnolia Finance Ltd (see Note 17 and Note 21) | 3,032 | - | 3,032 | - |
| Payables from currency risk hedging derivatives as fair value hedge (see Note 32) | 719 | - | 719 | - |
| Net payables from commodity price transactions designated as fair value hedge (see Note 22 and Note 32) | 334 | - | 334 | - |
| Payables from foreign exchange forward transactions (see Note 32) | 2 | - | 2 | - |

| | 31 Dec 2012 | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| | HUF million | HUF million | HUF million | HUF million |
| Financial assets | | | | |
| Securities | 29,202 | - | 29,202 | - |
| Available for sale investment in JANAF d.d. (see Note 11) | 10,792 | 10,792 | - | - |
| Receivables from commodity hedging derivatives as cash flow hedge (see Note 15) | 7,208 | - | 7,208 | - |
| Net receivable from currency risk hedging derivatives as cash-flow hedge (see Note 12) | 2,434 | - | 2,434 | - |
| Fair value of MOL-OTP share swap (see Note 17) | 346 | - | 346 | - |
| Receivables from currency risk hedging derivatives (see Note 32) | 269 | - | 269 | - |
| Net receivables from commodity price transactions (see Note 32) | 236 | - | 236 | - |
| Net receivables from commodity price transactions designated as fair value hedge (see Note 32) | 59 | | 59 | |
| Financial liabilities | | | | |
| Fair value of the option on MOL shares transferred to CEZ (see Note 17) | 6,093 | - | 6,093 | - |
| Payables from commodity hedging derivatives as cash flow hedge (see Note 22) | 4,070 | - | 4,070 | - |
| Conversion option of exchangeable capital securities by Magnolia Finance Ltd (see Note 17 and Note 21) | 2,761 | - | 2,761 | - |
| Payables from currency risk hedging derivatives as fair value hedge (see Note 32) | 1,534 | - | 1,534 | - |
| Fair value of firm commitments as hedged item under commodity price transactions (see Note 32) | 59 | - | 59 | - |
| Payables from foreign exchange forward transactions (see Note 32) | 19 | - | 19 | - |

## 34 COMMITMENTS AND CONTINGENT LIABILITIES

### Guarantees

The total value of guarantees undertaken to parties outside the Group is HUF 173 million.

### Capital and Contractual Commitments

The total value of capital commitments as of 31 December 2013 is HUF 129.6 billion, from which significant amounts relate to the construction of the new petrochemical plants of Slovnaft and TVK (HUF 66.9 billion and HUF 26.9 billion, respectively). In addition to the above, HUF 11.4 billion relates to capital and contractual commitments of INA, and HUF 7.5 billion relates to MOL Plc.

### Gas Purchases Obligation, Take or Pay Contract

MOL Group has concluded a long-term gas purchase contract with MET 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 is under take-or-pay commitment (50 mcm as of 31 December 2013). On 20 December 2013 Prirodni plin d.o.o. signed an additional contract with MET International AG regarding natural gas import until 1 May 2014. As of 31 December 2013 future obligations amount to approximately HRK 150 million until the contract expiry.

### Operating leases

Operating lease liabilities are as follows

| | 2013 | 2012 |
|---|---|---|
| | HUF million | HUF million |
| Due not later than 1 year | 5,769 | 5,393 |
| Due two to five years | 9,117 | 8,722 |
| Due over five years | 12 | 55 |
| **Total** | **14,898** | **14,170** |

Out of the outstanding operating lease liabilities as of 31 December 2013 HUF 5,195 million were contracted by INA, HUF 4,271 million were contracted by Slovnaft and HUF 2,655 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. The expert delivered its opinion to the court. As MOL considers the conclusions of the expert opinion provided by the court as incorrect, a counter opinion was provided by MOL, which was delivered to the court together with its statement. The court has set the date of the next hearing for 31 March 2014.

### 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.

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 practice which was considered as cartel infringement according to the decision of the European Commission since they were able to purchase the product only on an increased price. After long discussions made through the English procedure between the claimants and the cartelists, the cartelists have decided that they collectively intend to make a settlement offer of a single lump sum to each

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS REPORT claimant in full and final settlement of any and all claims that it has against the cartelists collectively or individually arising out of or in relation to the damages claims. As a result, in 2013 MOL procured payment of the settlement sum. The procedure is closed. The Dutch procedure is still on-going.

### Arbitration proceedings

### ICSID

On 26 November 2013 MOL has filed a Request for Arbitration with the International Centre for Settlement of Investment Disputes (ICSID) in order to commence arbitration proceedings against the Government of Croatia for breaching certain of its obligations and undertakings in relation to MOL's investments in Croatia.

The Request for Arbitration was filed against the Government of Croatia through MOL's legal counsel in order to commence arbitration proceedings under the Energy Charter Treaty. The request to commence the arbitration has been filed; MOL received the Notice of Registration and named an arbitrator in the proceeding.

### UNCITRAL

On 17 January 2014 the Croatian Government announced that it had initiated arbitration at the United Nations Commission on International Trade Law in Geneva, Switzerland to nullify the 2009 Amendment to the Shareholders Agreement and the gas agreements, also requested an indemnity for losses caused by „missed" development of INA d.d. ("INA").

MOL has received the Notice of Arbitration.

### 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 ("AMO") 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 22 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.
Starting from 2007 the case was repeatedly judged and decided by AMO as well as by the competent courts in Slovak Republic. Last decision in the matter was adopted by the Supreme Court of SR on 18 April 2013 upon which the complaint brought by SLOVNAFT, a.s. against AMO was entirely overruled. According to that judgment decisions of AMO adopted in 2010 and 2011 stating abusing of dominant position by the company became final and valid in merit. In July 2013 the company paid out the imposed penalty in amount of EUR 9 million to AMO.

SLOVNAFT a.s. is ready to continue its defence by Constitutional Complain filed to the Constitutional Court of SR in July 2013. In Constitutional Complain the company proposed to the Constitutional Court to adopt a preliminary measurement to postpone enforceability of the challenged judgement of the Supreme Court and to order the AMO to refrain from enforcement of administrative decision in question in the matter against SLOVNAFT a.s. until the decision becomes final. In the Constitutional Complain the company argues that its fundamental right to judicial protection under Article 46 (1) of the Constitution and Article 6 (1) of the Convention for the Protection of Fundamental Rights and Freedoms have been violated.

SLOVNAFT a.s. cannot estimate the outcome, neither the date of decision of the Constitutional Court.

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

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

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 annulment of the decision.

On 20 June 2013, the first degree court of law rejected MOL Romania claim against RCC decision. The court decision was drafted and communicated to MOL Romania on 3 February 2014 and it is under analysis at present. MOL Romania filed for second appeal (recourse) at the High Court of Justice on 25 June 2013, and will motivate the recourse until 19 February 2014 and will fight against the grounds stated in the court decision communicated on 3 February 2014.

Since MOL Romania paid the fine, no provision was constituted for this litigation.

### 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 0.4 million.

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.

Supreme Court hasn't decided on review to this date, so legal actions weren't taken during 2013.

### GWDF

In the dispute initiated by GWDF Partnership Gesellschaft Bürgerlicher 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**

On 18 June 2013, the Tribunal issued an Award in which it dismissed all of Edison's monetary claims in the arbitration. Those claims were initially that INA must pay Edison EUR 140 million plus lost profits on the Izabela field (reduced by the time of the hearing to EUR 102.3 million). INA's counterclaims were also dismissed by the Tribunal. The Tribunal nonetheless determined that, by certain of its actions, INA had substantially failed to comply with a material obligation under the Production Sharing Agreement between INA and Edison (the "PSA"). As a result, although it awarded no compensation to Edison, the Award provides Edison the right to terminate the PSA.

**OTF**

On 27 August 2013, INA received information from the Secretariat of the Permanent Arbitration Court, Croatian Chamber of Commerce, that OTF Fovallalkozo Zrt., Hungary (OTF) has submitted a Statement of Claim against INA.

In its Statement of Claim OTF claims from INA the payment of the amount of the Performance Guarantee stating that it was fraudulently, unlawfully and unjustifiably activated by INA, payment of additional costs based on the so called "change order" claims and other costs related to the project paid by OTF and that due to the reasons solely attributable to INA as well as compensation of damage caused to OTF by INA's delayed payment and other actions in the total amount of EUR 8.7 million.

On 11 October 2013, INA submitted a detailed Answer to the Statement of Claim within the set deadline. INA, in its Answer to the Statement of Claim, states that OTF has provided an incomplete and a misleading description of the nature and circumstances of the dispute. First of all INA is claiming that the delay of the project was attributable solely to the reasons for which OTF was responsible for by virtue of the Contract concluded among the Parties. This argumentation INA also bases on the nature of the Lump Sum Turn Key Contract that the Parties concluded and the fact that OTF undertook the sole responsibility for detailed engineering and design of the project, the procurement of the entire equipment and necessary materials and finally the construction with a responsibility to deliver to INA a fully functioning plant, what OTF failed to do. Further on, INA claims that Feedstock was not the reason for the malfunctioning of the plant nor was it caused by INAs operational personnel. It is INAs point of view that the malfunctions of the plant were the result of poor design and construction of the plant that being the sole responsibility of OTF.

In relation to the activation of the bank guarantee INAs claims are in line with its argumentation that by activating the bank guarantee and collecting the amount of EUR 4.4 million, INA collected damages suffered during the shutdowns caused by plant deficiencies and the other costs suffered by INA due to OTFs breach of contract.

Although we are still in the initial phase of the arbitral proceedings some issues such as the procedural rules and the direction in which the Tribunal wishes to take the arbitration have been clarified after the teleconference held on 13 December 2013, including deadlines for next round of written submissions. On the other hand, at this point the position of the Parties regarding the merits of the dispute is still difficult to evaluate due to the fact that there was only one round of written submissions.

**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.
On August 29 2012, INA filed the Note of urgency before the Administrative Court, in which it requested prompt reaction in solving three administrative lawsuits.
In 2013, the Legal Sector contacted the office of the Administrative Court several times to check the status of the lawsuit and information was received that the lawsuits are expected to be distributed for further procedure to the Administrative Court judges in early 2014.

**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 effect 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 22,632 million for which HUF 18,713 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 71,533 million for the estimated cost as at 31 December 2013 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 2013, on Group level the aggregate amount of contingent liabilities recorded on the balance sheet as environmental liabilities was HUF 34.7 billion (HUF 33.3 billion at 31 December 2012).

## 35 EVENTS AFTER THE REPORTING PERIOD

**Wintershall acquisition**

The Group has executed Share Purchase Agreements with Wintershall Norge AS for acquiring shareholding interest of Wintershall's UK North Sea basin off-shore assets in 14 licences in line with the Group's active portfolio development strategy. The transaction provides the Group with an opportunity to acquire a foothold in the attractive North Sea area. The portfolio includes non-operated equity stakes in the Broom (29% Working Interest), Catcher (20% WI), Cladhan (33.5% WI), Scolty and Crathes fields (50% WI). In addition, Wintershall's equity share in infrastructure on the Sullom Voe Terminal and Brent Pipeline System are also part of the deal. The new portfolio elements are mainly in the development and production phase, thus the current trend of decreasing daily production in the Group's overall portfolio will be mitigated. The deal is expected to be completed in the first quarter of 2014. The carrying amounts of the assets and liabilities of Wintershall UK as of 31 December 2013 are the following:

| | Carrying amount |
|---|---|
| | HUF million |
| Assets | |
| Non-current asssets | 73,186 |
| Current assets | 4,409 |
| **Total Assets** | **77,595** |
| Liabilities | |
| Non-current liabilities | 32,536 |
| Current liabilites | 25,636 |
| **Total Liabilities** | **58,172** |
| **Net assets** | **19,423** |

**Partial disposal of BaiTex**

The Group has sold 49% share of BaiTex LLC ("BaiTex") to the Turkish Petroleum Corporation ("TPAO"). BaiTex is the holder of the hydrocarbon licenses for Baituganskoye field and Yerilkinsky block in the Volga-Ural region, Russia. Consent of Russian Federal Anti-Monopoly Services for the deal were obtained by the parties in February 2014, the final completion is expected to occur in the first quarter of 2014. The disposal is in line with the Group's long term portfolio management and risk sharing strategies. As 51% owner of Baitex, the Group remains the operating shareholder. The carrying amounts of the assets and liabilities of BaiTex as of 31 December 2013 are the following:

| | Carrying amount |
|---|---|
| | HUF million |
| Intangible assets | 22,733 |
| Tangible assets | 52,744 |
| Other non-current assets | 2,709 |
| Inventories | 531 |
| Other current assets | 1,404 |
| Prepaid taxes | 106 |
| Cash and cash equivalents | 520 |
| **Total assets** | **80,747** |
| Provisions and contingent liabilities | 2,120 |
| Deferred tax liabilities | 8,438 |
| Trade and other payables | 5,926 |
| **Total liabilities** | **16,484** |
| Net assets sold | 64,263 |

**Decision of the Croatian Government concerning obligatory natural gas sale**

A package of resolutions related to INA's obligation on delivering the gas produced in Croatia under regulated price has been adopted on 27 February 2014 by the Croatian Government. These decisions obliges INA to sell the portion of its natural gas production for household supplies to state-owned electricity company, HEP d.d., which was appointed as the wholesale market supplier, on price regulated for 3 years. So far INA (through Prirodni plin) received 2.2000 HRK/m3 for sales in the household segment while now INA shall receive 1.7058 HRK/m3 for the respective volumes. According to the new regulation – if it remains unchanged, taking into account adjustments in cost items – INA will have to transfer, depending on the natural gas quantities, HUF 10.2bn – 14.2 bn from its own revenues to HEP, annually.

## 36 NOTES TO THE CONSOLIDATED STATEMENTS OF CASH-FLOWS

*Cash and cash equivalents comprise the following at 31 December*

| | 2013 | 2012 |
|---|---|---|
| | HUF million | HUF million |
| Cash and cash equivalents according to Balance Sheet | 564,170 | 317,654 |
| Cash and cash equivalents as part of Disposal Group | - | - |
| Total Cash and cash equivalents | 564,170 | 317,654 |

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

| | 2013 | 2012 |
|---|---|---|
| | HUF million | HUF million |
| Cash consideration | (399) | (22,884) |
| Cash at bank or on hand acquired | 132 | 1,342 |
| Net cash outflow on acquisition of subsidiaries, joint ventures and non-controlling interests | (267) | (21,542) |

*Issuance of long-term debt*

| | 2013 | 2012 |
|---|---|---|
| | HUF million | HUF million |
| Increase in long-term debts | 463,372 | 221,124 |
| Non cash-flow element: unrealised exchange gains / (losses) | 861 | 46,976 |
| Total issuance of long-term debt | 464,233 | 268,100 |

## 37 RELATED PARTY TRANSACTIONS

**Transactions with associated companies in the normal course of business**

| | 2013 | 2012 |
|---|---|---|
| | HUF million | HUF million |
| Trade and other receivables due from related parties | 7,845 | 15,179 |
| Trade and other payables due to related parties | 18,682 | 24,542 |
| Net sales to related parties | 20,416 | 29,322 |

The Group purchased and sold goods and services with related parties during the ordinary course of business in 2013 and 2012. 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 131 million and HUF 130 million in 2013 and 2012, respectively. In addition, the directors participate in a long-term incentive scheme details of which are given below. Total remuneration of members of the Supervisory Board approximated HUF 95 million in 2013 and HUF 92 million in 2012.

**Directors are remunerated with the following net amounts in addition to the incentive scheme:**

- Executive and non-executive directors 25,000 EUR/year
- Committee chairmen 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 to 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**

| | 2013 | 2012 |
|---|---|---|
| | Number of shares | Number of shares |
| Board of Directors | 262,183 | 229,443 |
| Senior Management (except executive Board members) | 106,508 | 119,508 |
| Supervisory Board | 39,588 | 54,588 |
| **Total** | **408,279** | **403,539** |

**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 2013 or 2012. All of these transactions are on an arm's-length basis.

Mr. Martin Roman, member of the Board of Directors of the Company, has been the Chairman of the Supervisory Board of ČEZ, a.s. until October 2013. MOL and CEZ have established a JV which operates the boiler park at the Danube Refinery and the thermo-power plant at the Bratislava and through which the preparatory work of CCGT constructions was carried out. In addition to the cooperation presented above, in 2013 CEZ entered in the following business transactions with members of MOL Group:

– Slovnaft Česká Republika, a.s. delivered oil and lubricants to CEZ in the value of HUF 99 million (in 2012 HUF 99 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 2013 and 2012 in the value of HUF 203 million and HUF 10 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 2013 and 2012 amounted to HUF 4,741 million and HUF 4,772 million respectively, carried out on usual commercial terms and market prices and purchased goods from this company in amount of HUF 42 million and HUF 22 million, respectively. 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 1 million and HUF 2 million carried out on usual commercial terms and market prices during 2013 and 2012, respectively and purchased goods from this company in amount of HUF 2 million and HUF 2 million in 2013 and 2012, 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 Csekes s.r.o. The company provided legal services to the Group in the value of HUF 33 million and HUF 177 million in 2013 and 2012, 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.

| | 2013 | 2012 |
|---|---|---|
| | HUF million | HUF million |
| Salaries and other short-term employee benefits | 1,541 | 1,312 |
| Termination benefits | - | - |
| Share-based payments | 467 | 24 |
| **Total** | **2,008** | **1,336** |

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

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

## 38 SHARE-BASED PAYMENT PLANS

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

| | 2013 | 2012 |
|---|---|---|
| | HUF million | HUF million |
| Expense arising from equity-settled share-based payment transactions | 296 | 305 |
| Expense / (reversal of expense) arising from cash-settled share-based payment transactions | (1,263) | (111) |
| **Total expense / (reversal of expense) arising from share-based payment transactions (see Note 26)** | **(967)** | **194** |

**The share-based payments are described below.**

The share-based payments serve as the management's long term incentives as an important part of their total remuneration package. They ensure the interest of the top and senior management of MOL Group in the long-term increase of MOL share price and so they serve the strategic interest of the shareholders.

The Long-term managerial incentive system employs two incentive systems in parallel: the Share Option Plan (an option based incentive) and the Performance Share Plan (based on a so called Comparative Share Price methodology).

**Share Option Incentive Schemes for management**

The Share Option Plan was launched in 2006 and renewed in 2013.

The Share Option Plan is a call option to sell hypothetical MOL shares granted on a past strike price, at a spot price and so realize profit with the difference between these prices. The incentive has following characteristics:

- Covers a five-year period starting annually, where periods are split into a two-year vesting period (it is not possible to exercise Share Options) and a three-year redeeming period. If unexercised, the Share Option lapses after 31th December of the redeeming period.
- The grants are defined centrally in line with MOL job category
- The payout is linked to individual short-term performance

Share Option is calculated in Hungarian Forints and paid out in cash in local currency.

The incentive is paid in the exercising period according to the declaration of exercising. The payout/earning is the difference between the exercise price and Strike Price for one Share Option, multiplied by the number of Share Options the manager is entitled to.
As a new part of the managerial remuneration package, from 2013 the managers who are entitled to long-term incentives, are eligible for a one-time payout annually, in case the Annual General Meeting of MOL Plc. decides on dividend payment in the given year. Payment of one manager is the value equal to the dividend payment per share multiplied by the Share Option unit numbers the manager is entitled to.

**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 |
|---|---|---|---|---|
| | 2013 | 2013 | 2012 | 2012 |
| | SHARE | HUF/SHARE | SHARE | HUF/SHARE |
| Outstanding at the beginning of the year | 477,024 | 15,083 | 604,999 | 18,431 |
| Granted during the year | 134,504 | 17,977 | 145,894 | 17,120 |
| Forfeited during the year | (27,519) | 18,744 | (69,458) | 20,600 |
| Exercised during the year | (62,571) | 12,515 | (75,062) | 14,636 |
| Expired during the year | (34) | 12,435 | (129,349) | 30,337 |
| **Outstanding at the end of the year** | **521,404** | **18,412** | **477,024** | **15,083** |
| Exercisable at the end of the year | 250,732 | 19,579 | 194,487 | 15,545 |

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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 2013 expenses recorded in preceding years has been reversed in a value of HUF 1,263 million (HUF 111 million reversal in 2012). Liabilities in respect of share-based payment plans amounted to HUF 792 million as at 31 December 2013 (31 December 2012: HUF 2,062 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:

| | 2013 | 2012 |
|---|---|---|
| Weighted average exercise price (HUF / share) | 18,412 | 15,083 |
| Share price as of 31 December (HUF / share) | 14,426 | 17,749 |
| Expected volatility based on historical data | 31.80% | 44.18% |
| Expected dividend yield | 2.82% | 2.61% |
| Estimated maturity (years) | 2.54 | 2.77 |
| Risk free interest rate | 4.44% | 0.15% |

### Performance Share Plan for top and senior management

Other part of the Long Term Incentive Plan for the top and senior management is the Performance Share Plan that was introduced in 2013 replacing the previous Profit Sharing Plan.

The Performance Share Plan is a three-year cash based programme using the Comparative Share Price methodology with following characteristics:

- Programme starts each year on a rolling scheme with a three-year vesting period. Payments are due after the third year.
- Target is the development of MOL's share price compared to relevant and acknowledged regional and industry specific indicators (the CETOP20 and Dow Jones Emerging Market Titans Oil&Gas 30 Index).
- Basis of the evaluation is the average difference in MOL's year-on-year (12 months) share price performance in comparison to the benchmark indices during three years.
- Payout rates are defined based on the over / underperformance of MOL share price.
- The rate of incentive is influenced by the individual short-term performance.

As the previous 1-year based Profit Sharing incentive was replaced by the 3-year based Performance Share Plan, a 1-year based incentive was introduced for 2013 and a 2-year based incentive was introduced for 2013-2014 to ensure continuity.
No payment is expected with respect to 2013 based on this new incentive form.

### Share Incentive scheme for the members of the Board of Directors

According to resolution of the 2012 Annual General Meeting of the parent company, in case of the members of Board of Directors, the former profit sharing incentive programme had been replaced by a new, share-settled incentive scheme exclusively for the members of the Board of Directors ensuring their interest in the long-term increase of MOL share price.

The members of the Board of Directors become entitled to defined annual amount of MOL shares based on the number of days spent in the position. 100 shares per month are granted to each director, the Chairman of the Board is entitled to an additional amount of 25 shares per month. If an executive director is in charge as a Chairman of the Board then this additional amount of shares should be granted to the non-executive Deputy Chairman. The new incentive system ensures the interest of the Board of Directors in the long-term increase of the MOL share price as 2/3 of the shares vested in the year are under transferring restriction for one year.



According to IFRS 2, the incentive qualifies as an equity-settled share based scheme; therefore the fair value of the benefit should be expensed during the one year vesting period with a corresponding increase in the equity. The fair value of the benefit has been determined with reference to the average quoted price of MOL shares at the date of grant which was in this case the date of the Annual General Meeting (26 April 2012). As no approval of AGM is necessary for the forthcoming series of this incentive form, the first trading day of the year is considered to be the grant date and the fair value is the average quoted price of MOL share at that date. In respect of the share scheme programme, HUF 296 million has been recorded as an expense with the corresponding increase in the equity.

Details of the share-settled incentive scheme during the year were as follows:

| | 2013 | 2012 |
|---|---|---|
| Number of shares vested | 13,500 | 13,500 |
| Share price at the date of grant (HUF / share) | 17,914 | 17,765 |

# HISTORICAL SUMMARY FINANCIAL INFORMATION (IFRS)

## CONSOLIDATED INCOME STATEMENTS FOR THE YEARS ENDED 31 DECEMBER

| | 2009 Restated | 2010 Restated | 2010 Restated | 2011 Restated | 2011 Restated | 2012 Restated | 2012 Restated | 2013 | 2013 |
|---|---|---|---|---|---|---|---|---|---|
| | HUF million | HUF million | USD million* | HUF million | USD million*** | HUF million | USD million***** | HUF million | USD million******* |
| **Net revenue and other operating income** | **3,364,460** | **4,324,548** | **20,781** | **5,366,485** | **26,712** | **5,536,986** | **24,565** | **5,476,113** | **24,480** |
| Total operating expenses | 3,115,889 | 4,079,070 | 19,601 | 5,113,303 | 25,452 | 5,331,691 | 23,654 | 5,494,741 | 24,563 |
| Profit from operations | 248,571 | 245,478 | 1,180 | 253,182 | 1,260 | 205,295 | 911 | (18,628) | (83) |
| **Profit for the year attributable to equity holders of the parent** | **115,796** | **103,958** | **500** | **153,925** | **766** | **151,484** | **672** | **21,442** | **96** |

## CONSOLIDATED BALANCE SHEETS AS AT 31 DECEMBER

| | 2009 Restated | 2010 Restated | 2010 Restated | 2011 Restated | 2011 Restated | 2012 Restated | 2012 Restated | 2013 | 2013 |
|---|---|---|---|---|---|---|---|---|---|
| | HUF million | HUF million | USD million* | HUF million | USD million*** | HUF million | USD million***** | HUF million | USD million******* |
| Non-current assets | 3,073,859 | 3,153,234 | 15,152 | 3,367,070 | 13,989 | 3,170,278 | 14,352 | 2,802,642 | 12,993 |
| Current assets | 1,093,748 | 1,332,495 | 6,403 | 1,626,714 | 6,758 | 1,595,929 | 7,225 | 1,838,246 | 8,522 |
| **Total assets** | **4,167,607** | **4,485,729** | **21,555** | **4,993,784** | **20,747** | **4,766,207** | **21,576** | **4,640,888** | **21,515** |
| Equity attributable to equity holders of the parent | 1,294,005 | 1,435,070 | 6,896 | 1,652,438 | 6,865 | 1,699,116 | 7,692 | 1,687,739 | 7,824 |
| Minority interest | 535,647 | 539,407 | 2,592 | 591,203 | 2,456 | 547,205 | 2,477 | 473,517 | 2,195 |
| Non-current liabilities | 1,272,925 | 1,392,867 | 6,693 | 1,344,992 | 5,588 | 1,146,314 | 5,189 | 1,078,925 | 5,002 |
| Current liabilities | 1,065,030 | 1,118,385 | 5,374 | 1,405,151 | 5,838 | 1,373,572 | 6,218 | 1,400,707 | 6,494 |
| **Total equity and liabilities** | **4,167,607** | **4,485,729** | **21,555** | **4,993,784** | **20,747** | **4,766,207** | **21,576** | **4,640,888** | **21,515** |

## CONSOLIDATED STETEMENTS OF CASH FLOWS FOR THE YEARS ENDED 31 DECEMBER

| | 2009 Restated | 2010 Restated | 2010 Restated | 2011 Restated | 2011 Restated | 2012 Restated | 2012 Restated | 2013 | 2013 |
|---|---|---|---|---|---|---|---|---|---|
| | HUF million | HUF million | USD million* | HUF million | USD million*** | HUF million | USD million***** | HUF million | USD million******* |
| **Net cash provided by operating activities** | **397,891** | **378,886** | **1,821** | **372,950** | **1,856** | **454,033** | **2,014** | **614,685** | **2,748** |
| Net cash provided by / (used in) investing activities | (266,658) | (279,475) | (1,343) | (198,709) | (989) | (298,509) | (1,324) | (124,994) | (559) |
| Net cash provided by / (used in) financing activities | **(169,713)** | **24,764** | **119** | **(188,903)** | **(940)** | **(148,992)** | **(661)** | **(239,251)** | **(1,070)** |
| **(Decrease)/increase in cash and cash equivalents** | **(38,480)** | **124,175** | **597** | **(14,662)** | **(73)** | **6,532** | **29** | **250,440** | **1,120** |

| | |
|---|---|
| * 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 |
| ***** 2012 average HUF/USD | 225.4 |
| ****** 2012 year-end HUF/USD | 220.9 |
| ******* 2013 average HUF/USD | 223.7 |
| ******** 2013 year-end HUF/USD | 215.7 |

# 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 Kurdistani region of Iraq) due to the early stage of the investment.

### GROSS RESERVES (ACCORDING TO SPE RULES)*

| Proved reserves | Natural gas MCM | Bcf | Crude oil kt | million bbl | Combined million boe |
|---|---|---|---|---|---|
| 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 |
| Revision of previous estimates | 1,209.1 | 42.7 | 679.6 | 5.1 | 9.4 |
| Extension and discoveries | 221.4 | 7.8 | 83.4 | 0.6 | 1.8 |
| Production | (1,907.1) | (67.3) | (654.2) | (4.9) | (17.1) |
| Purchase/sale of minerals in place | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Hungary as of December 31, 2012 | 9,913.3 | 350.1 | 3,383.0 | 25.5 | 80.7 |
| Revision of previous estimates | 445.7 | 15.7 | 101.4 | 0.7 | 7.9 |
| Extension and discoveries | 58.5 | 2.1 | 36.3 | 0.3 | 0.6 |
| Production | (1,799.0) | (63.5) | (606.1) | (4.6) | (15.9) |
| Purchase/sale of minerals in place | | | (19.8) | (0.1) | (0.1) |
| Hungary as of December 31, 2013 | 8,618.5 | 304.4 | 2,894.8 | 21.9 | 73.2 |
| 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) |
| 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 |
| Revision of previous estimates | 5.4 | 0.2 | 320.6 | 2.3 | 2.4 |

| Proved reserves | Natural gas MCM | Bcf | Crude oil kt | million bbl | Combined million boe |
|---|---|---|---|---|---|
| Production | (258.7) | (9.1) | (960.8) | (7.0) | (8.7) |
| Purchase/sale of minerals in place | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Russia, Pakistan, Kazakhstan as of December 31, 2012 | 4,813.4 | 170.0 | 14,083.7 | 99.6 | 128.6 |
| Revision of previous estimates | (390.7) | (13.8) | (13.5) | (0.1) | (4.0) |
| Extension and discoveries | 439.3 | 15.5 | 268.6 | 2.0 | 6.2 |
| Production | (243.9) | (8.6) | (788.3) | (5.7) | (7.3) |
| Purchase/sale of minerals in place | 0.0 | 0.0 | (1,879.0) | (13.7) | (13.7) |
| Russia, Pakistan, Kazakhstan as of December 31, 2013 | 4,618.1 | 163.1 | 11,671.4 | 82.1 | 109.9 |
| 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 |
| Revision of previous estimates | (2,992.3) | (105.7) | 340.7 | 2.5 | (10.4) |
| Extension and discoveries | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Production | (1,950.7) | (68.9) | (607.5) | (4.5) | (17.8) |
| Purchase/sale of minerals in place | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| INA d.d. as of December 31, 2012 | 17,137.2 | 605.2 | 9,972.3 | 73.7 | 195.6 |
| Revision of previous estimates | (194.6) | (6.9) | 711.6 | 5.3 | 3.9 |
| Extension and discoveries | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Production | (1,415.9) | (50.0) | (572.8) | (4.2) | (13.9) |
| Purchase/sale of minerals in place | 0.0 | 0.0 | 9.3 | 0.1 | 0.1 |
| INA d.d. as of December 31, 2013 | 15,526.7 | 548.3 | 10,120.4 | 74.9 | 185.6 |
| 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 |
| Total (domestic+int') hydrocarbon reserves as of December 31, 2012 | 31,863.9 | 1,125.3 | 27,438.9 | 198.9 | 404.9 |
| Total (domestic+int') hydrocarbon reserves as of December 31, 2013 | 28,763.3 | 1,015.8 | 24,686.6 | 178.8 | 368.7 |

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

## 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, 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 |
| Revision of previous estimates | 921.8 | 32.6 | 115.6 | 0.9 | 1.6 |
| Extension and discoveries | 424.1 | 15.0 | 228.5 | 1.7 | 4.0 |
| Production | (1,907.1) | (67.3) | (654.2) | (4.9) | (17.1) |
| Purchase/sale of minerals in place | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Hungary as of December 31, 2012 | 21,397.6 | 755.6 | 6,040.1 | 45.6 | 159.0 |
| Revision of previous estimates | (2,259.7) | (79.8) | (20.0) | (0.2) | (4.1) |
| Extension and discoveries | 103.0 | 3.6 | 116.7 | 0.9 | 1.4 |
| Production | (1,799.0) | (63.5) | (606.1) | (4.6) | (15.9) |
| Purchase/sale of minerals in place | 0.0 | 0.0 | (19.8) | (0.1) | (0.1) |
| Hungary as of December 31, 2013 | 17,441.9 | 616.0 | 5,510.8 | 41.6 | 140.3 |
| 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 |
| Revision of previous estimates | 5.4 | 0.2 | (389.6) | (2.9) | (2.9) |
| Extension and discoveries | 0.0 | 0.0 | 11.4 | 0.1 | 0.1 |
| Production | (258.7) | (9.1) | (960.8) | (7.0) | (8.7) |
| Purchase/sale of minerals in place | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Russia, Pakistan, Kazakhstan as of December 31, 2012 | 7,429.9 | 262.4 | 24,900.3 | 177.2 | 221.9 |
| Revision of previous estimates | (493.0) | (17.4) | (45.9) | (0.4) | (3.7) |
| Extension and discoveries | 1,457.7 | 51.5 | 588.4 | 4.4 | 14.5 |
| Production | (243.9) | (8.6) | (788.3) | (5.7) | (7.3) |
| Purchase/sale of minerals in place | 0.0 | 0.0 | (5,642.3) | (41.0) | (41.0) |
| Russia, Pakistan, Kazakhstan as of December 31, 2013 | 8,150.7 | 287.8 | 19,012.2 | 134.5 | 184.3 |
| 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 |
| Revision of previous estimates | (2,190.6) | (77.4) | 651.9 | 4.8 | (0.9) |
| Extension and discoveries | 59.8 | 2.1 | 819.2 | 6.0 | 6.4 |
| Production | (1,950.7) | (68.9) | (607.5) | (4,5) | (17.8) |
| Purchase/sale of minerals in place | 0.0 | 0.0 | 0.0 | 0,0 | 0.0 |
| INA d.d. as of December 31, 2012 | 23,906.3 | 844.2 | 13,051.4 | 96.5 | 266.2 |
| Revision of previous estimates | (464.1) | (16.4) | (293.4) | 2,1 | (1.3) |
| Extension and discoveries | 0.0 | 0.0 | 0.0 | 0,0 | 0.0 |
| Production | (1,415.9) | (50.0) | (572.8) | (4,2) | (13.9) |
| Purchase/sale of minerals in place | 0.0 | 0.0 | 17.3 | 0,1 | 0.1 |
| INA d.d. as of December 31, 2013 | 22,026.4 | 777.9 | 12,789.4 | 94.6 | 251.1 |
| 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 |
| Total (domestic+int') hydrocarbon reserves as of December 31, 2012 | 52,733.8 | 1,862.3 | 43,991.8 | 319.3 | 647.0 |
| Total (domestic+int') hydrocarbon reserves as of December 31, 2013 | 47,618.9 | 1,681.6 | 37,312.4 | 270.7 | 575.7 |

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

## COSTS INCURRED (HUF MN)*

| | Consolidated companies | | | | | Associ-ated com-panies | Total |
|---|---|---|---|---|---|---|---|
| | CEE** | Asia - Russia*** | Rest of Asia**** | Africa***** | Total | | |
| For year ended 31 December 2012 | | | | | | | |
| Acquisition of properties | 565 | 14 | 12,905 | - | 13,483 | - | 13,483 |
| Proved | - | - | - | - | - | - | - |
| Unproved | 565 | 14 | 12,905 | - | 13,483 | - | 13,483 |
| Exploration | 18,948 | 3,596 | 34,589 | 503 | 57,637 | - | 57,637 |
| G&G | 3,097 | 735 | 4,597 | 79 | 8,508 | - | 8,508 |
| Drilling | 15,294 | 2,644 | 25,808 | 301 | 44,048 | - | 44,048 |
| Rental fee, other | 557 | 216 | 4,185 | 123 | 5,081 | - | 5,081 |
| Development | 27,163 | 25,198 | 7,864 | 2,735 | 62,961 | - | 62,961 |
| Total costs incurred | 46,676 | 28,808 | 55,358 | 3,238 | 134,080 | - | 134,080 |
| For year ended 31 December 2013 | | | | | | | |
| Acquisition of properties | 0 | 0 | 0 | 1,417 | 1,417 | - | 1,417 |
| Proved | 0 | 0 | 0 | 1,417 | 1,417 | - | 1,417 |
| Unproved | 0 | 0 | 0 | 0 | 0 | - | 0 |
| Exploration | 19,404 | 1,880 | 48,680 | 6,094 | 76,057 | - | 76,057 |
| G&G | 2,109 | 753 | 4,788 | 178 | 7,827 | - | 7,827 |
| Drilling | 16,096 | 985 | 37,876 | 5,785 | 60,741 | - | 60,741 |
| Rental fee, other | 1,199 | 142 | 6,016 | 131 | 7,488 | - | 7,488 |
| Development | 41,888 | 13,401 | 11,086 | 5,716 | 72,091 | - | 72,091 |
| Total costs incurred | 61,292 | 15,280 | 59,766 | 13,227 | 149,566 | - | 149,566 |

*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

## EARNINGS (HUF MN)*

| | Consolidated companies | | | | | Associated companies | Total |
|---|---|---|---|---|---|---|---|
| | CEE** | Asia - Russia*** | Rest of Asia**** | Africa***** | Total | | |
| For year ended 31 December 2012 | | | | | | | |
| Sales | 450,495 | 33,274 | 15,834 | 30,254 | 529,857 | - | 529,857 |
| third parties | 67,611 | 33,274 | 15,834 | 30,254 | 146,973 | - | 146,973 |
| intra-group | 382,884 | - | - | - | 382,884 | - | 382,884 |
| Production costs | (47,049) | (11,422) | (2,548) | (6,864) | (67,882) | - | (67,882) |
| Exploration expense | (3,103) | (1,914) | (7,974) | (146) | (13,137) | - | (13,137) |
| DD&A | (107,848) | (12,750) | (15,073) | (4,074) | (139,746) | - | 139,746) |
| Other income/(costs) | (7,098) | (2,084) | (6,426) | (18,339) | (33,947) | - | (33,947) |
| Earnings before taxation | 285,397 | 5,104 | (16,187) | 831 | 275,144 | - | 275,144 |
| Taxation | (60,342) | (1,810) | (2,207) | - | (64,359) | - | (64,359) |
| EARNINGS FROM OPERATION | 225,055 | 3,293 | (18,394) | 831 | 210,785 | - | 210,785 |
| For year ended 31 December 2013 | | | | | | | |
| Sales | 391,199 | 26,150 | 14,653 | 25,335 | 457,338 | - | 457,338 |
| third parties | 69,943 | 26,150 | 14,653 | 25,335 | 136,082 | - | 136,082 |
| intra-group | 321,256 | 0 | 0 | 0 | 321,256 | - | 321,256 |
| Production costs | (53,270) | (10,694) | (1,693) | (8,058) | (73,716) | - | (73,716) |
| Exploration expense | (2,229) | (1,059) | (10,677) | (360) | (14,325) | - | (14,325) |
| DD&A | (104,376) | (17,572) | (89,715) | (9,437) | (221,100) | - | 221,100) |
| Other income/(costs) | 5,934 | 9,769 | (1,401) | (9,822) | 4,480 | - | 4,480 |
| Earnings before taxation | 237,258 | 6,593 | (88,833) | (2,343) | 152,676 | - | 152,676 |
| Taxation | (19,464) | (1,581) | 190 | 0 | (20,854) | - | (20,854) |
| EARNINGS FROM OPERATION | 217,795 | 5,013 | (88,643) | (2,343) | 131,822 | - | 131,822 |

*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

## EXPLORATION AND DEVELOPMENT WELLS

| Exploration and development wells | 2009* | 2009** | 2010 | 2011 | 2012 | 2013 |
|---|---|---|---|---|---|---|
| Wells tested | 73 (54) | 57 (45) | 103 (80) | 87 (76) | 76 (61) | 89 (76) |
| of which exploration wells (of which foreign) | 17 (8) | 13 (5) | 20 (8) | 18 (9) | 25 (13) | 20 (13) |
| crude oil (of which foreign) | 5 (3) | 3 (1) | 7 (5) | 5 (4) | 8 (6) | 8 (7) |
| natural gas (of which foreign) | 6 (2) | 6 (2) | 7 (0) | 5 (1) | 8 (3) | 3 (1) |
| dry/non commercial well (of which foreign) | 6 (3) | 4 (2) | 6 (3) | 8 (4) | 9 (4) | 9 (5) |
| of which development wells (of which foreign) | 56 (46) | 44 (40) | 83 (72) | 69 (67) | 51 (48) | 69 (63) |
| crude oil (of which foreign) | 43 (41) | 41 (39) | 70 (65) | 64 (64) | 46 (46) | 63 (59) |
| natural gas (of which foreign) | 12 (4) | 3 (1) | 10 (5) | 3 (2) | 2 (1) | 4 (3) |
| dry well (of which foreign) | 1 (1) | 0 (0) | 3 (2) | 2 (1) | 3 (1) | 2 (1) |

*MOL and INA
**MOL

## HYDROCARBON PRODUCTION

| Daily hydrocarbon production by countries (mboepd) | 2009* | 2010 | 2011 | 2012 | 2013 |
|---|---|---|---|---|---|
| Hungary | 57.5 | 53.6 | 48.8 | 46.2 | 43.2 |
| Russia | 20.1 | 19.7 | 18.7 | 17.5 | 14.3 |
| Pakistan | 1.4 | 4.7 | 5.5 | 5.6 | 5.8 |
| Kurdistan Region of Iraq | - | - | 0.1 | 0.5 | 0.2 |
| Croatia | 24.1 | 54.1 | 50.8 | 42.1 | 37.2 |
| Syria | 2.3 | 7.9 | 20.3 | 3.1 | 0.0 |
| Egypt | 1.1 | 1.9 | 1.8 | 1.9 | 1.9 |
| Angola | 1.7 | 1.6 | 1.6 | 1.5 | 1.1 |
| Total hydrocarbon | 108.0 | 143.5 | 147.4 | 118.5 | 103.7 |

* MOL Group with INA from July 1, 2009

| Daily hydrocarbon production by products (mboepd) | 2009* | 2010 | 2011 | 2012 | 2013 |
|---|---|---|---|---|---|
| crude oil | 43.8 | 49.4 | 46.4 | 42.8 | 38.2 |
| natural gas | 53.9 | 80.5 | 85.6 | 66.7 | 57.8 |
| condensate | 10.3 | 13.7 | 15.4 | 9.0 | 7.6 |
| Total hydrocarbon production | 108.0 | 143.5 | 147.4 | 118.5 | 103.7 |

* MOL Group with INA from July 1, 2009

## COSTS

| Direct production costs* | 2009 | 2009** | 2010 | 2011 | 2012 | 2013 |
|---|---|---|---|---|---|---|
| Total USD/boe | 5.17 | 6.33 | 6.58 | 6.29 | 7.31 | 8.32 |

* 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

# DOWNSTREAM

## THE GROUP'S MAJOR REFINERIES WITH THEIR TOTAL FEEDSTOCK

| (thousand tonnes)* | 2009 | 2010 | 2011 | 2012 | 2013 |
|---|---|---|---|---|---|
| Duna Refinery | 8,252 | 8,847 | 8,762 | 8,080 | 8,107 |
| Bratislava Refinery | 6,927 | 6,572 | 7,085 | 6,309 | 6,828 |
| Mantova Refinery | 2,447 | 2,521 | 2,635 | 2,431 | 2,445 |
| INA refineries | 2,409 | 4,285 | 3,781 | 3,832 | 3,587 |
| Total | 20,035 | 22,225 | 22,263 | 20.652/20.237* | 20,507 |

*Data has been corrected because of calculation method change in 2012.

## PRODUCT YIELDS OF THE GROUP REFINERIES IN 2012

| Production yields (%)* | Duna Refinery | Bratislava Refinery | Mantova Refinery | INA refineries | MOL Group total |
|---|---|---|---|---|---|
| LPG | 0.8 | 2.8 | 2.5 | 5.8 | 2.5 |
| Naphtha | 11.1 | 6.9 | 3.4 | 0.8 | 7.1 |
| Motor gasolines | 13.6 | 21.1 | 16.2 | 28.0 | 19.2 |
| Middle distillates | 46.5 | 46.2 | 47.3 | 37.1 | 45.9 |
| Fuel oils & Bitumens | 6.4 | 6.8 | 24.0 | 11.6 | 9.1 |
| Others | 13.7 | 7.1 | 1.1 | 1.7 | 6.5 |
| Used by own + losses | 8.1 | 9.2 | 5.5 | 15.1 | 9.6 |

*Data has been corrected because of calculation method change in 2012.

| Crude oil product sales (kt) | 2009* | 2010 | 2011 | 2012 | 2013 |
|---|---|---|---|---|---|
| Domestic sales | 4,751 | 4,194 | 4,186 | 3,840 | 3,909 |
| Gas and heating oils | 2,614 | 2,447 | 2,525 | 2,325 | 2,393 |
| Motor gasolines | 1,319 | 1,102 | 1,065 | 983 | 969 |
| Fuel oils | 90 | 27 | 23 | 17 | 13 |
| Bitumen | 197 | 142 | 105 | 87 | 91 |
| Lubricants | 15 | 15 | 15 | 15 | 15 |
| Other products | 516 | 461 | 453 | 413 | 428 |
| Sales in Slovakia | 1,427 | 1,519 | 1,551 | 1,515 | 1,501 |
| Gas and heating oils | 807 | 926 | 962 | 972 | 976 |
| Motor gasolines | 412 | 407 | 403 | 393 | 368 |
| Lubricants | 7 | 8 | 9 | 9 | 8 |
| Bitumen | 77 | 69 | 55 | 20 | 15 |
| Other products | 124 | 109 | 122 | 121 | 134 |
| Sales in Croatia | 1,457 | 2,061 | 1,887 | 1,715 | 1,796 |
| Gas and heating oils | 784 | 1,194 | 1,093 | 1,068 | 1,133 |
| Motor gasolines | 314 | 507 | 446 | 424 | 470 |
| Lubricants | 6 | 9 | 9 | 9 | 10 |
| Bitumen | 70 | 67 | 95 | 71 | 80 |
| Other products | 283 | 284 | 244 | 143 | 103 |
| Export sales | 9,242 | 10,561 | 10,751 | 10,113 | 10,294 |
| Gas and heating oils | 4,949 | 5,498 | 5,751 | 5,552 | 5,641 |
| Motor gasolines | 1,911 | 2,136 | 2,298 | 2,237 | 2,194 |
| Lubricants (without base-oil) | 20 | 24 | 25 | 26 | 27 |
| Bitumen | 878 | 989 | 1,020 | 837 | 840 |
| Other products | 1,484 | 1,914 | 1,657 | 1,461 | 1,592 |
| Total crude oil product sales | 16,877 | 18,335 | 18,375 | 17,183 | 17,500 |

* MOL Group with INA from 1July, 2009

## PETROCHEMICALS

| Petrochmical production (kt) | 2009 | 2010 | 2011 | 2012 | 2013 |
|---|---|---|---|---|---|
| Ethylene | 789 | 794 | 786 | 623 | 684 |
| LDPE | 231 | 216 | 244 | 164 | 158 |
| HDPE | 387 | 417 | 388 | 322 | 351 |
| PP | 511 | 510 | 537 | 447 | 472 |

| Petrochemical sales (kt) | 2009 | 2010 | 2011 | 2012 | 2013 |
|---|---|---|---|---|---|
| Domestic sales | 385 | 462 | 515 | 451 | 444 |
| Slovakia | 80 | 82 | 79 | 65 | 60 |
| Export sales | 881 | 871 | 910 | 714 | 798 |
| Total product sales | 1,346 | 1,415 | 1,504 | 1,230 | 1,302 |

## GAS MIDSTREAM

| Natural gas transmission volume (mcm) | 2009 | 2010 | 2011 | 2012 | 2013 |
|---|---|---|---|---|---|
| Hungarian transmission | 14,913 | 13,833 | 12,492 | 11,904 | 10,916 |
| Transit | 1,768 | 2,201 | 2,761 | 2,837 | 3,531 |

## HUMAN RESOURCE

| Average headcount (person) | 2009* | 2010 | 2011 | 2012 | 2013 |
|---|---|---|---|---|---|
| Exploration and Production | 1,498 | 1,486 | 1,489 | 1,492 | 1,473 |
| Refining and Marketing | 2,854 | 2,836 | 2,879 | 2,852 | 2,521 |
| Gas Midstream | 33 | 37 | 9 | 0 | 0 |
| Management and Services | 960 | 948 | 956 | 1,033.2 | 1,033 |
| MOL Nyrt. total | 5,345 | 5,307 | 5,333 | 5,377 | 5,071 |
| Subsidiaries | 20,189 | 28,107 | 26,305 | 25,404 | 23,477 |
| MOL GROUP | 25,534 | 33,414 | 31,638 | 30,782 | 28,548 |

*MOL with INA

| Closing headcount (person)* | 2009** | 2010 | 2011 | 2012 | 2013 |
|---|---|---|---|---|---|
| MOL Plc. | 5,325 | 5,338 | 5,427 | 5,291 | 5,098 |
| Subsidiaries | 28,916 | 27,247 | 26,305 | 24,300 | 23,671 |
| MOL Group | 34,241 | 32,585 | 31,732 | 29,591 | 28,769 |

* Full time employees + part time employees
**MOL with INA

# SUSTAINABILITY: NON-FINANCIAL PERFORMANCE ›

# INTERVIEW WITH MR. IAIN PATERSON ›

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

**Having the commitment of executive leaders is key to good performance in sustainability. How do you see this commitment developing within MOL Group?**

I believe that outstanding performance in sustainability always stems from strong executive commitment. On the other hand, the increasing importance of environmental and social issues already indicates a shift in corporate governance cultures. An increasing number of executives are recognizing sustainability to be a core element of good performance. In MOL Group, leadership in sustainability has a history of more than a decade. The first initiative was the HSE Chairman award, founded in 2001, which gives an award to the subsidiary with the best health, safety and environmental performance. The Sustainable Development Committee of the Board of Directors was established in 2006 and there now exist new second and third level official and informal committees where leaders oversee the organization's non-financial performance. Our challenge now is to further roll-out this approach to mid managerial levels, because this is where the operational implementation of non-financial best practices takes place.

**Is this also visible in the transparency of MOL Group's operations?**

MOL Group is devoted to being one of the best performing companies with its corporate sustainability performance, not only in the regions where it operates but also worldwide. Transparency is obviously a starting point for this, so we aim to follow best corporate practices with transparency as well. The company has published non-financial information for more than 15 years and since 2008 has published it as part of an integrated annual report. Our subsidiaries and partner companies publish several local reports and we participate in external ranking and measurement programmes. Recent recognition of our efforts includes the fact that Transparency International Hungary, in its survey "Transparency in corporate reporting", recognised both MOL and TVK as outstanding in their fields. In the survey, the transparency of business ethics practices and the level of transparency in subsidiaries and foreign undertakings were assessed.

**Do you see employees as key stakeholders in MOL Group's sustainability programs and reporting?**

The key audience for our integrated annual reports are our shareholders, investors and analysts. We want to provide them with the information they need to make decisions about both financial and non-financial issues. We communicate with our employees about sustainability-related issues through different – in most cases, internal – channels.

Regarding sustainability programs, however, I can say that employees are obviously some of the key stakeholders. Here I can highlight the example of the employee engagement survey. We run surveys to measure engagement every two years. The last one was done in 2012/2013 in the same period as we were undertaking a major reorganization, a fact which was reflected in the decreased level of engagement. However, this time the engagement survey was only the first step of the process. It was followed up by action planning, where teams and organizations developed several activities designed to increase the engagement of our employees.

Such measures are crucial, because in times when operational efficiency is more important than ever, we still have to find innovative ways to motivate our employees. And although the whole industry is struggling to find and educate young talents, we cannot forget that that the retention and development of our already committed and high-performing employees is just as important.

**Is sustainability a daily business in MOL Group?**

I think sustainability is incorporated into the operations of every company to some extent. The question is how conscious a company is in addressing such business opportunities and risks, and how long-term the approach is. MOL Group has made significant progress in all fields of sustainability but it will be a long journey until we can truly say that these issues are being addressed at every level of the organization.

I really like, however, some examples of our achievements in innovation. MOL Group made some important innovations and transformed them into products in 2013. Such new products include 'rubber bitumen' which is made through recycling waste tyres, and 'MOL truck diesel' which reduces the fuel consumption of our customers. These products are not key drivers of revenue or profit but they are developed in cooperation with other partners, they contribute to reducing greenhouse gases and they are important sustainability initiatives themselves. I think they are good examples of how MOL Group incorporates sustainability thinking into daily business.

**Could you give us some examples of the issues that were on the agenda of the Board's SD Committee?**

Based on its annual plan the Committee had four quarterly meetings, some of them with a very rich agenda. Among the other parts of the programme the CEOs of our major operating companies gave presentations about the SD performance of their units, for example about Russia and the Kurdistan region of Iraq. The committee's responsibilities also include conducting an overview of progress in the 6 SD areas of focus. In 2013 reports on 'Environment' and 'Communities' focal areas were created. In addition to these 'regular' items, some other issues were also discussed. Highlights included, for example, a discussion about the United Nations Guiding Principles on Business Human Rights, where we talked about MOL's current level of compliance with these voluntary guidelines.

# INTRODUCTION AND OVERVIEW


## 2.1 INTRODUCTION

The sustainability performance of MOL Group is presented from various perspectives in the integrated Annual Report. Key sustainability highlights are incorporated into the 'Management Disclosure and Analysis' section, while specific, divisional performance is presented in the 'Our Businesses' section and sustainability performance is explained extensively in this chapter. This approach reflects our desire to provide relevant information to the main audience of this report, which we assume to be our shareholders, investors and sustainability analysts.

The structure of this chapter is based on the six focus areas of our sustainability strategy and the level of detail in the descriptions of certain topics is based on our materiality assessment. The materiality assessment is included in the introductory chapter of the Annual Report, next to the Table of Contents (page 4).

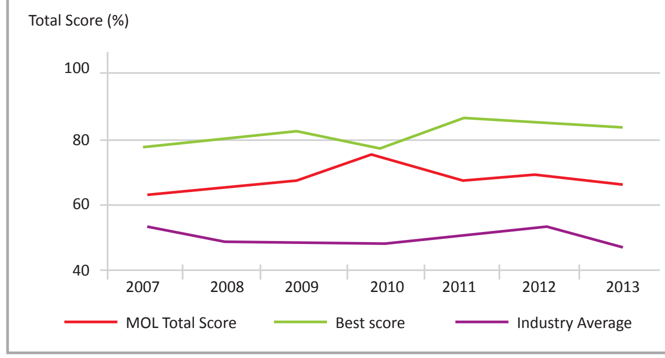
Sustainability is considered to be a fundamental criterion of business success by the largest companies and an increasing number of shareholders. To address this expectation MOL Group has defined its general long-term sustainable development target as: "Achieve and maintain an internationally-acknowledged leading position (in the top 20%) in sustainability performance".

As a key performance indicator (KPI) we use the total score awarded to us by the Dow Jones Sustainability Index. According to this Index, MOL Group in 2013 was not selected as one of the top 10% most sustainable companies (unlike in 2010 and 2011). However, we made progress in 10 areas and our performance is considerably higher than the industry average.

The threshold for inclusion in the Index in 2013 was 69% - MOL Group scored 66%. The topics in which MOL Group achieved the highest scores were 'Social Impact on Communities' (93%), 'Risk and Crisis Management' (93%), 'Codes of Conduct/Compliance/ Corruption & Bribery' (92%) and 'Stakeholder engagement' (90%).

While this Annual Report describes the annual performance of MOL Group, a comprehensive overview of MOL Group's sustainability strategy, activities and results can be found at www.mol.hu/en/about_mol/sd/.

DJSI Assessment Result – Oil & Gas Producers Sector




## 2.2 OVERVIEW OF IMPACTS AND PERFORMANCE IN 2013

MOL Group's non-financial performance is driven by our sustainability performance management framework. This is designed to incorporate all the measures necessary to ensure that relevant problems are addressed with specific plans of action, thereby resulting in better non-financial performance, from group-level target setting to operational level implementation.

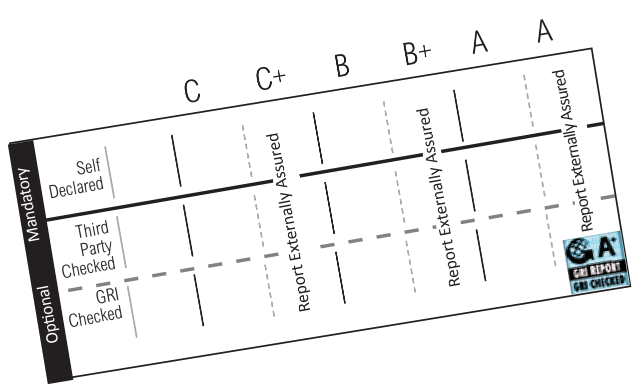
In 2010 MOL Group defined six sustainability focus areas for the 2011-2015 strategic period: climate change, environment, health and safety, communities, human capital and economic sustainability. These areas cover 20 sub-topics, all of them considered essential to the successful management of the long-term economic, social and environmental challenges that MOL Group faces now and in the future. The objectives were updated and further extended in 2013.

Click here to find out more about our sustainability strategy.

For each of these subtopics we have defined 'related objectives' which should be met by the end of 2015. These objectives are highlighted at the beginning of the 'Performance in the Six Sustainability Focus Areas' section of this report. Based on our objectives we prepare annual action plans for improving our level of sustainable development. Our action planning system covers almost all of our business units and subsidiaries, and every year hundreds of projects are planned and implemented.
For a quick and easy overview of MOL Group's key impacts and achievements, see the summary table below.

| Our impact in 2013 | Strategic focus areas | Performance: Sustainability topics | Performance: Our performance: selected achievements/challenges in 2013 |
|---|---|---|---|
| Carbon footprint (scope 1-3): **65.3** million tonnes | Climate Change | Future product portfolio | Two research projects have been completed and successfully transformed into new products in 2013. The new products are 'rubber bitumen' (using recycled waste tyres) and 'MOL Truck diesel' which allows 3% consumption reduction at our customers. |
| Direct energy consumption: **90.0** million gigajoules | | Energy efficiency and GHG emissions | Energy efficiency programs continued being implemented throughout the Group. $CO_2$ emissions were reduced by approximately 180 thousand tonnes as a result of our largest projects in Upstream and Downstream. Our total GHG footprint is of course affected by other factors, such as changes in production and our portfolio. |
| | | | MOL Group's used cooking oil collection campaign continued and was further promoted. The total amount of oil collected since 2011 is 228 tonnes. |
| Total water withdrawal: **94.5** million $m^3$ | Environment | Water | Annual water consumption slightly decreased from 96.8 million $m^3$ in 2012 to 94.5 million $m^3$ in 2013. |
| | | | We initiated several studies to assess the impact of our activities on water stressed areas. In 2013 these included studies in Pakistan in the Tal Block area and in the Kurdistan Region of Iraq. A comprehensive research programme into the water situation has commenced in the Akri-Bijell K10 Block (operated by Kalegran Ltd.). |
| | | Waste | MOL Group started to publicly report on the amount of drilling mud produced. |
| | | | The number of spills with HC content greater than 1 $m^3$ was reduced to 18 in 2013 (from 21 in 2012), and the volume to 133 $m^3$ (321 in 2012). |
| | | Emissions | Group level $SO_2$ emissions decreased from 13.1 thousand tonnes in 2010 to 5.8 thousand tonnes in 2013. |
| | | Biodiversity | 7 NATURA 2000 datasheets were drawn up for our Hungarian E&P activities and will be used for internal training. In Pakistan comprehensive conservation research was undertaken into the Tal Block. |
| Total number of hours worked by own staff: more than **53.4** million | Health & Safety | People Health and Safety | No on-site fatalities happened in 2013 (own staff or contractors). However, 2 offsite contractor and 1 offsite third party fatalities occurred - all related to road accidents. |
| | | | Lost time injury frequency (LTI per 1 million worked hours) in MOL Group decreased from 1.6 in 2012 to 1.5 in 2013. |
| | | Process Safety | MOL Group continues monitoring process safety events according to a risk based approach. From 2013 all businesses started to collect and report on process incidents based on Tier 1-2 categorization. |
| | | | In 2013 at MOL Group level there was 1 serious process incident. A fire broke out in a furnace but there was no need for significant emergency response intervention. |
| Total social investment in: HUF **6,618** million | Communities | Community Engagement | In 2013 the first Green Forum was organized by INA in Croatia (Ivanić Grad). The Forum informed stakeholders about the sustainability performance of the company and about the planned Enhanced Oil Recovery project. |
| | | | As one of our priority activities MOL Group continued promoting and protecting the health of local communities. In Pakistan, 2 Free Eye Camps were held while in the Kurdistan Region of Iraq we purchased a medical container. |
| | | | Group-level regulation of engagement and roll-out of practices to every operating locale should be further strengthened. |
| | | Social Investments | Use of a best-in-class tool (London Benchmarking Group methodology) to manage and report on social investments in MOL Plc, Slovnaft and INA as of 1st of January 2013. |

| Our impact in 2013 | Strategic focus areas | Performance: Sustainability topics | Performance: Our performance: selected achievements/challenges in 2013 |
|---|---|---|---|
| MOL Group had **28,769** employees worldwide | Human Capital | Talent Attraction and Retention | 900 students from more than 60 countries participated in our 'Freshhh' competition. In the same period young talents joined MOL Group through the 'Growww' program from a record number (11) of countries. |
| | | Capability | The scope of the Technical Capability Development (Petroskills) program was further extended across MOL Group to Logistics, HSE (Health, Safety and Environment) and Petrochemicals. |
| More than **13,000** employees were involved in performance management processes | | Performance culture | New leadership training programs were launched at Group level (LEAD), in Hungarian Downstream (VUP) and in the Upstream division (Key People Program). |
| | | Labour Practices | MOL Group's Diversity strategy was endorsed by the Sustainable Development Committee of Board of Directors in December 2013. MOL Pakistan made a giant leap forward in addressing gender diversity in the workforce by hiring seven new female field Trainee Engineers at its Central Processing Facility. |
| Group level wholesale customer satisfaction: **85%** | Economic Sustainability | Customers | Customer satisfaction remained at 85% at MOL Group level. |
| MOL Group Code of Ethics available in **12** languages | | Ethics and Compliance | 81 ethical notifications and 24 proven cases of ethical misconduct in 2013. 203 notifications have been received in total since 2007. The growing number of notifications shows a rise in the awareness of our employees about the need for ethical behaviour. |
| HUF **170** bn paid to governments | | Corporate Governance and Transparency | Significant achievements in non-financial reporting: sustainability content integrated into MOL Group quarterly flash reports, GRI 3.1+OGSS reports published by MOL Group and INA Group, first ever Sustainability Report of the Hungarian Refining division prepared in 2013. |
| | | | MOL Group started to support the EITI (Extractive Industries Transparency Initiative) at Group level in 2013. |
| | | Supply Chain Management | 459 pre-qualification safety audits performed at contractors. |
| | | | Total value of contracts made between MOL Group and locally-owned (not only locally-registered) businesses amounted to HUF 40.8 bn (EUR 138 mn) in Upstream international countries (Pakistan, Oman, Kurdistan Region of Iraq, Russia, Kazakhstan). |
| | | Risk Management | |




This is our **Communication on Progress** in implementing the principles of the **United Nations Global Compact.**

We welcome feedback on its contents.

THE GLOBAL COMPACT
WE SUPPORT

# PERFORMANCE IN THE SIX SUSTAINABILITY FOCUS AREAS ›

MOL filling station Budapest, Hungary

### ACHIEVEMENTS

- Two research projects have been completed and successfully transformed into new products in 2013.
- Energy efficiency programs continued throughout the Group. $CO_2$ emissions were reduced by approximately 180 thousand tonnes due to the largest projects in Upstream and Downstream. Our total GHG footprint is of course affected by other factors, such as changes in production and our portfolio.
- MOL Group's used cooking oil collection campaign continued and was further promoted. The total amount of oil collected since 2011 is 228 tonnes.

### CHALLENGES

- Decreasing number of energy efficiency programmes with a short return on investment.

## 3.1 CLIMATE CHANGE

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

MOL Group's climate change efforts are primarily focused on managing associated risks and exploiting potential opportunities. In order to achieve this general goal, more specific objectives have been defined (see ´related objectives´). These goals are translated into specific projects which define the necessary activities which should be undertaken at the appropriate organisational level.

MOL Group is constantly monitoring $CO_2$-related developments (including the emissions trading market) and annually estimates the cost of future $CO_2$ allowances taking this information into account. This process plays a critical role in MOL Group's business planning. Furthermore, these estimates are also taken into consideration in all of MOL Group's significant investment decisions. In addition to setting increasingly ambitious sustainability-related targets and implementing suitable activities to meet them, MOL Group proactively studies the potential risks that are associated with sustainability (such as the material on alternative drivetrains addressed in the European Commission's Clean Fuel Strategy and its consequences) with the aim of turning risk into opportunity in a world where such transformative capabilities can give companies crucial competitive advantages.

### 3.1.1 FUTURE PRODUCT PORTFOLIO

Related objectives:

- *"Maximize the share of low-carbon products and services"*
- *"Start implementation of first geothermal project in Upstream"*

**Downstream**

We are committed to increase the share of low-carbon products and services that we offer. MOL Group has launched and continues to work on a series of R&D projects which are designed to reduce the life-cycle emissions of its products. Aside from optimizing our standard product portfolio we put special focus on technologies that build on non-food feedstock to produce advanced renewable fuels and refinery streams. Integrating renewable energy into our operations is considered a promising option. Moreover, we are continuously monitoring developments in different emerging technologies which may have huge potential to reduce the carbon footprints of our products in the future. In this respect we are evaluating the main technological routes for efficient utilization of cellulose and waste feedstock, biomass production from algae and other similar opportunities.

**Waste plastic-based fuel production**

A waste plastic processing unit was established at our Duna Refinery in partnership with academic institutions and a waste-handling company. The development is designed to reduce the environmental impact of waste polyolefin plastics and utilize them for fuel production. The pilot unit is an important step towards gaining operational experience for potential further capacity scale up at waste handling company facilities. The project was supported by more than HUF 300mn from a national funding scheme.

**MOL Truck Diesel**

MOL's newly-developed high-quality truck diesel is now available for our wholesale partners and is already being used by several truck operating companies because of the improved fuel economy it delivers. The fuel can reduce $CO_2$ emissions by up to 3% based on its more efficient combustion properties. In 2013, MOL Truck diesel sales tripled and we are planning to increase the number of points of sale to make it available to more customers in forthcoming years.

**Chemically stabilized rubber bitumen production**

Rubber bitumen is a product that provides the opportunity for recycling the rubber parts of used tires, and thereby contributes to sustainable development. It can be used in the construction of long-lasting, high quality roads with improved drivability. After completion of a rubber bitumen demonstration plant and the successful construction of test roads in 2012, MOL Group started commercial production and sales in 2013 and several customers have already used MOL's rubber bitumen this year. General feedback is very favourable regarding the use of rubber bitumen in asphalt mixing plants and with respect to the quality of constructed roads. So far the longest road constructed with this material spans 8.4 km. The Institute for Transport Sciences Non-Profit Ltd. performed a life cycle analysis on this material, and comparing rubber bitumen with conventional road bitumen. The results show that by using rubber bitumen cost savings of 29-32% can be realized over the lifetime of a road, compared to traditional bitumen. The study emphasizes the benefits of rubber bitumen from a national economic point of view as well. The use of rubber bitumen creates less waste that must be disposed of, and, due to its longer lifespan and lower maintenance needs, less $CO_2$ is emitted during the processes of asphalt production, road construction and maintenance.

**ERNYŐ umbrella project**

In 2013, MOL successfully executed its ERNYŐ R&D project. Within this umbrella project several sub-projects were implemented. Goals included developing fuels with greater efficiency and lower emissions; others targeted energy efficiency improvements and enhancing the process development of special waste water streams in refineries. Reducing the $CO_2$ emissions arising from our operations was also an important goal of this research and development program. The Ernyő project was established with the support of more than HUF 340mn of state funds.

**Biofuels**

MOL Group does not produce biofuels. However, MOL Plc. has a 25% share in Rossi Biofuel Ltd and Slovnaft also has a 25% share of MEROCO Plc. – both are biodiesel production assets. However, these companies operate independently from MOL Group and they are considered financial investments.

MOL and SN purchased approximately 450 million litres of biofuel in 2013 (including biodiesel and bioethanol) from the aforementioned joint ventures and from third parties as well.

The biofuel purchased in 2013 complies with sustainability criteria according to the ISCC certification system. This independent and globally-applicable certification system ensures that emissions of greenhouse gases are reduced and its attainment also demonstrates compliance with the requirements of the EU Renewable Energy Directive (RED).

**Upstream – Geothermal energy**

New Hungarian concession tenders, including concessions for geothermal exploration, have been announced in the Official Journal of the European Union. Central European Geothermal Energy (CEGE) Ltd., a joint venture of MOL Group made a bid for the Jászberény area and was awarded with the geothermal concession rights for Q1 2014.

## 3.1.2 ENERGY EFFICIENCY AND GHG EMISSIONS

**Energy Efficiency**

*Related objective: "Decrease downstream production energy consumption by min. 5% by end of 2014"*

Increasing energy efficiency means an opportunity for companies to reduce their costs and at the same time their environmental footprints.

We run several programs across our businesses to take advantage of as many as possible of these efficiency improvement opportunities. With the most significant 33 projects that we completed in 2013, estimated annual $CO_2$ reductions will amount to more than 180 thousand tonnes, while almost HUF 9bn was also saved.

In Upstream, implementing energy optimization and efficiency measures at our operating sites is vital to maintain our financial standing, especially at old sites where productivity is decreasing. In 2013 several projects were completed in Hungary, Croatia and in Pakistan. These projects are typically related to the increased utilization of associated gas which is otherwise flared, and to replacing gas engines with electric ones.

In Downstream division such improvements are typically carried out under the frame of our New Downstream Program. Within this program energy costs are decreased through energy management measures and energy efficiency activities. Energy efficiency activities (which mainly require CAPEX and bring the largest savings) require ideas to be continuously generated from different sources such as energy audits, our Eiffel program (efficiency focused internal idea collection framework) and the development of feasibility studies. In 2013 several projects were implemented, such as optimization of operation of power and heat production units, reducing losses, optimization of consumption and also flare-reduction efforts.

In our retail division our best known energy efficiency and sustainability program is the "Future filling station" concept. The first such filling station was built in Hungary in 2011. The concept incorporates eco-design and a broad variety of sustainable and efficient technical solutions such as solar energy utilization, heating and cooling provided by heat pumps, LED lighting and high endurance external and internal surfaces. Similar filling stations will be built in Slovakia and Croatia in 2014. In 2013 INA launched an open public competition for the architectural & urban design of a sustainable filling station.

At MOL Group renewable energy production is currently only related to supplying our own operations. For this purpose, in MOL Pakistan at our central processing facility (CPF), solar power systems were installed on 11 well sites, 2 valve assemblies, 13 cathodic protection systems and 3 security camps. The daily production of the solar panels varies from 2,640 to 15,000 Watthours. Currently, the contribution of solar energy is approximately 8.8% of the total energy consumption of this facility. Moreover, by installing such a system we can reduce maintenance costs and minimize noise pollution.

**GHG emissions**

*Related objective:*

- *"Ensure all sites move up one decile from current positions in their sectoral $CO_2$ benchmarks in Downstream[1]" .*
- *"Reduce $CO_2$ intensity of Upstream operations by 20% until the end of 2016 (in $tCO_2$/toe) in CEE region."*

Total direct GHG emissions from MOL Group activities amounted to 6.18 million tonnes of $CO_2$ equivalent in 2013, which is 3.4% lower than 2012 when we created 6.4 million tonnes of $CO_2$ equivalent, and 13.8% lower than the 2010 baseline year when emitted 7.17 million tonnes of $CO_2$ equivalent. This overall decrease is a result of both lower production volumes and energy efficiency measures.

In order to place more focus on carbon reduction initiatives a strategic decision was made last year and a carbon intensity reduction target was established for our exploration and production facilities (while the older one was kept for downstream production).

At MOL Group the primary sources of GHG emissions are our refining and petrochemical operations. To monitor our performance, in 2010 we introduced the CONCAWE – Solomon $CO_2$ intensity indicator (CWT – Complexity Weighted Tons), which is based on production but can be modified according to the complexity of the refinery. The results presented below show a slight improvement in carbon intensity as compared with 2010 (3.9%). With regard to petrochemical sites, tracking of $CO_2$ intensity is done through monitoring the production of high value chemicals (HVC) while for our exploration and production facility we track $CO_2$ intensity using OGP standard kg $CO_2$/toe.

1) The $CO_2$ benchmark value was calculated by ranking each installation in its specific sector using its $CO_2$ 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). This model, developed by CONCAWE for 2007-2008, was further used internally by MOL Group to benchmark each individual refinery based on their actual performance. Our goal is to improve the performance of each installation by one decile. Appraisal using this internally-developed model shows that MOL Group's five refineries are in the top 30% of EU refineries on average.

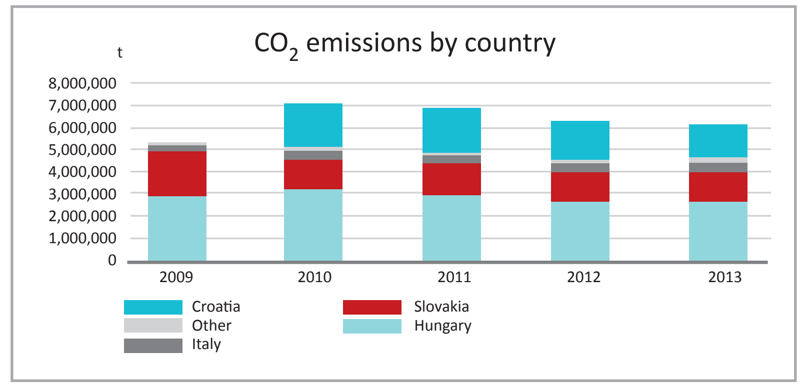
**$CO_2$ intensity (production-weighted average) of refineries and petrochemical sites of MOL Group [GRI EN16]**

| Year | 2010 | 2011 | 2012 | 2013 | Trend (%) 2013/2011 |
|---|---|---|---|---|---|
| Refining (t $CO_2$/kt of CWT) | N.A. | 36.64 | 36.43 | 35.21 | (3.9) |
| Petchem (t $CO_2$/t HVC) | 1.01 | 1.03 | 1.03 | 1.02 | 0.89 |

**Change of $CO_2$ intensity by refinery (t $CO_2$/kt of CWT) and by petrochemical site (t $CO_2$/t HVC)* [GRI EN16]**

| Site | Refining | | | | | Petrochemicals | |
|---|---|---|---|---|---|---|---|
| | Duna Refinery (MOL) | Slovnaft (Slovnaft) | Mantova (IES) | Sisak (INA) | Rijeka (INA) | TVK | SPC |
| Change (%) 2013/2010 | 2.2 | (10.7) | 2.2 | 10.4 | (49.5) | (2) | 16 |

*Y2013 data are compared to 2010 because the baseline for our strategy is 2010.




The Enhanced Oil Recovery (EOR) programme at INA, one of the most important MOL Group investment projects in Croatia, reached its final phase of construction in 2013. Injecting $CO_2$ is expected to start at the end of the second quarter of 2014. This project involves applying one of the so-called tertiary methods of enhanced oil recovery in order to increase the quantity of recoverable oil and to permanently dispose some of the $CO_2$ that was produced, which will reduce emissions to air.

This year we improved our calculation of Scope 3 emissions to cover a wider range of products. However, due to relatively stable refined product sales, as well as a decrease in natural gas production, our scope 3 emissions reached 57.6 million tonnes of $CO_2$ (a slight decrease compared to last year's emissions of 57.8 million tonnes of $CO_2$).

Although comprising a small share of total MOL Group's emissions, $CO_2$ emissions related to business trips are tracked and reported. During 2013 there was a slight increase compared to 2012 (4,414 tonnes of $CO_2$ equivalent and 3,943 respectively). The company aims to mitigate this negative effect by reducing the number of short and long haul flights which are taken, and to replace them by using alternative methods of communication (audio & video-conferencing, car-sharing, etc.).

After accession to the EU in 2013 our Croatian operation is also covered by the European Union Emission Trading Scheme (EU ETS). For more information about our climate change-related abatement efforts please visit our website.

**Gas leakages (flaring and venting)**

Another area of importance for MOL Group regarding reducing its impact on climate change is gas leakages (flaring and venting). Here, we continued to carry out projects in order to reduce our emissions to the environment.

In the oil and gas industry, flaring means the controlled burning of unused hydrocarbon for technical or safety reasons. The gas flared in Upstream is ´associated gas´ and in Downstream some of the gas generated during the refining process is flared for reasons of safety. The amount of gas that is flared represents only a small fraction of the total amount produced and processed but it is not insignificant. $CO_2$ generated from flaring accounts for around 2.5% of the total direct GHG emissions of MOL Group. The amount of gas flared from our activities is shown in the tables below:

**Flaring in Upstream (where MOL Group is operator) [GRI OG6, EN16]**

| Flaring in Upstream activities in 2013 | MOL US | INA US* | MOL Pakistan | Russia (Baitex, Matyushkins-kaya Vertical) | Kurdistan Region of Iraq (Kalegran)** | Total |
|---|---|---|---|---|---|---|
| Flared hydrocarbon volume ($m^3$) | 4,351,273 | 13,657,823 | 1,397,719 | 7,596,010 | 65,695 | 27,068,520 |
| $CO_2$ (t) | 8,685 | 25,486 | 5,925 | 14,078 | 126 | 54,300 |

*In INA E&P, due to changes in technological processes and redirection of gas in 2013 (from the Fractionation Facilities at Ivanić Grad to the Gas Processing Facility Molve) there was a need for more frequent cleaning of pipelines, resulting in an increased loss of hydrocarbon.

** No production in 2012 and 2013. Flaring only during test production through Bijell-1 EWT in Y2013.

**Flaring in Downstream [GRI OG6, EN16]**

| Flaring in Downstream activities in 2013 | MOL | Slovnaft (Refining + Petrochemicals) | IES | INA (Rijeka+Sisak refineries) | TVK | Total |
|---|---|---|---|---|---|---|
| Flared hydrocarbon volumes (t) | 12,594 | 7,145 | 431 | 20,164 | 3,003 | 40,334 |
| $CO_2$ (t) | 21,264 | 20,953 | 1,306 | 63,283 | 9,284 | 106,806 |

Completely eliminating flaring is not possible but MOL Group has been making significant progress towards reducing it.

In our Upstream division the most important projects are the following:

- In Makori EPF facility (Pakistan) a new flash gas compressor was installed and, as a result, GHG from flaring has been reduced by more than 11 000 tonnes.
- In Matushkinskaya Vertical (Russia), utilization of associated gas in two oilfields is above 95 %. At another oilfield we are currently only able to utilize 31% of associated gas.
- In Baitex 38% of associated gas is used for oil heating. The remaining amount will be utilized for power generation after the gas turbines are commissioned in 2014. This will also prevent odours from reaching the nearby communities.
- In Kalegran Ltd. controlled flaring of associated gas with high $H_2S$ is undertaken during test production.

In our Downstream division we have also made improvements:

- At the IES Mantova refinery the amount of gas flared was further decreased to 431 tonnes.
- TVK completed a project to explore and eliminate the root causes of flaring by developing and implementing data collection methodology for flaring events, and by analysing the regular causes of flaring. The project resulted in avoided emissions of approximately 312 tonnes CH/year, and HUF 107.6mn in savings.

Besides flaring, MOL Group generates a considerable quantity of GHG emissions from venting the $CO_2$ produced together with natural gas in our Upstream operations. The total volume of vented $CO_2$ for 2013 was 419 thousand tonnes, of which 409 thousand tonnes were produced and vented by INA in Croatia. With the above-mentioned EOR project we plan to reduce the amount of gas that is vented.

# 3.2 ENVIRONMENT

*General aim: Reduce environmental footprint*

## ACHIEVEMENTS:

- The number of spills with HC content greater than 1 $m^3$ was reduced to 18 in 2013 (from 21 in 2012) and the volume to 133 $m^3$ (321 in 2012).
- Group level $SO_2$ emissions decreased from 13.1 thousand tonnes in 2010 to 5.8 thousand tonnes in 2013.
- Annual water consumption slightly decreased from 96.8 million $m^3$ in 2012 to 94.5 million $m^3$ in 2013.

## CHALLENGES:

- HSE penalties increased to HUF 341.1mn (from HUF 33.9mn in 2012) due to a one-off administrative issue in Kazakhstan.

### 3.2.1 AIR EMISSIONS

*Related objective: "Decrease VOC emissions by implementing the LDAR methodology"*

MOL Group operates a wide range of oil and gas technologies and equipment, and is involved in an industry that is considered to be a significant source of fugitive volatile organic compound (VOCs) emissions. MOL Group therefore defined the specific objective of limiting these types of emissions and, towards this aim, in 2013 continued to operate and extend its LDAR (leak detection and repair) programme.

The programme has brought significant improvements for several years to Slovnaft, IES and Hungarian refineries so in 2013 it was extended to the TVK site. Further implementation of the programme to INA operations and logistic sites is planned for the coming years (for the moment our exploration and production sites are not in focus – however, a pilot LDAR campaign has been implemented at our Pakistan operations).

For example, in 2013 due to a LDAR program at our Italian operations, VOC emissions were reduced by 61% to 36.05 t/y, while in Hungary after only one year of implementation total VOC emissions were reduced at the Duna Refinery by 380 t/y. At the TVK site after the implementation of the first phase of the LDAR project total VOC emissions were reduced by 63 tonnes and the related estimated financial savings amount to about HUF 13mn. As an initial step, at the Rijeka Refinery a campaign to identify leaks has commenced, although without measuring VOC concentrations yet.

Although at the units covered by the LDAR programme VOC emissions have significantly decreased, the overall MOL Group figure increased in 2013 by 34% when compared with 2010 as we continue to extend the scope of VOC monitoring across the group, as explained above.

The industry is also a source of $SO_2$, $NO_x$, CO and PM emissions and preventive measures have been implemented to reduce the quantity of these as well. $SO_2$ and $NO_x$ emissions continued to decrease while CO and PM emissions increased. These data are explained by an increase in the production of gas at one of our Russian facilities, coupled with an increase in the quantity of unburned gas at the same facility.

**Total air emissions (excl. GHG) by type (t) [GRI EN20]**

| Year | 2009* | 2010 | 2011 | 2012 | 2013 | % 2013/ 2010** |
|---|---|---|---|---|---|---|
| $SO_2$ | 4,389 | 13,142 | 10,625 | 7,885 | 5,776 | (56) |
| $NO_x$ (Nitrogen Oxides) | 3,937 | 7,874 | 7,531 | 6,839 | 6,057 | (23) |
| VOC (Volatile Organic Compound) | 3,683 | 4,211 | 4,901 | 4,501 | 5,643 | 34 |
| CO (Carbon Monoxide) | 880 | 1,599 | 3,295 | 2,889 | 4,248 | 166 |
| PM (Particulate Matter) | 205 | 361 | 492 | 460 | 552 | 53 |
| **TOTAL** | **13,094** | **27,187** | **26,844** | **22,574** | **22,276** | **(18)** |

*Without INA in 2009.
**Y2013 data are compared to 2010 because the baseline for our strategy is 2010.

Ongoing efforts are being made at our operations in Croatia to bring down emissions from stationary sources to appropriate levels. In 2013 total $SO_2$ emissions were reduced by 73% compared to 2010 (1,592 t $SO_2$ in 2013 and 6,061 t $SO_2$ in 2010 respectively).

IES instigated a process for selecting and using fuels which gives preference to using lighter and cleaner methane and fuel gas instead of fuel oil. As a result (after significant reductions in 2011 when the new sulphur recovery unit started operating), a further decrease of emissions to air of 47% was achieved due to this new fuel policy. In 2013, $SO_2$ emissions were down to 84 t $SO_2$/y from 186 t $SO_2$/y in 2012 and particulate matter was down to 9 t PM/y in 2013 from 11 t PM/y in 2012. A slight increase in NOx emissions in 2013 was due to the general turnaround process.

Significant improvements in reducing odours were achieved at Zala Refinery (measured concentration at only 2% of the concentration measured before project implementation) after construction of an oil catcher for the storm water basin and a closed collection tank to store condensed water with a strong smell.

In our Retail division we continued with the previous year's plan of utilizing only those technological processes that assure the highest level of environmental protection. As such, all the filling stations that are based in EU countries that have undergone refurbishment have been fitted with Phase II Vapour Recovery Units (VRU).

Constant monitoring of air emissions is also conducted at all exploration and production facilities situated outside the European Union with the view to reducing our environmental impact and protecting local communities.

Click here to read more information about our air emission programmes.

## 3.2.2 WATER MANAGEMENT

*Related objective:*

- *"Reduce total water withdrawals by 5% (2010-2015)"*
- *"Improve water management techniques in water stressed areas"*

**Water withdrawals**

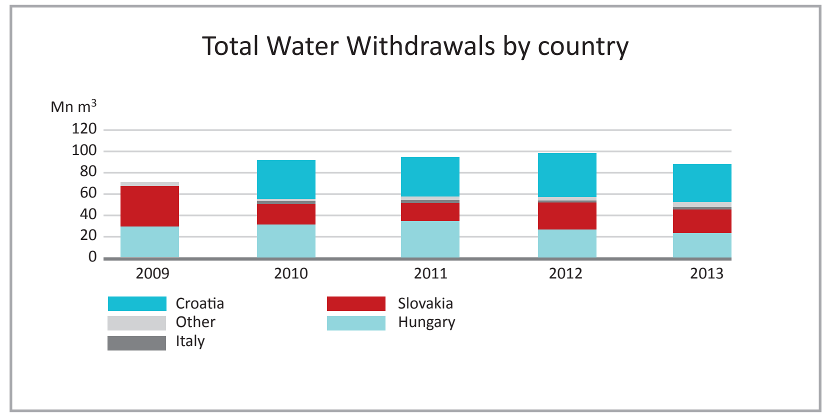
For its activities, MOL Group uses water from all types of sources: surface and groundwater, sea water, municipal water supply systems, rainwater that is collected and wastewater that comes from production activities or other organizations.

**Total water withdrawals, by source (thousand m$^3$) [GRI EN8]**

| Year | 2009* | 2010 | 2011 | 2012 | 2013 | % 2013/ 2010** |
|---|---|---|---|---|---|---|
| Municipal Water Supplies or Other Water Utilities | 2,175 | 3,523 | 3,478 | 2,839 | 2,682 | (24) |
| Surface Water Withdrawals | 50,653 | 68,512 | 72,795 | 77,744 | 79,967 | 17 |
| Groundwater Withdrawals | 8,950 | 12,571 | 12,785 | 13,887 | 11,869 | (6) |
| Rainwater Collected and Stored | 583 | 565 | 487 | 16 | 0 | (100) |
| Wastewater from Other Organizations | 6,054 | 6,794 | 6,383 | 2,274 | 0 | (100) |
| **Total water withdrawals** | **68,417** | **91,967** | **95,930** | **96,762** | **94,518** | **3** |

*Without INA in 2009.
**Y2013 data are compared to 2010 because the baseline for our strategy is 2010.

**Total water withdrawals (m$^3$) by country**




In 2013, MOL´s total water withdrawal was 94.51 million m$^3$ which represents a slight increase of 2.77% as compared to 2010 (91.96 million m$^3$). Two main reasons explain this increase:

- At Rijeka Refinery between 2011-2012 a new Hydrogen Generation Unit (HGU) and a new turbo generator were put into operation, hence water withdrawals increased by 27% compared with 2010.
- Compared with 2012 when a general turnaround took place in the refinery, in 2013 the level of production was higher.

Various initiatives continue being implemented in order to keep the Group on the right track to achieving its targets:

- In Rijeka Refinery in 2013 total water withdrawal was reduced by 2.85% when compared with 2012 and the water intensity indicator was improved from 18.6 m$^3$/t raw material to 15.78 m$^3$/t raw material. Less cooling water was used as more electricity was purchased from external sources and some units were shut down because of the turnaround process.

- At our Italian operations total water withdrawals decreased by 4.1% compared to 2012 (from 1,883,700 $m^3$ in 2012 to 1,805,977 $m^3$ in 2013) while deep water consumption was comparable with the previous year's performance (1,724,040 $m^3$ in 2013 compared with 1,717,497 $m^3$ in 2012). Due to use of a suitable water management system surface water withdrawals continued to decrease (37,000 $m^3$ in 2013 vs. 123,000 $m^3$ in 2012; a reduction of approximately 70%).

Efforts to save water are ongoing at our chain of filling stations (e.g. in Slovenia, as a pilot project a 'no water' urinal has been tested at two filling stations - Lormanje and Pince. Results are encouraging and the pilot will be extended in the following years. At the same time, water sensors have been installed in all the newly-reconstructed filling stations in Croatia).

**Water discharges**
In 2013, compared with 2010, the total amount of contaminants in discharged water was reduced.

**Amount of contaminants (t) [GRI EN21]**

| Year | 2009* | 2010 | 2011 | 2012 | 2013 | % 2013/ 2010** |
|---|---|---|---|---|---|---|
| Total Petroleum Hydrocarbons (TPH) | 44.1 | 74.8 | 57.1 | 73.1 | 63.5 | (15) |
| Chemical Oxygen Demand (COD) | 1,807 | 2,376 | 2,094 | 1,743 | 1,712 | (28) |
| Biological Oxygen Demand (BOD) | 387 | 582 | 568 | 419 | 417 | (28) |
| Solid Substances (SS) | 909 | 1,055 | 1,038 | 688 | 609 | (42) |

*Without INA in 2009.
**Y2013 data are compared to 2010 because the baseline for our strategy is 2010.

The following main initiatives were taken to reduce water discharges:
- At our Hungarian petrochemical site a system to collect glycol and prevent it from entering the wastewater stream was designed and implemented during 2013.
- At Rijeka Refinery a comprehensive study into the effect of nitrogen on marine flora and fauna was started in order to further take the necessary measures to protect the marine environment (although the current waste water treatment plant is already functioning in line with the parameters established by the authorities).
- At Sisak Refinery a new wastewater treatment plant was put into operation in order to improve the quality of waste water. The new plant provides secondary (flocculation & flotation) and tertiary (filtration & absorption) wastewater treatment.
- At the Slovakian facility new equipment for ongoing analysis was installed at waste water treatment plants which allows for better control and security of discharged water (continuous monitoring of the TPH in water).

Significant amounts of water have to be managed at our exploration and production facilities. During 2013, over 9.6 million $m^3$ of water were produced (8.1 million $m^3$ in EU countries and 1.5 million $m^3$ in non-EU countries). In order to minimize our impact we aim to re-inject the water produced, whenever feasible. In 2013 more than 10 million $m^3$ of water was re-injected by our facilities in EU countries, while in non EU countries only 0.78 million $m^3$ was re-injected.

**Quantity of produced water in Exploration & Production activities in 2013 ($m^3$) [GRI OG5]**

| | EU Operations | Non EU Operations | Total MOL Group |
|---|---|---|---|
| Amount of produced water | 8,107,620 | 1,534,255 | 9,641,875 |
| Total amount of re-injected produced water | 10,521,678 | 784,787 | 11,306,465 |

**Water stressed areas**
MOL Group considers water scarcity to be a serious issue, and as such has been taking measures to decrease the water demand of our operations.

During 2013 in the Kurdistan Region of Iraq, a comprehensive water study commenced for Akri-Bijell K10 Block, operated by Kalegran Ltd. This study will provide the necessary hydrogeological data to assess the impact of MOL Group operational activities on the critical water stressed areas.

At our Pakistan operation, two blocks (Teri and Lachi) are situated within areas with no water scarcity. An assessment was also undertaken for areas near the towns of Kohat, Lachi, Teri, Hangu, Doaba and Karak and the conclusion was that these areas are able to fulfil the water requirements of the local communities as well as the operational needs of the company. Considering future planning for intense drilling in the Tal Block area, a study was initiated during 2013 for this region in order to help identify potential water risks and address them carefully.
Our CEE exploration and production facilities are not situated in water stressed areas.

**Unconventional Exploration and Production**
Unconventional E&P has continued to be a game-changer for the world energy industry, with implications for the global energy supply chain and pricing mechanisms.

We are fully aware of public concerns about environmental impacts but we believe that the environmental risks are no greater (and nor are they substantially different) than for conventional exploration and production activities, and that well-established technologies and processes exist to mitigate impacts – all of which are well-covered by existing regulations.

MOL believes that, by prudent and transparent operating processes and maintaining an open dialogue with stakeholders, such concerns can be substantively addressed. The long-term stability of the regulatory environment is vital for unconventional gas to make a successful contribution to Europe's energy supply and economic growth.

MOL finalized its first unconventional well at the Derecske basin in Hungary and has put the Beru-4 well into production. The vertical well Beru-4 is now producing on a pilot basis. MOL Group considers that such activities do not cause more harm to the environment than conventional exploration and production processes. Water basins remain intact due to the depth of the wells (3-4000 m) that are drilled, while the chemicals used during drilling activities are recovered and reused.

## 3.2.3 WASTE MANAGEMENT, SPILLS AND SITE REMEDIATION

**Waste management**
*Related objective: "Increase the proportion of recovered waste (remediation waste excl.) by 5% by the end of 2015 (baseline: 2010)"*

Being an integrated oil & gas company, MOL Group activities are diverse and so are the types of waste it produces. MOL Group's daily operations result in the creation of a wide range of solid and liquid wastes (including oily sludge, waste chemicals, spent catalysts, etc.). The total amount of waste generated in 2013 increased compared to 2010 (by 44.3%). However, this increase is explained by the fact that a large construction project started at our Slovakian operation. This project generated 78,662 tonnes of non-hazardous waste (mainly soil and rocks due to preparatory activities for the construction). If we exclude this quantity from the Group figure, the total amount of waste generated by MOL Group in 2013 decreased by 1.8% when compared with 2010.

**Waste generated by MOL Group (t) [GRI EN22]**

| Year | 2009* | 2010 | 2011 | 2012 | 2013 | % 2013/ 2010*** |
|---|---|---|---|---|---|---|
| Hazardous Waste | 66,782 | 92,918 | 89,895 | 82,290 | 60,528 | (35) |
| Non-hazardous Waste** | 66,873 | 77,604 | 68,783 | 80,754 | 185,528 | 139 |
| **Total Waste** | **133,655** | **170,522** | **158,678** | **163,044** | **246,056** | **44** |
| Waste Disposed/Landfilled | 68,198 | 80,202 | 74,656 | 76,690 | 86,574 | (8) |
| Waste Reused/Recycled | 65,456 | 90,320 | 84,023 | 86,354 | 159,482 | 77 |
| **Total Waste** | **133,655** | **170,522** | **158,678** | **163,044** | **246,056** | **44** |
| Ratio of reused/recycled Waste | 49% | 53% | 53% | 53% | 65% | 22 |

*Without INA in 2009.
** The amounts of waste indicated above include operational and construction waste as well. In 2013 non-hazardous waste increased significantly compared to 2012. This is the result of the construction of the LDPE-4 facility in Slovnaft.
***Y2013 data are compared to 2010 because the baseline for our strategy is 2010.

Important achievements were due to the implementation of the following projects:

- At our Százhalombatta site (Duna Refinery) we have introduced a selective waste collection system and by finishing the asbestos decontamination process of the cable tunnel in the Refinery, the site is now asbestos free.
- At our Slovakian operation multiple waste management optimization initiatives were implemented during the year which resulted in an increase in the reused/recovered ratio from 70% in 2012 to 92% in 2013.
- The company continues to recover the used oil that is produced by our lubricant units in accordance with the principle of product stewardship. However, the proportion of used oil that was returned in 2013 was just 16.8% (compared to 22.5% in 2012). We believe that the decreasing trend will continue in the future because the habit of individuals changing their own oil is disappearing from the region.
- The campaign for the collection of used household cooking oil (using the retail network in three countries – Slovakia, Hungary and Romania) continued in 2013. 228.3 tonnes of used cooking oil were collected and recycled in 2013 (an increase of about 128% compared with the 85.5 tonnes collected in 2012).
- With accession to the EU in 2013, the Republic of Croatia issued a new legal framework for waste management. The waste recovery/reused ratio of Croatian downstream operation increased in 2013 by 5.4% (to 42.01%).

In our Exploration and Production operations special focus was put on the management of and reporting about drilling mud. This year we are able to separately report on the quantities generated and well as disposal methods.

**Drilling mud produced by MOL Group in 2013 (t) [GRI OG7]**

| | EU Operations | Non EU Operations | Total MOL Group |
|---|---|---|---|
| Hazardous waste from aqueous (water-based) drilling mud and cuttings | 787 | 0 | 787 |
| Hazardous waste from non-aqueous drilling mud and cuttings | 0 | 1,800 | 1,800 |
| Non-hazardous waste from aqueous drilling mud and cuttings | 23,633 | 30,975 | 54,608 |

**Drilling mud disposed of by MOL Group in 2013 (t) [GRI OG7]**

| | EU Operations | Non EU Operations | Total MOL Group |
|---|---|---|---|
| Aqueous (water-based) drilling mud and cuttings – waste to deep well injection, onshore disposal | 6,607 | 0 | 6,607 |
| Aqueous (water-based) drilling mud and cuttings – recovered, recycled | 12,779 | 26,293 | 39,072 |
| Aqueous (water-based)drilling mud and cuttings – offshore disposal | 3,987 | 0 | 3,987 |
| Non-aqueous drilling mud and cuttings – waste to deep well injection, onshore disposal | 355 | 0 | 355 |
| Non-aqueous drilling mud and cuttings – recovered, recycled | 692 | 2,100 | 2,792 |
| Non-aqueous drilling mud and cuttings – offshore disposal | 0 | 0 | 0 |

Click here to read more information about our waste management programmes.

**Spills**

Spills are prevented by competent design, careful construction, rigorous inspection and efficient operations and these are the principles that MOL Group constantly considers when designing and operating its facilities. As part of our prevention plan we conduct regular maintenance and inspection campaigns and we have in place emergency response plans for each of our sites. After detecting any incidents, all the measures necessary to restore the pre-spill status of the affected areas are immediately put into effect.

For example, at our Italian refinery the underground sewer system has been completely upgraded in order to divert hazardous materials/hydrocarbons flows from the main water sewer. In addition to this, the sewer system is regularly checked using georadar technology. Compared to 2012, 8 more tanks have been refurbished in order to prevent leaks.

Nonetheless, due to the corrosion of aging infrastructure and in some cases thefts, MOL Group recorded accidental spills in 2013. In 2013 a total of 18 spills (above 1 $m^3$) with a total hydrocarbon volume of 133 $m^3$ were recorded across MOL Group, which represents a decrease as compared to previous years (2012: 21 spills above 1$m^3$ with a total volume of 321 $m^3$, 2011: 28 spills above 1$m^3$ with a total volume of 525 $m^3$).

The most common causes of spills at our European E&P and logistic sites are corrosion and theft (8 spills with a total volume of 37 $m^3$ in Hungary, and 7 spills in Croatia with a total volume of 91 $m^3$ in E&P and 4 spills in Logistics with a total volume of 9.8 $m^3$).

Two of the most significant spills in 2013 were recorded at our Croatian and Italian Refineries. In April 2013, due to accelerated corrosion in the first length of pipeline that connects Porto Marghera Depot (Venice) to IES Refinery, a limited leak of crude oil (2 $m^3$) occurred and affected the soil and the water of the sea channel (Canale Ovest). The leakage was immediately stopped and the product that was suspended on the water was recovered. Local Authorities were involved in the management of the emergency. In October 2013, oily water was observed around the flare system and in the Dražica bay area of the Rijeka Refinery. The cause of the spill was a mechanical failure that increased the flow and the quantity of oily water to a level which could not be absorbed by the sewage system. Although we do not operate any off-shore operations we do take measures to protect the marine ecosystems near our operations that are on the coast.

**Remediation**

At our Hungarian operations, approximately HUF 1.14bn (USD 5.02mn) was spent on managing environmental damage. With this, we reduced our remediation liabilities by 8.9% (compared with the end of Y2010) so the cumulative reduction for Y2011-2013 is 23.1%. The works were carried out at 209 locations with the aim of assessing, observing, controlling and/or repairing and improving the status of the underground environment. Six remediation works were completed during the year.

In Slovnaft the remediation programme continued in 2013 at 11 logistics and 5 retail sites. Remediation work, including post monitoring activities, were successfully concluded at three logistics sites (Stožok, Hronský Beňadik and Košice) and at two filling stations and another logistics site the post-monitoring phase of remediation commenced. Total spending on remediation programmes in 2013 was HUF 1.1bn (USD 4.9mn), compared with HUF 1.71bn (USD 7.5mn) in 2012, HUF 1.34bn (USD 5.9mn) in 2011 and HUF 1.27bn (USD 5.5mn) in 2010.

At the Rijeka Refinery remediation activities have been carried out continuously since 1993 with the aim of protecting the sea and coastal area. During 2013, 683.80 $m^3$ of pure hydrocarbons were pumped out from under the ground which represents a significant decrease compared to the previous year (1079.14 $m^3$). This positive balance was achieved primarily due to upgrades that were made in refinery infrastructure (sewage systems, bottoms of tank, pipeline routes, etc.).

At our international upstream operation in Russia remediation of one mud pit from the Severo-Ledovoe oilfield is complete and the initial status of the environment has been restored at one of our Oman operations after activities came to an end.

**Biodiversity**

*Related objective: "Implement Biodiversity Action Plans for all critical operation sites"*

Biodiversity conservation represents one of the most important challenges for the oil & gas industry and in 2013 MOL Group's focus was on implementing local activities at several of our upstream locations (especially around critical sites of operation) as well as continuing or developing new partnerships with local stakeholders for all businesses.

As such, for seven Hungarian upstream sites Natura 2000 datasheets have been developed. The goal of this initiative was to integrate the provisions of the management of Natura 2000 sites into day-to-day activities at the respective sites. Other initiatives involved, for example, the Hungarian Ornithological and Nature Conservation Society in order to protect the Peregrine Falcon that is nesting around the Algyő Gas Facility, or components of the National Park network such as Hortobágy National Park (support for the vulture conservation programme) and Kiskunsági National Park (support for the conservation of "Dianthus diutinus").

We pay special attention to our operations outside the EU and as a standard practice, all our exploration and production sites must go through an environmental and social impact assessment process before they are allowed to start operating. Such studies were completed during last year at our Kalegran operations (findings are already incorporated into day-to-day operational plans) and for the MOL Pakistan sites Biodiversity Action Plans have been developed. In addition to this, at our Pakistani operations conservation studies

for the Indian Pangolin and Game birds are in progress in order to map the distribution of these species around MOL Group sites, and to understand the main threats to their habitats and the dependence of the local community on the these species in the context of the ecosystem services they provide. More than 25 hectares of softwoods and 32 hectares of conifers were planted in 2013 with the involvement of our Russian operation within the framework of the governmental programme "All- Russian afforestation day".
MOL Group aims to protect biodiversity not only around and outside its production sites but to create and improve conditions for protected species inside company premises. For example, within the framework of a partnership with BirdLife Slovakia, a project to protect bird species ("Delichon urbica") has commenced. This gives an opportunity to improve the education of our employees too. In this case the first step was employee' training and the next phase of the projects will include the building and installation of artificial nests inside the refinery.

Click here to read more information about our biodiversity initiatives.

### 3.2.4 HSE COMPLIANCE

In 2013 MOL Group paid penalties for Health, Safety and Environment-related breaches of rules which totalled HUF 341.1mn. This is a significant increase on the 2012 figure (when we paid HUF 33.9mn), though we should state that a single HUF 331.5mn penalty was levied because of administrative failures and only a small part (HUF 9.6mn) of the total amount was connected to any kind of pollution. We are fully aware that further efforts are needed to reduce all health, safety and environmentally related penalties to zero throughout the entire MOL Group.

The most significant single penalty (HUF 327.3mn) was awarded to MOL Kazakhstan due to the late approval of an environmental permit. This was an administrative mistake, causing no harm or impact to the environment. A legal procedure to lower the penalty is still ongoing.

Regarding the other penalties, one of the major penalties was given to the Hajdúszoboszló site (a Hungarian Upstream operational site), similarly to the last two years, because the temperature of discharged, treated water exceeded the legal limit (HUF 3.15mn). Zala Refinery (Hungary) received a fire prevention penalty of HUF 2.4mn regarding non-compliances with fire prevention legislation.

Additional information: in 2013 a trial against ten IES managers accused of environmental pollution took place. It ended in a cash settlement of HUF 101.8mn being paid. (This amount is not included in the aforementioned HUF 341.1mn.) Since then IES has already implemented a lot of projects to manage the non-compliances which caused the pollution.

# 3.3 HEALTH AND SAFETY

*General aim: Ensure operational HSE excellence*

### ACHIEVEMENTS

- Lost time injury frequency at MOL Group level decreased from 1.6 in 2012 to 1.5 in 2013.
- No on-site fatalities happened in 2013 (among own staff or contractors).
- With the aim of significantly reducing the number of serious accidents and fatalities, a new safety initiative called "Life Saving Rules" has been launched across all our operations.

### CHALLENGES

- In 2013 we recorded three off-site road accidents that resulted in the deaths of two contractor employees and one 3rd party person.

### 3.3.1 PERSONAL SAFETY

**Workforce Safety**
*Related objective: "Implement programs that aim for zero incidents"*

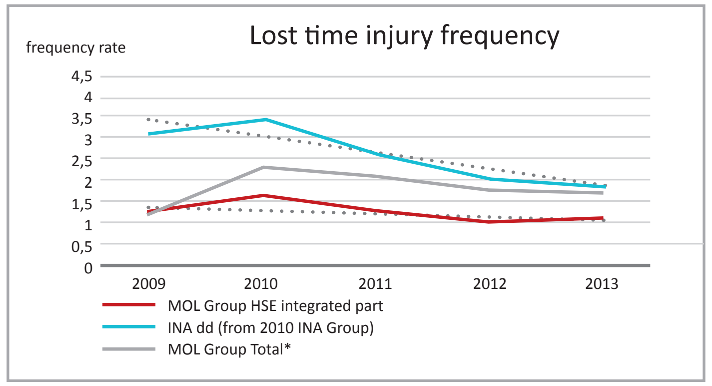
The 2013 group level LTIF figure of 1.5 represents an improvement compared to the previous year. In international comparison this result places MOL Group into the second quartile of companies using the downstream oil & gas benchmark (CONCAWE) and is still behind the upstream benchmark (OGP). There were no fatalities at any of our facilities; however we recorded three off-site road accidents that resulted in the deaths of two contractor employees and one 3rd party person. The two contractor fatalities both involved road tanker drivers passing away due to injuries caused by accidents that occurred on public roads in Pakistan and Bosnia-Herzegovina respectively; additionally, a member of the public was fatally injured in a collision with a MOL Group tanker in Hungary. MOL Group deeply regrets the loss of these lives. An analysis of personal injury incidents reveals that the other main safety-related events/exposures were attributable to slips & trips, road accidents and manual handling & use of hand tools that mainly caused minor wounds and bruises or injuries to ligaments and bones.

With the aim of significantly reducing the number of serious accidents and fatalities, a new safety initiative called "Life Saving Rules" has been launched across all our operations. Similar programs have already proven to be successful in the industry by raising awareness of the most important safety rules whose violation has the highest potential to cause fatalities. Applicability & compliance with the rules will be safeguarded by application of zero tolerance for violations and by launching related life-saving programs such as 'Fall Protection' and 'Energy Control' in the period 2014-2017. A new corporate HSE Alert system was set up to guarantee that knowledge about incidents is shared wherever MOL Group operates and corrective actions are implemented and, ultimately, incidents are not repeated.

**LTIF in MOL Group (Lost Time Injuries per million worked hours) [GRI LA7]**

| Staff LTIF | 2009 | 2010 | 2011 | 2012 | 2013 | 2013/ 2012 [%] |
|---|---|---|---|---|---|---|
| MOL Group* | 1.2 | 1.6 | 1.2 | 1.0 | 1.1 | 10 |
| INA Group** | 3.1 | 3.4 | 2.6 | 2.1 | 1.7 | (19) |
| Total MOL Group*** | 1.1 | 2.3 | 2.2 | 1.6 | 1.5 | (8) |

*HSE integrated companies excluding INA Group companies
** INA d.d. until 2010
*** All companies including INA Group companies since 2011




Several important safety milestones highlight the year: TVK has been operating without an LTI for close to 2 million working hours and the three refineries in Hungary celebrated their 2nd consecutive LTI-free year in November. IES completed 'one year without injuries' in April. In the Kurdistan Region of Iraq, Kalegran Ltd.'s own operations have been running for over 600 days without any LTIs or road accidents, while contracted operations completed more than 2.5 million man-hours without any work-related LTIs. In Pakistan, 6 million LTI-free man-hours were completed on the Makori GPF construction project and the zero lost time injury milestone was achieved for MOL Pakistan staff for the 3rd consecutive year.

Providing safe working systems is fundamental to ensuring the safe operation and maintenance of our assets. As a step ahead in this field, at MOL Plc. an electronic permit-to-work system was rolled out.

In line with the goal of fully operating according to international standards, Crosco has implemented a Lifting Management System on its offshore platform Zagreb-1 in accordance with UK Lifting Operations and Lifting Equipment Regulations (LOLER, 1998). As part of this program, every affected crew member was trained in how to carry out safe and successful lifting tasks.

Falls from a height are one of the top safety hazards in oil & gas, so to control associated risks the second phase of the 'Fall Protection' project (initiated in 2012) continued at Slovnaft facilities. Missing fall protection systems (lifelines, anchors) were installed and at existing installations the collective protection systems were revamped.

**Road Safety**

Safety on the roads is recognised as a top priority in all areas of our operation. Our own employees and those of our contractors who are identified as high risk drivers are required to participate in defensive driving training. Increasing the road safety performance of our Logistics operations is a goal of MOL Groups' Road Transportation Management System which applies to both our own fleet and most of the contractor fleets. It is now being rolled-out to all contractors to achieve complete coverage.

**Road Accident Rate in MOL Group [GRI LA7]**

| Road Accident Rate | 2009 | 2010 | 2011 | 2012 | 2013 | 2013/ 2012 [%] |
|---|---|---|---|---|---|---|
| MOL Group* | 1.6 | 1.2 | 1.0 | 0.75 | 0.8 | 8 |
| INA Group** | NA | NA | 3.4 | 2.7 | 1.9 | (30) |
| Total MOL Group*** | 1.6 | 1.2 | 1.7 | 1.4 | 1.2 | (14) |

*HSE integrated companies excluding INA Group companies
** INA d.d. until 2010
*** All companies including INA Group companies since 2011

The year-long defensive driving training service in Hungary has been updated and improved, while in Slovenia Safe driving training was carried out during the winter period with a focus on the special conditions. As far back as 2011 INA d.d. launched its Safe Driving Programme and in 2013 a total of 509 employees had undergone Basic Safe Driving training. MOL Pakistan has identified driving as one of the key risks of its operations and therefore a massive communication campaign was launched. The campaign supplements pre-existing robust tools such as the Vehicle Tracking System (registering speed violations and harsh braking) and mandatory Journey Management Plans. A Road Transportation Management System was also rolled out for the re-contracted road tanker service in Bosnia-Herzegovina. A site traffic safety awareness campaign was implemented in the Mantua Refinery, reflecting the special local conditions.

As part of our mission, customers at our retail network are regularly addressed with various awareness-raising campaigns; an example of this is a series of articles about car, scooter and bicycle safety published in the local Style and Dynamic magazines and the leaflets distributed at IES filling stations about safe refueling.
Click here to find out more about our work safety activities.

**Contractor Safety**

*Related objective: "Improve contractor HSE management program"*

In the framework of an HSE Management System update, the Contractor Safety program was substantially renewed in 2013. The new simplified process has increased the focus on high-risk activities and high-risk assets. In line with industry practice, compulsory 24/7 safety coordination and frequent site inspections Are undertaken for complex, high risk activities. The gradual introduction of mandatory SCC/VCA (Safety Checklist Contractors) certification for contractors and MOL Group Single Service Companies is also scheduled for the coming years in certain operational areas. Contractor post-evaluation and HSE management system certification of contractors has been incorporated into the tender-evaluation process as the first step towards an integrated corporate supplier management system.

**Number of safety supplier pre-qualification audits in 2013**

| Company | MOL | Slovnaft | INA | IES | International Upstream | Total |
|---|---|---|---|---|---|---|
| Number of safety supplier pre-qualification audits | 215 | 84 | 67 | 34 | 59 | 459 |

Apart from the road accidents in which two contractor drivers lost their lives, there were no serious contractor injuries and the event/exposure pattern of accidents was similar to that for own employees: flying particles, use of hand tools and road transportation mainly caused minor wounds, bruises and eye irritation.

To stimulate internal achievement, contractor performance indicators (LTIF, TRIR) have been integrated into the Group and country-level business goals in 2013.

Assuring the competency of each and every contractor employee working on MOL Group premises is key to accident prevention. As a result, a new contractor HSE training scheme has been implemented in our Hungary operations. At INA d.d. 21 contractor HSE forums were held at which 221 contractor companies took part, clearly indicating that contractors are increasingly accepting the importance of safety when working for MOL Group. Preparation for a safe 2014 turnaround at Slovnaft Refinery was the focus of the contractor HSE forums in Slovakia.

## 3.3.2 HEALTH PROTECTION AND PROMOTION

**Occupational Health**

*Related objective: "Implement programs to ensure healthy workplace"*

As in previous years, no occupational illnesses were recorded in 2013 at MOL Group. Nevertheless, this fact will not prevent us from continuing to work on our pre-existing and new programs that are designed to protect occupational health.

According to the psycho-social risk levels assessed using the Workplace Risk Assessment method, tailor-made workplace stress reduction training was held for dedicated groups of employees at MOL Plc. Our cytogenetic program – the leading monitoring program known in the industry – was also enlarged to cover a total of 110 employees.

At Crosco, the medical examinations for employees assigned to special working positions were improved. Employees are categorized based on the condition of their health (hypertension, heart and coronary artery disease, high cholesterol level, overweight, etc.). Staff that belong to critical groups are supported with additional check-ups (using a treadmill test) prior to periodical medical examinations to ensure they are they are fit for their assigned duties. Automatic external defibrillators (AED) were installed at all Rotary Drilling Ltd rigs.

An assessment of physical work strain and sensorial stress at the workplace was performed in the Slovnaft Refinery at 8 units. The next steps of the project will be preparing the required profile sheets for the affected positions and drafting remedial actions to eliminate the psychosocial strain that has been identified.

Thirty training and awareness sessions were conducted by MOL Pakistan Clinic Facilities. These sessions were high yielding and included Basic First Aid and CPR Techniques, Snake Bite Prevention and Management, Back Safety and Lifting Techniques, Dengue Prevention, Prevention of common Infectious Diseases, Diet Plans and Caloric Intake, Heat Related Illnesses, etc.

**Workplace Health Promotion**

Operational companies completed an annual STEP (MOL Group's health promotion program) plan based on the local initiatives of employees. In addition to medical screening, the plans contain more and more movement-based activities, local sports competitions, outdoor sport events, etc. Several STEP days were organised throughout the company which are designed to involve the families of employees in creating healthier lifestyles in their communities.

In recognition of our commitment to health promotion, MOL Plc. won the European Network for Workplace Health Promotion award (2013) for representing a successful model of Good Practice in "Promoting Healthy Work for People with Chronic Illness". Additionally, more than 8000 employees (almost 1/3 of our total headcount) participated in a number of Workplace Health Promotion programs in Hungary. MOL Plc. and TVK have both been listed as Bicycle Friendly Workplaces, an award granted on the basis of the bicycle infrastructure that exists at the companies and the way employees that use cycles are encouraged and helped. As a good example of the support we give not only to internal but external initiatives as well, IES was the main sponsor of Minciomarcia & Maratonina – a non-competitive and a competitive marathon that takes place in the streets of Mantua in June and September. At both events employees created an IES team and took part.

### 3.3.3 PROCESS SAFETY AND RISK ASSESSMENT

**Process Safety Management**

*Related objectives: "Strengthen facility safety, improve rating in benchmarks"*

The main goal of process safety management is to establish a management system which ensures prevention of technology-related process incidents and protects people, assets and the environment against harm. MOL Group started implementing our current Process Safety Management (PSM) system back in 2006.

In 2013 a new HSE strategy was prepared and as part of the goal of strengthening PSM, its implementation was defined. Due to the fact that a successful PSM system requires very solid technical baseline, we decided to focus on improving the technical elements. Our aspiration with process safety management is to be in the top 25% of Concawe and OGP benchmarks according to our performance.
Besides the HSE strategy, the focus of PSM implementation was to strengthen the commitment and involvement of managers and employees. To achieve this, a 3-level PSM coordination system was implemented. This involved holding a Group level forum (attended by the Group CEO) and creating a group level PSM network and local PSM networks as well.

In order to better monitor process safety performance, new PSM-related KPIs were introduced (such as the number of bypassed emergency shutdown systems, management initiations of change processes, number of alarms, etc.). MOL Group also continues to monitor process safety events according to the risk-based approach. Tier 1-2 categorization was implemented while several units have started to monitor Tier 3 – 4 leading indicators as well. In addition 10 cross audits were conducted with a focus on operational discipline and involving area/site management.

Our efforts in the field of process safety management are highlighted by the fact that only 1 serious process incident occurred in 2013 (a fire at a steam cracker, furnace). There was no personal injury associated with this fire, only damage to assets.

From 45 Tier 1+2 category process safety events, only 6 were Tier 1 category. There was a slight increase in number of Tier 1+2 category process safety events, but in the previous year only our Refining business collected data on this KPI. From 2013 all businesses have started to collect and report process incidents based on this categorization system.

**Process safety events [GRI OG13]**

| | MOL Group | MOL | SN | INA | IES | US International |
|---|---|---|---|---|---|---|
| Process safety events (Tier 1+2) | 45 | 19 | 16 | 10 | 0 | 0 |

**Fire and Loss of Primary Containment cases***

| | Total | Upstream | Downstream | Other |
|---|---|---|---|---|
| Fire cases | 48 | 10 | 34 | 4 |
| o/w HiPo / high consequence | 7 | 3 | 4 | 0 |
| LOPC | 79 | 28 | 50 | 1 |
| o/w HiPo / high consequence | 0 | 0 | 0 | 0 |

*Including fires at third parties that affect our assets (e.g. retail filling stations)

Our most significant achievements at our local operations included the implementation of an automatic registration system of bypassed interlocks in MOL Plc. Production and the successful definition of a process safety critical equipment list for production in SLOVNAFT.

**Emergency preparedness and response**

In 2013 at MOL Group level there was only 1 serious process incident (see also details above), but due to the fact that the fire occurred in a furnace, from an emergency response point of view there was no need for significant intervention.

In 2013 an overall evaluation/assessment of the emergency preparedness of our companies for major industrial accidents was prepared. The assessment involved all of our businesses and focused mainly on the availability of the appropriate equipment and human resources. Based on the assessment an action plan was prepared for the next 3 years which should raise the level of emergency preparedness to the level required. The plan includes activities such as purchasing new fire-fighting trucks, modernizing the firefighting water system, etc.

To improve our emergency preparedness and response we also introduced a new system for evaluating our emergency response to serious incidents. The list of evaluation criteria includes an evaluation of whether the emergency response is appropriate to minimize the potential consequences. This evaluation was put into practice during the investigation of the serious process incident at SLOVNAFT Production and actions were identified to mainly improve communications between site personnel and fire-fighters, and consider the need for new personal protective equipment.

Click here to find out more about our emergency preparedness and response activities.

## 3.4 HUMAN CAPITAL

*General aim: Capitalise on human resources*

### ACHIEVEMENTS

- MOL Plc. was one of Hungary's most desired employers according to Aon Hewitt's Employer Brand Research.
- MOL Group's Diversity strategy was endorsed by the Sustainable Development Committee of The Board of Directors in December 2013. It addresses 3 key processes for the short term: internationalization, retention of young talent and knowledge transfer.

### CHALLENGES

- MOL Group acknowledges that the 'war for talent' is still on, and that it will take pro-active measures to ensure a steady supply of talent for sustained growth.

### 3.4.1 ATTRACTING EMPLOYEES

*Related objectives:*
*• "Ensure steady supply of talent through targeted talent acquisition programs. Build and retain collective technical capabilities through strengthened expert career path, as an alternative to managerial ladder"*
*• "Offer competitive compensation across all levels and cross-borders"*

**Competitive compensation**

At MOL Group we believe in rewarding great performance. MOL Group compensation schemes are designed to reinforce a merit-based culture by clearly distinguishing great results from average and poor outcomes, whereby great results yield significantly higher returns to employees in order to motivate them to continuously set the performance bar at higher levels. MOL Group acknowledges that talent is especially scarce in the industry, and while defining measures to increase its talent attraction capability, it is also providing appealing compensation to retain its pool of talent and its competitive edge.

The cornerstone of our compensation and benefits architecture is the use of HAY methodology, which is the most widely-recognized job evaluation process and is applied worldwide by over 10 000 companies. As a result of continuously extending its scope of application, in 2013 close to 90% of all job positions have now been graded. Using HAY method has enabled the company to create and manage a single, transparent and consistent system that builds a sense of fairness and ensures the accountability-based rewarding of employees.

In 2013 MOL Group moved forward with rolling-out HAY in Bosnia-Herzegovina and to INA Group subsidiaries. MOL Group will keep promoting and extending the method to harmonize job grades and compensation outcomes as a single and transparent Group-wide method.

Along with the HAY methodology roll-out, MOL Group has created a new pay scale strategy as an outcome of reviewing salary ranges based on their HAY grades to benchmarks against similar companies in the industry.
MOL Group adopted a ´dragging´ compensation policy in 2013. The policy promotes the idea that compensation, which is based on HAY grades and outcomes of performance appraisals, should exceed the local market average, while taking into consideration the local company's available financial resources and other limitations.

**Ratios of corporate minimum wage to local minimum wage at significant (more than 100 employee) operating locations (%) [GRI EC5]**

| Country (Company) | 2011 | 2012 | 2013 |
|---|---|---|---|
| Austria (Roth Heizöle GmbH) | 100% | 100% | 100% |
| Bosnia Herzegovina (Energopetrol d.d.) | 101% | 101% | 101% |
| Croatia (INA d.d.) | 136% | 149% | 155% |
| Hungary (MOL Plc.) | 169% | 142% | 145% |
| Italy (IES S.p.A.) | 112% | 112% | 117% |
| Romania (MOL Romania PP s.r.l.) | 187% | 193% | 180% |
| Pakistan (MOL Pakistan Ltd.) | 247% | 412% | 345% |
| Russia (BaiTex LLC) | 151% | 193% | 210% |
| Serbia (Intermol d.o.o.) | 112% | 104% | 101% |
| Slovakia (Slovnaft a.s.) | 142% | 138% | 133% |
| Slovenia (MOL Slovenija d.o.o.) | 115% | 100% | 100% |

MOL Group sets strict guidelines, declaring that all employees are entitled to equal compensation regardless of gender, age and nationality. Group-level compensation policies are made transparent and published in Group and local regulations that are accessible to every employee. Company-level rules are also defined by Collective Agreements (CA).

To reinforce the management's drive to achieve superior performance, management compensation is closely tied to performance. The managerial compensation system includes both short-term and long-term incitements, such as an annual performance bonus and a Long-Term Incentive scheme (LTI). The new redesigned LTI, in line with global best practices, links managerial gains directly to the strategic interests of shareholders through its main pillars (Stock Options and a Performance Share Plan). As result of continuous improvements in the area of compensation, MOL Group also has an appealing trader bonus with the objective of further increasing MOL Group's competitive edge.

In most of the operational areas of MOL Group social and pension funds exist and employees are covered by them. Such schemes are usually state-controlled but semi-private systems also exist. 96 % of MOL Group employees are covered by pension contributions which are either paid by the employer or employee – the amounts paid differ by country, based on local legislation. In certain areas of operation employees may invest into a voluntary pension fund and are allowed by law to use a part or the whole of their fringe benefits (provided by the company) for this purpose.

Click here to read more information about our compensation system.

**Investing in education**

The global demand for energy continues to rise and with over half of experienced engineers eligible for retirement in the next five to ten years, and not enough skilled professionals coming through the ranks to replace them, the oil and gas industry is in the midst of a talent crisis. MOL Group acknowledges that the 'war for talent' is still on, and takes proactive measures to ensure a steady supply of talent for sustained growth.

MOL Group has developed a strong Employer Branding strategy and toolset which communicates the Employee Value Proposition customized and segmented for identified key target talent groups. The new Employer Brand promotes corporate values driven by energy, inspiration and the wealth of diversity of MOL Group employees; the key factors driving corporate identity.

MOL Group's recent investment in education is broadly-acknowledged and appreciated, as is demonstrated by the various awards it has won in all of the core markets in 2013.

MOL Plc. was one of Hungary's most desired employers according to Aon Hewitt's Employer Brand Research, based on the preferences of 14 000 students and graduate job candidates (from a survey of 240 companies from 17 industries). MOL's success as an employer is recognised by the fact that MOL Group has performed consistently and won a prestigious place in the award every year since it was launched 4 years ago.

INA in Croatia also won numerous prestigious external awards in 2013. The "Zlatni indeks" award was given for INA's continuous investments into education and for the excellent partnership it has with the academic community. The students' "Zlatni indeks" award in the "Participation in student projects organized by students and student associations" category. "Employer Partner Certificate" was awarded to INA for its excellence in human resources management. The most prestigious result of all was being placed 2nd in the "First Choice Employer" award in 2013, a survey managed by the MojPosao portal.

Slovnaft in Slovakia, similarly to previous years, again ranked first among the most desired companies operating in the industry in Slovakia, according to survey by Junior Chamber In 2013. This award is based on a survey of 1400 students of 20 secondary schools and 20 universities.

**University partnerships in MOL Group**

In order to address the skill shortage, the industry must find people with the right skills. Besides an aging workforce, the other component of the problem is the relatively low number of students opting to study science, technology, engineering and mathematics, which could eventually lead to an O&G job. MOL Group is committed to investing in education to boost the number of graduates in those areas and it enters into strategic co-operative agreements with educational providers in order to strengthen the future oil and gas workforce supply.

MOL Group has built partnerships with several universities in its area of operations. 2013 was an important milestone.

MOL Plc. signed a three-year strategic cooperative agreement with the 5 most prominent educational institutions in Hungary: Budapest University of Technology & Economics, Eötvös Loránd Science University, The Universities of Miskolc, University of Pannonia and University of Szeged.

In Croatia, partnerships have been reinforced with 4 renowned universities; The University of Zagreb, The University of Split, University of Rijeka and The American College of Management and Technology. Further to this collaboration with universities, INA continues its strategic cooperation with renowned student associations such as eSTUDENT, AIESEC, BEST and the portal Srednja.hr.

Slovnaft increased its co-operation with 2 universities where Slovnaft specialists are engaged in giving lectures (The Slovak Technical University and Comenius University).

In Italy, in order to attract talent particularly in technical areas, in 2013 IES carried on collaborations with Universities and local high schools through attendance at Universities' job fairs, creating internships for students and facilitating company visits to the IES refinery.

MOL Group seeks to provide large cohorts of students with opportunities to participate in internship programs, scholarships, thesis-writing programmes, visits to company premises, and other forms of co-operation with educational initiatives. Examples of such 'cross-border' education programs include the following.

A Kurdish education program, where the Company works closely together with the Iraqi Ministry of Natural Resources to ensure a qualified workforce for the Petroleum Industry in the Kurdistan Region of Iraq. As a part of the program, 8 students were enrolled at Hungarian Universities such as ELTE and Miskolc University to obtain MSc degrees. They are expected to graduate in July, 2014.

The Kazakh education program was initiated by MOL Caspian and its local partner. The scholarship program has been established for experts from different kinds of E&P disciplines (drilling, geology, etc.) who are experienced in the oil industry and who are working on local projects. As part of the program, 12 students are currently studying at Miskolc University and BME in Hungary.

**Partnerships with secondary schools**
To build a sustainable talent pipeline for the long-term, MOL Group has recognized the need to reach out towards addressing an even younger generation with the aim of promoting natural sciences and mathematics at an early stage

MOL Group launched its Junior Freshhh competition in Hungary 4 years ago and it remains a success. In 2013, a Freshhh Junior competition was launched for the first time in the Slovakian language within Slovakia, with a live final held in Bratislava.

To emphasize the importance of the heroic individual efforts of impressive teachers and to showcase their crucial role in talent management for the O&G industry, MOL Group has established a recognition programme named 'MyMentor'. Receiving the award offers financial and moral recognition and it goes to those great school teachers who excel at teaching mathematics and sciences who can effectively transfer their true enthusiasm and love of their subjects to students. MyMentor has been introduced in Hungary, Slovakia and Croatia. In 2013, 17 teachers were awarded in 3 countries.

Click here to read more information about our initiatives

**Freshhh – MOL Group's international contest**
´Freshhh´ is an innovative and highly successful international annual oil and gas industry online competition for college and university students that has been held since 2007.

Between 2007 and 2013 Freshhh attracted more than 10.000 students from 70 countries and 250 Universities/Colleges. Freshhh 2013 had a record number of applicants, with over 2600 students forming 887 teams from 60 countries. The winner of Freshhh 2013 was a team representing 3 nationalities from Heriot-Watt University, Great Britain.
Click here to read more information about this topic.

**Number of participants in "Freshhh" competition**

| | 2009 | 2010 | 2011 | 2012 | 2013 |
|---|---|---|---|---|---|
| Number of teams | 342 | 580 | 596 | 694 | 887 |
| Number of countries | 35 | 25 | 62 | 58 | 60 |
| Number of universities | 95 | 117 | 217 | 251 | 253 |

**Growww – graduate recruitment and development program**
This is the seventh consecutive year that MOL Group has offered graduates a unique opportunity to start their careers at MOL Group, to build work experience through training, on-the-job experiences and mentoring from the best professionals of various O&G disciplines and to prove their skills and capabilities in a cross-cultural working environment. The primary target group for Growww is students with degrees in engineering, geosciences and technology; however, graduates of economics and some other subjects may find appealing Growww opportunities in MOL Group.

In 2013, 221 new Growwwers joined MOL Group. Graduates now represent 11 countries, namely Bosnia & Herzegovina, Croatia, The Czech Republic, Hungary, Iraq, Oman, Pakistan, Romania, Serbia, Slovakia and Slovenia, providing an excellent example of the international nature of MOL Group corporate culture. Since the launch of the Growww program in 2007, 1350 Growwwers have been hired. Currently, 12% of former Growww program participants are employed in the Headquarter organisations of MOL Group. This success clearly supports the key principles of the program - offering a rapid rise up the career ladder for the best talents.

Click here to read more information about this topic.



**PIMS[2] Academy 2013**
MOL Group, in co-operation with the Hungarian University of Pannonia Faculty of Information Technology, has started a post-graduate course that aims to educate specialists about the complex challenges of O&G supply chain business activities and facilitate the acquisition of solid knowledge about professional, market-leading software and the complex operations which take place inside the oil industry.

The 2013/2014 academic year is the third consecutive year that PIMS has been operational, now having 9 students. MOL Group is proud to provide substantial financial support for improving and maintaining the curriculum and offering participants an appealing incentive system during their studies. Candidates who perform outstandingly will have the opportunity to join MOL Group.

## 3.4.2 RETAINING AND MOTIVATING EMPLOYEES

*Related objective: "Boost performance culture and provide growth opportunities for MOL Group employees by continuously upgrading the Annual People Cycle."*

**Annual People Cycle (APC)**
At MOL Group we believe in challenge and responsibility. Each and every employee should be stretched every day to perform their best, come up with new ideas and develop and grow as they face new situations. MOL Group also believes that every employee should take responsibility for their own performance and development, whilst it is their managers' responsibility to provide the guidance and support needed to deliver and grow.

At MOL Group we are committed to rewarding great performance. Such performance is defined both by results and the way these results are achieved. Demonstrating behaviour in line with values is a must from every employee

To underpin the above goals, the Annual People Cycle (APC) is conducted. It represents the fundamentals of people management in MOL Group. APC incorporates all the crucial HR processes and is executed through a standardised set of activities that repeat on an annual basis. It ensures that performance management and career and development planning is done in a fair, consistent and transparent way, serving the interests of both the company and employees, thus contributing to the sustainable success of MOL Group Through rigorous implementation of APC, MOL Group can ensure that people are working towards the right objectives.

The APC process is continuously reviewed based on internal customer feedback and benchmark best practices in order to sustain delivery of strategic objectives and improve business results.

In 2013, APC processes ran in 40 companies across 17 countries within MOL Group, with approximately 13 000 participants

**Managerial Performance Management System (MPMS)** consists of three pillars: corporate targets, divisional/organizational targets and individual targets and their evaluation. Besides the key financial indicators, sustainable development, health, safety, environment and human resources-related targets are also considered among the targets. Targets are consistently cascaded-down in the organisation from the top management team to lower managerial levels.

**Employee Performance Management System (EPMS)** ties corporate objectives to individuals' performance through differentiated employee bonus pay-outs, in line with the outcomes of performance evaluation. MOL Group is working to extend EPMS to cover all of the companies within the Group. The next immediate step will be a process launch of EPMS in INA in 2014.

**Career Management System (CMS)** & Development processes enable us to identify and retain talent, ensure that managerial succession plans are in place and that employee development actions are all in line with MOL Group´s business strategy. MOL Group's talent pool is reviewed annually in the course of People Review Meetings where managers of the respective areas define plans for increasing bench strength and identify development opportunities for talents.

A career at MOL Group is not only about progressing up the leadership ladder. Making horizontal moves is considered valuable as this can enrich employees' skills and experience. MOL Group encourages employees to gain experience in various areas by taking advantage of in-house job openings and project assignments. In 2014 MOL Group will work to further strengthen expertise career paths and to provide appealing alternatives to the managerial ladder.

2) The acronym "PIMS" stands for Process Industry Modelling System.

**Percentage of employees covered by a predefined and standardized performance appraisal process [GRI LA12]**

| Employee category | Coverage of employees in performance appraisal per year (%) 2009 | 2010 | 2011* | 2012 | 2013 |
|---|---|---|---|---|---|
| Executive/Top Management | 100% | 100% | 100% | 100% | 100% |
| Middle/General Management | 100% | 100% | 100% | 100% | 100% |
| First line Management / supervisor | 100% | 100% | 85% | 85% | 100% |
| Specialist groups | 78% | 78% | 48% | 64% | 64% |
| Employees (Below HAY 18) | 71% | 73% | 40% | 41% | 42% |

*The decrease in Specialist groups and Employees is caused by the inclusion of INA in the data; the difference is significant given the size of the company and the performance appraisal process has been gradually extended.

**Increase in participants of CMS & Development processes at MOL Group [GRI LA12]**

| APC process | No. of participants per year 2011 | 2012 | 2013 |
|---|---|---|---|
| CMS & Development | 1,320 | 1,535 | 2,000 |

As the coverage indicates, most MOL Group companies are applying the same APC processes and principles as they are centrally defined. In 2013 INA started to adopt the MPMS principles of MOL Group; however, significant steps were taken towards harmonizing the process from 2014 onwards, in parallel with the EPMS process launch.

**Employee engagement**

Employee engagement goes beyond how much people like being part of their organization which is represented by the term 'satisfaction', or how much they want to improve business results, which may be called 'commitment'. Engagement measures how much people want to — and actually do — take action to improve the business results of their organization. Engagement is most highly positively correlated with business performance.

MOL Group conducts a Group-level employee engagement survey biannually to measure the engagement and satisfaction levels of its employees. In order to monitor progress, a pre-defined set of questions is used in each of the MOL Group companies. The latest survey was carried out in 2012/13.

**Employee engagement survey results (%)**

| Employee Engagement Results | 2008* | 2010 | 2012/13 |
|---|---|---|---|
| Coverage | 90 | 90 | 96 |
| Response rate | 50 | 64 | 62 |
| Engagement level | 67 | 70 | 47* |

*The methodology for appraising engagement changed in 2012 due to the engagement of a new service provider. As a result, the Engagement level data in the table do not show the trend in engagement from 2010 to 2012 since the basis of calculation is different. Compared to 2010 results, the difference is a 2% decrease.

MOL Romania's engagement level exceeded the Europe Oil industry average (the external benchmark is provided by the service provider).

Along the engagement journey, the survey (as a measurement tool) is just the first step which provides the opportunity to better understand the drivers of engagement. Following this, impactful action can be identified that will initiate sustainable improvements in employee engagement. In each company engagement we nominate process champions who become the ambassadors of employee engagement until the next survey.

Further to the survey results, focus groups provide additional insights into understanding the root drivers of engagement. Focus groups, often called employee workshops, are organized by divisions/departments. This methodology enables immediate and deep reflection on the results and allows for personal insight, thus the organization can effectively detect quick wins and decide what is needed for long-lasting improvements. On a company level, action plans were drawn up and are being monitored on a quarterly basis. Altogether, at a Group level, more than 1400 individual activities were initiated across 34 companies in 13 countries.

## 3.4.3 DEVELOPMENT OF HUMAN CAPITAL

*Related objectives: "Develop MOL Group's human capital through creating environment in which employees adhere to highest performance standards, learn and apply innovative ideas, competencies, skills and co-operate for collective business success."*

Having competent staff members across the entire Oil and Gas value chain is essential as people in various working locations produce the resources that the world depends on as a primary source of energy. Human Capital is considered to be the most important element of MOL Group success. MOL Group strategy calls for development of its human resources. The growing complexity of the global environment, the increasing speed of change, the need for efficiency improvements in Downstream and the new E&P resource plays all require innovation, collaboration, the acquisition of new technologies and new technical competencies.

The tools for creating this environment include training, coaching and other interventions.

**Training and development data for MOL Group [GRI LA10]**

| | 2011 without INA | 2012 without INA | 2013 without INA | 2011 Total MOL Group | 2012 Total MOL Group | 2013 Total MOL Group |
|---|---|---|---|---|---|---|
| Average training time per employee (hours) | 26 | 28 | 29 | 21 | 18 | 22 |
| Average cost of training per employee (1000 HUF) | 69.7 | 76.0 | 75.4 | 50.9 | 54.0 | 57.3 |
| **Average hours of training per employee group (hours)** | | | | | | |
| Executive/Top management | 61 | 38 | 17 | 56 | 38 | 19 |
| Middle/General management | 45 | 35 | 33 | 47 | 31 | 34 |
| First line management/Supervisor | 43 | 31 | 41 | 44 | 29 | 40 |
| Specialist groups | 38 | 34 | 40 | 33 | 28 | 37 |
| Other employees | 24 | 27 | 26 | 19 | 16 | 20 |
| **Average training cost per employee group (thousand HUF)** | | | | | | |
| Executive/Top management | 791.0 | 628.9 | 459.2 | 687.8 | 570.7 | 463.5 |
| Middle/General management | 298.0 | 345 | 297.5 | 264.4 | 324.8 | 287.3 |
| First line management/Supervisor | 179.8 | 195.6 | 242.8 | 164.5 | 219.8 | 206.9 |
| Specialist groups | 151.4 | 152.6 | 136.8 | 122.4 | 138.1 | 127.0 |
| Other employees | 50.0 | 55.5 | 55.9 | 36.9 | 37.4 | 42.2 |

**Learning and development objectives**

In the second half of 2012 MOL Group introduced its new business strategy and initiated major changes, including restructuring global and local organisations and responsibilities, setting up new a Headquarters and running the biggest recruitment campaign in the company's history.

All these changes impose huge challenges on leaders and on every employee. As a part of overall change strategy MOL Group HR has started to revise its learning and development strategy to ensure that change momentum is maintained and that development of both leadership and technical skills is accelerated. This should ensure that the required bench strength and collective technical skills needed to achieve strategic objectives are created.Therefore, for the 2013-2014 period the objectives are to establish a new learning program portfolio and to launch mission critical programs (such as LEAD) to support MOL Group's strategic priorities.

**Build Leadership capabilities**

As the pace of change is accelerating inside and outside of MOL Group, the development of the next generation of leaders has never been more vital.

To keep the leadership pipeline supplied with a steady flow of great talent, MOL Group has launched LEAD, its global leadership development program.

Further to the programs above, MOL Group works to provide powerful skill development solutions for the entire pool of leaders and leadership successors, in line with the Leadership Competency Model, to help leaders succeed.

Strengthen technical capabilities
The competency-based development process is designed to identify and define, in a measurable and objective way, the competencies required by each individual so that they may adequately perform job-related tasks. Steps within the process include starting with a 'definition of job competencies', progressing through an 'assessment of competencies' and 'identification of strengths and development areas', and moving on to 'implement training activities' that address the identified areas for development.

Establish global leadership competency framework
Our Leadership competency / performance framework is unified across MOL Group and has been used continuously since 2007.
Based on the different expectations related to the complexity of the employee's role, MOL Group differentiates between 5 levels within the leadership pipeline - Individual Contributor, Front Level Leader, Mid-level Leader, Business unit leader and Senior Executive. As these profiles are assigned to positions within the organization, they allow competency gap analysis which is followed by the planning & roll-out of development activities.

This leadership competency framework serves as a basis for the assessment & development programs; it forms the backbone of the psychometrics testing system, competency-based interviews, Assessment & Development Centers, etc. Thus it enables highly reliable comparisons to be made between the employees assessed, as well as giving consistency to the background selection of external candidates that is related to MOL Group values & related behaviors.

Our LEAD program assessment process was also based on this framework.

**Comprehensive development programs**
In order to perform excellently and maintain a high level of engagement & motivation, the need for the ongoing capability development of the workforce is always present and must be properly addressed.

Having competent staff members across the entire Oil and Gas value chain is essential; staff in various working locations produce the resources that the world depends on as a primary source of energy.

MOL Group strategy calls for the development of its human resources. The growing complexity of the global environment, the increasing speed of change, the need for efficiency improvement in Downstream and the new E&P resource plays all require innovation, collaboration, the acquisition of new technologies and new technical competencies.

**LEAD**
The pace of change is accelerating inside and outside of MOL Group and, as a result, developing the next generation of leaders has never been more vital than it is now. The new global era requires strong leadership.
To nurture the next generation of leaders MOL Group launched LEAD, MOL Group's global leadership development program. LEAD is designed to challenge participants and expand their skills through world-class learning curricula and stretching individual and team project assignments.

LEAD is organised around three hierarchical leadership talent pools
- The Emerging Global Leaders program prepares talented individual contributors for their first leadership assignments.
- The Growing Global Leaders program helps leaders to accelerate their careers to take on more senior roles
- The Advanced Global Leaders program takes already experienced leaders to the next level of leadership so they can drive organisational performance

The learning journey contains online, class-room, on-the job and knowledge-sharing components across the three streams and stretches over a 12-18 month time horizon. To deliver this in-house program, MOL Group have partnered with the acknowledged regional Cotrugli School of Business (Croatia) and the globally-renowned Thunderbird Global School of Management (USA).

The first wave of LEAD was launched in November, 2013. 65 participants were selected; they came with diverse cultural and professional backgrounds and represent 11 countries from Austria to Iraq, and all areas of businesses from Exploration and Production to Retail and functional areas.

LEAD is not intended to be a one-off program; regular repeats of LEAD will be initiated which will provide everyone who performs exceptionally well and demonstrates leadership potential with further opportunities for personal growth.

Technical Competency Development
MOL Group recognizes that employees need to acquire the right skills to achieve functional and technical excellence in order to be able to do their jobs according to relevant standards, as well as to meet business needs. Access to training is driven by the needs identified through Technical Competency Development process where structured and well-planned training modules are available to the expert pool based on their technical competency requirements and where gap analysis and progress is tracked against learning objectives.
The methodology behind the system is provided by PetroSkills, the leading oil and gas industry training company. Adoption of PetroSkills' Technical Competency System significantly speeds up the implementation process and enables adjustment to industry benchmarks. At the same time, through streamlining training needs and building on existing internal knowledge (instead of only using external trainers) we were able to achieve estimated cost savings of HUF 10mn in 2013. The plan for 2014 is to continue to roll-out the programme and extend it to International Exploration & Production operations, Downstream Logistics and the entire pool of HSE experts.

**Scope of People enrolled in Technical Competency Measurement in 2013 [GRI LA11]**

| Business area | Exploration & Production | Downstream Production + Downstream Development | HSE |
|---|---|---|---|
| Available technical competency profiles | 122 | 27 | 21 |
| Expert pool covered; # of persons | 750 | 750 | 30 |

DS Development Academy 2013
Initiated in 2013, the programme's goal is to train specialists for MOL Group in the hydrocarbon processing industry who wish to gain knowledge of refining and petrochemical technologies.
The program provides tailor-made accredited professional postgraduate education on a part-time basis. After this two-semester long education program, participants will earn a Hydrocarbon Technology Development Engineer qualification. The courses will be held in Hungary at the Duna Refinery (one-week's education per month).
More than 30 potential candidates applied and 20 employees from Hungary, Slovakia, Italy and Croatia were nominated by their managers and passed the selection process.

Click here to find out more about our development programs.

## 3.4.4 COMMITMENT TO FAIR EMPLOYMENT

*Related objective: "Enhance responsible employer practices to ensure the engagement and diversity of the workforce"*

**Employee relations**

The right to exercise freedom of association and collective bargaining is considered to be crucial in MOL Group.

**Trade unions and collective bargaining agreements [GRI LA4]**

| | 2009 without INA | 2010 Total MOL Group | 2011 Total MOL Group | 2012 Total MOL Group | 2013 Total MOL Group |
|---|---|---|---|---|---|
| Employees represented by trade unions (%) | 91.4 | 94.5 | 94.8 | 94.8 | 96.0 |
| Employees covered by collective bargaining agreements (%) | 93.4 | 94.5 | 95.0 | 91.7 | 90.1 |

Note: The difference in the rows is primarily due to companies in Austria where industrial Collective Agreements (CA) cover all employees and not just those represented by trade unions, and to MOL Romania, where employee representatives are also entitled to sign CAs.

The European Works Council ensures the representation of employees at the highest level, keeps them informed on an ongoing basis about decisions taken in different countries which are within its competence and about international practices and experiences. In MOL Group's supervisory board, employee representatives (one third of all members) are delegated by the Works Council. European Works Council also has contact points outside Europe in Russia and Pakistan.

Works Council meetings are organised around 10 times a year, and there is a joint meeting with the Works Council of MOL Plc. and the MOL Group European Works Council where representatives are informed about MOL Group's current economic situation and are asked about decisions and regulations that affect employees. Employee Forums are held 3-4 times each year where employees can ask questions from top managers and from the chief executive of MOL Group. The EWC Executive Committee and leaders of Trade Unions are invited to Works Council meetings as well as to Employee forums. Employees are informed about the meetings and topics of the forums through MOL's internal monthly magazine.

INA, d.d. is committed to continuously improving social dialogue through cooperation with the Works Council of INA, d.d. and trade unions, so there are regular meetings between HR representatives and social partners, negotiations about employee fringe benefits and negotiations about social clauses relating to compensation for employees included in optimization and restructuring projects.
The INA d.d. Works Council was established in 2011 for a three-year term and has 25 members. Good quality social dialogue with employers has enabled the council to establish good communications with employees through newsletters, the intranet and employee assemblies where INA MB members and executive directors participate. The INA Works Council supports the election of works councils at other INA-Group companies wherever possible, and supports the work of two other Works Councils in STSI and Maziva (INA Group companies). The INA Works Council plans to coordinate the work of works council at the INA-Group level. There are 5 active trade unions in INA.

The next works council elections in INA will be held in 2014 and will have a four year mandate if amendments to the Labour Act are adopted.
23 regular meetings were held with social partners and 30 negotiation-based meetings, including meetings with managers of certain business segments.
4 joint meetings were held in Rotary for trade union representatives with the participation of top management.

In Slovakia, regular meetings of TOP managers and trade union representatives take place in order that topical subjects may be discussed. 5 Employee Forums were held in 2013 to engage and motivate employees and bring more transparency to communications.
In Italy, regular meetings with Trade Union representatives were held during the year to discuss HSE and people management topics. Moreover, Trade Unions were involved in the creation and monitoring of yearly training plans.

Since October 2013, after MOL Group announced the intention of progressively transforming IES Mantua refinery into a logistics hub, negotiation with national and local trade unions and national and local institutions was initiated to bring about agreement on social plans and future occupational levels in the new organization.

**Equal opportunities and diversity**

MOL Group's Human Capital Development approach promotes diversity. A diverse workforce makes the Company stronger which increases growth and profits. MOL Group is committed to hiring and promoting employees from a variety of backgrounds to give the company better perspective on the needs of its various stakeholders and to ultimately improve the quality of the talent base by admitting a much larger pool of applicants (hiring at a global scale). MOL Group's Diversity strategy was endorsed by the Sustainable Development Committee in December 2013 and addresses 3 key directions for the short term: internationalization, retention of young talents and knowledge transfer. Further, a comprehensive action plan was developed in order to address the 3 key directions.

Internationalization is also significantly represented at MOL Group's HQ where 18% of all employees are non-Hungarian (representing 23 nationalities, besides Hungarian). At MOL Group more than 300 employees are working on international assignments.

A remarkable achievement is the hiring of the first group of female employees in MOL Pakistan: 7 female trainee engineers are going through the Growww Program.

Meanwhile, the proportion of female employees is at around 20% in MOL Group. The gender balance of Growww program participants reflects the industry average, and in E&P 31% of graduates hired in 2013 were female (40% in Downstream).

Employee representation organisations and the Company – as employer – have signed the MOL Plc. II. Equal Opportunity Plan for the next 2 years, 2013 – 2015. The plan covers all the employees of MOL Plc. and pays special attention to the rights of employees on maternity leave, single parents, parents with two or more children under age ten, people with any kind of disability and employees who are over the age of 50 or who belong to a national or ethnic minority. The main purpose of the plan is to improve the working and employment conditions of these employee groups and to focus on their special needs. As a result, a new initiative has been launched; the so-called "Layette benefit" contribution. MOL Plc. not only keeps contact with employees that are on maternity leave but after their return to work, as far as possible, MOL Plc. offers them flexible working conditions and the opportunity to occasionally work from home.

In 2013 an assessment process started to evaluate positions at the company which could be suitable for employees with a disability. MOL Plc. also tries to provide internships to students that are living with disabilities or handicaps, if they have the relevant qualification and competencies.

Equal Opportunity Plans with similar content to those used at MOL Plc. have been signed and made public by affiliate companies: TVK and Petrolszolg Ltd.

SLOVNAFT group companies support diversity in a number of educational and development activities in the area of developing managerial and other capabilities, particularly with handling differences between generations and types of personality.

**Work-life balance**

As part of the Diversity strategy in MOL Group, the potential for flexible working conditions and their implementation is being analysed. Part-time employment opportunities are guaranteed at many companies group-wide.

**Part-time employment at MOL Group [GRI LA1]**

| | 2009 without INA | 2010 Total MOL Group | 2011 Total MOL Group | 2012 Total MOL Group | 2013 Total MOL Group |
|---|---|---|---|---|---|
| Part-time employees (number of people) | 114 | 191 | 261 | 293 | 263 |
| Proportion of part-time employees to total workforce (%) | 0.64% | 0.59% | 0.83% | 0.99% | 0.91% |

14 MOL Group companies provide home office and/or remote access which covers 70% of all employees. Employees can be entitled to work from home provided they have permission from their direct manager.
In September 2013 Slovnaft launched a pre-school facility 'Slovnaftáčik' for the children of Slovnaft Group employees who live in the vicinity of the Company. The employer ensures a high-standard of care for the children of employees, with the additional benefit of foreign language teaching (English or possibly Hungarian, depending on the parents´ choice), extended hours of operation, support for children´s general development and supplementary programmes, some with the participation of parents.

In Slovnaft, the employer has created framework rules for implementing flexible working hours and offers the opportunity for employees to choose the time they start of a shift, as well as flexible periods of work – daily/weekly or monthly. Employees can utilize contributions from the social fund for cultural events, recreational purposes, sports or further education.

# 3.5 COMMUNITIES

*General aim: enhance trust and credibility among stakeholders*

## ACHIEVEMENTS

- Use of a best-in-class tool (London Benchmarking Group methodology) to manage and report social investments in MOL Plc, Slovnaft and INA as of 1st January 2013.
- According to one of our priority goals MOL Group continued promoting and protecting the health of local communities. In Pakistan, 2 Free Eye Camps were held, while in the Kurdistan Region of Iraq we purchased a medical container.

## CHALLENGES

- Group-level regulation of social engagement and roll-out of practices to every operating location.

## 3.5.1 COMMUNITY RELATIONSHIPS

*Related objectives:*
- *"Develop a group level social engagement plan by 2012"*
- *"All countries have an annually updated social engagement plan implementing key pillars of engagement"*

**Community engagement**
Community engagement is all about listening to our communities and understanding their needs, priorities and ideas and forming partnerships that increase the prosperity and sustainability of the communities and our company as well.

Our primary strategic goal in 2011 was to define a framework for effective engagement activity and to start the rollout of processes in MOL Group. This goal has been achieved since the 2013 Annual Communications Plans has been prepared based on our new Social Engagement Handbook which has been issued Group-wide. This describes detailed ways of identifying issues and relevant stakeholders and then preparing an issue mapping matrix to support prioritisation of local communications needs. The activities derived from the matrix thus create the individual company-level Social Engagement strategies and plans.

MOL Group and its member companies engage with local stakeholders in several different ways. The most common ways are making site-level connections, holding public hearings and undertaking joint activities with stakeholders. Naturally, we maintain ongoing communications with authorities and official bodies related to the regulatory environment and our license to operate. We also have some special ways of engaging which are designed to shape people's attitudes and ways of thinking about promoting sustainability. For example, we are running our used cooking oil collection campaign in 3 countries. This helps the general public to dispose of a hazardous household waste in an environmentally-friendly way, while also having clear business benefits for MOL Group who can transform the waste oil into products in cooperation with a joint venture partner. This campaign was reinforced in Hungary through our 'We get the oil, you get the party' campaign which increased the amount of oil collected to higher than ever.
MOL Plc. has been focusing on actively involving communities, improving cooperation and engagement. From 2013, a 'Management Roadshow' was launched. The plan is that all sites in Hungary should be visited twice a year and there shall be meetings with local authorities, municipalities and communities to strengthen trust and discuss current issues.

SLOVNAFT 's focus was on increasing the awareness of local stakeholders of MOL as a socially responsible company. As part of its commitment to operating in a transparent way, SLOVNAFT started a new communication campaign in 2013 called "Responsible neighbour". This campaign provides local communities with information about its activities. The first short leaflets ("Flaring" and "Water management and protection") have already been released.

INA has systematically worked to recognise the specific needs of local communities so as to develop and expand partnerships based on mutual understanding and support. Communicating to communities occurs through public debates which are regularly held in the process of environmental impact assessment and obtaining environmental permits.

In order to build strong relationships with local communities in International Upstream countries the more basic needs of people must be considered - such as education, infrastructure, drinking water supply and healthcare. We have various practices in place to survey and understand the needs of local communities and to ensure that we receive their support for our operations. These practices include the existence of contracted Community Relations Officers who can be contacted by locals anytime. In the Kurdistan Region of Iraq we also have weekly meetings with local NGOs.

Based on our interactions with communities we have a focus on managing grievances. MOL Group treats each notification from a community about a grievance seriously. Both in Pakistan and in the Kurdistan Region of Iraq MOL Group has local procedures in place for grievance management. To ensure that we can receive and manage grievances both from internal and external stakeholders we also operate an online grievance management system where anybody can submit an 'ethical notification'.

Click here to access our ethical notification system.

**Understanding and managing impacts in exploration and production operations**
In 2013 MOL Group put in place a new health, safety and environment management system (HSE MS) which includes a new element for managing social impacts more effectively, with a special focus on our international E&P operations.
Entering and abandoning production sites is a sensitive process. Therefore, for each and every production activity we perform an environmental impact assessment (according to local regulations), and often a social impact assessment as well. Even at this early stage we survey the potential needs and concerns of our neighbors. The abandonment of sites is also a matter of concern due to the cessation of economic relationships that have been established and any environmental impacts that may have been caused. Closure of production sites is only undertaken in Hungary and Croatia where we have written procedures for field standstills and abandonment as well. Social impact management covers all the potential resettlement issues which may appear at our exploration and production sites. Accordingly, we will gain free prior and informed consent in the event that indigenous people should be relocated from their land. So far there have not been any resettlements at any of our operational international locations.

## 3.5.2 SOCIAL INVESTMENT

*Related objectives: "Develop a comprehensive and effective social investment management system including local social investment plans with measurable targets in each country of operation"*

**Donations, in-kind giving and volunteering at MOL Group [GRI EC8]**

| Social investments by country* | unit | Hungary | Slovakia | Croatia | Slovenia | Romania | International Upstream | Italy | Total |
|---|---|---|---|---|---|---|---|---|---|
| Donations in cash | mn HUF | 6,021.5 | 125.1 | 96.1 | 0 | 189.7 | 185.2 | 0.3 | 6,617.9 |
| In-kind giving (product/services) | mn HUF | 6.1 | 5.0 | 0.4 | 0 | 0 | 126.7 | 0.0 | 138.1 |
| Employee volunteering | hours | 841 | 471 | 1440 | 256 | 1024 | 0 | 0 | 4,032 |

* including companies with approved Corporate Giving Plans

MOL Group aims to create value by acting in a sustainable way and showing responsibility towards future generations. Accordingly, we support educational programmes and young talent and health and environment initiatives with 0.33% of our EBITDA.

Over the past years MOL Group has become not only one of the largest companies in Central Europe, but one of the most notable sponsors of various civil, education, culture, young talent and sports initiatives. The company is paying more and more attention to the real needs of society and is striving to embrace its responsibility to resolve problems in accordance with its economic role.

To strengthen our social investment portfolio and involve our partners more in joint efforts through defining common goals, target groups and desired impacts a best-in-class tool - which uses London Benchmarking Group methodology - has been adopted by MOL, Slovnaft and INA to manage and report social investments as of 1st January 2013. The covered amount of social investments by the LBG was HUF 945.8mn. The model is used to measure benefits to business and community and to improve the effectiveness of our corporate giving programmes. We plan the further extension of this tool in 2014. According to LBG definition, sponsorship is not considered to be part of social investment. Out of total donations (support provided without any return consideration) HUF 5.2bn was spent on tax optimization purposes in Hungary and Romania which fall outside the LBG definitions. However, the supported goals (sport and culture) of such donations are defined by relevant laws not MOL Group policies, while the supported organizations are selected by the Company.

In Central Europe MOL Group's social investment activities are designed to address stakeholder demands. To understand their needs, a survey was conducted involving more than 8000 stakeholders. According to the survey results, 64% of stakeholders would donate most to communicate a healthy lifestyle message and support disease prevention. Second on the stakeholder list is promoting children's / junior sports (57%) and third is supporting the activities of educational institutions, programmes (51%). Identifying and supporting talent is also in the top 5 (42%).

MOL Group's current donation portfolio is in harmony with the expectations of society in general. Data from MOL Group's LBG internal database show that 42% of our donations tracked in the LBG data collection toolkit are focusing on education and young people, while 12% go towards improving health. LBG-related data does not include donations that are related to Corporate Tax Optimization.

The social investments of MOL Group companies in Central Europe are carried out through foundations. We have foundations to support young talent (sport and arts categories) and for health care and special therapies for chronically ill children. As summarized below, the majority of our social investments administered according to the LBG methodology are made through these organizations:

- MOL: 70% of social support is carried out through the New European Foundation
- SLOVNAFT: 63% of social support is carried out through the Central European Foundation
- MOL Romania:93% of social support is carried out through the Foundation for Communities
- INA: 60% of social support should be carried out through the INA Foundation now that its goals and structure have been established.

In Hungary and in Romania we also support local environmental initiatives through our Green belt programme.

In our international E&P operations, MOL always strives to understand local community needs and then create tailor-made social investment action plans for each area.

In the Kurdistan Region of Iraq Kalegran Ltd. has concluded a contract with an external 3rd party advisory company in order to improve internal processes for managing social issues in line with the relevant Ministry (MNR) expectations and requirements for strategic (long-term) and yearly (shorts-term) periods. Completed social investment projects from 2013 include:

- One de-mining project that started in 2012 was finalized in 2013.
- Significant investments were made to renovate or build schools in the villages of Qalati, Estirean, Shermen, Shush and in the Erbil Orphanage Center.
- Donations in form of equipment for use in different institutions have been made (e.g. a mini bus, water road-tanker, generators and kerosene heater and an accommodation container for a hospital).

MOL Pakistan's community involvement and social investment programme is based on a multipronged strategy by which funds are awarded to different sectors and the focus is on giving in areas where there are the best opportunities to create sustainable benefits to communities. The following related investments were made:

- Installing drinking water supply networks (the network at Thanda Pani in District Islamabad was completed during 2013).
- Funding the construction and operation of Gurguri TCF School near Gurguri gas plant (by MOL Pakistan). The school, which is fully operated by a local NGO, is designed to provide good quality, modern education (in English) to local children. Currently, more than 150 students are enrolled and are being taught by qualified female teaching staff. This project is a significant step towards empowering women in the Karak district.
- Continuing the MOL Pakistan Scholarship programme (2012-2014) for both Intermediate and Technical students in 2013. 33 Intermediate and Technical Scholars from Tal Block benefited from the programme.
- Funding two Free Eye Camps (at Mianji Khel in District Hangu and the village of Malgin in the Kohat District) where 920 patients were treated and referred, if necessary, to the Al-Shifa Trust Eye Hospital, Kohat, for surgery.

MOL Russia:

- Supporting talented children and developing sports opportunities for children, helping sick children and providing financial help to improve social and economic growth in the region.
- Undertaking community development projects in the Siberian or Middle-East Region. These are of a diverse need-based nature and focus on meeting immediate requirements. They are designed to bring respite to the poor and under privileged.

**Volunteering**

The current volunteering platform of MOL Group is rich in activity but partially segmented. There exist many similar and well-functioning long-term initiatives.

The most significant single initiative within MOL Group is the INA Volunteering Club in Croatia which was founded in 2011. In 2013, the Club participated in 16 events in eight cities. A total of 178 volunteers participated in these activities and the company invested 1,440 working hours in volunteering. The number of members of the Club increased by 25 percent compared to 2012. Last year, INA volunteers again helped charity organisations, kindergartens, children's homes and organisations for people with disabilities. They also participated in several environmental projects.

Several other initiatives are ongoing within MOL Group as well, such as Greenbelt volunteering in Hungary and employee blood donations in more countries. Additionally, we can mention our city programme and Collection of Goods for Socially Disadvantaged Families in Bratislava, and our cooperation with the Dévai "Szent Ferenc" Foundation in Romania to support infrastructure renewal related work.

Our target for 2014 is to renew this concept and develop a common corporate volunteering platform for employees

# 3.6 ECONOMIC SUSTAINABILITY

*General aim: Focus on responsible operations and long-term economic development*

Economic sustainability focus area – as part of the sustainability framework – covers those topics which are considered to be important factors in the long-term economic success of the company. Financial and "business as usual" performance is detailed in different chapters of this Annual Report.

## ACHIEVEMENTS

- MOL Plc. and TVK belong to a very small group of Hungarian companies that were awarded outstanding positions according to the latest research by Transparency International Hungary.
- MOL Group started to support the Extractive Industries Transparency Initiative (EITI) at an international level in 2013.
- The total value of contracts made between MOL Group and locally-owned (not only locally registered) businesses was HUF 40.8bn (EUR 138mn) in Upstream international countries (Pakistan, Oman, the Kurdistan Region of Iraq, Russia, Kazakhstan).
- Significant achievements in non-financial reporting have been made: sustainability content is integrated into MOL Group quarterly flash reports, GRI 3.1+OGSS reports are being published by MOL Group and INA Group and the first ever Sustainability Report of the Hungarian Refining division was prepared in 2013.

## CHALLENGES

- Customer satisfaction remained at 85% across MOL Group.

### 3.6.1 CUSTOMERS

**Customer satisfaction**

*Related objective*
- *"Achieve and maintain a high level of customer satisfaction"*
- *"Engage with customers in SD related issues"*

Surveying customer satisfaction has a long tradition in the wholesale division of MOL Group. Customer satisfaction is measured in Refining and Lubricants businesses, while at Petrochemicals the loyalty of our customers is reported. The methodology used for customer satisfaction surveys can be different. In 2012 and also in 2013 not only the level of satisfaction was measured but qualitative focus interviews were also made for the first time to reveal more deeply how satisfied our customers are, and what drives this satisfaction.

In 2013 we maintained a relatively high satisfaction level of 85% at group level. At MOL Plc. there was a slight decrease: from 88% in 2012 to 86% in 2013 (the same level as in 2011) due to changes in the business environment. At Slovnaft satisfaction levels remained at the previous year's level (82%) while in INA they increased to 88%. The customer loyalty level at Petrochemicals increased from 19.3% to 29% (the scale used is different from the one used at Wholesale). Nevertheless, loyalty is not comparable due to changes in country weighting used in successful interviews.

At Retail the main channel of communication is personal contact through our network of filling stations themselves, while customer loyalty is encouraged in the form of two loyalty card systems as well. We also operate a centralised customer service which is responsible for handling all of the claims and complaints related to or generated at our filling stations through personal contact or via phone. We consider legitimate complaints and customer feedback to be useful inputs for improving our processes and practices. In 2013 we had 2111 legitimate complaints from a total of 60 million transactions.

To increase the level of customer satisfaction at Wholesale we introduced a new system for our partners in January 2013, enabling them to use electronic invoicing. More than 200 Wholesale clients are now connected to the electronic invoicing system. Through using e-invoices we have recently saved 20 tons of paper, resulting in an estimated annual financial saving of HUF 15mn for MOL Group.

Moreover, in Retail we continued implementing our pre-existing programs such as Cycle Pit Stop (bicycle stands at filling stations, extended to Croatia in 2013), the eye testing programme in Croatia, and organising fruit markets for local producers to sell their produce. The Local Producer campaign ran in 2013 at more than 200 filling stations and generated a revenue of almost HUF 80mn only in Slovakia.

**Fuel Pricing**
Along with tracking their satisfaction with our services, we keep in mind that our most direct impact on our customers (and one of the most interesting and sensitive topics) is the price of fuel and how it is calculated.

The main factors which influence the domestic wholesale prices of fuels are the following: the acquisition price of crude oil and refined products, the exchange rate between the currencies of trading countries and the host currency on the acquisition market, local excise duties and other taxes, logistics costs, the supply and demand balance and the quality of each grade of fuel.

We operate on two main types of markets, depending on the regulations issued by national governments regarding retail pricing. 'Regulated or maximum retail prices' (Slovenia and Croatia - partially) refers to the situation when authorities set the maximum price for each product, and 'free markets' refers to the situation where there are no such limits but there are rules regarding the creation of monopolies and fair competition (Hungary, Slovakia, Romania, Serbia, Czech Republic, Bosnia & Herzegovina, Austria, Italy).

At a retail level, on free markets an international micro-pricing approach is used in accordance with international practice. This means that the prices at each filling station are monitored on a daily basis in the light of local factors such as market demand, the location of the filling station, special traffic situations or seasonal and local events, tourism-related factors, fuel and non-fuel product selection, the level of services offered, positioning, trading area and the number and type of competitors' filling stations. This is why retail prices within countries can differ from one filling station to another.

Last but not least we try to set prices in such a way that we do not put unnecessary pressure on our customers and on local economies, bearing in mind that we still need to ensure the long term sustainability of our business.

### 3.6.2 SUPPLIERS

*Related objective: "Introduce comprehensive supplier risk assessment and have prequalification for at least 80% of the critical suppliers in each subsidiaries where SAP is used"*

**Local Suppliers**
MOL Group recognises that supply chain issues in public reporting are increasingly important and that one of the focus areas of transparency is increasing procurement from local suppliers. We understand that contracting local suppliers has multiple benefits and can also be a way of establishing a positive relationship with local communities. Therefore we contract with such suppliers whenever it is beneficial, taking into consideration the expectations of local governments.

In the Central European countries the proportion of local suppliers is 81-83%, with the highest number in Croatia. This makes MOL Group a key factor in the economies of local countries.

**Number of local suppliers [GRI EC6]**

| CEE / SEE region and total contracting values* | Local suppliers | Total | Local suppliers % | |
|---|---|---|---|---|
| Country | No. | No. | No. | Value |
| Hungary (MOL Plc.) | 1,149 | 1,415 | 81% | 72% |
| Slovakia (SLOVNAFT) | 695 | 974 | 71% | 78% |
| Croatia (INA d.d.) | 1,039 | 1,255 | 83% | 83% |
| **CEE / SEE REGION Total** | **2,883** | **3,644** | **79%** | **78%** |
| **UPSTREAM INTERNATIONAL Total** | **770** | **1,020** | **75%** | **62%** |
| **Group total** | **3,653** | **4,664** | **78%** | **75%** |

*Locally-registered suppliers

In our international Upstream operations local procurement strengthens the relationships we have with local communities and contributes to the welfare of the developing and emerging countries where we operate. In countries where MOL Group only undertakes exploration activity the opportunity to hire suppliers on the local market is limited. However, where MOL Group undertakes production activity as well, the proportion of local suppliers is high, especially in the Russian region where the involvement of local enterprises is 100%.

**Number of local suppliers [GRI EC6]**

| Upstream international countries | Pakistan | Oman | Kazakhstan | Russia | Kurdistan Region of Iraq |
|---|---|---|---|---|---|
| Number of local suppliers* (% of total) | 64% | 89% | 79% | 100% | 65% |

*Locally-registered suppliers

Moreover, the total value of contracts made between MOL Group and locally-owned (not only locally registered) businesses was HUF 40.8bn (EUR 138mn) in Upstream international countries (Pakistan, Oman, the Kurdistan Region of Iraq, Russia, Kazakhstan).

**New procurement portal**

In order to further increase the transparency of the procurement process and to ensure better information is provided to suppliers, a new project to create a Procurement Portal started in 2013. The main objective is to publish all the information that is necessary and useful to suppliers on an easily-accessible website which can be linked to pre-existing bidding systems.

**Supplier Qualification System**

In 2013 a new group level eBidding system was implemented to standardize sourcing and bidding processes and communication channels throughout MOL Group. The second goal of this project is to revise the pre-qualification processes of MOL Group and re-implement them through applying a new risk based approach.

## 3.6.3 ETHICS AND COMPLIANCE

**Ethics**

*Related objective: "Implement key pillars of ethics management system (code of ethics, e-learning, managerial presentation, business partner code of ethics) in all companies and reach 100% coverage"*

Within the ethics management system we lay special emphasis on communicating our Code of Ethics and ethics training and we started internally auditing the system in 2013.

- We have translated the Code of Ethics into Bosnian and it is now available to employees and external stakeholders in 12 languages (English, Bosnian, Croatian, Polish, Hungarian, German, Italian, Russian, Romanian, Serbian, Slovakian and Slovenian).
- The Business Partner Code of Ethics is a component of 87% of supplier contracts. The Code has been amended and now states that MOL Group does not support the unethical practice of chain debt.
- The Ethics Council issued a position statement on harassment/inappropriate communication to increase awareness of ethical norms. We also published an article on human rights in MOL's scientific journal.
- Ethics eLearning courses – addressing topics such as human rights and corruption – were successfully completed by employees with Intranet access at INA d.d., MOL Plc., MOL Serbia, MOL-Russ, SLOVNAFT a.s., SLOVNAFT Polska S. A., as well as at TVK Plc. 99% of our employees attended the annual ethics presentation that is delivered by managers.
- Level 1-4 managers have published an ethics statement via the Intranet to make it publicly available and to increase transparency. Based on estimates, eLearning and ethics presentations delivered by managers totalled 20,096 hours.
- Within our monitoring system, in addition to ethics investigations and an assessment of ethics measures and country and company risk, we started an internal ethics audit this year in which TVK Plc. achieved a score of 100%.
- In a survey conducted by Transparency International about anti-corruption measures and the transparency of reporting of large enterprises operating in Hungary, MOL Plc. and TVK Plc. achieved an outstanding score of 96%.

**Ethical cases**

The Ethics Council is responsible for ensuring that all MOL Group employees comply with the Code, thus the Council, among its other responsibilities, replies to questions that are raised and conducts internal investigations. This year the Council primarily assisted in resolving ethics compliance issues associated with harassment, conflicts of interest and filling station attendant responsibilities.
Compared to the 49 ethics-related complaints/reports reported in 2012, a higher number (81) were reported to MOL Group and the INA Group Ethics Council in 2013. The higher number of potential ethical breaches indicates an improvement in the ethical awareness of employees at an increasing number of MOL Group companies. The same trend can be observed with external stakeholders.

- Ethics reports were received from 8 countries, including Iraq and Pakistan, which is a sign of the effective group level rollout of the ethics management system.
- 69% of the reports were received from internal stakeholders and 31% were filed by external stakeholders (this represents an increase of 17% year-on-year).
- External reports were primarily submitted by customers (38%) and suppliers/business partners (38%). 19% were filed by employees and 4% were received from local communities/citizens.

**Topics of ethics-related reports in 2013**

| Topics | Share of total number of reports |
|---|---|
| Harassment/inappropriate communication | 32% |
| Discrimination | 21% |
| Theft/fraud | 10% |
| Misuse of digital system | 6% |
| Corruption/bribery | 5% |
| Conflict of interest | 4% |
| Breach of HSE norms | 3% |
| Unethical supplier | 2% |
| Other | 17% |

81 reports were received in total from which 45 were investigated by the Ethics Council in 2013. Out of the 45 investigations, ethical misconduct was substantiated in 24 cases and 3 investigations are in progress. In addition, the Ethics Council initiated 6 investigations in 2012 that were completed in 2013. Of these cases, ethical misconduct was substantiated in one case concerning the endangering of reputation.

Consequences for ethical misconduct revealed by the Ethics Council include the following: termination of employment in 2 cases, 20% wage reduction for 1 month in one case and 5 months in another, written disciplinary notices were issued in 16 cases and verbal disciplinary notices given in 3 more, cash penalties were awarded to filling station partners in 3 cases and an apology was requested in 2 cases. In the remaining cases, the Ethics Council recommended that the awareness of ethical norms be raised. The Ethics Council regularly reported on ethics related cases to the Executive Board and took the necessary measures to raise awareness of ethical norms.

Click here to find out more about this topic.

In 2012 we extended the scope of data supply related to ethics cases to breaches of ethical norms identified by MOL Group Corporate Security.

Of the 1437 cases investigated within MOL Group in 2013, MOL Group Corporate Security found 526 cases of fraud (36.6%). Of these, 62.4% related to fraud at a filling station, 28.5% related to misuse of company property or non-compliance with property protection norms, 8.2% were violations of conflicts of interest rules and 0.9% were security risks related to business partners.
Due to the conflicts of interest identified, orders to terminate the legal relationship identified as causing the conflict were issued in 3 cases and permission to maintain such legal relationships for a specified term was issued in 1 case. Across MOL Group's filling station network, 3 operational contracts and 41 employment contracts were terminated.

**Human Rights**
MOL Group respects the fundamental human rights which are described in our Group Code of Ethics. Furthermore, we can hereby state that MOL Group is not engaged in activities which affect indigenous people. Nevertheless, our modus operandi ensures the safe-guarding of the rights of tribal populations.

As part of the continuous improvement of our ethical governance, as of 2012 all country chairmen – as part of their annual ethics-related duties – have to report on the human rights-related risks of the given country they are working in and draw up relevant mitigation plans. In 2013 we continued to adapt the UN Guiding Principles on Business and Human Rights ('Ruggie framework'). New ethics eLearning courses - addressing human rights topics - were successfully completed by 10,399 employees. Due to our legitimate, accessible, predictable, equitable and transparent grievance mechanisms we ensure the confidence of our internal and external stakeholders.

One specific area of human rights concerns the interaction of external parties with security personnel. During our operations the security guards that are present are not MOL employees but are the staff of the security service provider. MOL's contracts with security services contain the MOL Group Code of Ethics as a binding appendix that the supplier is obliged to accept. It is the supplier's obligation to enforce the provisions of the Code of Ethics to its employees; inter alia, to respect human rights. Since 2013, in the countries where we have international upstream operations (Pakistan and the Kurdistan Region of Iraq), security supplier contracts have stipulated that the employees of the security service provider must be educated about human rights. In 2013 we started developing mandatory security training material for all employees which will be rolled out across MOL Group in 2014. In Pakistan and the Kurdistan Region of Iraq the training material will contain principles related to the protection of human rights.

**Transparency**
In addition to our integrated Annual Report of 2013, MOL Group has started to incorporate sustainability information into "Quarterly Flash reports" about its activities in order to provide more frequent, detailed and up-to-date information to our shareholders and other stakeholders about our sustainability performance.

MOL Group not only reports about its sustainability performance at a consolidated level but all the major companies of MOL Group make disclosures about their sustainability performance in annual reports or sustainability reports or on company websites (Slovnaft, TVK, INA, and MOL Pakistan). Two of our most important group members (INA and TVK) publish their own sustainability reports. The INA Group Sustainability Report 2012 has been published in accordance with GRI 3.1 Guidelines and the related Oil & Gas sector specific requirements, at a reporting level 'A'. Since 2011 Slovnaft has included sustainability content in the company's Annual Report. The efforts of MOL Group and its member companies to increase transparency in external reporting were recognized during the year.

MOL Group's Annual report was shortlisted for the Corporate Register's Corporate Reporting Award in the 'Best integrated report' category. MOL Plc. and TVK also were awarded outstanding positions in the research findings of Transparency International Hungary. The survey was part of the international program "Transparency in corporate reporting". The topics assessed were transparency of anti-corruption and business ethics practices and the level of transparency in subsidiaries and foreign undertakings. In 2013 SLOVNAFT received a prize from the Central European Corporate Governance Association for fulfilling the principles of Corporate Governance and transparent disclosure about compliance with the Code of Corporate Governance in Slovakia in their 2012 Annual Report.

In order to ensure that we receive feedback from our stakeholders in a systematic way we have continued implementing our stakeholder dialogue program about our SD performance in 2013. This included the following events:
- the executive management of the European Workers' Council (EWC) analysed workforce-related information published in the MOL Group Annual Report and web pages at the preparation stage of the report;
- MOL Group's sustainability performance and reporting practice was discussed by external sustainability professionals (from universities, NGOs, businesses and consultancies) at a sustainability round table;
- In 2013 the first INA Green Forum was organized in Ivanić Grad. The Forum gathered experts from the field of E&P, sustainable development and representatives of the local and academic community in order to disseminate knowledge about sustainable development and help with understanding EOR processes.
- a 'green day' was organised in Slovnaft for the second time (with better attendance than in the previous year), in order to present an overview of the refinery's environmental performance to relevant NGO's.

## 3.6.4 ECONOMIC IMPACTS

**Direct Economic Impact**
The most important economic impacts that MOL Group has are made through the distribution of its revenues to its investors, employees and suppliers and through taxes and royalties paid in the countries in which it operates. This impact is presented in the data shown in the table below. These data are collected from MOL financial reports and details in the MOL Group Annual Report and are calculated according to GRI definitions about economic sustainability.

**Direct economic value generated and distributed [GRI EC1, EC4]**

| Indicator | unit | 2011 | 2012 restated | 2013 | Change 2013/2012 | GRI code |
|---|---|---|---|---|---|---|
| Revenues | bn HUF | 5,446.6 | 5,588.3 | 5,505.5 | (1.5%) | EC1 |
| Financial assistance received from government | bn HUF | 0.4 | 0.8 | 1.0 | 25.0% | EC4 |
| Operating costs | bn HUF | 4,284.0 | 4,524.7 | 4,558.4 | 0.6% | EC1 |
| Cash added value (company cash) | bn HUF | 1,162.6 | 1,063.6 | 947.1 | (10.4%) | EC1 |
| Employee wages and benefits | bn HUF | 255.9 | 264.9 | 259.7 | (2.6%) | EC1 |
| Capital investors | bn HUF | 58.8 | 97.8 | 113.4 | 18.1% | EC1 |
| Payments to governments | bn HUF | 290.3 | 256.2 | 170.3 | (33.4%) | EC1 |
| Economic value retained | bn HUF | 557.6 | 444.7 | 403.7 | (8.1%) | EC1 |

**MOL Group revenues** slightly decreased in 2013 (by 1.5%) compared to revenues in 2012, primarily reflecting the lower volume of Upstream sales (due to natural declines of mature fields, the reduced entitlement of INA to Adriatic-offshore fields, as well as to the divestiture of the Russian ZMB field), lower prices for natural gas and lower quoted prices for crude oil products. The lower transmission revenue at FGSZ due to the negative effect of cuts in public utility charges and lower volumes of production also reduced Group level revenue. The decrease was moderated by the gain made from the divestiture of the Russian ZMB field and MMBF.

**Operating costs** were almost at the same level as 2012. The decrease in material costs was mainly attributable to lower import crude oil costs driven by lower purchase prices and INA's reduced consumption of other raw materials (vacuum gasoil), besides the savings we made with reduced energy costs. The decrease was offset by a rise in the cost of goods (mainly at Downstream) driven by the higher sales volume of purchased goods.

**Company cash added value** decreased by 10.4%.

**Employee wages and benefits** decreased by 2.6 % as a result of the lower Group level average headcount (which dropped from 31,062 persons to 28,847 in 2013); the impact of which was moderated by salary increases and the excess costs associated with headcount reduction.

**Payments to capital investors** went up driven by higher dividends to non-controlling interests (particularly due to the restart of dividend payments by INA after the stoppage in 2012) and greater foreign exchange losses on borrowings.

**Payments to governments** lagged behind the base level primarily due to the cancellation of the crisis tax for Hungarian energy suppliers in 2013 and the decreased mining royalties payable as a consequence of the decline in production, divestiture of the ZMB field and lower Hungarian regulated gas prices.

Transparency of payments to governments: In all of the countries where MOL Group only has Upstream operations it is relatively small in size, not just compared to the economies of the countries involved, but usually even within the energy industry. It is therefore not a monopolistic employer, and not a monopolistic provider of government revenues. However, together with other players in the energy industry, through royalties or production-sharing agreements, it may contribute a significant amount of the revenue of a government.

As a result, MOL Group considers observance of the Extractive Industries Transparency Initiative (EITI) principles and criteria for financial reporting to be key to good corporate governance and transparency in the oil and gas industry. MOL Group started to support EITI at an international level in 2013 and has been cooperating with EITI in the countries that are implementing the EITI.

MOL Group has operations in two EITI compliant countries: in the Kurdistan Region of Iraq and in Kazakhstan. Our activities are in the exploration phase in both countries.

**Indirect Economic Impact**

MOL Group operates in an industry that is capital and knowledge intensive, but not labour intensive. This means that the impacts on employment of its operations are typically limited, particularly at the country level. We do not think that our employment of people distorts the local labour market significantly. Employing local people, as well as hiring local contractors when it is possible, is beneficial to the local economy as the incomes generated increase the purchasing power of typically low-income communities. Some good example of when we hired local employees and also invested further in their education can be read in the chapter "University partnerships in MOL Group".

In the countries where we have upstream and midstream operations the most significant indirect impact of MOL Group on the economies of the countries of its main operations is through the energy it supplies. Click here to read detailed information about this topic.

Another area where we can make a significant positive impact on the societies of host countries is by improving access to infrastructure and energy as a result of our operations. As a good example for this from 2013 MOL Pakistan has managed to meet the needs of domestic households and improve their livelihoods[4] by increasing production of LPG. MOL Pakistan constructed a new gas processing facility (Makori GPF) in the Tal Block to extract LPG and process oil/condensate and natural gas. Makori GPF has a processing capacity of 150 MMscfd Gas, around 30,000 bbl/day of oil/condensate and can produce around 425 MT/day of LPG.

Moreover, MOL Pakistan has played a leading role in providing financial aid by helping in the construction of a new Khushal Garh bridge which will provide a better (and therefore safer) connection between two main provinces of Khyber Pakhtunkhwa and Punjab which will result in numerous socio-economic and environmental benefits. By making it possible to use larger capacity tankers (378 bbls capacity), the efficiency of logistics will increase which will result in a substantial reduction in diesel consumption (app. 1,400 tonnes/year) and consequently also of $CO_2$ emissions (app. 4,300 tonnes of $CO_2$/year), along with associated financial savings. 95% of the project was completed in 2013 and the project will be finalized in Q1, 2014.

4) Data from the middle of the last decade collected across 110 countries (World Bank, LPG report) show that in 30% of the countries surveyed, more than half of all households (most of which were upper-middle income households) reported to using LPG as a primary cooking fuel. In Pakistan, 66 % of urban households use LPG and they consume 60% more than rural households.

# SUSTAINABILITY DATA (PERFORMANCE TABLE) ›

Definitions of the indicators used below can be found on our website.

| Indicator | Unit | 2011 MOL Group | 2012 MOL Group | 2013 MOL Group | Change at Group level 2012-2013 (%) | GRI code |
|---|---|---|---|---|---|---|
| Climate Change | | | | | | |
| **Greenhouse Gas Emissions** | | | | | | |
| Carbon Dioxide ($CO_2$) | mn t | 6.93 | 6.31 | 6.13 | -3% | EN16 |
| Carbon Dioxide based on equity share approach ($CO_2$)[1] | mn t | 6.34 | 5.72 | 5.66 | -1% | |
| Carbon Dioxide (CO2) under ETS[2] | mn t | 4.73 | 4.35 | 5.47 | 26% | EN16 |
| Methane ($CH_4$) | t | 1,181 | 707 | 1,925 | 172% | EN16 |
| **Total Direct GHG (scope-1)** | **mn t $CO_2$ eq** | **7.23** | **6.44** | **6.18** | **-4%** | **EN16** |
| **Total Indirect GHG (scope-2)** | **mn t $CO_2$ eq** | **1.54** | **1.46** | **1.46** | **0%** | **EN17** |
| Total GHG emission of Upstream (Scope-1 + Scope-2) | mn t $CO_2$ eq | 1.06 | 0.96 | 0.89 | -7% | EN16, EN17 |
| Total GHG emission of Refining (Scope-1 + Scope-2) | mn t $CO_2$ eq | 5.34 | 5.09 | 5.11 | 0% | EN16, EN17 |
| **Total Indirect GHG from product use and business trips (Scope-3)[3]** | **mn t $CO_2$ eq** | **61.91** | **57.84** | **57.63** | **0%** | **EN17** |
| **Energy Consumption** | | | | | | |
| Natural Gas | GJ | 24,424,417 | 26,836,459 | 24,313,457 | -9% | EN3 |
| Other hydrocarbon (fuel, gas, etc.) | GJ | 76,435,496 | 66,039,103 | 65,638,311 | -1% | EN3 |
| **Total primary energy consumption** | **GJ** | **100,859,914** | **92,875,562** | **89,951,768** | **-3%** | **EN3** |
| Electricity | GJ | 9,897,850 | 9,715,345 | 9,849,031 | 1% | EN4 |
| Other indirect energy (steam, heat, etc.) | GJ | 9,830,239 | 9,789,871 | 9,035,525 | -8% | EN4 |
| **Total indirect energy consumption[4]** | **GJ** | **19,728,089** | **19,505,216** | **18,884,557** | **-3%** | **EN4** |
| **Total energy consumption of Upstream (direct + indirect)** | **GJ** | **10,804,833** | **10,273,947** | **9,083,351** | **-12%** | **EN3, EN4** |
| **Total energy consumption of Refining (direct + indirect)** | **GJ** | **73,508,607** | **69,239,312** | **67,149,450** | **-3%** | **EN3, EN4** |
| **Total energy consumption** | **GJ** | **120,588,003** | **112,380,778** | **108,836,325** | **-3%** | |
| Environment | | | | | | |
| **Air Emissions** | | | | | | |
| Sulphur Dioxide ($SO_2$) | t | 10,625 | 7,886 | 5,776 | -27% | EN20 |
| Nitrogen Oxides ($NO_X$) | t | 7,531 | 6,842 | 6,057 | -11% | EN20 |
| Volatile Organic Compounds (VOC) | t | 4,901 | 4,501 | 5,643 | 25% | EN20 |
| Carbon Monoxide (CO) | t | 3,295 | 2,890 | 4,248 | 47% | EN20 |
| Particulate Matter (PM) | t | 492 | 460 | 552 | 20% | EN20 |

| Indicator | Unit | 2011 MOL Group | 2012 MOL Group | 2013 MOL Group | Change at Group level 2012-2013 (%) | GRI code |
|---|---|---|---|---|---|---|
| **Water** | | | | | | |
| Total Water Withdrawals | th $m^3$ | 95,930 | 96,762 | 94,518 | -2% | EN8 |
| Total Water Discharge | th $m^3$ | 100,060 | 102,209 | 100,700 | -1% | EN21 |
| Total Petroleum Hydrocarbons (TPH) | t | 57 | 73 | 63 | -13% | EN21 |
| Chemical Oxygen Demand (COD) | t | 2,095 | 1,743 | 1,712 | -2% | EN21 |
| Biological Oxygen Demand (BOD) | t | 568 | 419 | 417 | 0% | EN21 |
| Solid Substances (SS) | t | 1,038 | 688 | 609 | -11% | EN21 |
| **Waste** | | | | | | |
| Hazardous Waste | t | 89,895 | 82,290 | 60,528 | -26% | EN22 |
| Non-hazardous Waste | t | 68,783 | 80,754 | 185,528 | 130% | EN22 |
| Waste Disposed / Landfilled | t | 74,656 | 76,690 | 86,574 | 13% | EN22 |
| Waste Reused / Recycled / Recovered | t | 84,023 | 86,354 | 159,482 | 85% | EN22 |
| Reused/recycled ratio | % | 53% | 53% | 65% | 22% | |
| Spills and Discharges | | | | | | |
| Number of Spills | pcs | 28 | 21 | 18 | -14% | EN23 |
| Volume of Spills | $m^3$ | 525 | 321 | 133 | -59% | EN23 |
| Other | | | | | | |
| HSE Related Penalties | mn HUF | 53 | 34 | 341 | 907% | EN30 |
| HSE investments[5] | mn HUF | 9,362 | 5,982 | 6,114 | 2% | EN30 |
| HSE operating costs | mn HUF | 19,157 | 16,509 | 14,776 | -10% | EN30 |
| Spending on waste (operating cost)[6] | mn HUF | 2,987 | 2,641 | 2,604 | -1% | EN30 |
| Spending on emissions (operating cost)[6] | mn HUF | 1,796 | 1,212 | 1,620 | 34% | EN30 |
| Spending on remediation (investment + operating cost)[6] | mn HUF | 2,964 | 3,038 | 2,727 | -10% | EN30 |
| Spending on environmental management and prevention (operating cost)[6] | mn HUF | 263 | 326 | 619 | 90% | EN30 |
| ISO 14001 certifications in proportion to revenue | % | 66 | 65 | 68 | 0% | |

'n.a.' indicates where no data is available, Data were calculated according to GRI definitions.
(1) GHG emissions according to the share of equity in the operation. Upstream Joint Ventures (INA offshore, Syria, Egypt, Angola and ZMB in Russia) are excluded. The following Joint Ventures are included: TVK Erőmű Kft, MOL-CEZ European Power Hungary Kft and Slovnaft Power Plant.
(2) 2012 value restated. Sisak Refinery was included in the calculation by mistake.
(3) 2011 and 2012 values restated. In 2013 data for LPG, fuel oil and petrol coke sales were also incorporated into the calculations and data for previous years are recalculated accordingly.
(4) Indirect energy consumption is based on purchased and consumed indirect energy, and it is not based on the primary energy which is needed to generate this indirect energy. Energy is purchased for some refineries from power plants, where MOL has some ownership, but MOL does not control the management rights. The energy purchased is reported under indirect energy and the related CO2 emissions are reported under Scope 2 emissions.
(5) Total MOL Group without INA group
(6) In 2011 and 2012 excluding INA

| Indicator | Unit | 2011 MOL Group | 2012 MOL Group | 2013 MOL Group | Change at Group level 2012-2013 (%) | GRI code |
|---|---|---|---|---|---|---|
| Health and Safety | | | | | | |
| **Safety Indicators** | | | | | | |
| Lost Time Injury (LTI) | pcs | 120 | 92 | 82 | -11% | LA7 |
| Lost Time Injury Frequency (LTIF) - employees | | 2.15 | 1.62 | 1.50 | -8% | LA7 |
| Lost Time Injury Frequency (LTIF) - contractors (1) | | N.A | N.A | 0.50 | - | LA7 |
| Total Reportable Occupational Illnesses Frequency (TROIF) | | 0.0 | 0.0 | 0.0 | 100% | LA7 |
| Lost day rate (LDR) | % | 0.18 | 0.16 | 0.23 | 11% | LA7 |
| Absentee Rate (AR) | % | 3.5 | 3.30 | 3.07 | -6% | LA7 |
| Number of fatalities – employees | pcs | 1 | 1 | 0 | -100% | LA7 |
| Number of fatalities – contractors - onsite | pcs | 0 | 3 | 0 | -100% | LA7 |
| Number of fatalities – contractors - offsite | pcs | 5 | 0 | 2 | - | LA7 |
| Number of fatalities – 3rd parties | pcs | 5 | 4 | 1 | -75% | LA7 |
| Lost Time Injury (LTI) for contractors | pcs | 50 | 39 | 18 | -54% | LA7 |
| Number of fires | pcs | 40 | 47 | 36 | -23% | |
| Fire damage | mn HUF | 3,177 | 888 | 1,460 | 64% | |
| Human Capital | | | | | | |
| **Employees** | | | | | | |
| Total workforce | pple | 31,732 | 29,592 | 28,769 | -3% | LA1 |
| Number of part-time employees | pple | 261 | 293 | 263 | -10% | LA1 |
| Number of full-time employees | pple | 31,471 | 29,299 | 28,506 | -3% | LA1 |
| Leavers | pple | 2,338 | 2,791 | 1,932 | -31% | LA2 |
| Employee turnover rate | % | 7.4 | 9.4 | 6.7 | -29% | LA2 |
| Employees represented by trade unions | % | 94.8 | 94.8 | 96.0 | 1% | LA4 |
| Employees covered by collective bargaining agreement | % | 95.0 | 91.7 | 90.1 | -2% | LA4 |
| **Diversity** | | | | | | |
| Ratio of women in total workforce | % | 21.6 | 22.3 | 21.9 | -2% | LA13 |
| Ratio of women in non-managerial position | % | 21.8 | 21.9 | 22.0 | 0% | LA13 |
| Ratio of women in managerial position | % | 16.3 | 18.8 | 20.4 | 8% | LA13 |
| **Diversity** | | | | | | |
| Average hours of training per employee | hours | 22 | 18 | 22 | 22% | LA10 |
| Communities | | | | | | |
| **Social Indicators** | | | | | | |
| Donations | mn HUF | 3,230 | 5,622 | 6,618 | 18% | EC8 |
| In-kind giving (products and services) | mn HUF | 49 | 74 | 138 | 87% | EC8 |
| Corporate volunteering | hours | 3,348 | 4,014 | 4,032 | 0% | EC8 |

n.a.' indicates where no data is available, Data was calculated according to GRI definitions.
(1) Value first reported for 2013; this should be considered to be an estimation. Single service companies of MOL Group are incorporated in the LTIF-employee indicator. In part due to this reason, the contractor LTIF is significantly lower.

| Indicator | Unit | 2011 MOL Group | 2012 MOL Group | 2013 MOL Group | Change at Group level 2012-2013 (%) | GRI code |
|---|---|---|---|---|---|---|
| Economic Sustainability | | | | | | |
| **Economic Data(1)** | | | | | | |
| Revenues | bn HUF | 5,447 | 5,579 | 5,506 | -1% | EC1 |
| Financial assistance received from government | bn HUF | 0.4 | 0.8 | 1.0 | 25% | EC4 |
| Operating costs | bn HUF | 4,284 | 4,525 | 4,558 | 1% | EC1 |
| Company cash | bn HUF | 1,163 | 1,054 | 947 | -10% | EC1 |
| Employee wages and benefits | bn HUF | 256 | 260 | 260 | 0% | EC1 |
| Capital investors | bn HUF | 59 | 113 | 113 | 0% | EC1 |
| Payments to governments | bn HUF | 290 | 256 | 170 | -34% | EC1 |
| Economic value retained | bn HUF | 558 | 433 | 404 | -7% | EC1 |
| Research & Development spendings | mn HUF | 2,095 | 2,343 | 2,114 | -10% | |
| **Customer Satisfaction(2)** | | | | | | |
| Wholesale customer satisfaction | % | 87 | 85 | 85 | 0% | PR5 |
| Lubricant customer satisfaction | % | 90 | 86 | 84 | -3% | PR5 |
| Petrochemicals customer loyalty index | % | 17 | 19 | 29 | 50% | PR5 |
| **Ethics** | | | | | | |
| Ethical notifications | pcs | 38 | 49 | 81 | 65% | |
| Ethical investigations | pcs | 20 | 34 | 45 | 32% | |
| Ethical misconducts(3) | pcs | 2 | 13 | 24 | 85% | |
| Total investigations Performed by Corporate Security | pcs | 807 | 1,039 | 1,437 | 38% | |
| Total number of misconducts unfolded by Corporate Security | pcs | 461 | 681 | 526 | -23% | |

('n.a.') indicates where no data is available, Data were calculated according to GRI definitions.
(1) Data are calculated according to GRI definitions; see the details on MOL's website
(2) Customer satisfaction measurement varies by businesses. Further details can be found on our website.
(3) 3 cases are still ongoing

SUSTAINABILITY DATA

# NOTES ON NON-FINANCIAL REPORTING ›

## 5.1 OUR REPORTING APPROACH

As a demonstration of MOL's resolve to integrate a sustainability approach into everyday business operations, management decided to merge our Annual and Sustainable Development Reports and move towards an "integrated" reporting approach in 2008. Consequently, the company now follows the Triple Bottom Line approach and presents the economic, social and environmental performance of MOL Group in one comprehensive report. From H1 2013 MOL Group decided to also integrate sustainability information into our quarterly management reports.

The "Sustainability: non-financial performance" section of the Annual Report contains information on the key achievements, challenges and data from the given year concerning the most relevant sustainability topics for MOL. In addition to this report, one can find a general presentation of MOL's policies, management approaches and other regularly-maintained and updated SD-related information on our website: www.mol.hu/sd. While the audience of the Annual Report is assumed to be our shareholders, investors and sustainability analysts, our webpage is tailored to supplying 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.

MOL follows GRI's G3.1 reporting guidelines, including its oil and gas sector-specific supplement. We also continue to consider the IPIECA-API "Oil and Gas Industry Guidance on Voluntary Sustainability Reporting" protocol when defining our indicators and the content of the report. MOL Group's sustainability reporting – which is comprised of the content of the 2013 Annual Report and the information available on our website – meets the criteria of GRI's A+ application level. The application level is reviewed by GRI (see the assurance statement on page 231).

The GRI compliance table for MOL and a detailed analysis of our compliance with IPIECA and UN Global Principles can be found on the following website.

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.

## 5.2 MATERIALITY

MOL Group aims to provide details about all the topics and information (both financial and non-financial) in the Annual Report that might be of interest to our readers. Our procedure for the materiality assessment of non-financial topics is designed to ensure that the most material topics from all those identified as relevant to our operations are described in more detail, providing our readers with deeper insight. The result of the assessment is summarized in the matrix included in the introductory chapter of the integrated Annual Report (p. 4.).

The assessment considers the relevant topics based on their financial and non-financial relevance, as well according to their importance to our external and internal stakeholders. Internal factors include potential financial impact and the existence of internal objectives. The importance to external stakeholders is analysed through our expert roundtable, on our public forums and using our feedback channel (sd@mol.hu). Special attention is given to topics that provide information sought after by external sustainability analysts such as RobecoSAM and Oekom, aspects of GRI G3.1 guidelines and recommendations made by our industry's professional association (IPIECA). Additionally, issues related to governmental initiatives connected to sustainable development might also be judged to be relevant (for example, our compliance with certain pieces of legislation).
According to the materiality assessment, the most important topics are GHG and energy efficiency, our future product portfolio, prevention and clean-up of spills and process safety management.

Moreover, according to the materiality assessment, all of the topics that might have a significant impact on stakeholders are treated as material concerns. Issues relevant to local sites are managed and reported locally.

## 5.3 SCOPE AND BOUNDARY

MOL applies the 'control' approach to consolidating information. The company accounts for almost 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 joint ventures where MOL Group does not act as operator we do not report sustainability data based on equity share. The only exception is with GHG emissions where in performance tables we do report equity share based emissions from MOL Group-related joint venture companies as well.

With HSE data we consider only those operations which might have a significant impact on health, safety and the environment. Compared to 2012 data there were no significant changes in the scope of the companies covered in 2013. HSE-relevant subsidiaries are included in our data collection processes and no major changes occurred with our portfolio. HSE and energy data coverage is 97%, proportional to revenue.

Our human resources organisation uses a SAP system to collect – amongst other things – sustainability-related HR data from MOL Group companies. The scope of HR data collection covers subsidiaries with a headcount of more than 20. For specific reasons HR data collection does not cover the following subsidiaries where headcount is over 20: Rotary. Mideast Llc, Interina Ljubljana, INA Crna Gora and Prirodni Plin. In 2013 our HR data collection processes covered 39 of our consolidated subsidiaries. The coverage for the whole MOL Group is also 97% proportional to revenue. In 2010 only 29 companies were covered which might have significantly impacted the representativeness of the data.

## 5.4 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 businesses or functional divisions. The completeness and accuracy of the reported data is supervised at the corporate level.

Notes on environmental data:
- MOL Group discharges waste water into surface waters or into municipal sewage systems which is treated depending on site circumstances and local regulations (usually mechanical and/or biologically-based treatment but the process may extend to chemical treatment steps where needed). We do not believe that breaking down this data further according to destination and treatment method is material, therefore we do not report on it.
- According to the information provided by our contractors, waste disposal methods have been classified using European Union guidelines.

Notes on employee engagement data:
- Until 2010 the first 9 questions of our survey were related to the general engagement of employees, rated on a 1-4 scale. The engagement score represented the average result of answers expressed in percentages. The methodology of the 2012-13 engagement survey was slightly different compared to 2010. Engagement was measured using 6 questions on a 6 point scale. A respondent is considered engaged if the average score given is higher than or equals 4.5. The engagement score represents the proportion of engaged respondents.

In the following we would like to provide some corrections to previous reports:
- Data about carbon dioxide ($CO_2$) under the ETS in 2012 has been restated due to a prior miscalculation at INA.
- Scope-3 GHG emission calculations have been improved from an inclusiveness point of view. Our calculation methodology now covers additional fuels sold for industrial energy production purposes (such as petrolcoke and fuel oil). The coverage of scope 3 GHG emissions from business trips has been increased as well. Values for 2011 and 2012 are restated.
- The energy intensity figures for our refining and petrochemical operations that are disclosed in the "Our Businesses" chapter of the Annual Report have been recalculated. The new basis for calculation is production throughput instead of production output.

Other restatements/corrections in the report are considered insignificant, are noted in the text or as footnotes.

# ASSURANCE STATEMENTS

## 6.1 INDEPENDENT ASSURANCE STATEMENT TO MOL

Ernst & Young Ltd was commissioned to provide limited assurance over sustainability performance data relating to 2013 contained within the 'Sustainability: Non-Financial Performance' chapter of MOL Group's Annual Report 2013 (the Sustainability Report). The management of MOL Group (MOL) have prepared the Sustainability Report and are responsible for the collection and presentation of the information within it. Our responsibility in performing our work is to MOL management only, in accordance with the scope of work agreed with them. We do not, therefore, accept or assume any responsibility for any other purpose or to any other person or organisation. Any reliance any such third party may place on this independent assurance statement is entirely at its own risk.

### WHAT DID WE DO TO FORM OUR CONCLUSIONS?

Our assurance engagement has been planned and performed in accordance with ISAE3000[1] . The sustainability performance data have been evaluated against the criteria of the application of the Global Reporting Initiative G3.1 Sustainability Reporting Guidelines and the Oil & Gas Sector Supplement (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 G3.1 Guidelines and the Oil & Gas Sector Supplement.

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:
   – TVK, Hungary/Tiszaújváros,
   – Slovnaft Refinery, Slovakia/Bratislava,
   – Kiskunhalas Upstream site and MOL US, Hungary/Kiskunhalas, Budapest,
   – Crosco, Croatia/Zagreb.
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 site 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 G3.1 Guidelines and the Oil and Gas Sector Supplement to a level consistent with the A+ application level.
7. Reviewed 25 qualitative statements and claims in the Sustainablity Report.
8. Reviewed through inquiries how sustainability information is used by management.

**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 except for 25 selected qualitative claims. 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 2013, 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 Ltd
Budapest
8 April 2014



1) „Múltbeli időszakra vonatkozó pénzügyi információk könyvvizsgálatán vagy átvilágításán kívüli, bizonyosságot nyújtó szolgáltatások" című Bizonyosságot Nyújtó Megbízásokra Vonatkozó Nemzetközi Standardok

## 6.2 WORKING COUNCIL REVIEW

In 2014 the European Works Council (EWC) of MOL Group was asked once again to review the "Sustainability: nonfinancial performance" Chapter of the company's 2013 Annual Report and the sustainability information presented on the corporate website.

The EWC performed the review in three separate stages:

- The Council had the opportunity to comment on the structure and proposed content of the report in the initial phase of reporting
- The EWC then reviewed the "Investment in Human Capital" and the "Employee relations" Chapters during the process of their preparation and commented on whether the content was complete and balanced, and completed the information provided about employee representation; their recommendations were also incorporated into these Chapters.
- At the final stage of the review, EWC was provided with the full text of the report and a roundtable was organized where EWC members discussed the report with corporate HR and SD managers.

Based on the above events, 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 EWC agreed with the content of the report written about the Works Council
- According to the EWC the published information is accurate and the statements disclosed are valid


MOL filling station Budapest, Hungary

## 6.3 GRI APPLICATION LEVEL CHECK STATEMENT

Global Reporting Initiative™

# Statement
# GRI Application Level Check

GRI hereby states that **MOL Group** has presented its report "MOL Group Annual Report 2013" 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 G3.1 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 G3.1 Guidelines. For methodology, see www.globalreporting.org/SiteCollectionDocuments/ALC-Methodology.pdf

Application Levels do not provide an opinion on the sustainability performance of the reporter nor the quality of the information in the report.

Amsterdam, 10 April 2014

Ásthildur Hjaltadóttir
Director Services
Global Reporting Initiative

A+
GRI REPORT
GRI CHECKED

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 7 April 2014. GRI explicitly excludes the statement being applied to any later changes to such material.*

# CORPORATE GOVERNANCE

# CORPORATE GOVERNANCE

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 was adopted in 2006 for the first time and its last update was fulfilled in 2012. 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.

## 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 in 2013 (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 |
| - Dr. Oszkár Világi | non-independent |

## 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 and its Committees performance  and it reviews continuously its activity on a yearly basis.

### REPORT OF THE BOARD OF DIRECTORS ON ITS 2013 ACTIVITIES

In 2013, the Board of Directors held 6 meetings with an average attendance rate of 80%. 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. The Committees are bodies for preparation, advising, opinion-forming and proposal-preparing support concerning issues specified in the Decision-making and Authorities List, which sets out the division of authority and responsibility between the Board and the executive management.

- The responsibilities of the Committees are determined by the Board of Directors.
- The Chairman of the Board of Directors may also request the Committees to perform certain tasks.

The members and chairs of the Committees are elected by the Board of Directors. The majority of the committee members is non-executive and independent.

The Board allocates responsibilities to the various Committees as follows:

### CORPORATE GOVERNANCE AND REMUNERATION COMMITTEE:

Members and dates of appointment (professional backgrounds of members are available on company homepage):
- Dr. Sándor Csányi – Chairman, 17 November 2000
- Zsolt Hernádi, 8 September 2000
- Dr. Gábor Horváth, 8 September 2000
- Dr. Martin Roman, 29 April 2010
- Mulham Al-Jarf, 23 April 2008

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

The Chairman of the Supervisory Board and the Chairman of the Audit Committee are permanent invitees to the Finance and Risk Management Committee meetings.

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):
- Iain Paterson – Chairman, 29 June 2006
- Dr. László Parragh, 29 April 2010
- József Molnár, 5 September, 2013

The Chairman and the Deputy Chairman of the Supervisory Board are permanent invitees to the Sustainable Development Committee meetings.

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 2013 ACTIVITIES

In 2013 the Corporate Governance and Remuneration Committee held 4 meetings with a 70% 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 2013 ACTIVITIES

In 2013, the Finance and Risk Management Committee held 5 meetings with a 93% 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 2013 ACTIVITIES

In 2013, the Sustainable Development Committee held 4 meetings with a 100% attendance rate. The Committee evaluated the accomplishment of the actions in 2013, formed opinion on Sustainable Development Report and decided on 2014 directions and targets. The Committee considered with highlighted attention the achieved results of the Dow Jones Sustainability Evaluation together with the necessary development actions as well as sustainable development 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 that has the role 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 in 2012:

| | |
|---|---|
| - Zsolt Hernádi | Chairman-CEO (C-CEO) |
| - József Molnár | Group Chief Executive Officer (GCEO) |
| - Zoltán Áldott | Executive Vice President, President of the Management Board, INA d.d. |
| - Sándor Fasimon | Executive Vice President, MOL Hungary (COO) |
| - Ferenc Horváth | Executive Vice President, Downstream |
| - József Simola | Group Chief Financial Officer (GCFO) |
| - Dr. Oszkár Világi | Executive Vice President, Chief Executive Officer, Slovnaft a.s. |
| - Alexander Dodds* | Executive Vice President, Exploration and Production |

* Between 1 October 2012 and 17 June 2013 Mr. József Molnár was in charge of Exploration and Production Division as GCEO.

In 2013, the Executive Board held 37 meetings and discussed 10 issues on a meeting on average.

# ANNUAL REMUNERATION FOR THE MEMBERS OF THE BOARD OF DIRECTORS

As of January 1, 2009, the members of the Board of Directors have been entitled to the following fixed net remuneration after each AGM:

| | |
|---|---|
| Members of the Board of Directors | **25,000 EUR/year** |
| Chairmen of the Committees | **31,250 EUR/year** |

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) when they travel to Hungary.

# INCENTIVE SCHEME FOR THE MEMBERS OF THE BOARD OF DIRECTORS

To ensure uniformity and transparency, in addition to fixed remuneration, MOL operates an incentive scheme for the members of MOL Board of Directors, which supports further commitment of the participants and takes the Company's profitability and long term growth into consideration. This can ensure that the interests of the participants in the compensation program coincide with interests of the shareholders.

Main principles of the incentive scheme for the Board of Directors were approved by the Annual General Meeting (AGM) on April 26, 2012 and it has been effective since 2012.

**Incentive based on share allowance**

From January 1, 2012 the Profit Sharing Incentive Plan based on the value added method has been replaced by the incentive based on share allowance as the long-term incentive for the members of the Board of Directors. Shares are granted first from 2013.

The aim of the new share based incentive is to ensure the interest of the long-term stock price growth and maintain motivation in addition to the dividend payment for which 1 year retention obligation (restraint on alienation) has been also determined for 2/3 of the shares (the retention obligation terminates at the date of the expiration of the mandate).

The incentive consists of two parts: share allowance and cash allowance related thereto.

- **Share allowance**

Number of shares:
for the Members of the Board of Directors: 100 pieces of „A" series of MOL ordinary shares per month

for the Chairman of the Board of Directors: additional 25 pieces of „A" series of MOL ordinary shares per month

If the Chairman is not a non-executive director, the deputy chairman (who is non-executive) is entitled to this extra remuneration (25 pieces / month).

The share allowance is provided once a year, within 30 days after the Annual General Meeting closing the given business year.

- **Cash allowance**

The incentive based on share allowance is a net incentive, that is the Company ensures to pay the taxes, contributions and other payables incurred upon acquisition of the shares in line with the relevant and effective laws. Such cash-based coverage of taxes and contributions does not include any further tax(es) or cost(s) incurred in relation with exercising rights attached to the shares or disposal of the shares (e.g. dividend tax, income tax); these shall be borne by the respective members of the Board of Directors. In line with these, there is a cash allowance part of the incentive system.
Rate of the cash allowance is the gross value of taxes, contributions and other payables incurred upon acquisition of the shares in line with the relevant and effective laws, including also the tax difference and contributions incurring in the country of tax-residence in case of non-Hungarian members of the Board of Directors.

- **Other benefits**

Other non-financial benefits include a life and accident, travel- and liability insurance. Besides that an annual health screening and an exclusive healthcare package is also available for the members of the Board of Directors.

# INCENTIVE SYSTEM FOR THE TOP MANAGEMENT

The incentive system for the top management in 2013 included the following elements:

1. Short term incentive (bonus)

The basis of the short term incentive is 60-100% of the annual base salary. The amount thereof is defined in line with the performance evaluation of the given manager.
Bonus is paid annually following the AGM.

The elements of the target setting are:
a) Corporate key financial indicator (EBITDA)
b) Organizational level key performance indicators (e.g. EBIT, EBITDA, ROACE, frequency of occupational accidents involved work time lost, CAPEX efficiency, operating cost, etc.).
c) Individual targets related to the responsibilities of the particular manager in the given year

2. Long term managerial incentive system

The long term managerial system has been renewed in the Company from 2013.

Purpose of the long-term incentive system is the implementation of an outstanding, long-term incentive system for top managers, enhancing management's long term interest in the increase of the MOL stock price.
The new system consists of two elements:

50% Stock Option Plan + 50% Performance Share Plan

Main characteristics of the two incentives:

a) Stock Option Plan

The Stock Option Plan is an option to sell hypothetically MOL shares granted on a past strike price at a spot price and so realizing profit with the difference between these prices. The incentive has the following characteristics.

- Covers a 5-year period starting annually, where periods are split into a 2-year vesting period (exercising Stock Options is not possible) and a 3-year redeeming period. If the Stock Option will not be redeemed, it lapses on December 31 of the last year of the redeeming period.
- The grants are defined in line with job categories
- The rate of incentive is linked to individual short-term performance.

As a new part of the managerial remuneration package, from 2013 the managers who are entitled to long-term incentive, are eligible for an annual one-time payout, in case the Annual General Meeting of MOL Plc. decides on dividend payment regarding the given year. The amount thereof equals to the product of the dividend paid for one share and of the numbers of Stock Option provided to the given the manager.

b) Performance Share Plan

Other part of the Long Term Incentive Plan for the top management is the Performance Share Plan that was introduced in 2013 replacing the previous Profit Sharing Plan.

The Performance Share Plan is a 3-year cash based programme using a comparative share price methodology with the following characteristics:

- Programme starts each year on a rolling scheme with a 3-year vesting period. Payments are due after the 3rd year.
- Target is the development of MOL's share price compared to relevant and acknowledged regional and industry specific indicators (the CETOP20 and DJ Emerging Market Titans Oil&-Gas 30 Index).
- Basis of the evaluation is the average difference in MOL's year-on-year share price performance in comparison to the benchmark indices during 3 years.
- Payout rates are defined on the basis of ratio of the over / underperformance of MOL share price.
- The rate of incentive is linked to individual short-term performance.

As the previous 1-year based Profit Sharing incentive was replaced by the 3-year based Performance Share Plan, a 1-year based incentive was introduced for 2013 and a 2-year based incentive was introduced for 2013-2014 to ensure continuity.

## OTHER FRINGE BENEFITS

These include company cars (also used for private purposes), life&accident insurance, travel insurance, liability insurance, an annual health chek and a complex healthcare service.

# SUPERVISORY BOARD

The Supervisory Board is responsible for monitoring and supervising the Board of Directors on behalf of the shareholders (General Meeting). Members of the Supervisory Board shall be elected by the General Meeting for a definite period, but for a maximum of five (5) years, the 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 (emp. representative) |
| - Dr.sc. Žarko Primorac | independent |
| - Andrea Hegedűs | non-independent (emp. representative) |
| - Dr. Sándor Puskás | non-independent (emp. representative) |
| - István Töröcskei | independent |

The Chairman of the Supervisory Board is a permanent invitee to the meetings of the Board of Directors, Finance and Risk Management Committee and Sustainable Development Committee meetings.

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 2013 the Supervisory Board held 5 meetings with an 89% attendance rate.

### REMUNERATION OF THE MEMBERS OF THE SUPERVISORY BOARD

The Annual 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. From January 1, 2012, the Chairman of the Audit Committee is also entitled to receive gross EUR 1,500 for participation in each Board Committee meeting, up to 15 times per annum. Besides the monthly remuneration both the Chairman and the members of the Supervisory Board are entitled to receive further EUR 1,500 for each extraordinary meeting that is held in addition to the scheduled annual meetings. This remuneration is provided maximum two times a year.

### OTHER BENEFITS

The members of the Supervisory Board are entitled to receive further non-financial benefits, including life and accident insurance, travel- and liability insurance. Besides that an annual health screening and an exclusive healthcare package is also available for the members of the Supervisory Board.

## 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, the tasks of the audit committees of its subsidiaries which are consolidated by the Company, operate as public limited companies or issue securities admitted to trading on regulated market, if the relevant laws allow that and the subsidiary in question does not operate a separate audit committee.

Members of the Audit Committee and dates of appointment (professional backgrounds of members are available on company homepage):

- Dr. Attila Chikán - Chairman, 27 April, 2006
- John I. Charody, 27 April, 2006
- István Töröcskei 1 May, 2011

and in case of long-term incapacitation of any of the permanent members, Dr.sc. Žarko Primorac.

### REPORT OF THE AUDIT COMMITTEE ON ITS 2013 ACTIVITIES

In 2013, the Audit Committee held 5 meetings with an 60% 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 Audit Committee continuously monitored the Company's financial position in particular with regard to the impacts caused by the crisis. The Audit 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 2013 and 2012, excluding INA Group and Energopetrol (audited by Deloitte in both years) and FGSZ Zrt. (audited by PricewaterhouseCoopers). 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 with regards to these.

Ernst & Young also provided other services to MOL Group. Summary of the fees paid to them in 2013 and 2012 are as follows (HUF mn):

| | 2013 | 2012 |
|---|---|---|
| Audit fee for MOL Plc. (including audit fee for interim financial statements) | 154 | 156 |
| Audit fee for subsidiaries | 373 | 400 |
| Other audit related services* | 23 | 96 |
| Other non-audit services * | | 2 |
| Tax advisory services | 330 | 264 |
| **Total** | **882** | **916** |

*The specification has been modified for more transparent communication.

Other audit-related services in 2013 included primarily the audit related to the divestiture of MMBF, minor IT audit services and services relating to the Sustainable Development Report. 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 interim management 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 on MOL's homepage and theFinancial Authority's publication site. . Moreover we send e-mail announcements to those who registered to be subscribed to the distribution list of e-mail announcements of the Investor Relations. 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.

MOL has an Investor Relations department which is responsible for the organisation of the above activities as well as for the day-to-day management of MOL's relationship with its shareholders (contact details are provided in the "Shareholder Information" section at the end of Annual report). Extensive information is also made available on MOL's website (www.mol.hu), which has a dedicated section for shareholders and the financial community. MOL has always given special care to provide a considerably wide range of information to the capital markets, in line with international best practice. Therefore Investor Relations Department of MOL continuously renewing its website (direct link at: ir.mol.hu/en). The aim of the development is 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.

In 2013 MOL participated in 15 roadshows and investor conferences (2 US and 13 European) having around 220 meetings with potential and existing shareholders. Moreover 2 dedicated road show were organised to bond investors. In 2012, our company held a two-day investor and analysts' conference in Budapest and published its business outlook for the coming years. All presentations are available on MOL's website ir.mol.hu/en. Several investors and analysts participated on the event and there was also a special opportunity to go to a site-visit at the Duna Refinery of the Group in Százhalombatta.

MOL Group is committed to the fair marketing of publicly-traded securities. Insider dealing in securities is also 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.

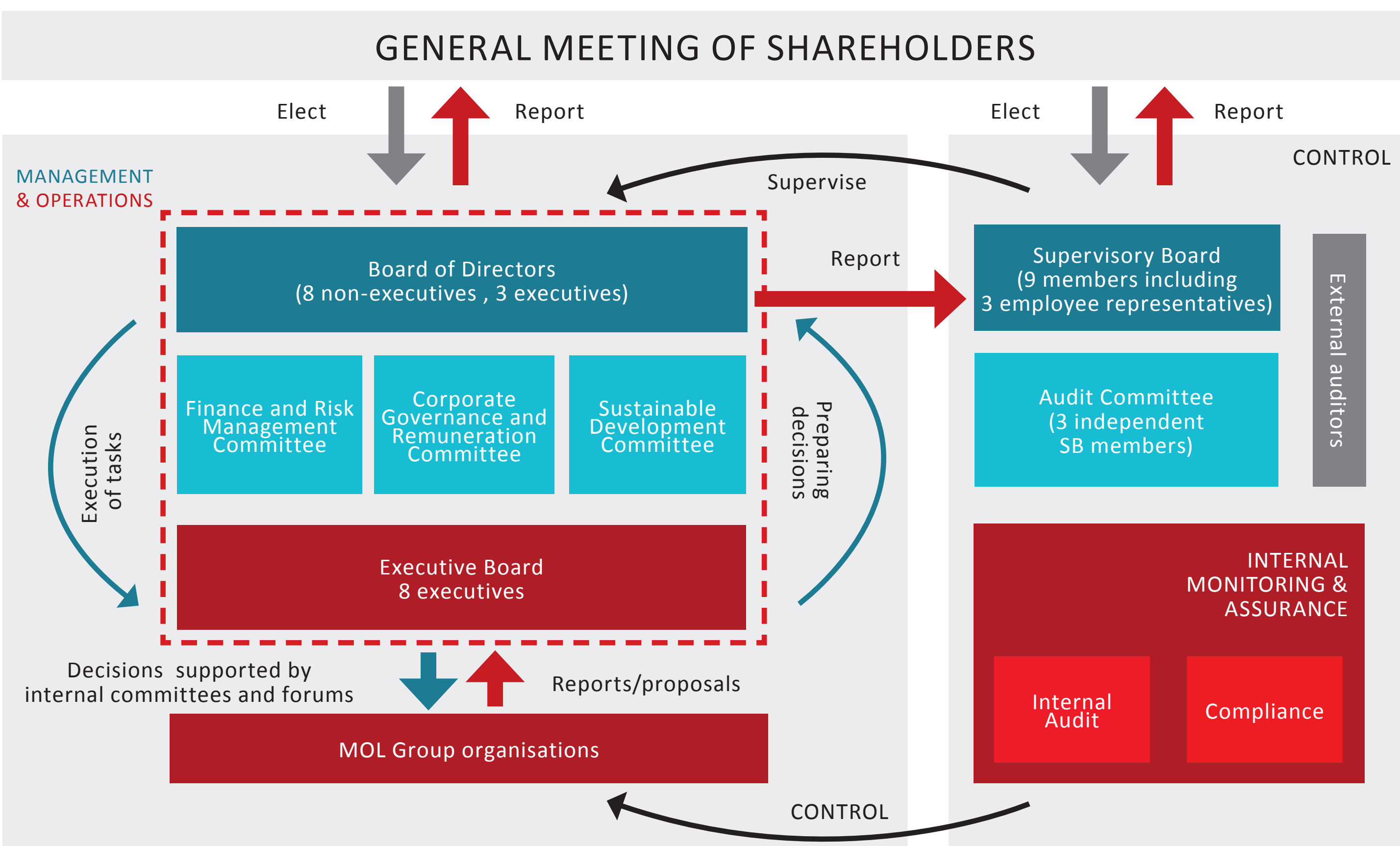
A condition of participation and voting at the general meeting for shareholders is that the holder of the share(s) shall be registered in the Share Register. The depositary shall be responsible for registering the shareholders in the Share Register pursuant to the instructions of such shareholders in 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 in Article 10.1.2 of Articles of Associations) 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)."

## MOL GROUP GOVERNANCE FRAMEWORK

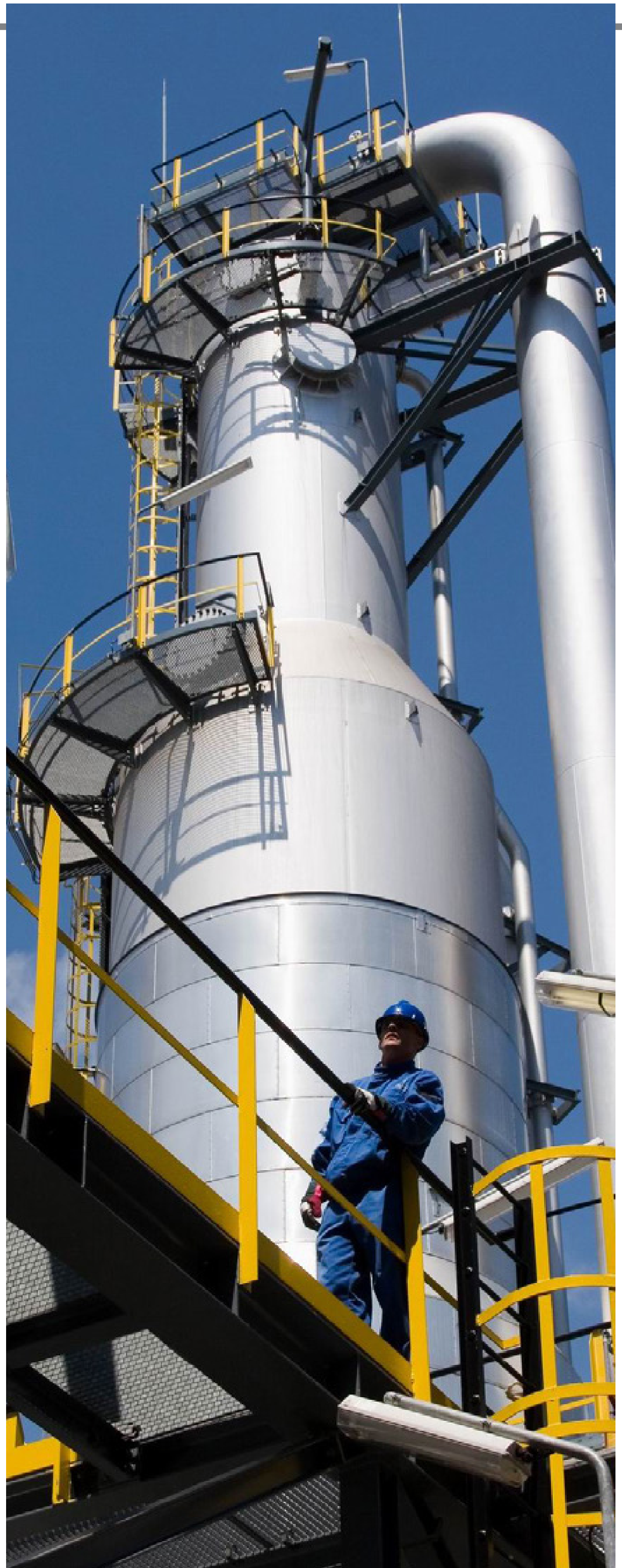



In accordance with the Company Act the shareholders have the right to participate, to request information and to make remarks and proposals at the General Meeting. Shareholders are entitled to vote, if they hold shares with voting rights. The shareholders having at least one per cent of the voting rights 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.

# INTEGRATED CORPORATE RISK MANAGEMENT ›



The aim of MOL Group Risk Management is to deal with challenges of the business environment to support a stable and sustainable operation and future growth of the company. MOL Group has developed risk management function as an integral part of its corporate governance structure.

Incorporation of the broadest variety of risks into one long-term, comprehensive and dynamic system is arranged by **Enterprise Risk Management (ERM)** on group level. ERM integrates financial and operational risks along with a wide range of strategic risks, also taking into consideration compliance issues and potential reputation effects. The ERM process identifies the most significant risks to the performance of the company. Risks are assessed based on a unified methodology and collected into risk maps at different levels. Risk responses and controls are reviewed and mitigation actions set and reviewed for completion regularly by top management.

## 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 are 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 risks:** The internationally extending portfolio requires the proper management of country risk exposures. Country exposures are monitored 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 besides comprehensive HSE activities through a Group wide 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.

Some of the risks are managed centrally, while some are dealt by affected MOL Group companies or within the Business Units or Functions, overseen always by nominated risk owners. Risk Management regularly controls the realization of these risk mitigation actions – in a form of quarterly reports.

## MAIN RISK MANAGEMENT TOOLS

**Enterprise Risk Management** is a framework covering Business Units and Functional Units, which ensures incorporation of risks faced by the company into Risk Maps.
Risk analysis activity supports stable and efficient operation by identifying key risks that threaten achievement of company objectives and require specific attention by Top Management through strengthened controls or execution of mitigation actions. The Risk Map is a heat map used to graphically present major risks on a matrix using probability and impact ratings as a result of detailed risk assessment processes. The Risk Maps integrate Strategic, Operational and Financial risks, which are identified and reassessed on a quarterly basis, providing regular updates to Top Management on evolution of risks and status of mitigation actions.

To ensure the profitability and the financial stability of the Group, **Financial Risk Management** is in place 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, and are managed – if necessary - with risk mitigation tools (such as swaps, forwards and options).

Transferring of excess operational risks is done by **Insurance Management**. Purchase of insurances represents 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, set around a yearly cycle (i.e. annual renewal of most insurance programs). Insurance is managed through a joint program for the whole MOL Group to exploit considerable synergy effects.

## 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 input sources of modelling 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 (including business continuity management) can give a better direction to insurance management by highlighting 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.

## DECISION MAKING SUPPORT OF CAPITAL ALLOCATION

Besides providing information on the most imperative risks that MOL Group faces, Risk Management also supports top management and the Board of Directors to take more educated decisions on investments, taking into consideration the risk profile of each project as well. To serve this purpose, Group Risk Management is involved in evaluation of major projects through the utilization of its ERM capabilities by providing opinion on capital allocation and financing headroom.

# BOARD OF DIRECTORS

## MR. ZSOLT HERNÁDI

MOL Group positions:

- Chairman of the Board of Directors since 7 July 2000
- Chairman & Chief Executive Officer since 11 June 2001
- Member of the Board since 24 February 1999
- Member of the Corporate Governance and Remuneration Committee

Between 1989 and 1994 Mr. Hernádi occupied various positions at the Kereskedelmi és Hitelbank Plc. and between 1992 and 1994 he was its Deputy General Manager. Mr. Hernádi was Chief Executive Officer 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 a Board member of the Hungarian Banking Association. Since 2001, he has been a member of the European Round Table of Industrialists. Since 2007 he has become honorary citizen of Esztergom, and since September, 2009 he has become the honorary citizen of the Corvinus University of Budapest, furthermore he is member of the Board of Directors at OTP Bank since 2011 April.

## DR. SÁNDOR CSÁNYI

MOL Group positions:

- Member of the Board of Directors since 20 October, 2000, and Deputy Chairman since 2001
- Chairman of the Corporate Governance and Remuneration Committee

Specialising in finance at university, where he also took a doctorate, he later become a licensed pricing specialist and a chartered accountant and his first job was at the Ministry of Finance. He also worked for the Ministry of Food & Agriculture and at the Hungarian Credit Bank. From 1989 to 1992, he was Deputy Chief Executive Officer of the Commercial & Credit Bank (K&H), and since 1992, he has been the Chairman & Chief Executive Officer of the OTP Bank Plc. On 29 April, 2011, the annual shareholders meeting re-elected him for another five-year term as Chairman and Chief Executive Officer of OTP Bank Plc. He is a European Advisory Board member of MasterCard, one of the world's leading payment systems, and co-chairman of the National Association of Entrepreneurs & Employers (VOSZ). He has been an honorary professor of the University of Western Hungary since 2004. He is a member of the Institut International d' Études Bancaires. Since July 2010 he is the President of the Hungarian Football Federation. In January 2012 he was elected the Co-Chairman of the Chinese-Hungarian Business Council.

### OTHER MEMBERS OF THE BOARD OF DIRECTORS

## MR. MULHAM AL-JARF

MOL Group positions:

- Member of the Board of Directors since 24 April 2008*
- Member of the Corporate Governance and Remuneration Committee

Mr. Mulham Al-Jarf is a graduate of International Business and Finance from the U.S. and he is also a Barrister-at-Law of the Bar of England & Wales and a member of Grays Inn. He has been the Deputy Chief Executive Officer of Oman Oil Company since 2004. He is also member of the Board of Directors in the following companies: Sohar Aluminium Company LLC (Chairman), Salalah Methanol Company LLC (Chairman), OXEA S.a.r.l. (Chairman), Takatuf Oman LLC (Chairman), Oman Oil Marketing Company SAOG (Vice Chairman),, Oman Arab Bank SAOC (Director), Duqm Refinery and Petrochemical Industries Company LLC (Director) and Oman Oil Refineries and Petroliem Industries Company SAOC (Director). Mr. Mulham Al-Jarf has work experience at Oman Gas Company SAOC, Ministry of Oil and Gas, and General Telecommunications Company (now Omantel) in Oman and he is a citizen of Oman.

*Mr. Mulham Al-Jarf indicated in writing on 2nd of April his resignation from the Board of Directors with an effective date of 29th April 2014

## DR. MIKLÓS DOBÁK

MOL Group positions:

- Member of the Board of Directors since 29 May 1996
- Chairman of the Finance and Risk management Committee

Dr. Miklós Dobák is Chairman of the Institute of Management and a Professor of the Department of Management & Organisation at Corvinus University. He is also Chairman of the Supervisory Board of IFUA Horváth & Partners Consulting Company.

## DR. GÁBOR HORVÁTH

MOL Group positions:

- Member of the Board of Directors since 24 February, 1999*
- Member of the Corporate Governance and Remuneration Committee

Dr. Gábor Horváth has headed up an independent attorney's office since 1990. His main activities cover corporate, corporate financial and company organisations law. He is also the Vice-president of the Supervisory Board and Chairman of the Audit Committee of OTP Bank Plc. Member of the Supervisory Board of BVK HOLDING Plc.

*Membership of Dr. Gábor Horváth has been expired on 24th of February 2014

BOARD OF DIRECTORS

# MR. ZSIGMOND JÁRAI

MOL Group positions:

- Member of the Board of Directors from 29 April, 2010
- Member of the Finance and Risk Management Committee

Mr. Járai has been working as financial expert. He has field various managerial positions in a Commercial Banks both in Hungary and abroad. 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, and subsequently became the Chairman of the National Bank of Hungary from 2001 until 2007. As the founder of CIG Pannonia Life Insurance Ltd in 2007, he was the Chairman of the Supervisory Board between 2007 and 2013. Since 2010, he has also been the Chairman of the Supervisory Board of the National Bank of Hungary.

# MR. JÓZSEF MOLNÁR

MOL Group positions:

- Group Chief Executive Officer since 1 May 2011
- Member of the Board of Directors since 12 October 2007
- Member of the Sustainable Development Committee since 5 September 2013
- Member of the Supervisory Board of INA d.d. since April 2010
- Member of the Supervisory Board of FGSZ Zrt. since May 2011

From 1978 to 2001 Mr. Molnár held various management positions at BorsodChem Plc, including Head of the Pricing Department from 1982 to 1987 and Head of the Controlling Department from 1987 to 1991. Between 1991 and 2001 as Chief Financial Officer and first deputy to the Chief Executive Officer he contributed to the crisis management and reorganisation of the company, and later to 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 Chief Executive Officer of TVK between 2001 and 2003, Group Planning & Controlling Director from 2003 and from 2004 until his appointment as Group Chief Executive Officer in May 2011 he was Group Chief Financial Officer of MOL. Within MOL Group he was a Board member of Slovnaft a. s. between 2004 and 2008, and Board member of TVK between 2001 and 2011.

# DR. LÁSZLÓ PARRAGH

MOL Group positions:

- Member of the Board of Directors from 29 April, 2010
- Member of the Sustainable Development Committee

Since 1989, Dr. László Parragh has been the Chairman of Parragh Trade and Holding Ltd and since 1993, he has also 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 and since 2000, Dr. Parragh has also been President of the Hungarian Chamber of Commerce and Industry. Between 2003 and 2010 he was Vice President of GYSEV Plc and since 2009, he has been Chairman of KAVOSZ Venture Development Plc. Between 2003 to 2011, he was Chairman of the Economic and Social Council and since 2011 he has been Chairman of the National Economic and Social Council. Between 2002-2010 he was a member of the Board of Directors at MEHIB Ltd, at EXIM Bank Plc and at GYESEV Plc. Between 2010 to 2011 he was a 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. He is Honorary Professor of the University of West Hungary and the Budapest Business School, where he is also a member of the Economic Council. He is President of the National Economic and Social Council's Economic side.

# MR. IAIN PATERSON

MOL Group positions:

- Member of the Board of Directors since 24 February, 1999*
- Chairman of the Sustainable Development Committee
- Member of the Finance and Risk management Committee

From 1970 onwards, Mr. Iain Paterson held various positions at British Petroleum Plc in Great Britain, U.S. 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 AnTech Limited and a non-Executive Director of Enteq Upstream Plc. as well as MOLTEN Consultancy Group. Mr. Paterson is a British citizen.

*Membership of Mr. Iain Paterson has been expired on 24th of February 2014

# DR. MARTIN ROMAN

MOL Group positions:

- 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 a 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 Chief Executive Officer of the new ŠKODA HOLDING. From February 2004 until mid-September 2011, Mr. Roman was the Chairman of the Board and CEO of ČEZ and from mid-September 2011 to the end of October 2013, he was the Chairmand of the Supervisory Board of CEZ. . Besides his board membership of ČEZ and MOL, Mr. Roman is also a member of the Supervisory Board of the Prague Stock Exchange; (he served as a member of the Supervisory Board of Czech Railways between 2007 and 2009 and as Vice President of the Confederation of Industry and Transport of the Czech Republic from 2007 to 2011). In 2010, he became a member of the Supervisory Board of the Vienna Insurance Group. In addition, Mr. Roman is a member of governing or supervisory bodies in several foundations and academic institutions. Mr. Roman is currently businessman and philanthropist. He is a Czech citizen.

# DR. OSZKÁR VILÁGI

MOL Group positions:

- Member of the Board of Director since 1 May 2011
- Executive Vice President and CEO of SLOVNAFT
- Member of the Supervisory Board of INA d.d. since May, 2011

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 to 1992, he was member of the Czechoslovak Parliament in Prague. From 1996 he participated in the governing bodies of several Slovak companies including former Poľnobanka, Slovenská poisťovňa, CHZP Apollo and Slovak Railways (ŽSR). He has been the legal advisor for several foreign investors in big restructuring projects of Slovak industry (U.S. Steel, France Telecom, OTP, MOL). Since 2002 he has been a 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. In April 2010, he became Member of the Executive Board of MOL.

# EXECUTIVE BOARD ›

## MR. ZSOLT HERNÁDI

MOL Group positions:

- Chairman of the Board of Directors since 7 July 2000
- Chairman & Chief Executive Officer since 11 June 2001
- Member of the Board since 24 February 1999
- Member of the Corporate Governance and Remuneration Committee

Between 1989 and 1994 Mr. Hernádi occupied various positions at the Kereskedelmi és Hitelbank Plc. and between 1992 and 1994 he was its Deputy General Manager. Mr. Hernádi was Chief Executive Officer 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 a Board member of the Hungarian Banking Association. Since 2001, he has been a member of the European Round Table of Industrialists. Since 2007 he has become honorary citizen of Esztergom, and since September, 2009 he has become the honorary citizen of the Corvinus University of Budapest, furthermore he is member of the Board of Directors at OTP Bank since 2011 April.

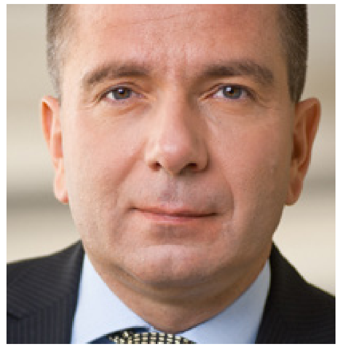
## MR. JÓZSEF MOLNÁR

MOL Group positions:

- Group Chief Executive Officer since 1 May 2011
- Member of the Board of Directors since 12 October 2007
- Member of the Sustainable Development Committee since 5 September 2013
- Member of the Supervisory Board of INA d.d. since April 2010
- Member of the Supervisory Board of FGSZ Zrt. since May 2011

From 1978 to 2001 Mr. Molnár held various management positions at BorsodChem Plc, including Head of the Pricing Department from 1982 to 1987 and Head of the Controlling Department from 1987 to 1991. Between 1991 and 2001 as Chief Financial Officer and first deputy to the Chief Executive Officer he contributed to the crisis management and reorganisation of the company, and later to 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 Chief Executive Officer of TVK between 2001 and 2003, Group Planning & Controlling Director from 2003 and from 2004 until his appointment as Group Chief Executive Officer in May 2011 he was Group Chief Financial Officer of MOL. Within MOL Group he was a Board member of Slovnaft a. s. between 2004 and 2008, and Board member of TVK between 2001 and 2011.

## MR. JÓZSEF SIMOLA



MOL Group positions:

- Group Chief Financial Officer since 1 May 2011
- Member of the Audit Committee of INA d.d.

From 1991 to 1992 he was employed as an SAP expert at General Electric – Tungsram. He subsequently joined Arthur Andersen as an auditor and consultant. In 1996 he 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 was appointed as Corporate Centre Executive Vice President of MOL Plc. between 2006 and 2011.

## MR. ZOLTÁN ÁLDOTT

MOL Group positions:

- 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.

## MR. SÁNDOR FASIMON

MOL Group positions:

- COO Mol Hungary since 1 October, 2012

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 1998 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. in Moscow. Between 2009 and 2011 he worked as Senior Vice President of Supply & Trading Division and from 1 June, 2011 as Executive Vice President of Exploration and Production.

# MR. ALEXANDER DODDS

MOL Group positions:

- Executive Vice President of Exploration & Production

He has over 30 years' deep understanding of the international upstream oil and gas arena with broad experience in exploration, development and production. He brings with him a significant international track record, having worked in North America, South America, the North Sea, the Middle East, Asia and Russia. His recent assignments include being Executive Director and Executive Vice President at TNK-BP and President & General Manager at ExxonMobil Qatar Inc. Mr Dodds gained his BSc in Civil Engineering and a Masters in Petroleum Engineering.

# MR. FERENC HORVÁTH

MOL Group positions:

- Executive Vice President of MOL Refining & Marketing Division since November 2003. From 1 May, 2011 Executive Vice President of MOL Downstream.
- Member of the Board of Directors of TVK since 1 May 2011
- Chairman of the Board of Directors of IES Mantua since November, 2007
- Member of the Board of Directors of SLOVNAFT since 2003
- Member of the Supervisory Board of INA d.d. since 2012

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.

# DR. OSZKÁR VILÁGI

MOL Group positions:

- Member of the Board of Director since 1 May 2011
- Executive Vice President and CEO of SLOVNAFT
- Member of the Supervisory Board of INA d.d. since May, 2011

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 to 1992, he was member of the Czechoslovak Parliament in Prague. From 1996 he participated in the governing bodies of several Slovak companies including former Poľnobanka, Slovenská poisťovňa, CHZP Apollo and Slovak Railways (ŽSR). He has been the legal advisor for several foreign investors in big restructuring projects of Slovak industry (U.S. Steel, France Telecom, OTP, MOL). Since 2002 he has been a 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. In April 2010, he became Member of the Executive Board of MOL.

# SUPERVISORY BOARD ›

## MR. GYÖRGY MOSONYI

MOL Group positions: › Member of MOL Supervisory Board since 1 May, 2011 and Chairman since 8 June, 2011 › Chairman 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, Mr Mosonyi worked for the Hungarian Agency of Shell International Petroleum Co. (Shell) and from 1986 he held the position of commercial director. In 1991 he worked at Shell headquarters in London. Between 1992-1993 he was a managing director of Shell-Interag Ltd and from 1994-1999 he was Chairman and Chief Executive Officer of Shell Hungary Rt. Also in 1997 he became Chairman of Shell's Central & East European Region and CEO of Shell Czech Republic in 1998. He was also vice-chairman of the Hungarian Chamber of Commerce & Industry, and Industrialists, a member of the Joint Venture Association's Presidium and President of the World Petroleum Council Hungarian National Committee. Since 2012 April member of the Board of Directors of Hungarian Telekom Plc. He was Group-Chief Executive Officer and a member of the Board of Directors of the Group between 1999 and 2011. Between 2006-2011 he was Chairman of the Sustainable Development Committee.

## DR. ATTILA CHIKÁN

MOL Group positions: › 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 Dr. Chikán 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 in the Hungarian Government. Between 2000 and 2003 he was Rector of Budapest University of Economic Sciences. Since then, Dr. Chikán has been Director of the Competitiveness Research Centre of the University. He is a Corresponding Member of the Hungarian Academy of Sciences and a Foreign Member of Royal Swedish Academy of Engineering. At present he holds several positions in Hungarian and international professional organisations and membership of the editorial boards of several international journals. He is also Chairman of the Supervisory Board and Chairman of the Audit Committee of Richter Gedeon Plc.

## MR. JOHN I. CHARODY

MOL Group positions: › Member of the Supervisory Board since 11 October, 2002 › Member of the Audit Committee

Mr. Charody 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 and Project Mining. He was also Chief Executive Officer 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 and a Justice of the 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 relationships. Currently he is a Board Member of Pick Zrt. and Csányi Foundation, as well as being a consultant of MFB Invest Zrt.

## MR. SLAVOMÍR HATINA

MOL Group position: › 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. Mr. Hatina was awarded a Doctorate Honoris Causa by the Slovak University of Technology in 2001. He is Chairman of Slovintegra a.s. Mr. Hatina is a citizen of Slovakia.

## MR. ATTILA JUHÁSZ

MOL Group position: › Member of the Supervisory Board since 12 October, 2007, delegated by the employees

Mr. Juhász 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 a member of the Workers Council since its foundation. Currently he is acting as an observer in the Workers Council.

## MS. ANDREA HEGEDŰS

MOL Group position: › Member of the Supervisory Board since 12 October, 2012

Started her career in 1990 at Transdanubian Petroleum Company Százhalombatta as a chemist. Further studied and qualified as cash affair and sociology. Since 1995 the MOL Trade Union of Petroleum Industry representative Százhalombatta with special attention to the area of production, continuous shift workers safety. The union's work including as vice president of financial support.

## DR.SC. ŽARKO PRIMORAC

MOL Group position: › Member of the MOL Supervisory Board since 27 April, 2012

Dr. Primorac graduated in 1964 and obtained PhD in 1976 in Economics at the Faculty of Economics Sarajevo. Between 1968-1981 he held various managerial positions in Energoinvest, Sarajevo. In the same period Dr. Primorac was member and Chairman of the Board of leading Yugoslav banks and other companies such as: Privredna banka Sarajevo, Yugoslav Bank for Foreign Trade Beograd /JUBMES/, FAMOS, Sarajevo, PETROLINVEST Sarajevo. He was member of Bosnia and Herzegovina Parliament in the period of 1967-1974. From 1981 to 1984 he worked as the President of the Chamber of Economy in Sarajevo. Between 1984 and 1992 he was appointed to the position of Vice President and later on Deputy President of the Governing Board of Energoinvest. In 1992 he was the Minister of Finance of the Republic of Bosnia and Herzegovina. From 1993 to 1997 he worked as the director of Inzenjerski biro-revizija in Zagreb. Between 1997-2002 ha was a senior advisor and then a member of the Management Board of PricewaterhouseCoopers, Zagreb office. Between 2002 and 2012 Dr. Primorac has been Regional Chairman of Deloitte, Zagreb and since 2012 he has been a member of the Supervisory Board of Hrvatska elektroprivreda d.d. (HEP). Currently he is member of the Council for International Relations of the President of the Republic of Croatia and member of the Presidency of the Croatian Association of Economists, member of the Business Advisory Council for South East Europe (BAC).

## DR. SÁNDOR PUSKÁS

MOL Group position: › Member of the Supervisory Board since 28 April, 2011 as a delegate of the employees

Dr. Puskás has been employed by MOL as a Petroleum Engineer, M.Sc., since 1985. Currently he is a Petroleum Engineer and holds a R&D Senior Expert position at the Production Technologies MOL Department at the Exploration and Production Division of MOL Group, in Algyő, Hungary. He has 29 years of experience as a field, research and development engineer, and project manager in crude oil and natural gas 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 Jozsef Attila University Szeged, Hungary. He holds a postgraduate degree in Research and Development 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 Hungarian Mining and Metallurgical Society and the Energy Management Scientific Association. He is member of the MOL Trade Union of Production Workers Date.

## MR. ISTVÁN TÖRÖCSKEI

MOL Group positions: › Member of the Supervisory Board since 29 April, 2010 › Member of the Audit Committee since 1 May, 2011

Mr. Töröcskei 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. Between 1997 and 2007 he was Chief Executive Officer of Equilor Investor Ltd., then from 2007 Adviser in T and T Ltd. He is Chairman of the Supervisory Board in Hír TV and Gresco Ltd, and a member of the Board of Directors in PannErgy Ltd., Pro-Aurum Ltd. He is also Chairman of the Széchenyi Credit Cooperative and Széchenyi Commercial Bank Ltd.

# REPORT OF THE SUPERVISORY BOARD AND THE AUDIT COMMITTEE

## REPORT OF THE AUDIT COMMITTEE AND THE SUPERVISORY BOARD ON THE 2013 FINANCIAL STATEMENTS AND THE REPORT OF THE SUPERVISORY BOARD ON THE PROPOSAL FOR THE DISTRIBUTION OF AFTER TAX PROFIT

**György Mosonyi**
Chairman of the
Supervisory Board

The Supervisory Board and the Audit Committee performed their duties in full accordance with their statutory obligations; 5 meetings were held jointly during the year to review various agenda points in common. Regular agenda points of these meetings included quarterly reports of the Board of Directors on Company operations as well as reports by Internal Audit, Corporate Security and the Audit Committee itself. In addition, the Supervisory Board reviewed proposals for the Annual General Meeting. The report of the Supervisory Board was prepared pursuant to the report of the Board of Directors, the opinions of the auditors, scheduled regular mid-year reviews and the work of the Audit Committee. At its meetings during 2013, the Supervisory Board dealt in detail with MOL Group's business situation and the strategic development of the Group and its Divisions. The Supervisory Board regularly received information on the decisions of the Board of Directors and issues concerning the Company.

MOL, with its close to USD 7 billion market capitalisation at end of 2013, is a leading integrated, upstream-driven company in the region and the largest company in Hungary. In 2012, the weighted average stock exchange price of MOL shares was HUF 17,596 while in 2013 it decreased to HUF 16,303. At the end of 2012 and 2013, the share price closed at HUF 17,755 and at HUF 14,475 respectively.

The Company's 2013 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 these 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 135 companies were fully, and a further 12 companies partially, consolidated in MOL Group, using the equity method. Last year, the ownership structure changed to a limited extent: at the end of 2013, compared to the end of the prior year, the shareholding of foreign institutional investors increased slightly while the ownership of domestic institutional and private investors also increased, from 4.4% to 5.7%. As a new shareholder, Credit Agricole Corporate & Investment Bank owned 2% of stocks at the end of 2013. According to requests for the registration of shares received and published shareholder notifications, the Company had six shareholders or shareholder groups that held more than 5% voting rights on 31 December 2013. MOL's largest shareholder is the Hungarian State which holds 24.7% of MOL shares. The Company held 2.4% treasury shares at the end of December 2013, down from 4.4% a year before.

Despite a challenging business environment, MOL Group delivered a satisfactory performance in 2013. The Upstream division, with a close to 70% EBITDA contribution to Group profitability, achieved relatively firm results despite further decreasing natural gas prices in CEE and lower hydrocarbon production. Beyond the natural decline of MOL's matured assets, this was attributable to INA's lower entitlement in Adriatic offshore fields and the divestiture of the Russian ZMB field. However, MOL continued its intensive exploration activities focusing on key areas such as the Kurdistan Region of Iraq, Kazakhstan and the CEE countries. As in previous years, MOL achieved an excellent exploration success ratio of over 50%. Moreover, in 2013, MOL announced commerciality of its Akri-Bijeel block in the Kurdistan Region of Iraq. Finally, in December 2013, MOL entered the UK North Sea Region which will serve as a new hub for further growth in the mid-term. 2013 accomplishments and 2014 deliverables are expected to provide a good basis for an awaited turnaround in hydrocarbon production by the end of 2014. While the full year's average of MOL's total hydrocarbon production is expected to be between 91 and 96 mboepd in 2014, the Company foresees a 10% increase in 2015.

Despite a considerably worsening external environment, Downstream division was able to deliver a 4% improvement on the CCS-based EBITDA level compared to 2012. This was mainly attributable to the achievements of MOL's internal efficiency improvement programme, the New Downstream Program. This programme has already contributed USD 400mn to the P & L on a like-on-like basis, compared to 2011 base figures, of which USD 250mn were delivered in 2013. For 2014, additional USD 100mn plus in improvements is targeted to achieve the original target of USD 500-550mn.
During the year, MOL further strengthened its financial position as evidenced by lower gearing and net debt to the EBITDA level. Despite all the abovementioned challenges, owing to MOL's diversified portfolio and conservative financial policy, the Group not only maintained its financial stability, but was able to strengthen it even further. In addition, MOL realised positive gains by divesting some of its subsidiaries in Russia and Hungary.

**dr. Attila Chikán**
Chairman of the
Audit Committee

MOL remains committed to maintaining a firm financial position in the coming years. However, previous years' achievements created room for possible sizeable inorganic steps targeting excellent growth opportunities so as to renew MOL's asset base in Upstream and further strengthen its Downstream position across the CEE region.

A tightening regulatory environment, permanently challenging Downstream macro conditions and still slow CEE economic recovery foreshadow a tough year in 2014. However, we are confident that in line with the Company's plans and expectations, MOL can successfully address these challenges underpinned by the solid foundations laid down over the previous years.

The Supervisory Board endorses the recommendation of the Board of Directors to pay out HUF 60 billion dividend in 2014 based on the year ended 31st December, 2013. The proposed amount is a noteworthy increase compared to the last year's total. In addition to the regular dividend of HUF 47bn, which exceeds last year's level, MOL also intends to pay out 25% of the gain realised by the liquidation of the above-mentioned subsidiaries as a special dividend of HUF 13bn.

The Supervisory Board proposes that the General Meeting approve the audited financial statements of MOL Plc. for 2013, with a balance-sheet total of HUF 3,059 billion, net income of minus HUF 78 billion and tied-up reserve of HUF 46 billion and the audited consolidated financial statements of MOL Group for 2013, with a balance sheet total of HUF 4,641 billion and profit attributable to equity holders of HUF 21 billion.

Budapest, 27 March, 2014

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 25 April 2013.** Access to the Articles of Association can be requested from the Company or the latest electronic version can be downloaded from Company's web site.

**Registered share capital as of 31 December 2013:** 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:

| | 31.12.2013 | | 31.12.2012 | |
|---|---|---|---|---|
| | Par value of shares (HUF th) | % | Par value of shares (HUF th) | % |
| Foreign investors | 27,453,529 | 26.3 | 27,341,997 | 26.2 |
| Hungarian State | 25,857,957 | 24.7 | 25,717,982 | 24.6 |
| CEZ MH B.V. | 7,677,285 | 7.3 | 7,677,285 | 7.3 |
| OmanOil (Budapest) Limited | 7,316,294 | 7.0 | 7,316,294 | 7.0 |
| OTP Bank Plc. | 5,652,859 | 5,4 | 5,634,134 | 5.4 |
| Magnolia Finance Limited | 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 | 1,486,116 | 1.4 | 3,161,116 | 3.0 |
| UniCredit Bank AG | 4,080,496 | 3.9 | 3,561,053 | 3.4 |
| Credit Agricole | 2,129,666 | 2.0 | 0 | 0.0 |
| Domestic institutional investors | 2,197,591 | 2.1 | 1,842,356 | 1.8 |
| Domestic private investors | 3,793,751 | 3.6 | 2,730,718 | 2.6 |
| MOL Plc. (treasury shares) | 2,484,925 | 2.4 | 5,147,534 | 4.9 |
| **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.bse.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 2013.

| Period | BSE volume (no. of shares) | BSE closing price (HUF/ share) |
|---|---|---|
| 1st quarter | 5,953,254 | 16,695 |
| 2nd quarter | 4,785,615 | 16,950 |
| 3rd quarter | 3,712,192 | 15,905 |
| 4th quarter | 5,487,061 | 14,475 |

## TREASURY SHARES

DURING 2013 THE FOLLOWING TREASURY SHARES TRANSACTIONS HAPPENED:

| Reasons for change | Number of "A" series shares | Number of "C" shares shares |
|---|---|---|
| **Number of Treasury shares on 31 December 2012** | 5,146,955 | 578 |
| The option with UniCredit Bank AG was settled | 3,561,053 | |
| New share purchase and option agreement with UniCredit Bank AG | (4,080,496) | |
| Share distribution for the members of the Board of Directors | (13,500) | |
| Termination of the share lending agreement with OTP Bank Plc. | (371,301) | |
| New share lending agreement with OTP Bank Plc. | 371,301 | |
| New share purchase and share option with Credit Agricole Corporate and Investment Bank | (2,129,666) | |
| **Number of Treasury shares on 31 December 2013** | 2,484,346 | 578 |

CORPORATE GOVERNANCE

## CHANGES IN ORGANISATION AND SENIOR MANAGEMENT

**The Annual General Meeting on 25 April 2013 made the following resolutions:**

- elected Mr Zsolt Hernádi to be a member of the Board of Directors of MOL Plc. from 1 May 2013 to 30 April 2018.

- elected Mr Mulham Basheer Abdullah Al Jarf to be member of the Board of Directors of MOL Plc. from 25 April 2013 to 24 April 2018.

**Alexander Dodds to become MOL Group Upstream Executive Vice President:**
On 12th June 2013, MOL Group announced the appointment of Alexander Dodds as Executive Vice President of Exploration & Production and member of the Executive Board, effective 17th June. Alexander Dodds previously filled executive positions at different energy majors, such as TNK-BP and ExxonMobil. This appointment reflects MOL Group's determination to accomplish its Upstream strategy and thus to strengthen its new international headquarters team.

## MOL SECURITIES HELD BY DIRECTORS AND OFFICERS OF THE COMPANY AS OF 31 DECEMBER 2013

| Name | Current position | Number of MOL shares | Number of Magnolia bond* |
|---|---|---|---|
| Zsolt Hernádi | Chairman of the Board of Directors, Chairman-CEO (C-CEO) | 190,491 | 19 |
| Dr. Sándor Csányi | member of the Board of Directors, Deputy Chairman | 6,500 | 86 |
| József Molnár | member of the Board of Director, Group Chief Executive Officer (GCEO) | 11,200 | 3 |
| Dr. Miklós Dobák | member of the Board of Directors | 17,200 | |
| Dr. Gábor Horváth | member of the Board of Directors | 14,127 | |
| Zsigmond Járai | member of the Board of Directors | 1,200 | |
| Mulham Basheer Abdullah Al Jarf | member of Board of Directors | 1,695 | |
| Dr. László Parragh | member of the Board of Directors | 1,270 | |
| Iain Paterson | member of the Board of Directors | 7,200 | |
| Dr. Martin Roman | member of the Board of Directors | 1,200 | |
| Dr. Oszkár Világi | member of the Board of Directors, Chairman of the Board of Directors and CEO of Slovnaft a.s. | 10,100 | 5 |
| György Mosonyi | Chairman of the Supervisory Board | 39,588 | |
| 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 | |
| Andrea Hegedűs | member of the Supervisory Board, representative of the employees | 0 | |
| Attila Juhász | member of the Supervisory Board, representative of the employees | 0 | |
| Dr. Sándor Puskás | member of the Supervisory Board, representative of the employees | 0 | |
| István Töröcskei | member of the Supervisory Board | 0 | |
| Dr. sc. Žarko Primorac | member of the Supervisory Board | 0 | |
| Zoltán Áldott | Executive Vice President, President of the Management Board, INA d.d. | 60,000 | 2 |
| Alexander Dodds | Executive Vice President Exploration & Production | 0 | |
| Sándor Fasimon | Executive Vice President, MOL Hungary | 10,000 | 2 |
| Ferenc Horváth | Executive Vice President, Downstream | 20,198 | 1 |
| József Simola** | Group Chief Financial Officer (GCFO) | 16,310 | 3 |

* Perpetual exchangeable capital security, issued by Magnolia Finance Ltd, exchangeable into "A" Series MOL Ordinary Shares with nominal value EUR 100,000
**Mr József Simola own 2 pieces of MOL GROUP FINANCE USD bond expiring on 26 September 2019 with nominal value USD 200,000

# 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 industry, 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 metreoil 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 accummulation or is not able to profitably produce crude oil or natural gas.

**Enhanced oil recovery (EOR)**
Processes/technologies that can be used to recover more oil relative to the primary and secondary methods.

**FAME- Fatty acid methyl esther**
Biocomponent blended in dieselgasoil

**FCC- Fluid Catalytic Cracking plant**
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

**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).

**Liquified Propane Gas (LPG)**
Hydrocarbon gas compound mainly consisting of propane and buthane, liquefied under high pressure, which is sold in cylinders for household purposes. These days the motoric usage of LPG spreads. This fuel is the „autogas".

**LDPE**
Low density polyethylene

**mbbl**
Thousand barrel

**mbblpd**
Thousand barrel per day

**MM bbl**
Million barrel

**mboepd**
Thousand barrel of crude oil equivalent per day

**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 the Mining Law (Act 1993. XLVIII on Mining) the Hungarian State requires to pay mining royalty after all mineral raw materials and geothermal energy produced in Hungary.
Royalty rate is:

- at least 12% after the natural gas produced from fields developed prior 1 January 1998 (based on special formula takes into consideration the sale price and production cost)
- 16% after crude oil and natural gas produced from fields developed between 1 January 1998 and 1 January 2008
- 12%, 20% or 30% (depending on annual production) after crude oil and natural gas produced from fields developed after 1 January 2008

If exchange listed monthly average of Brent crude oil spot price reaches or exceeds 80 USD/bbl, the royalty rate is increased by 3 percentage points.
If exchange listed monthly average of Brent crude oil spot price reaches or exceeds 90 USD/bbl, the royalty rate is increased by other 3 percentage points.
Exemptions are: Enhanced oil recovery (EOR) and environmentally-friendly production methods (royalty-free); Natural gas with high (over 30%) inert gas content (royalty is 8%).

**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 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 reserves**
Proved Reserves are those quantities of petroleum which, by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be commercially recoverable, from a given date forward, from known reservoirs and under defined economic conditions, operating methods, and government regulations.

**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

**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 Depository Receipt, depository certificates issued by a foreign depository on the issuers shares, which are deposited with a Hungarian custodian.

**CAPEX**
Capital Expenditures

**Cash Flow at Risk (CF@R)**
Methodology to measure the risks of the MOL Group. It takes into account the exposures to external factors (product price, rate of interest) of the different businesses within the MOL Group portfolio, as well as the volatilities and correlation between those factors.

**EBITDA (Earnings before interest, tax, depreciation and amortisation)**
Operating profit plus depreciation and amortisation

**EBITDA margin**
Ratio of EBITDA divided by net sales revenues

**EPS**
Earnings per Share is based on the profit attributable to ordinary shareholders using the weighted average number of shares outstanding during the year after deduction of the average number of treasury shares held over the period.

**Financial Covenant**
It is the rate calculated from specific terms of P&L, Balance Sheet and Cash-Flow. (Eg.: Net Debt per EBITDA, EBITDA per Total Interest Expense) Financial Covenants are primarily applied in loan facility agreements to limit lenders' credit risk.

**Gearing**
Ratio of net debt to net debt plus equity

**Net debt**
Net debt = Long-term debt, net of current portion + short-term debt + current portion of long-term debt – short term investments – cash and cash equivalents

**IFRS**
International Financial Reporting Standards, formerly International Accounting Standards (IAS)

**ISDA (International Swap Dealers Association)**
The ISDA Master Agreement is a general agreement between counterparties to provide legal assistance with regards to derivative transactions.

**Market capitalisation**
Number of shares (issued share capital excluding Treasury stock) multiplied by the actual stock market price.

**Net income**
Attributable to equity holders of the parent Profit after taxation after the Groups share of associated companies and the deduction of profits due to minority interest.

**NOPLAT**
Net Operating Profit Less Adjusted Taxes

**Operating cash flow**
Net cash provided by operating activities to be used for investment activities, interest payments and dividend payments to shareholders.

**ROACE (Return on average capital employed)**
Operating profit after taxation / average capital employed
Operating profit after taxation = operating profit x (100% - calculated corporate tax ratio)
Average capital employed = opening capital employed/2 + closing capital employed/2
Capital employed = total assets – long term financial investments – work in progress – cash and cash equivalents – short term liabilities + short term loans and credits

**ROE (Return on Equity)**
Net income divided by shareholders equity

**Shareholder's return**
Return resulting from the movements of the share price and the amount of dividend paid

**Short position**
Exposure to a factor (e.g. commodity price, foreign exchange rate, interest rate) where the profit and/or the cash flow of a company is negatively influenced by an increase of such factor.

# SUSTAINABLE DEVELOPMENT

**APC**
Aim of Annual People Cycle is to have a sustainable and integrated people management process at MOL Group. The yearly repeating assessment cycle ensures regular feedback on performance, career & development opportunities, and links current performance to long-term career growth.

**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.

**Donations in cash**
Is a monetary support provided without any return consideration in a financial or other form. It is closely related to the social role and responsibility of the Company, and can contribute to the Company's positive image.

**Employee volunteering during paid working hours**
Employee volunteering is a service provided by the company staff during paid working hours supporting communities or for charitable purposes.

**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.

**HAY**
MOL Group's existing job grading system is based on the HAY methodology. HAY enables the company to manage a single, logical, transparent and consistent system that ensures the adequate treatment of its employees based on the nature of their work and their position within the company.

**HSE**
Health, Safety and Environment

**In-kind giving**
A non-monetary support provided without any return consideration in a financial or other form, which is closely related to the social role and responsibility of the Company, and can contribute to the Company's positive image.

**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 and/or uncontrolled release of liquefied hazardous materials exceeding 1 cubic metre volume to the environment (groundwater, surface water, soil).

**SS (Solid Substances)**
Particles which do not dissolve in water

**TPH (Total Petroleum Hydrocarbons)**
Is a parameter used to measure the concentration or mass of petroleum hydrocarbon constituents present in a given amount of soil or water

**VOC (Volatile Organic Compounds)**
Volatile organic compounds (VOCs) are emitted as gases from certain solids or liquids and include a variety of chemicals, some of which may have short- and long-term adverse health effects and participates in atmospheric photochemical reactions. They are defined as any organic compound with a vapour pressure of 0.01 kPa or higher at 293.15 K (20 ºC), or which has similar volatility under the actual conditions of use (methane is not included); most ground-level ozone (smog) results from a reaction between NOX and VOCs.

**VRU**
Vapour recovery unit – a relatively simple system that can capture vapours that otherwise will be vented into the atmosphere

**HSE indicators**
For the exact definitions of the HSE indicators please visit our Sustainable Development website.

# CONTACT INFORMATION


**Corporate Address**
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H-1117 Budapest, Október huszonharmadika u. 18.
H-1502 Budapest, Pf.: 22
Phone: (+36-1) 209-0000, 209-1010, 209-2020

**Share Registrar**
**KELER Zrt.**
H-1075 Budapest, Asbóth u. 9-11.
Phone: (+36-1) 483-6251, (+36-1) 483-6289

**Stock Exchange Trading Information**
**Budapest Stock Exchange**
H-1062, Budapest, Andrássy út 93.
Phone: (+36-1) 429-6857
Fax: (+36-1) 429-6899
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